

**KAREN ORGANIZATION OF MINNESOTA**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2017**

# KAREN ORGANIZATION OF MINNESOTA

## FINANCIAL STATEMENTS

For the Year Ended December 31, 2017  
(With Comparative Totals for 2016)

### TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to the Financial Statements	7



# Mahoney Ulbrich Christiansen Russ P.A.

CERTIFIED PUBLIC ACCOUNTANTS

10 River Park Plaza, Suite 800 | Saint Paul, MN 55107

Phone: 651.227.6695 Fax: 651.227.9796 | [www.mucr.com](http://www.mucr.com)

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Karen Organization of Minnesota  
Roseville, Minnesota

We have audited the accompanying financial statements of Karen Organization of Minnesota (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to 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 of America; 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 opinion.

(Continued)

## 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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Prior Period Financial Statements

The financial statements of Karen Organization of Minnesota as of December 31, 2016, were audited by other auditors who expressed an unmodified opinion on those statements in their report dated June 13, 2017. The summarized comparative information presented herein as of and for the year ended December 31, 2016, has been derived from those financial statements which have been adjusted as described below.

As described in Note 8 to the financial statements, the organization has restated its 2016 financial statements during the current year to correct errors in the prior year financial statements. The corrections were made to record a pledge and certain grants and accounts receivable which had not been recorded. The other auditor reported on the 2016 financial statements before the retrospective adjustments.

As part of our audit of the 2017 financial statements, we also audited the adjustments described in Note 8 that were applied to restate the 2016 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2016 financial statements of Karen Organization of Minnesota other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2016 financial statements as a whole.

August 14, 2018

*Mahoney Ulbrich  
Christiansen Russ P.A.*

# KAREN ORGANIZATION OF MINNESOTA

## STATEMENT OF FINANCIAL POSITION

December 31, 2017  
(With Comparative Totals for 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets:		
Cash	\$ 131,875	\$ 228,027
Government grants and accounts receivable	255,141	163,966
Pledges receivable	49,625	60,000
Other receivable	-	709
Prepaid expenses	7,383	29,715
Total current assets	<u>444,024</u>	<u>482,417</u>
Property and equipment, net	<u>23,851</u>	<u>35,242</u>
	<u>\$ 467,875</u>	<u>\$ 517,659</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 37,410	\$ 51,491
Accrued payroll and related	60,897	56,355
Deferred revenue	750	2,300
Total current liabilities	<u>99,057</u>	<u>110,146</u>
Net assets:		
Unrestricted	263,193	347,513
Temporarily restricted	105,625	60,000
Total net assets	<u>368,818</u>	<u>407,513</u>
	<u>\$ 467,875</u>	<u>\$ 517,659</u>

See accompanying notes to the financial statements.

KAREN ORGANIZATION OF MINNESOTA

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017  
(With Comparative Totals for 2016)

	2017			2016
	Unrestricted	Temporarily Restricted	Total	
Revenue and support:				
Federal grants	\$ 650,890	\$ -	\$ 650,890	\$ 689,307
State grants	330,784	56,000	386,784	193,764
Foundation grants	145,125	49,625	194,750	340,186
United Way	132,500	-	132,500	65,000
Fees for services	85,162	-	85,162	94,112
Special events revenue, net of direct donor benefits of \$16,123 in 2017 and \$11,478 in 2016	34,164	-	34,164	32,478
Contributions	27,955	-	27,955	35,795
Other revenue	5,414	-	5,414	4,506
In-kind contributions	2,640	-	2,640	-
Interest income	143	-	143	162
Net assets released upon satisfaction of usage restrictions	60,000	(60,000)	-	-
Total revenue and support	<u>1,474,777</u>	<u>45,625</u>	<u>1,520,402</u>	<u>1,455,310</u>
Expenses:				
Program services				
Social services	714,811	-	714,811	581,601
Employment services	519,917	-	519,917	332,313
Youth services	143,498	-	143,498	189,989
Program services	1,378,226	-	1,378,226	1,103,903
Management and general	157,645	-	157,645	172,158
Fundraising	23,226	-	23,226	24,721
Total expenses	<u>1,559,097</u>	<u>-</u>	<u>1,559,097</u>	<u>1,300,782</u>
Change in net assets	(84,320)	45,625	(38,695)	154,528
Net assets at beginning of year - as restated	<u>347,513</u>	<u>60,000</u>	<u>407,513</u>	<u>252,985</u>
Net assets at end of year	<u>\$ 263,193</u>	<u>\$ 105,625</u>	<u>\$ 368,818</u>	<u>\$ 407,513</u>

See accompanying notes to the financial statements.

KAREN ORGANIZATION OF MINNESOTA

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2017  
(With Comparative Totals for 2016)

	2017						Total	2016
	Social services	Employment services	Youth services	Total program services	Management and general	Fundraising		
Payroll and related:								
Payroll	\$ 426,061	\$ 197,429	\$ 93,071	\$ 716,561	\$ 53,233	\$ 10,903	\$ 780,697	\$ 654,011
Employee benefits	53,411	26,214	13,400	93,025	18,318	2,306	113,649	76,182
Payroll taxes	29,778	13,669	6,485	49,932	2,632	1,980	54,544	57,806
Total payroll and related	<u>509,250</u>	<u>237,312</u>	<u>112,956</u>	<u>859,518</u>	<u>74,183</u>	<u>15,189</u>	<u>948,890</u>	<u>787,999</u>
Staff travel	12,939	3,898	2,345	19,182	508	193	19,883	12,871
Staff development	1,919	521	-	2,440	2,498	607	5,545	6,245
Professional fees and consultants	13,380	13,984	994	28,358	31,655	3,077	63,090	56,215
Accounting	1,317	536	-	1,853	24,456	-	26,309	25,435
Advertising	175	36	25	236	447	-	683	1,432
Office supplies	11,004	3,600	3,868	18,472	611	268	19,351	9,037
Postage and shipping	631	221	126	978	64	29	1,071	887
Repairs	3,706	5,778	1,524	11,008	975	-	11,983	6,499
Depreciation	7,837	1,425	1,353	10,615	425	351	11,391	10,141
Rental	53,324	18,291	10,563	82,178	4,717	1,887	88,782	89,269
Telephone	6,552	2,748	1,462	10,762	623	293	11,678	11,046
Insurance	2,201	1,643	437	4,281	1,934	41	6,256	4,553
Computer and support	12,619	2,295	2,179	17,093	684	565	18,342	14,366
Copying and printing	4,267	2,272	993	7,532	856	702	9,090	7,963
Client support	70,487	225,086	4,533	300,106	-	-	300,106	244,806
Dues	586	206	100	892	763	24	1,679	1,487
Events food, supplies, space	499	-	-	499	10,430	16,123	27,052	11,600
Meeting expense	1,512	-	40	1,552	1,691	-	3,243	952
Miscellaneous	606	65	-	671	125	-	796	9,457
Total expenses	<u>714,811</u>	<u>519,917</u>	<u>143,498</u>	<u>1,378,226</u>	<u>157,645</u>	<u>39,349</u>	<u>1,575,220</u>	<u>1,312,260</u>
Less direct donor benefits	-	-	-	-	-	(16,123)	(16,123)	(11,478)
Net expenses	<u>\$ 714,811</u>	<u>\$ 519,917</u>	<u>\$ 143,498</u>	<u>\$ 1,378,226</u>	<u>\$ 157,645</u>	<u>\$ 23,226</u>	<u>\$ 1,559,097</u>	<u>\$ 1,300,782</u>

See accompanying notes to the financial statements.

**KAREN ORGANIZATION OF MINNESOTA**

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2017  
(With Comparative Totals for 2016)

Increase (Decrease) in Cash

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ (38,695)	\$ 154,528
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation	11,391	10,141
Changes in operating assets and liabilities:		
Government grants and accounts receivable	(91,175)	(34,095)
Pledges receivable	10,375	(60,000)
Other receivable	709	(709)
Prepaid expenses	22,332	(14,027)
Accounts payable	(14,081)	11,909
Accrued payroll and related	4,542	17,139
Deferred revenue	(1,550)	(1,220)
Net cash from operating activities	(96,152)	83,666
Cash flows from investing activities:		
Purchases of equipment	-	(29,181)
Net cash from investing activities	-	(29,181)
Net increase (decrease) in cash	(96,152)	54,485
Cash at beginning of year	228,027	173,542
Cash at end of year	\$ 131,875	\$ 228,027

See accompanying notes to the financial statements.

# KAREN ORGANIZATION OF MINNESOTA

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2017  
(With Comparative Totals for 2016)

### 1. ORGANIZATION

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

Primary support comes from federal and state grants, contributions, and fees for service.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Financial Statement Presentation** - Revenues and support are classified based on the presence or absence of donor restrictions and reported in the following net asset categories:

- Unrestricted net assets represent the portion of net assets that are not subject to donor restrictions.
- Temporarily restricted net assets arise from contributions that are restricted by donors for specific purposes or time periods.
- Permanently restricted net assets arise from contributions that the donor has stipulated must be maintained in perpetuity. KOM currently has no permanently restricted net assets.

**Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents** - KOM considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

**Government Grants and Accounts Receivable** - Government grants and accounts receivable are stated at the amount management expects to collect from outstanding billings. Management has determined an allowance is not necessary because the balance is considered fully collectible.

**Pledges Receivable** - Contributions are recognized when the donor makes an unconditional promise to give to KOM. Unconditional promises to give cash and other assets to KOM are reported at fair value at the date the promise is received, less an allowance for promises estimated to be uncollectible. All pledges receivable are due to be collected in 2018.

(Continued)

# KAREN ORGANIZATION OF MINNESOTA

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2017  
(With Comparative Totals for 2016)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Property and Equipment** - Property and equipment are carried at cost, with the exception of donated equipment, which is recorded at fair market value at date of gift. Depreciation of property and equipment is provided for on a straight-line basis over the estimated useful lives. The cost of maintenance and repairs is charged to income as incurred; significant renewals or betterments with a value greater than or equal to \$5,000 and a useful life of greater than one year are capitalized.

KOM 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, KOM reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

**Government Grants Revenue** - Grants are recorded as exchange transactions based on criteria contained in the grant award. Revenue is recognized in the accounting period when the related allowable expenses are incurred and criteria met. Amounts received in excess of expenses are reflected as deferred revenue.

Government grants from the Minnesota State Arts Board are not considered exchange transactions and therefore are accounted for like contributions. Under generally accepted accounting principles, contributions are recognized as revenue when a donor makes an unconditional commitment to give.

**Foundation Grants and Contributions** - Foundation grants and 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. When a specific time restriction ends or a purpose is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets. 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 year in which the contributions are recognized.

(Continued)

# KAREN ORGANIZATION OF MINNESOTA

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2017  
(With Comparative Totals for 2016)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**United Way Revenue Recognition** - Funding commitments from the Greater Twin Cities United Way are recorded in the year the United Way board approves the funding.

**In-kind Contributions** - Donated space or materials are recorded as contributions at their estimated fair market value in the period received. Donated services are recorded as contributions at their estimated fair value only if the services create or enhance a nonfinancial asset or if the services require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

KOM regularly receives donated services from many volunteers. However, no amounts have been recognized for these services because they do not meet the criteria described above.

**Fees For Services** - Fees for services are recorded as revenue when the services are performed. Fees received before services are performed are recorded as deferred revenue.

**Functional Expenses** - Expenses have been recorded in program and supporting services classifications based upon specific identification. In the absence of specific identification, expenses are allocated based on staff salaries in each category.

**Income Taxes** - KOM is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and applicable Minnesota Statutes, except to the extent it has taxable income from activities that are not related to its exempt purpose. Management believes KOM did not have any unrelated business income in 2017 or 2016. Management believes KOM has appropriate support for any tax positions taken, and accordingly, does not have any uncertain tax positions that are material to the financial statements.

**Comparative Total Column** - The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with KOM's financial statements for the year ended December 31, 2016, from which the summarized information was derived, which have been restated as discussed in Note 8.

(Continued)

**KAREN ORGANIZATION OF MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2017  
(With Comparative Totals for 2016)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Reclassifications** - Certain reclassifications have been made to the December 31, 2016 financial statements in order for them to conform to the December 31, 2017 presentation. These reclassifications had no effect on the change in net assets.

3. **PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	<u>2017</u>	<u>2016</u>	<u>Depreciation lives - years</u>
Property and equipment	\$ 68,960	\$ 68,960	5
Less accumulated depreciation	<u>(45,109)</u>	<u>(33,718)</u>	
	<u>\$ 23,851</u>	<u>\$ 35,242</u>	

4. **LINE OF CREDIT**

KOM maintains a line of credit in the amount of \$100,000, with interest at the prime rate plus 1.00%. The effective rate at December 31, 2017 was 5.50%. The line of credit matures September 8, 2019. The line of credit is collateralized by equipment. There were no outstanding balances on the line of credit as of December 31, 2017 and 2016.

5. **NET ASSETS**

Temporarily restricted net assets result from restrictions on contributions received from donors. The restrictions expire when the stated time has elapsed or purpose has been met. Temporarily restricted net assets are for the following purposes:

	<u>2017</u>	<u>2016</u>
Social services	\$ 49,625	\$ 60,000
Folk and traditional arts	<u>56,000</u>	<u>-</u>
	<u>\$ 105,625</u>	<u>\$ 60,000</u>

Restrictions are classified above according to their main restriction. Some of the restrictions have components of both time and purpose restrictions.

(Continued)

**KAREN ORGANIZATION OF MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended December 31, 2017  
(With Comparative Totals for 2016)

**6. LEASES**

KOM leases office equipment and space under operating leases. The current office space lease, effective January 1, 2018, has a minimum monthly rental commitment of \$7,178, increasing approximately 5% annually, and expires in February 2022. The office equipment lease requires annual monthly payments of \$143 and expires in April 2021.

Future minimum lease payments for the years ending December 31 are as follows:

2018	\$	91,285
2019		95,871
2020		96,651
2021		97,957
2022		16,298
		<hr/>
	\$	<u>398,062</u>

Rent expense for operating leases for the years ended December 31, 2017 and 2016, was \$77,635 and \$73,587.

KOM received donated office space in Marshall with an estimated value of \$2,640 for the year ended December 31, 2017.

**7. CONCENTRATIONS**

KOM 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. At certain times during the year, cash balances may be in excess of the FDIC coverage. KOM has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

KOM received approximately 25% and 46% of its public support in 2017 and 2016, respectively, from the United States Department of Health and Human Services, passed through the State of Minnesota and local agencies.

(Continued)

**KAREN ORGANIZATION OF MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2017  
(With Comparative Totals for 2016)

**8. CORRECTION OF ERROR AND RESTATEMENT**

After the 2016 financial statements had been issued, management discovered a committed pledge of \$60,000 and grants and accounts receivable of \$20,374 that had not been recorded. Accordingly, the 2016 financial statements were restated to accurately reflect the receivables and related support and revenue. In addition, reclassifications were made to 2016 support and revenue balances to better reflect the source.

Net asset balances as of December 31, 2016, have been restated as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
As previously reported	\$ 327,139	\$ -	\$ 327,139
Grants and accounts receivable	20,374	-	20,374
Pledge receivable	-	60,000	60,000
	<u>          </u>	<u>          </u>	<u>          </u>
As restated	<u>\$ 347,513</u>	<u>\$ 60,000</u>	<u>\$ 407,513</u>

	<u>2016</u>	
	<u>As previously reported</u>	<u>Restated</u>
Federal grants	\$ 677,807	\$ 689,307
State grants	162,746	193,764
Foundation (private) grants	376,204	340,186
United Way	-	65,000
Fees for services	85,238	94,112

The correction's net effect on KOM's 2016 change in net assets was an increase of \$80,374.

(Continued)

**KAREN ORGANIZATION OF MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended December 31, 2017  
(With Comparative Totals for 2016)

**9. UNITED WAY CONTRIBUTIONS**

KOM has received funding commitments from the United Way for programs. This funding is contingent upon the United Way raising the funds and annual approval by the United Way board and will be recorded when approved.

The commitments are summarized below:

2018	\$ 135,000
2019	135,000
2020	<u>67,500</u>
	<u>\$ 337,500</u>

**10. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through August 14, 2018, the date which the financial statements were available for issue, and identified no significant events for disclosure.