

# Karen Organization of Minnesota

St. Paul, Minnesota

Financial Statements and  
Supplementary Information

Years ended December 31, 2015 and 2014



Karen Organization of Minnesota

ဖိနိုဆိုးထားကရင်စေမျိုးသားစေစဉ်းစေရုံး  
ဖွဲ့ကုန်ခွဲစေမန်ကိစိုင်းထား ကာဠိကရမန်နိုဗ်စီထော်  
ဗျိုဥကရမၤမနုဗီထာ

**WIPFLi**<sup>LLP</sup>  
CPAs and Consultants

# Karen Organization of Minnesota

Years Ended December 31, 2015 and 2014

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## **Independent Auditor's Report**

Board of Directors  
Karen Organization of Minnesota  
St. Paul, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Karen Organization of Minnesota (a nonprofit organization), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Karen Organization of Minnesota as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

## **Other Matters**

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2016, on our consideration of Karen Organization of Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Karen Organization of Minnesota's internal control over financial reporting and compliance.



Wipfli LLP

September 28, 2016  
Minneapolis, Minnesota

# Karen Organization of Minnesota

## Statements of Financial Position December 31, 2015 and 2014

<i>Assets</i>	2015	2014
Current assets:		
Cash	\$ 173,542	\$ 105,340
Grants receivable	129,871	104,656
Other receivable	-	220
Prepaid expenses	15,688	21,116
<b>Total current assets</b>	<b>319,101</b>	<b>231,332</b>
Property and equipment:		
Vehicles and equipment	39,779	34,779
Less - Accumulated depreciation	23,577	16,039
<b>Net property and equipment</b>	<b>16,202</b>	<b>18,740</b>
<b>TOTAL ASSETS</b>	<b>\$ 335,303</b>	<b>\$ 250,072</b>
<i>Liabilities and Net Assets</i>		
Current liabilities:		
Current portion long-term note payable	\$ -	\$ 5,543
Accounts payable	39,582	36,715
Accrued payroll and related liabilities	39,216	40,838
Deferred revenue	3,520	-
<b>Total liabilities</b>	<b>82,318</b>	<b>83,096</b>
<b>Net assets - Unrestricted</b>	<b>252,985</b>	<b>166,976</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 335,303</b>	<b>\$ 250,072</b>

See accompanying notes to the financial statements.

# Karen Organization of Minnesota

## Statements of Activities

Years Ended December 31, 2015 and 2014

	2015	2014
Public support and revenues:		
Federal and state grant revenue	\$ 751,466	\$ 592,002
Local grant revenue	464,080	292,000
Private fees	73,712	61,262
Contributions	11,788	4,869
Special event income	19,339	24,694
Other income	-	7,914
In-kind revenue	4,800	1,200
Interest income	19	78
<b>Total public support and revenues</b>	<b>1,325,204</b>	<b>984,019</b>
Expenses:		
Program services	1,071,720	825,676
Management and general	122,103	100,555
Fund-raising	45,372	80,797
<b>Total expenses</b>	<b>1,239,195</b>	<b>1,007,028</b>
Change in net assets	86,009	(23,009)
Unrestricted net assets - Beginning of year	166,976	189,985
<b>Unrestricted net assets - End of year</b>	<b>\$ 252,985</b>	<b>\$ 166,976</b>

See accompanying notes to the financial statements.

# Karen Organization of Minnesota

## Statements of Functional Expenses Years Ended December 31, 2015 and 2014

	Program Services				Management and General	Fund-Raising	Total 2015
	Social Services	Employment Services	Youth Services	Total Program Services			
Salaries and wages	\$ 263,717	\$ 112,458	\$ 129,410	\$ 505,585	\$ 24,864	\$ 30,455	\$ 560,904
Fringe benefits	54,629	23,258	26,800	104,687	5,160	6,306	116,153
Staff travel	11,456	2,709	3,715	17,880	763	-	18,643
Staff development	3,826	1,045	1,017	5,888	1,508	-	7,396
Consultant	12,488	106	81	12,675	43,587	500	56,762
Advertising	127	78	77	282	9,248	-	9,530
Farming supplies	5,600	-	-	5,600	-	-	5,600
Office supplies	4,078	1,587	1,398	7,063	684	197	7,944
Postage and shipping	530	303	258	1,091	326	-	1,417
Repairs and maintenance	3,909	3,484	2,214	9,607	1,766	464	11,837
Depreciation expense	5,558	532	613	6,703	659	176	7,538
Building rent expense	30,299	14,298	11,488	56,085	13,218	-	69,303
Telephone	6,658	2,154	2,390	11,202	2,091	-	13,293
Insurance	935	463	29	1,427	2,476	-	3,903
Computer supplies	25,500	11,672	11,577	48,749	8,542	2,281	59,572
Copying and printing	3,732	1,762	1,300	6,794	1,869	-	8,663
Other expense	309	-	-	309	3,251	48	3,608
Client support	103,131	117,326	49,636	270,093	206	-	270,299
Interest expense	-	-	-	-	314	-	314
Dues and subscriptions	-	-	-	-	1,250	-	1,250
Event expense	-	-	-	-	321	4,945	5,266
<b>Total expenses</b>	<b>\$ 536,482</b>	<b>\$ 293,235</b>	<b>\$ 242,003</b>	<b>\$ 1,071,720</b>	<b>\$ 122,103</b>	<b>\$ 45,372</b>	<b>\$ 1,239,195</b>

See accompanying notes to the financial statements.

# Karen Organization of Minnesota

## Statements of Functional Expenses Years Ended December 31, 2015 and 2014

	Program Services				Management and General	Fund-Raising	Total 2014
	Social Services	Employment Services	Youth Services	Total Program Services			
Salaries and wages	\$ 193,858	\$ 116,470	\$ 152,520	\$ 462,848	\$ 35,361	\$ 42,707	\$ 540,916
Fringe benefits	36,968	22,223	29,104	88,295	6,760	8,158	103,213
Staff travel	7,507	5,158	1,900	14,565	339	584	15,488
Staff development	10,319	7,638	3,155	21,112	1,451	2,502	25,065
Consultant	-	-	-	-	41,961	-	41,961
Advertising	-	-	-	-	2,858	-	2,858
Farming supplies	4,700	-	-	4,700	-	-	4,700
Office supplies	4,889	3,349	4,076	12,314	468	566	13,348
Postage and shipping	329	261	289	879	285	-	1,164
Repairs and maintenance	1,662	4,188	872	6,722	404	244	7,370
Depreciation expense	5,935	1,817	746	8,498	173	209	8,880
Building rent expense	17,078	21,119	14,204	52,401	999	-	53,400
Telephone	2,739	2,114	2,370	7,223	1,440	-	8,663
Insurance	2,788	2,440	-	5,228	944	-	6,172
Computer supplies	14,088	8,865	10,292	33,245	2,352	2,110	37,707
Copying and printing	2,601	2,064	2,358	7,023	1,129	-	8,152
Other expense	1,925	-	-	1,925	373	2,000	4,298
Client support	60,838	35,643	1,017	97,498	450	-	97,948
In-kind expense	1,200	-	-	1,200	-	-	1,200
Interest expense	-	-	-	-	583	-	583
Dues and subscriptions	-	-	-	-	1,400	-	1,400
Event expense	-	-	-	-	-	21,717	21,717
Meeting expenses	-	-	-	-	825	-	825
<b>Total expenses</b>	<b>\$ 369,424</b>	<b>\$ 233,349</b>	<b>\$ 222,903</b>	<b>\$ 825,676</b>	<b>\$ 100,555</b>	<b>\$ 80,797</b>	<b>\$ 1,007,028</b>

See accompanying notes to the financial statements.

# Karen Organization of Minnesota

## Statements of Cash Flows

Years Ended December 31, 2015 and 2014

	2015	2014
Increase (decrease) in cash:		
Cash flows from operating activities:		
Change in net assets	\$ 86,009	(\$ 23,009)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	7,538	8,880
Loss on disposal of assets	-	1,925
Changes in operating assets and liabilities:		
Grants receivable	(25,215)	(17,731)
Other receivable	220	(220)
Prepaid expenses	5,428	(13,449)
Accounts payable	2,867	31,721
Accrued payroll and related liabilities	(1,622)	3,901
Deferred revenue	3,520	(200)
Net cash provided by (used in) operating activities	78,745	(8,182)
Cash flows from investing activities - Purchase of equipment	(5,000)	-
Cash flows from financing activities - Principal payments on notes payable	(5,543)	(6,917)
Changes in cash	68,202	(15,099)
Cash - Beginning of year	105,340	120,439
Cash - End of year	\$ 173,542	\$ 105,340
Supplemental cash flow information:		
Cash paid for interest	\$ 314	\$ 583

See accompanying notes to the financial statements.

# Karen Organization of Minnesota

## Notes to Financial Statements

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### **Note 1: Summary of Significant Accounting Policies**

#### **Nature of Activities**

Karen Organization of Minnesota (the "Organization") is a nonstock, nonprofit corporation organized under the laws of the State of Minnesota. The mission of the Organization is to enhance the quality of life for Karen and other refugees from Burma living in Minnesota. The Organization achieves this by assisting refugees to settle, integrate, and become increasingly self-sufficient; fostering cultural knowledge and understanding; and strengthening organizational capacity and effectiveness to meet the needs of the community.

#### **Basis of Accounting**

The financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States.

#### **Basis of Presentation**

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets are the net assets of the Organization that are neither permanently restricted nor temporarily restricted. Thus, they include all net assets whose use has not been restricted by donors or by law.

Temporarily restricted net assets are subject to donor-imposed stipulations that may or may not be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are transferred to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Organization currently has no temporarily restricted net assets.

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. The Organization currently has no permanently restricted net assets.

#### **Use of Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

# Karen Organization of Minnesota

## Notes to Financial Statements

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### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Cash and Cash Equivalents**

The Organization considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

#### **Grants Receivable**

Grants receivable are stated at the amount management expects to collect from outstanding grant billings. Management has deemed an allowance is not necessary because the balance is considered fully collectible.

#### **Property, Equipment and Depreciation**

Property and equipment are capitalized at cost or, if donated, at fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful life of the asset. The Organization capitalizes property and equipment with a value greater than or equal to \$1,000 and a useful life of greater than one year.

The Organization reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Property and equipment purchased with grant funds are owned by the Organization while used in the program for which it was purchased or in other future authorized programs. However, the various funding sources have a reversionary interest in the property and equipment purchased with grant funds. Its disposition, as well as the ownership of any proceeds there from, is subject to funding source regulations. The property and equipment purchased with grant funds are normally restricted for use in specific programs operated by the Organization. The net book value of grant-funded property and equipment included on the statements of financial position is \$6,678 and \$4,191 at December 31, 2015 and 2014, respectively

#### **Contribution Revenue**

Contributions are considered available for unrestricted use unless specifically restricted by the donor. Contributions received are recorded as temporarily restricted or permanently restricted support, depending on the existence and nature of any donor restrictions. Unconditional promises to give cash and other assets to the Organization are reported at fair value at the date the promise is received, less an allowance for promises estimated to be uncollectible. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

# Karen Organization of Minnesota

## Notes to Financial Statements

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### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Grant Revenue**

Grants are either recorded as contributions or exchange transactions based on criteria contained in the grant award.

- **Grant Awards that are Contributions**

Grants that qualify as contributions are recorded as invoiced to the funding sources. Revenue is recognized in the accounting period when the related allowable expenses are incurred. Amounts received in excess of expenses are reflected as grant funds received in advance.

- **Grant Awards that are Exchange Transactions**

Exchange transactions reimburse based on a predetermined rate for services performed. The revenue is recognized in the period the service is performed.

#### **In-Kind Contributions**

No amounts have been reflected in the financial statements for donated volunteer services since no objective basis is available to measure the value of such services. However, a substantial number of volunteers have donated significant amounts of their time in the Organization's program services and in its fund-raising campaigns.

#### **Functional Allocation of Expenses**

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

#### **Income Taxes**

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. It is also exempt from state income tax.

The Organization is required to assess whether it is more likely than not that a tax position will be sustained upon examination on the technical merits of the position assuming the taxing authority has full knowledge of all information. If the tax position does not meet the more likely than not recognition threshold, the benefit of that position is not recognized in the financial statements. The Organization has determined there are no amounts to record as assets or liabilities related to uncertain tax positions.

# Karen Organization of Minnesota

## Notes to Financial Statements

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### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Subsequent Events**

The Organizations have evaluated events and transactions for potential recognition or disclosure in the financial statements through September 28, 2016, which is the date the financial statements were available to be issued.

### **Note 2: Concentration of Credit Risk**

The Organization maintains cash balances at financial institutions where the accounts are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000 at each financial institution. The Organization uses a combination of interest bearing and non-interest bearing accounts at their bank. At certain times during the year, cash balances may be in excess of FDIC coverage. The Organization has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk on cash.

### **Note 3: Major Funding Source**

The Organization received approximately 57% and 59% of its public support in 2015 and 2014, respectively, from the United States Department of Health and Human Services, passed through the State of Minnesota and local agencies.

### **Note 4: Line of Credit**

The Organization maintains a line of credit with Bremer Bank in the amount of \$50,000 with interest at the prime rate set by Bloomberg plus 3.25%. The effective rate at December 31, 2015, was 5.25%. The line of credit matures May 8, 2017. The line of credit is collateralized by equipment. There were no outstanding balances on the line of credit as of December 31, 2015 and 2014.

# Karen Organization of Minnesota

## Notes to Financial Statements

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### Note 5: Operating Leases

The Organization conducts a portion of its operations in leased facilities under noncancelable operating leases. The Organization is required to pay all operating expenses, maintenance costs, repairs, and insurance on the leased facilities.

Future minimum payments as of December 31, 2015, by year and in the aggregate, under the noncancelable operating leases with initial or remaining terms in excess of one year consisted of the following:

2016	\$	72,298
2017		75,916
2018		79,714
2019		83,692
2020		14,060
<hr/>		
Total	\$	325,680

Rent expense for the years ended December 31, 2015 and 2014, were \$71,540 and \$56,710, respectively.

### Note 6: Notes Payable

The Organization has the following notes payable as of December 31:

	2015	2014
Note payable to the Nonprofits Assistance Fund at 6.25% with monthly payments of \$625, including interest, due October 16, 2015, and collateralized by equipment.	\$ -	\$ 5,543
Current maturities of notes payable	-	(5,543)
<hr/>		
Long-term maturities of notes payable	\$ -	\$ -

## **Supplementary Information**

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# Karen Organization of Minnesota

## Schedule of Expenditures of Federal Awards

Year Ended December 31, 2015

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	CFDA Number	Grant or Pass-Through Entity Identifying Number	Program Award	Passed Through to Subrecipients	Federal Expenditures
<b>DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>					
<b>Passed through the Minnesota Department of Human Services</b>					
Refugee and Entrant Assistance Program (Employment)					
10/01/2014-09/30/2015	93.566	52974	\$ 242,000	\$ 83,028	\$ 176,535
10/01/2015-09/30/2016		52974	277,000	33,498	72,618
Refugee and Entrant Assistance Program - RSIG (Youth Activities)					
1/1/2015-8/14/2015	93.566	54725	178,938	9,631	144,220
10/1/2015-8/14/2016		54725	140,000	-	39,180
Refugee and Entrant Assistance Program (Social Services)					
10/01/2014-09/30/2015	93.566	83769	200,000	52,153	140,256
10/01/2015-09/30/2016		83769	200,000	18,925	51,991
Total Federal Expenditures CFDA #93.566				197,235	624,800
<b>Direct Funding</b>					
Refugee and Entrant Assistance Discretionary Grants					
09/30/2014-09/29/2015	93.576	90REO219/03	170,103	26,452	126,666
Total Federal Expenditures CFDA #93.576				26,452	126,666
Total Federal Awards				\$ 223,687	\$ 751,466

### Notes to Schedule of Expenditures of Federal Awards

#### Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Karen Organization of Minnesota under programs of the federal government for the year ended December 31, 2015. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Karen Organization of Minnesota, it is not intended to and does not present the financial position, changes in net assets or cash flows of Karen Organization of Minnesota.

#### Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles in OMB Circular A-122, Cost Principles for Non-Profit Organizations, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Karen Organization of Minnesota has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

See Independent Auditor's Report.

## **Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters**

Board of Directors  
Karen Organization of Minnesota  
St. Paul, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Karen Organization of Minnesota (the “Organization”), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 28, 2016.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization’s internal control over financial reporting (“internal control”) to determine the audit procedures that are appropriate in the circumstances 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 Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’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 a combination of deficiencies, in internal control 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 of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether of Karen Organization of Minnesota’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Karen Organization of Minnesota's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the of Karen Organization of Minnesota's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Wipfli LLP". The signature is written in a cursive, flowing style.

Wipfli LLP

September 28, 2016  
Minneapolis, Minnesota



## **Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance**

Board of Directors  
Karen Organization of Minnesota  
St. Paul, Minnesota

### **Report on Compliance for Each Major Federal Program**

We have audited Karen Organization of Minnesota’s compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2015. The Organization’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

#### ***Management’s Responsibility***

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions applicable to its federal programs.

#### ***Auditor’s Responsibility***

Our responsibility is to express an opinion on compliance for the Organization’s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the Organization’s compliance.

#### **Basis for Qualified Opinion on CFDA Number 93.566 Refugee and Entrant Assistance-State Administered Programs**

As described in the accompanying schedule of findings and questioned costs, the Organization did not comply with the requirements regarding CFDA 93.566 Refugee and Entrant Assistance-State Administered Programs as described in finding number 2015-001 for Cost Principles. Compliance with such requirements is necessary, in our opinion, for the Organization to comply with the requirements applicable to that program.

#### **Qualified Opinion on CFDA Number 93.566 Refugee and Entrant Assistance-State Administered Programs**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 93.566 Refugee and Entrant Assistance-State Administered Programs for the year ended December 31, 2015.

## Report on Internal Control Over Compliance

Management of Karen Organization of Minnesota is responsible for establishing and maintaining effective internal control over compliance with the types of compliance referred to above. In planning and performing our audit of compliance, we considered Karen Organization of Minnesota's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Karen Organization of Minnesota's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2015-001 to be a material weakness.

The Karen Organization of Minnesota's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Karen Organization of Minnesota's response was not subjected to the auditing procedures applied to the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Wipfli LLP

September 28, 2016  
Minneapolis, Minnesota

# Karen Organization of Minnesota

Schedule of Findings and Questioned Costs  
Year Ended December 31, 2015

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## Section I - Summary of Auditor's Results

### Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified	No
Noncompliance material to financial statements noted?	No

### Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	No
Type of auditor's report issued on compliance for major programs	Qualified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance [2 CFR 200.516(a)]?	Yes

Identification of major federal programs:

CFDA Number

Name of Federal Program or Cluster

93.566

Refugee and Entrant Assistance-State Administered Programs

Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
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Auditee qualified as low-risk auditee?	Yes
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# Karen Organization of Minnesota

## Schedule of Findings and Questioned Costs (Continued)

Year Ended December 31, 2015

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### Section II - Financial Statement Findings

None.

### Section III - Federal Award Findings and Questioned Costs

#### Finding 2015-001 – Cost Principles

##### Refugee and Entrant Assistance - State Administered Programs CFDA No. 93.566

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Grant Number</u>	<u>Grant Period</u>
MN Department of Human Services	52974	10/1/2014 – 9/30/2015
MN Department of Human Services	52974	10/1/2015 – 9/30/2016
MN Department of Human Services	54725	01/1/2015 – 8/14/2015
MN Department of Human Services	54725	10/1/2015 – 9/30/2016
MN Department of Human Services	83769	10/1/2014 – 9/30/2015
MN Department of Human Services	83769	10/1/2015 – 9/30/2016

##### Refugee and Entrant Assistance - Discretionary Grants CFDA No. 93.576

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Grant Number</u>	<u>Grant Period</u>
Direct Funding	90REO219/03	9/30/2014 – 9/29/2015

Condition: The Karen Organization of Minnesota maintains documentation of personnel services for the time worked and the rate of pay, however because of employee turnover in the Organization, the allocation to specific grants from August 1, 2015 to December 31, 2015, was recorded in the accounting records based on budgeted amounts and not an “after the fact” determination based on actual time spent to achieve grant objectives.

Criteria: OMB Circular A-122, which applies to these awards for expenditures up to 9/30/2015, states, “(2) Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities if a distribution of their compensation between such functions or activities is needed in the determination of the organization's indirect cost rate(s) (e.g., an employee engaged part-time in indirect cost activities and part-time in a direct function). Reports maintained by non-profit organizations to satisfy these requirements must meet the following standards:

- (a) The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.
- (b) Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.

# Karen Organization of Minnesota

## Schedule of Findings and Questioned Costs (Continued)

Year Ended December 31, 2015

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### Section III - Federal Award Findings and Questioned Costs (Continued)

#### Finding 2015-001 – Cost Principles (Continued)

(c) The reports must be signed by the individual employee, or by a responsible supervisory official having firsthand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.

(d) The reports must be prepared at least monthly and must coincide with one or more pay periods. 2 CFR 200.430(i), which applies to these awards for expenditures after 9/30/2015, states, “Standards for Documentation of Personnel Expenses (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

(i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;

(ii) Be incorporated into the official records of the non-Federal entity;

(iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities (for IHE, this per the IHE's definition of IBS);(iv) Encompass both federally assisted and all other activities compensated by the non-Federal entity on an integrated basis, but may include the use of subsidiary records as defined in the non-Federal entity's written policy;

(v) Comply with the established accounting policies and practices of the non-Federal entity (See paragraph (h)(1)(ii) above for treatment of incidental work for IHEs.); and

(vi) [Reserved]

(vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.”

Context: Fifteen payroll transactions were selected for examination, one for each of the employees charged to federal programs throughout the year. Approximately 1/3 of the employees tested spend their time on more than one program.

Effect: Federal funds may have been used to pay employees while they spent their time on objectives unrelated to the grants.

Cause: The Organization does not have a system in place to ensure adequate documentation of the allocation of salaries.

Questioned Costs: Unable to determine

Auditor's Recommendation: We recommend that the Organization record employee costs based on the actual time spent on each grant.

View of Responsible Official: We agree with the finding and have corrected our systems to record salaries and wages based on actual time spent on each grant.

# Karen Organization of Minnesota

## Schedule of Prior Audit Findings

Year Ended December 31, 2015

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### Financial Statement Findings

None.

### Federal Award Findings and Questioned Costs

None.