



National Postal Mail Handlers Union, Local 305

**Audit Results & Communications
Report to the Executive Board**

November 29, 2018



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Executive Board
National Postal Mail Handlers Union, Local 305
Richmond, Virginia

We are pleased to present the results of our audit of the December 31, 2017 financial statements of National Postal Mail Handlers Union, Local 305 (the "Local").

This report to the Executive Board summarizes our audit, the scope of our engagement and the reports to be issued. The document also contains the Executive Board communications required by our professional standards, as well as significant current regulatory developments that could affect the Local.

The audit is designed to express an opinion on the financial statements. We considered the Local's current and emerging business needs, along with an assessment of risks that could materially affect the financial statements and aligned our audit procedures accordingly. We conducted the audit with the objectivity and independence that members and the Executive Board expect. We received the full support and assistance of the Local's personnel.

This report is intended solely for the information and use of the executive board and management, and is not intended to be and should not be used by anyone other than these specified parties.

We would be pleased to meet with you to discuss the audit and the matters in this report.



November 29, 2018
Glen Allen, Virginia

National Postal Mail Handlers Union, Local 305

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National Postal Mail Handlers Union, Local 305

Audit Results and Communications

SUMMARY OF WHAT WE AGREED TO DO

As discussed with management during our planning process, our audit plan was designed based on our assessment of risk for the Local and our assessment of external factors that impacted the Local's operating environment. Specifically, we designed our audit to express an opinion on the financial statements. In addition, included in this report at Appendix A is a letter that documents our consideration of the Local's internal control over financial reporting.

We also provide the following services to the Local:

- Prepare the federal and state informational returns, including Form LM-2;
- Assist in the preparation of the financial statements, including proposing adjusting entries;
- Assist management with the computation of depreciation for financial reporting and income tax purposes; and
- Assist management with the income tax provision for financial reporting purposes.

National Postal Mail Handlers Union, Local 305

Required Communications

Professional standards require the auditor to communicate certain matters to those charged with governance that may assist the executive board in overseeing management's financial reporting and disclosure process. Below we summarize these required communications as they apply to National Postal Mail Handlers Union, Local 305.

AUDITOR'S RESPONSIBILITIES UNDER GENERALLY ACCEPTED AUDITING STANDARDS (GAAS)

The financial statements are the responsibility of management. Our audit was designed in accordance with auditing standards generally accepted in the United States to provide reasonable, rather than absolute, assurance that the financial statements are free of material misstatement. As a part of our audit, we obtained an understanding of internal control sufficient to plan our audit and to determine the nature, timing, and extent of testing performed.

- We issued an unmodified opinion on the Local's financial statements for the year ended December 31, 2017.

CRITICAL ACCOUNTING POLICIES AND PRACTICES

We report all critical accounting policies and practices used by the Local in preparing the financial statements and our assessment of the disclosure of such policies.

- The financial statements of the Local have disclosed its accounting policies and practices. These critical accounting policies and practices include:
 - Cash and cash equivalents
 - Property and equipment
 - Revenue recognition

The disclosures made by the Local relative to its critical accounting policies and practices are, in our opinion, appropriate.

OUR JUDGMENTS ABOUT THE QUALITY OF THE LOCAL'S ACCOUNTING PRINCIPLES

We discuss our judgments about the quality, not just the acceptability, of the accounting policies as applied in the Local's financial reporting, including the consistency of the accounting policies and their application and the clarity and completeness of the financial statements and related disclosures.

- Based on our audit, we believe the accounting principles used by the Local are consistent with the previous year and the judgments made by management were reasonable. Disclosures are considered appropriate and consistent with the industry.

Required Communications, Continued

SENSITIVE ACCOUNTING ESTIMATES

The preparation of the financial statements requires the use of accounting estimates. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's expectations.

We determine that the Executive Board is informed about management's process for formulating particularly sensitive accounting estimates and about the basis for our conclusions regarding the reasonableness of those estimates.

➤ Significant management estimates for 2017 consist of:

- Allowance for doubtful accounts
- Depreciable lives for property and equipment

We believe the accounting estimates made by management are reasonable and consistent with industry standards.

THE ADOPTION OF OR A CHANGE IN AN ACCOUNTING PRINCIPLE

We determine that the Executive Board is informed about the initial selection of, and any changes in, significant accounting principles or their application when the accounting principle or its application, including alternative methods of applying the accounting principle, has a material effect on the financial statements.

➤ There were no new accounting principles or changes in accounting principles during 2017.

ALL MATERIAL ALTERNATIVE ACCOUNTING TREATMENTS DISCUSSED WITH MANAGEMENT

We report to the Executive Board all alternative accounting treatments within generally accepted accounting principles for policies and practices related to material items (including recognition, measurement, presentation and disclosure alternatives) that have been discussed with management during the current audit period including:

- (i) Ramifications of the use of such alternative disclosures and treatments, including the reasons why the alternative was selected and, if management did not select our preferred alternative, the reasons why it was not selected.
- (ii) The treatment preferred by us.

➤ During 2017, we did not discuss any material alternative accounting treatments with management.

Required Communications, Continued

METHODS OF ACCOUNTING FOR SIGNIFICANT UNUSUAL TRANSACTIONS AND FOR CONTROVERSIAL OR EMERGING AREAS

We determine that the Executive Board is informed about the methods used to account for significant unusual transactions and the effects of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

- We are not aware of any significant unusual transactions recorded by the Local or any significant accounting policies used by the Local related to controversial or emerging areas for which there is a lack of authoritative guidance.

SIGNIFICANT AUDIT ADJUSTMENTS

We provide the Executive Board with information about adjustments arising from the audit (whether recorded or not) that could in our judgment either individually or in the aggregate have a significant effect on the Local's financial statements.

- There were several audit adjustments related to the 2017 audit, including the following:
 - To record depreciation expense.
 - To record income tax provision.

UNADJUSTED AUDIT DIFFERENCES CONSIDERED BY MANAGEMENT TO BE IMMATERIAL

We inform the Executive Board about unadjusted audit differences accumulated by us (i.e., adjustments either identified by us or brought to our attention by management) during the current audit and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole.

- There were no unadjusted audit differences.

FRAUD AND ILLEGAL ACTS

We report to the Executive Board fraud and illegal acts involving senior management and fraud and illegal acts (whether caused by senior management or other employees) that cause a material misstatement of the financial statements.

- We are not aware of any fraud or illegal acts.

Required Communications, Continued

DEFICIENCIES IN INTERNAL CONTROL

We are required to communicate all material weaknesses and significant deficiencies in internal control over financial reporting, which may have been identified during the course of our audit.

- See Appendix “A” for the communication regarding internal control.

DISAGREEMENTS WITH MANAGEMENT

- None

SERIOUS DIFFICULTIES ENCOUNTERED IN DEALING WITH MANAGEMENT WHEN PERFORMING THE AUDIT

- None

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO RETENTION

- None

MANAGEMENT REPRESENTATIONS IN CONNECTION WITH THE AUDIT

- We understand that the Local has provided you with a copy of the management representation letter.

CONSULTATION WITH OTHER ACCOUNTANTS

- None of which we are aware.

INDEPENDENCE

We communicate, at least annually, the following to the Executive Board of the Local.

1. Disclose, in writing, all relationships between Keiter and our related entities and the Local and its related entities that, in our professional judgment, may reasonably be thought to bear on independence.
2. Confirm in writing that, in our professional judgment, we are independent of the Local.

- We are independent of the Local.

APPENDIX A - INTERNAL CONTROL COMMUNICATION

Executive Board
National Postal Mail Handlers Union, Local 305
Richmond, Virginia

In planning and performing our audit of the financial statements of National Postal Mail Handlers Union, Local 305 (the "Local") as of December 31, 2017 and for the year then ended, in accordance with auditing standards generally accepted in the United States, we considered the Local's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Local's internal control. Accordingly, we do not express an opinion on the effectiveness of the Local's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal controls, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments that accompany this letter summarize our observations and suggestions regarding those matters.

We will review the status of these comments during our next audit engagement. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Executive Board, management, and others within the Local and is not intended to be and should not be used by anyone other than these specified parties.



November 7, 2018
Glen Allen, Virginia

APPENDIX B - OTHER AUDIT OBSERVATIONS

Lack of Segregation of Duties

The small size of the Local's staff is a key factor in not achieving the proper segregation of duties. Because of this size limitation, there is a risk that certain internal controls in place such as reconciliation of general ledger accounts and approval of journal entries may not be effective in detecting and financial statement error. As a result, it becomes more critical that other monitoring controls, such as the governance by the Board of Directors, continue to be utilized as an element of the overall control environment.

Cybersecurity Assessment

Cybersecurity has become a top concern for many companies, regulators, and law enforcement agencies given the impact of major breaches which are in the news on a weekly basis. Many of the data breaches are the result of employees being improperly trained and unaware of cyber security risks.

In recent months, the awareness of risks from cyber-attacks in the not-for-profit community has been on the rise. During the performance of our audits, we are encouraging clients to consider this risk when performing their annual risk assessment at the Board or management level and developing an appropriate response based on each Local's unique position. If the Foundation determines it to be prudent, we recommend the Foundation perform a full assessment of its information technology controls and security risks to identify opportunities for strengthening security and decreasing the risk of a breach.

Abandoned and Unclaimed Property (AUP)

While not a tax, compliance with AUP rules is similar to that of a tax. There are reporting and remittance requirements that vary by state. AUP is property, tangible or intangible, that has not been claimed by an owner for a specified period of time. Examples of AUP are uncashed payroll checks, customer credit balances, unredeemed gift cards, and utility/rental deposits that have not been returned/claimed. Often businesses take the money back into income, however, they are required by law to report this unclaimed property, after certain periods of dormancy, to the state of the last known address of the person to whom the check, credit, etc. is owed. If you currently are not monitoring your AUP, we can assist in recommending procedures to assist you in your compliance efforts.

APPENDIX C - REGULATORY UPDATE

FASB Changes to Financial Statements of Not-For-Profit Locals

On August 18, 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit-Entities*, the first of a two phase project meant to improve financial statements of not-for-profit Locals and provide more useful information to donors, grantors, creditors, and other financial statement users. The FASB reached consensus on the changes in the ASU after three years of debate, comment, and revision and this was the first significant changes to the not-for-profit reporting model in over 20 years.

The more significant changes to not-for-profit financial statements, including both presentation and disclosure, contained in the ASU are as follows:

- Replaces the existing three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) with two new classes of net assets—net assets with donor restrictions and net assets without donor restrictions.
- Changes the net asset classification of the underwater amounts of donor-restricted endowment funds, to be shown as a component of net assets with donor restrictions and requires additional disclosures for underwater endowment funds.
- Requires all not-for-profits to provide expenses by nature and function, as well as an analysis of expenses by both nature and function. This analysis can be presented on the face of the statement of activities, as a separate statement, or in the notes to the financial statements—supplemented with enhanced disclosures about the methods used to allocate costs among functions.
- Allows not-for-profits to continue to present the net amount of operating cash flows using either the direct or indirect method of reporting, while no longer requiring the presentation or disclosure of the indirect method reconciliation if using the direct method.
- Requires expansive disclosures (both quantitative and qualitative) of information about liquidity and availability of resources.

The ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017, however, early adoption is permitted. The amendments of this update should be applied retrospectively in the year that the update is first applied with certain exceptions.