

KAREN ORGANIZATION OF MINNESOTA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

KAREN ORGANIZATION OF MINNESOTA

FINANCIAL STATEMENTS

For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

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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, 2019, 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, 2019, 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 Principles

As discussed in Note 2 to the financial statements, Karen Organization of Minnesota has adopted Accounting Standards Updates (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and the related ASU No. 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

Report on Summarized Comparative Information

We have previously audited the Karen Organization of Minnesota's 2018 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated September 4, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Mahoney Ulbrich
Christiansen Russ P.A.*

August 20, 2020

KAREN ORGANIZATION OF MINNESOTA

STATEMENT OF FINANCIAL POSITION

December 31, 2019
(With Comparative Totals for 2018)

	2019	2018
ASSETS		
Current assets:		
Cash	\$ 90,240	\$ 118,315
Government grants receivable	286,615	271,001
Pledges receivable	129,261	68,475
Prepaid expenses	9,505	9,743
Total current assets	515,621	467,534
Pledges receivable - non-current	-	12,332
Property and equipment, net	9,380	16,216
	\$ 525,001	\$ 496,082
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 91,472	\$ 54,947
Accrued expenses	-	916
Accrued payroll and related	67,365	74,952
Deferred revenue	-	1,800
Total current liabilities	158,837	132,615
Net assets:		
Without donor restrictions	197,837	208,275
With donor restrictions	168,327	155,192
Total net assets	366,164	363,467
	\$ 525,001	\$ 496,082

See accompanying notes to the financial statements.

KAREN ORGANIZATION OF MINNESOTA

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenue and support:				
Federal grants	\$ 435,033	\$ -	\$ 435,033	\$ 566,386
State grants	785,625	-	785,625	468,562
Foundation grants	119,190	79,598	198,788	280,713
United Way	136,500	69,000	205,500	135,000
Fees for services	103,904	-	103,904	61,830
Event revenue:				
Contributions	13,854	-	13,854	10,067
Sponsorships	20,900	-	20,900	27,900
Earned	23,218	-	23,218	17,243
Direct donor benefits	(23,560)	-	(23,560)	(27,545)
Contributions	18,889	-	18,889	142,215
Other revenue	5,280	-	5,280	2,932
In-kind contributions	220	-	220	2,640
Interest income	45	-	45	87
Net assets released upon satisfaction of usage restrictions	135,463	(135,463)	-	-
Total revenue and support	<u>1,774,561</u>	<u>13,135</u>	<u>1,787,696</u>	<u>1,688,030</u>
Expenses:				
Program services				
Social services	661,479	-	661,479	801,521
Employment services	761,527	-	761,527	582,282
Youth services	255,456	-	255,456	175,903
Program services	<u>1,678,462</u>	<u>-</u>	<u>1,678,462</u>	<u>1,559,706</u>
Management and general	67,726	-	67,726	83,026
Fundraising	38,811	-	38,811	50,649
Total expenses	<u>1,784,999</u>	<u>-</u>	<u>1,784,999</u>	<u>1,693,381</u>
Change in net assets	(10,438)	13,135	2,697	(5,351)
Net assets at beginning of year	<u>208,275</u>	<u>155,192</u>	<u>363,467</u>	<u>368,818</u>
Net assets at end of year	<u>\$ 197,837</u>	<u>\$ 168,327</u>	<u>\$ 366,164</u>	<u>\$ 363,467</u>

See accompanying notes to the financial statements.

KAREN ORGANIZATION OF MINNESOTA

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

	2019							Total	2018
	Social services	Employment services	Youth services	Total program services	Management and general	Fundraising	Special events		
Payroll and related:									
Payroll	\$ 350,870	\$ 331,226	\$ 139,524	\$ 821,620	\$ 29,290	\$ 26,046	\$ -	\$ 876,956	\$ 889,216
Employee benefits	46,206	43,619	18,374	108,199	3,856	3,430	-	115,485	111,190
Payroll taxes	27,228	25,704	10,827	63,759	2,273	2,021	-	68,053	67,937
Total payroll and related	424,304	400,549	168,725	993,578	35,419	31,497	-	1,060,494	1,068,343
Client support	122,138	255,143	40,846	418,127	-	-	-	418,127	318,682
Staff travel	5,646	5,194	2,252	13,092	356	359	-	13,807	19,082
Staff development	1,254	1,153	500	2,907	79	80	-	3,066	7,556
Professional fees and consultants	16,809	15,464	6,705	38,978	1,060	1,069	-	41,107	40,244
Accounting and audit	-	-	-	-	25,050	-	-	25,050	24,178
Advertising	29	27	12	68	2	2	-	72	1,830
Office supplies	8,732	8,034	3,483	20,249	552	555	-	21,356	24,538
Postage and shipping	842	775	336	1,953	53	54	-	2,060	1,000
Repairs	6,074	5,588	2,423	14,085	384	386	-	14,855	9,495
Depreciation	2,795	2,572	1,115	6,482	176	178	-	6,836	7,635
Rental	48,236	44,378	19,240	111,854	3,044	3,067	-	117,965	110,687
Telephone	5,150	4,738	2,054	11,942	325	327	-	12,594	12,663
Insurance	4,110	3,781	1,639	9,530	260	261	-	10,051	6,639
Computer and support	5,839	5,372	2,329	13,540	369	371	-	14,280	22,475
Copying and printing	4,070	3,744	1,623	9,437	257	259	-	9,953	8,605
Interest	412	379	164	955	26	26	-	1,007	-
Dues	668	615	267	1,550	42	42	-	1,634	835
Event space	-	-	-	-	-	-	665	665	14,823
Event food and supplies	-	-	-	-	-	-	22,895	22,895	12,992
Meeting expense	625	575	249	1,449	39	40	-	1,528	2,487
Miscellaneous	3,746	3,446	1,494	8,686	233	238	-	9,157	6,137
Total expenses	661,479	761,527	255,456	1,678,462	67,726	38,811	23,560	1,808,559	1,720,926
Less direct donor benefits	-	-	-	-	-	-	(23,560)	(23,560)	(27,545)
Total expenses	\$ 661,479	\$ 761,527	\$ 255,456	\$ 1,678,462	\$ 67,726	\$ 38,811	\$ -	\$ 1,784,999	\$ 1,693,381

See accompanying notes to the financial statements.

KAREN ORGANIZATION OF MINNESOTA

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,697	\$ (5,351)
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation	6,836	7,635
Changes in operating assets and liabilities:		
Government grants receivable	(15,614)	(15,860)
Pledges receivable	(48,454)	(31,182)
Prepaid expenses	238	(2,360)
Accounts payable	36,525	17,537
Accrued expenses	(8,503)	14,971
Deferred revenue	(1,800)	1,050
Net cash from operating activities	<u>(28,075)</u>	<u>(13,560)</u>
Net decrease in cash	(28,075)	(13,560)
Cash at beginning of year	<u>118,315</u>	<u>131,875</u>
Cash at end of year	<u>\$ 90,240</u>	<u>\$ 118,315</u>

See accompanying notes to the financial statements.

KAREN ORGANIZATION OF MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

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

Accounting Standards Adopted - In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The ASU requires that an entity recognize revenue for the transfer of goods or services to a customer at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. KOM adopted the new standard as of January 1, 2019, using the modified retrospective method and applied the new standard to all contracts. There were no material changes in the timing of its recognition of revenue or net assets as a result of the adoption.

In 2019, KOM adopted ASU 2018-08 *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The adoption of ASU 2018-08 has been applied using the modified prospective method to the financial statement for the year ended December 31, 2019, and the years going forward. Accordingly, there was no impact on net assets as previously reported. The presentation and disclosures of contributions have been enhanced in accordance with the standard.

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.

(Continued)

KAREN ORGANIZATION OF MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *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.

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 Receivable - Government grants receivable are accounted for as contributions and are recorded when eligible expenses as defined in the agreements are incurred. Management has determined an allowance is not necessary because the balance is considered fully collectible. Government grants receivable are expected to be collected in 2020.

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 \$87,202 are 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.

(Continued)

KAREN ORGANIZATION OF MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Government Grants and Contracts - Federal and state contracts and grants are accounted for as contributions. The grants and contracts are cost reimbursable which are conditional upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when KOM has incurred expenditures in compliance with specific contract or grant provisions. Funds received but not yet earned are recorded as refundable advances. Expenditures under government grants and contracts are subject to review by the granting authority. If, as a result of such a review, expenditures are determined to be unallowable, the disallowance will be recorded at the time the assessment for refund is made.

Foundation Grants and Contributions - Foundation grants and contributions are considered available for use 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 accounted for as contributions 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.

(Continued)

KAREN ORGANIZATION OF MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Sponsorships and Event Revenue-Earned - Sponsorship and earned event revenue collected in advance of the related event are deferred and recognized in the period when the event takes place. Registrations are refundable if the event is cancelled.

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. Payroll, employee benefits, and payroll taxes are allocated using staff salaries. The remaining expenses are allocated using staff time.

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 2019 or 2018. 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, 2018, from which the summarized information was derived.

Reclassifications - Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

(Continued)

KAREN ORGANIZATION OF MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

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, grants 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.

Financial assets available for general expenditure, within one year of December 31, comprise the following:

	<u>2019</u>	<u>2018</u>
Cash	\$ 90,240	\$ 118,315
Government grants receivable	286,615	271,001
Pledges receivable	<u>129,261</u>	<u>68,475</u>
	<u>\$ 506,116</u>	<u>\$ 457,791</u>

For purposes of analyzing resources available to meet general expenditures over the next year, KOM considers all expenditures related to its ongoing activities to be general expenditures.

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2019</u>	<u>2018</u>	<u>Depreciation lives - years</u>
Property and equipment	\$ 68,960	\$ 68,960	5
Less accumulated depreciation	<u>(59,580)</u>	<u>(52,744)</u>	
	<u>\$ 9,380</u>	<u>\$ 16,216</u>	

(Continued)

KAREN ORGANIZATION OF MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

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, 2019, was 5.75%. The line of credit matures September 8, 2021. The line of credit is collateralized by equipment. There were no outstanding balances on the line of credit as of December 31, 2019 and 2018.

6. NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2019</u>	<u>2018</u>
Subject to purpose restrictions:		
Weaving	\$ -	\$ 60,000
Chemical dependency	74,597	30,696
Elders program	-	20,000
Reproductive health services	12,332	36,996
Homeownership education	7,398	7,500
Capacity building	5,000	-
Subject to time restrictions:		
General operations	69,000	-
	<u>\$ 168,327</u>	<u>\$ 155,192</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 office equipment lease requires annual monthly payments of \$143 and expires in April 2021.

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.

(Continued)

KAREN ORGANIZATION OF MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

7. **LEASES (Continued)**

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

2020	\$	102,769
2021		97,957
2022		<u>16,298</u>
	\$	<u>217,024</u>

Rent expense for operating leases for the years ended December 31, 2019 and 2018, was \$106,184 and \$95,530.

KOM received donated office space in Marshall with an estimated value of \$220 and \$2,640 for the year ended December 31, 2019 and 2018. The Marshall office closed January 2019.

8. **CONCENTRATIONS**

KOM received approximately 19% and 18% of its revenue and support in 2019 and 2018 from the United States Department of Health and Human Services, passed through the State of Minnesota and local agencies.

9. **COMMITTED GRANTS AND CONTRACTS**

Government Grants - KOM has conditional promises to give totaling \$2,837,601 at December 31, 2019, which consists of government grants with remaining commitments that are conditional upon incurring eligible expenditures or performing certain services. Conditional promises to give are recognized in the financial statements when conditions have been met. The remaining contributions are expected to be recognized in 2020 and 2021.

United Way - 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 United Way has conditionally pledged \$69,000 for 2020, \$138,000 for 2021, and \$69,000 for 2022.

(Continued)

KAREN ORGANIZATION OF MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

10. SUBSEQUENT EVENTS

In March 2020, the state of Minnesota began to enact measures to combat the global pandemic resulting from a novel strain of coronavirus known as COVID-19. Measures have included regulatory restrictions on citizen and business activities as well as recommendations for further voluntary curtailment of activities. There has been no immediate impact on KOM's operations. Although KOM's summer fundraiser and annual gala have been cancelled, a virtual fundraising event is expected to take place later in 2020. Future potential impacts may include disruptions or restrictions on employees' ability to work. The future effects of these issues are unknown. KOM obtained a forgivable loan totaling \$202,500 through the Paycheck Protection Program created by the CARES Act. The loan is forgivable in certain circumstances if utilized for qualified business expenses. The loan bears interest at 1% and must be repaid by May 2022 if not forgiven.

Management has evaluated subsequent events through August 20, 2020, the date which the financial statements were available for issue.