

KAREN ORGANIZATION OF MINNESOTA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

KAREN ORGANIZATION OF MINNESOTA

FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

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Mahoney Ulbrich Christiansen Russ P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2018, 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, 2018, 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.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, Karen Organization of Minnesota has adopted Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited the Karen Organization of Minnesota's 2017 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated August 14, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Mahoney Ulbrich
Christiansen Russ P.A.*

September 4, 2019

KAREN ORGANIZATION OF MINNESOTA

STATEMENT OF FINANCIAL POSITION

December 31, 2018
(With Comparative Totals for 2017)

	2018	2017
ASSETS		
Current assets:		
Cash	\$ 118,315	\$ 131,875
Government grants and accounts receivable	271,001	255,141
Pledges receivable	68,475	49,625
Prepaid expenses	9,743	7,383
Total current assets	467,534	444,024
Pledges receivable - non-current	12,332	-
Property and equipment, net	16,216	23,851
	\$ 496,082	\$ 467,875
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 54,947	\$ 37,410
Accrued expenses	916	-
Accrued payroll and related	74,952	60,897
Deferred revenue	1,800	750
Total current liabilities	132,615	99,057
Net assets:		
Without donor restrictions	208,275	263,193
With donor restrictions	155,192	105,625
Total net assets	363,467	368,818
	\$ 496,082	\$ 467,875

See accompanying notes to the financial statements.

KAREN ORGANIZATION OF MINNESOTA

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenue and support:				
Federal grants	\$ 566,386	\$ -	\$ 566,386	\$ 650,890
State grants	401,062	67,500	468,562	386,784
Foundation grants	193,021	87,692	280,713	194,750
United Way	135,000	-	135,000	132,500
Fees for services	61,830	-	61,830	85,162
Special events revenue, net of direct donor benefits of \$27,545 in 2018 and \$16,123 in 2017	27,665	-	27,665	34,164
Contributions	142,215	-	142,215	27,955
Other revenue	2,932	-	2,932	5,414
In-kind contributions	2,640	-	2,640	2,640
Interest income	87	-	87	143
Net assets released upon satisfaction of usage restrictions	105,625	(105,625)	-	-
Total revenue and support	<u>1,638,463</u>	<u>49,567</u>	<u>1,688,030</u>	<u>1,520,402</u>
Expenses:				
Program services				
Social services	801,521	-	801,521	714,811
Employment services	582,282	-	582,282	519,917
Youth services	175,903	-	175,903	143,498
Program services	1,559,706	-	1,559,706	1,378,226
Management and general	83,026	-	83,026	157,645
Fundraising	50,649	-	50,649	23,226
Total expenses	<u>1,693,381</u>	<u>-</u>	<u>1,693,381</u>	<u>1,559,097</u>
Change in net assets	(54,918)	49,567	(5,351)	(38,695)
Net assets at beginning of year	<u>263,193</u>	<u>105,625</u>	<u>368,818</u>	<u>407,513</u>
Net assets at end of year	<u>\$ 208,275</u>	<u>\$ 155,192</u>	<u>\$ 363,467</u>	<u>\$ 368,818</u>

See accompanying notes to the financial statements.

KAREN ORGANIZATION OF MINNESOTA

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

	2018							2017	
	Social services	Employment services	Youth services	Total program services	Management and general	Fundraising	Special events		Total
Payroll and related:									
Payroll	\$ 419,088	\$ 315,938	\$ 91,322	\$ 826,348	\$ 34,858	\$ 28,010	\$ -	\$ 889,216	\$ 780,697
Employee benefits	52,404	39,506	11,419	103,329	4,359	3,502	-	111,190	113,649
Payroll taxes	32,019	24,138	6,977	63,134	2,663	2,140	-	67,937	54,544
Total payroll and related	503,511	379,582	109,718	992,811	41,880	33,652	-	1,068,343	948,890
Staff travel	9,468	6,440	2,103	18,011	531	540	-	19,082	19,883
Staff development	3,749	2,550	833	7,132	210	214	-	7,556	5,545
Professional fees and consultants	19,969	13,582	4,435	37,986	1,119	1,139	-	40,244	63,090
Accounting	-	-	-	-	24,178	-	-	24,178	26,309
Advertising	908	618	202	1,728	50	52	-	1,830	683
Office supplies	12,176	8,282	2,704	23,162	682	694	-	24,538	19,351
Postage and shipping	496	338	110	944	28	28	-	1,000	1,071
Repairs	4,711	3,205	1,046	8,962	264	269	-	9,495	11,983
Depreciation	3,788	2,577	841	7,206	213	216	-	7,635	11,391
Rental	54,923	37,357	12,198	104,478	3,077	3,132	-	110,687	88,782
Telephone	6,283	4,274	1,395	11,952	353	358	-	12,663	11,678
Insurance	3,294	2,241	732	6,267	184	188	-	6,639	6,256
Computer and support	11,152	7,585	2,477	21,214	625	636	-	22,475	18,342
Copying and printing	4,270	2,904	948	8,122	239	244	-	8,605	9,090
Client support	158,130	107,555	35,119	300,804	8,859	9,019	-	318,682	300,106
Dues	414	282	92	788	23	24	-	835	1,679
Events space	-	-	-	-	-	-	14,823	14,823	-
Events food and supplies	-	-	-	-	270	-	12,722	12,992	10,929
Meeting expense	1,234	839	274	2,347	70	70	-	2,487	3,243
Miscellaneous	3,045	2,071	676	5,792	171	174	-	6,137	796
Total expenses	801,521	582,282	175,903	1,559,706	83,026	50,649	27,545	1,720,926	1,559,097
Less direct donor benefits	-	-	-	-	-	-	(27,545)	(27,545)	(16,123)
Total expenses	\$ 801,521	\$ 582,282	\$ 175,903	\$ 1,559,706	\$ 83,026	\$ 50,649	\$ -	\$ 1,693,381	\$ 1,542,974

See accompanying notes to the financial statements.

KAREN ORGANIZATION OF MINNESOTA

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

Increase (Decrease) in Cash

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ (5,351)	\$ (38,695)
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation	7,635	11,391
Changes in operating assets and liabilities:		
Government grants and accounts receivable	(15,860)	(91,175)
Pledges receivable	(31,182)	10,375
Other receivable	-	709
Prepaid expenses	(2,360)	22,332
Accounts payable	17,537	(14,081)
Accrued expenses	14,971	4,542
Deferred revenue	1,050	(1,550)
Net cash from operating activities	<u>(13,560)</u>	<u>(96,152)</u>
Net increase (decrease) in cash	(13,560)	(96,152)
Cash at beginning of year	<u>131,875</u>	<u>228,027</u>
Cash at end of year	<u>\$ 118,315</u>	<u>\$ 131,875</u>

See accompanying notes to the financial statements.

KAREN ORGANIZATION OF MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

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, foundation grants, contributions, and fees for service.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Change in Accounting Principle - On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. KOM has implemented ASU 2016-14 and adjusted the presentation in these financial statements accordingly. As a result, the unrestricted net assets class has been renamed net assets without donor restrictions, the temporarily restricted net assets class has been renamed net assets with donor restrictions, and footnote disclosures have been expanded as required by the ASU. KOM opted not to disclose liquidity and availability information for 2017 as permitted under the ASU in the year of adoption.

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:

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
- *Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other actions specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

(Continued)

KAREN ORGANIZATION OF MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Pledges receivable of \$68,475 are due to be collected in 2019. The remaining amount of \$12,332 is due to be collected in 2020.

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 increases in net assets without donor restrictions 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.

(Continued)

KAREN ORGANIZATION OF MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 without donor restriction use unless specifically restricted by the donor. Contributions received are recorded as increases in net assets without donor restrictions or with donor restrictions, depending on the existence and nature of any donor restrictions. When a specific time restriction ends or a purpose is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions. 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 net assets without donor restrictions if the restrictions expire in the year in which the contributions are recognized.

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.

(Continued)

KAREN ORGANIZATION OF MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Expenses - The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Expenses are allocated on the basis of estimates of staff time and salaries.

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 2018 or 2017. 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 or functional expense. 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, 2017, from which the summarized information was derived.

3. LIQUIDITY AND AVAILABILITY

KOM regularly monitors the availability of resources required to meet its operating needs and other contractual commitments. On a monthly basis, KOM performs a calculation of available cash and cash equivalents on hand, accounts receivable, and contributions receivable which is compared to one-fourth of budgeted annual operating expenses, less noncash items and unusual or one-time expenses. Although not adopted as a formal policy, the board's goal is to maintain 90-days of financial assets on hand. In addition, the board annually adopts a balanced budget that it regularly monitors.

As more fully described in Note 5, KOM also has a committed line of credit in the amount of \$100,000, which it could draw upon in the event of an unanticipated liquidity need.

(Continued)

KAREN ORGANIZATION OF MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

3. LIQUIDITY AND AVAILABILITY (Continued)

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2018, comprise the following:

Cash	\$	118,315
Pledges receivable		68,475
Government grants and accounts receivable		<u>271,001</u>
	\$	<u><u>457,791</u></u>

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2018</u>	<u>2017</u>	<u>Depreciation lives - years</u>
Property and equipment	\$ 68,960	\$ 68,960	5
Less accumulated depreciation	<u>(52,744)</u>	<u>(45,109)</u>	
	<u><u>\$ 16,216</u></u>	<u><u>\$ 23,851</u></u>	

5. 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, 2018 was 6.50%. 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, 2018 and 2017.

(Continued)

KAREN ORGANIZATION OF MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31 are restricted for the following purposes:

	<u>2018</u>	<u>2017</u>
Weaving	\$ 60,000	\$ -
Chemical dependency	30,696	-
Elders program	20,000	-
Reproductive health services	36,996	-
Homeownership education	7,500	-
Social services	-	49,625
Folk and traditional arts	-	56,000
	<u>\$ 155,192</u>	<u>\$ 105,625</u>

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

7. 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. Additional office space was added, effective August 1, 2018, with a minimum monthly rental commitment of \$849, increasing approximately 3% annually, and expires in July 2020. The office equipment lease requires annual monthly payments of \$143 and expires in April 2021.

(Continued)

KAREN ORGANIZATION OF MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

7. LEASES (Continued)

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

2019	\$	106,184
2020		102,769
2021		97,957
2022		<u>16,298</u>
	\$	<u>323,208</u>

Rent expense for operating leases for the years ended December 31, 2018 and 2017, was \$95,530 and \$77,635.

KOM received donated office space in Marshall with an estimated value of \$2,640 for the year ended December 31, 2018 and 2017.

8. 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 18% and 25% of its public support in 2018 and 2017 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, 2018
(With Comparative Totals for 2017)

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:

2019	\$ 136,500
2020	<u>69,000</u>
	<u>\$ 205,500</u>

10. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 4, 2019, the date which the financial statements were available for issue.