

**Kanawha Institute for Social
Research and Action, Inc.**

**Independent Auditors' Report
and
Financial Statements**

December 31, 2013

DHHR - Finance

OCT 15 2014

Date Received

Kanawha Institute for Social Research and Action, Inc.

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Herman & Cormany

Certified Public Accountants, A.C.

Accountants & Consultants

Independent Auditors' Report

To the Board of Directors of
Kanawha Institute for Social Research and Action, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Kanawha Institute for Social Research and Action, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, functional expenses, and cash flows for the year 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 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 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 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

To the Board of Directors
Kanawha Institute for Social Research and Action, Inc.
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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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kanawha Institute for Social Research and Action, Inc. as of December 31, 2013, 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.

Other Matters

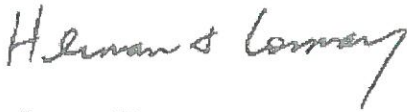
Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of BHHF funding status for agreement numbers G130403 and G140029 are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is also 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 of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

To the Board of Directors
Kanawha Institute for Social Research and Action, Inc.
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2014, on our consideration of Kanawha Institute for Social Research and Action, Inc.'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 Kanawha Institute for Social Research and Action, Inc.'s internal control over financial reporting and compliance.



Charleston, West Virginia
September 18, 2014

DHHR - Finance

OCT 15 2014

Date Received

Kanawha Institute for Social Research and Action, Inc.

Statement of Financial Position

December 31, 2013

Assets	
Cash and cash equivalents	\$ 63,855
Cash restricted for loans and IDA reserves & CHDO	659,529
Grants and accounts receivable	145,538
Work in progress	894,674
Property and equipment	1,091,639
Microloans receivable	256,484
Other assets	<u>6,467</u>
Total Assets	<u>\$3,118,186</u>
Liabilities and Net Assets	
Accounts payable	\$ 68,043
Accrued liabilities & taxes	245
Grants received in advance	624,751
SBA Intermediary Loan Fund	386,508
Notes payable	<u>118,774</u>
Total Liabilities	<u>1,198,321</u>
Net Assets	
Unrestricted	1,297,175
Temporarily restricted	<u>622,690</u>
Total Net Assets	<u>1,919,865</u>
Total Liabilities and Net Assets	<u>\$3,118,186</u>

See notes to financial statements.

Kanawha Institute for Social Research and Action, Inc.

Statement of Activities

Year Ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, Gains, and Other Support			
Contributions – individuals & corp.	\$ 114,682	\$ 77,214	\$ 191,896
Contributions – government	55,675	4,022,368	4,078,043
HCDC Income	258,500	-0-	258,500
CHDO Home Sale	-0-	125,071	125,071
Net assets released from restrictions	<u>3,899,218</u>	<u>(3,899,218)</u>	<u>-0-</u>
Total Revenues, Gains, and Other Support	<u>4,328,075</u>	<u>325,435</u>	<u>4,653,510</u>
Expenses and Losses			
Personnel	2,616,318	-0-	2,616,318
Insurance	18,529	-0-	18,529
Internet	4,491	-0-	4,491
Healthcare	2,419	-0-	2,419
Training	37,985	-0-	37,985
Food	50,985	-0-	50,985
Office expense	85,812	-0-	85,812
Telephone	12,932	-0-	12,932
Depreciation	149,121	-0-	149,121
Advertising	15,929	-0-	15,929
Utilities	42,475	-0-	42,475
Postage	3,385	-0-	3,385
Cost of homes constructed	175,845	-0-	175,845
Travel	100,775	-0-	100,775
Material and supplies	161,401	-0-	161,401
Other	(72,882)	-0-	(72,882)
Tax, licenses and permits	3,413	-0-	3,413
Program & program overhead	513,633	-0-	513,633
Occupancy	112,707	-0-	112,707
Interest	<u>13,035</u>	<u>-0-</u>	<u>13,035</u>
Total Expenses and Losses	<u>4,048,308</u>	<u>-0-</u>	<u>4,048,308</u>
Change in Net Assets	279,767	325,435	605,202
Net Assets, Beginning of Year	<u>1,017,408</u>	<u>297,255</u>	<u>1,314,663</u>
Net Assets, End of Year	<u>\$1,297,175</u>	<u>\$ 622,690</u>	<u>\$1,919,865</u>

See notes to financial statements.

Kanawha Institute for Social Research and Action, Inc.

Statement of Cash Flows

Year Ended December 31, 2013

Cash Flow From Operating Activities	
Change in net assets	\$ 605,202
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	149,121
Change in net assets and liabilities	
Increase in restricted cash	(379,938)
Decrease in grants and accounts receivable	54,958
Increase in work in progress	(521,930)
Increase in other assets	(2,442)
Increase in accounts payable	6,127
Decrease in accrued liabilities and taxes	(82,158)
Increase in grants received in advance	<u>78,600</u>
Net Cash Used In Operating Activities	<u>(92,460)</u>
 Cash Flows From Investing Activities	
Micro loans	(16,360)
Purchase of property and equipment	<u>(14,798)</u>
Net Cash Used in Investing Activities	<u>(31,158)</u>
 Cash Flows From Financing Activities	
Proceeds from issuance of debt	220,000
Payments on notes payable	<u>(105,404)</u>
Net Cash Provided By Financing Activities	<u>114,596</u>
 Net Decrease in Cash	(9,022)
 Cash, Beginning of Year	<u>72,877</u>
 Cash, End of Year	<u>\$ 63,855</u>
 Supplemental disclosures of cash flow information:	
Interest paid	<u>\$ 13,035</u>

See notes to financial statements.

Kanawha Institute for Social Research and Action, Inc.

Statement of Functional Expenses

Year Ended December 31, 2013

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Personnel	\$2,409,191	\$ 142,372	\$2,616,318
Insurance	11,100	7,429	18,529
Healthcare	2,419	-0-	2,419
Training	36,948	1,037	37,985
Food	49,910	1,075	50,985
Office expense	58,164	27,648	85,812
Telephone	2,568	10,364	12,932
Depreciation expense	-0-	149,121	149,121
Advertising	9,015	6,914	15,929
Utilities	42,475	-0-	42,475
Postage	31	3,354	3,385
Cost of homes constructed	175,845	-0-	175,845
Travel expense	93,428	7,347	100,775
Materials and supplies	160,868	533	161,401
Other	(40,986)	32,859	(8,127)
Tax, licenses and permits	39	3,374	3,413
Interest	-0-	13,035	13,035
Internet	747	3,744	4,491
Occupancy	112,707	-0-	112,707
Program & program overhead	<u>796,622</u>	<u>(282,989)</u>	<u>513,633</u>
Total Expenses	<u>\$3,921,091</u>	<u>\$ 127,217</u>	<u>\$4,048,308</u>

See notes to financial statements.

Kanawha Institute For Social Research and Action, Inc.

Notes to Financial Statements

December 31, 2013

Note A – Summary of Significant Accounting Policies

Organization - The Kanawha Institute For Social Research and Action, Inc. (KISRA) ("Organization") is a nonprofit organization which works to aid in the development and implementation of educational, self-awareness, and socio-economic programs (including the development of safe, affordable, and decent housing for low and middle income families) that enhance the personal development of the individual in the community in and around Charleston, West Virginia. The Organization receives grants from governmental agencies as well as corporate and personal contributions.

Basis of Accounting – The financial statements of Kanawha Institute For Social Research and Action, Inc. (KISRA) have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Classification of Support - The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported on the statement of activities as net assets released from restrictions.

Estimates – Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Property and Equipment – Furniture and equipment items are recorded at cost if purchased or, if donated, at the fair value at the time of the donation. Depreciation is computed by the straight-line method over the estimated useful lives of the assets. Depreciation expense for the year ended December 31, 2013 was \$149,121. The classification of these capitalized items are classified in the accompanying financial statements as follows:

Furniture and equipment	\$ 383,012
Leasehold improvements	<u>1,388,376</u>
	1,771,388
Less accumulated depreciation	<u>726,777</u>
	1,044,611
Land	<u>47,028</u>
	<u>\$1,091,639</u>

Title to the leasehold improvements would revert to the grantor if intended usage would be discontinued.

Income Taxes - The Organization is a nonprofit organization under section 501(c)(3) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under section 509(a)(2). The Organization is exempt from income taxes on income derived from their nonprofit activities.

Kanawha Institute For Social Research and Action, Inc.

Notes to Financial Statements

December 31, 2013

Note A – Summary of Significant Accounting Policies (Continued)

As of December 31, 2013, the tax years that remain subject to examination begin with 2010. Tax returns for 2010, 2011, 2012 and 2013 remain open to examination by taxing authorities. Management believes that all positions taken in those returns would be sustained if examined by taxing authorities.

Work in Progress – Some of the work in progress represents a building project that was built for resale but has not been sold as of the balance sheet date. The project is being rented until it can be sold. The cost for the project has been accumulated in work in progress and will be expensed when the project is sold. Four new projects were started during the year and two were completed. Additionally, three of the projects started last year were completed in the current year. One of the projects that started last year and was completed in the current year was also sold in the current year. All of the current projects are part of the CHDO Home program.

Statement of Cash Flows – For purposes of the statement of cash flows, the Organization considers all unrestricted highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

Advertising – The Organization expenses advertising cost as they are incurred. Advertising expense for the year was \$15,929.

Basis of Presentation – The Organization is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Expense Allocation – The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Donated Services – No amounts have been reflected in the financial statements for donated services. The Organization generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs, campaign solicitations, and various committee assignments. The Organization receives a significant amount of volunteer hours per year.

Kanawha Institute For Social Research and Action, Inc.

Notes to Financial Statements

December 31, 2013

Note B – Temporarily Restricted Net Assets

Temporarily restricted net assets consist of funds received related to a specific program or purpose in excess of expenditures incurred in these programs. The excess funds received are restricted for the intended purposes. The temporarily restricted assets at December 31, 2013 are as follows:

Fatherhood	\$126,523
CHDO	294,242
IDA Match	56,253
Compeer	9,630
AmeriCorps	11,887
Microloan	50,566
Various other grants	<u>73,589</u>
	<u>\$622,690</u>

Note C – Grants and Accounts Receivable

Grants and accounts receivable consist of amounts owed from various grantors as reimbursement of grant-related expenses. The Organization considers grants and accounts receivable at December 31, 2013, to be fully collectible; accordingly, no allowance for doubtful accounts is required. Grants and accounts receivable consist of the following:

Care coordinator	\$ 37,114
Compeer	10,849
Family planning	23,966
Micro loan	8,358
AmeriCorps	33,683
HCDC	13,581
HUD	5,079
WVHDF	11,227
Accounts receivable	<u>1,681</u>
Total grants and accounts receivable	<u>\$145,538</u>

Kanawha Institute For Social Research and Action, Inc.

Notes to Financial Statements

December 31, 2013

Note D – Net Assets Released From Restrictions

Net assets were released from donor and grant restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors for the year ended December 31, 2013 as follows:

Purpose restrictions accomplished:	
AmeriCorps	\$ 56,087
Benedem Grant	42,230
Harambee Learning Center	102,252
KISRA Works/VAWA	5,079
Fatherhood Grant	2,807,173
Re-entry	127,000
IDA Program	69,442
PREP Grant	56,746
Micro Loan – SBA Technical Grant	3,018
CHDO	476,716
Family Planning	36,299
Compeer/Care Coordinator	116,050
Various other grants	<u>1,126</u>
Total restrictions released	<u>\$3,899,218</u>

Note E – Concentration of Credit Risk

The Organization receives a significant portion of its revenues from federal and state agencies and corporate contributions. The ability of the donors to continue funding the operations of the Organization is dependent upon current economic conditions.

Additionally, the Organization maintains its bank accounts in financial institutions located in and around Charleston, West Virginia. The balance is insured by the Federal Deposit Insurance Corporation up to current limits in 2013. At December 31, 2013, the Organization's uninsured cash balance totaled \$243,691.

Note F – Operating Leases

The Organization has several noncancelable operating leases for office space that expire at various dates through June 30, 2015. Those leases require the Organization to pay various executory costs. Rental expenses for those leases consisted of \$22,621 for the year.

Kanawha Institute For Social Research and Action, Inc.

Notes to Financial Statements

December 31, 2013

Note F – Operating Leases (Continued)

Future minimum lease payments under operating leases that have remaining terms in excess of one year as of December 31, 2013 are as follows:

2014	\$33,033
2015	5,310
2016	-0-
Thereafter	-0-
	<u>\$38,343</u>

Note G – Related Parties

The Organization has an accounts payable with Ferguson Baptist Church. The amounts are related to facilities previously rented from the church on a monthly basis for office space used by the Organization and other miscellaneous administrative expenses that the Organization reimburses the Church for such as printing, postage, payroll, etc. The total payable to Ferguson Baptist Church at December 31, 2013 was \$15,543. Some of the organization's board members are also on the governing body of Ferguson Baptist Church.

There is no interest charged on the money owed to Ferguson Baptist Church.

Note H – Notes Payable

The Organization's obligations under notes payable consist of the following:

Operating line-of-credit arrangement with an area bank with variable interest at a rate of 3.25%, secured by personal property.	\$ 19,988
Operating line-of-credit arrangement with an area bank with variable interest at a rate of 5.25%, secured by various personal property.	15,546
5.875% note payable, due in monthly installment of \$494, including interest through 2015, secured by real estate.	49,839
5.875% note payable, due in monthly installment of \$674, including interest through 2015, secured by real estate.	<u>33,401</u>
Total notes payable	<u>\$118,774</u>

Kanawha Institute For Social Research and Action, Inc.

Notes to Financial Statements

December 31, 2013

Note H – Notes Payable (Continued)

The future scheduled maturities of the debts are as follows:

2014	\$ 42,891
2015	75,883
2016	-0-
2017	-0-
2018	-0-
Thereafter	-0-
	<u>\$118,774</u>

Note I – Second Mortgage

KISRA participates in the CHDO Home Blend grant program. When a property is sold, KISRA maintains a second mortgage on the property that is forgivable if the purchaser remains in the property for 10 years. No amount is recorded on KISRA's books for these mortgages.

Note J – SBA Intermediary Loan Fund

The Small Business Administration has awarded KISRA money to loan out to various small businesses. Currently, KISRA has \$256,484 of these loans outstanding with a loan loss reserve of \$163,461, which is included in the balance of cash restricted for loans and IDA reserves and CHDO on the Statement of Financial Position. As of December 31, 2013, the balance of the amount owed to the SBA is \$386,508 with monthly payments of \$8,304.

Note K – Grants Received in Advance

Grants received in advance consist of the following:

IDA – Reserves	\$209,839
Fatherhood	300,184
Microloan – Benedum	109,601
Compeer	5,127
	<u>\$624,751</u>

Note L – Subsequent Events

Management has evaluated all events through September 18, 2014, the date these financial statements were available to be issued, and determined that there are no subsequent events that require disclosure.

Supplementary Information

Kanawha Institute of Social Research and Action, Inc.

Schedule of BHHF Funding Status for Agreement Numbers G130403 and G140029

Contract Years Ended June 30, 2013 and June 30, 2014

Contract Year Ended June 30, 2013

<u>BHHF Account Number</u>	<u>Final BHHF Award</u>	<u>Deferred Revenue June 30, 2012</u>	<u>Amount Earned and Billed</u>	<u>Deferred Revenue June 30, 2013</u>	<u>Amount Not Billed</u>	<u>Amount Collected</u>
0525-2013-3745-219-258	\$86,858	\$ -0-	\$ 74,858	\$ -0-	\$ -0-	\$ 74,858

Contract Year Ended June 30, 2014

<u>BHHF Account Number</u>	<u>Final BHHF Award</u>	<u>Deferred Revenue June 30, 2012</u>	<u>Amount Earned and Billed</u>	<u>Deferred Revenue June 30, 2013</u>	<u>Amount Not Billed</u>	<u>Amount Collected</u>
0525-2014-3701-219-258	\$ 62,858	\$ -0-	\$ 26,474	\$ -0-	\$27,049	\$16,409
0525-2014-3702-219-258	<u>18,000</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
	<u>80,858</u>	<u>-0-</u>	<u>26,474</u>	<u>-0-</u>	<u>27,049</u>	<u>16,049</u>
	<u>\$167,716</u>	<u>\$ -0-</u>	<u>\$101,332</u>	<u>\$ -0-</u>	<u>\$27,049</u>	<u>\$91,267</u>

See independent auditors' report.

Herman & Cormany

Certified Public Accountants, A.C.

Accountants & Consultants

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of
Kanawha Institute for Social Research and Action, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America 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 Kanawha Institute for Social Research and Action, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, 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 18, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kanawha Institute for Social Research and Action, Inc.'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 Kanawha Institute for Social Research and Action, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Kanawha Institute for Social Research and Action, Inc.'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.

To the Board of Directors of
Kanawha Institute for Social Research and Action, Inc.
Page two

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 and therefore, material weakness or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned cost that we considered to be a significant deficiency 2013-001.

Compliance and Other Matters

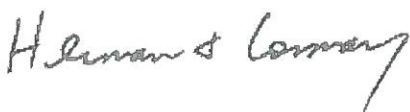
As part of obtaining reasonable assurance about whether Kanawha Institute for Social Research and Action, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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*.

Kanawha Institute for Social Research and Action, Inc.'s Response to Findings

KISRA's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. KISRA's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charleston, West Virginia
September 18, 2014

DHHR - Finance

OCT 15 2014

Date Received

Herman & Cormany

Certified Public Accountants, A.C.

Accountants & Consultants

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

To the Board of Directors of
Kanawha Institute for Social Research and Action, Inc.

Report on Compliance for Each Major Federal Program

We have audited Kanawha Institute for Social Research and Action, Inc.'s (KISRA) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of KISRA's major federal programs for the year ended December 31, 2013. KISRA's major federal programs are 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 laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of KISRA's major federal programs 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 of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 KISRA'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 of KISRA's compliance.



Opinion on Each Major Federal Program

In our opinion, KISRA complied, in all material respects, with the types of compliance requirements referred to above that could have direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control over Compliance

Management of KISRA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered KISRA's internal control over compliance with the types of requirements that could have a direct and material effect on each 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 OMB Circular A-133, 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 KISRA's internal control over compliance.

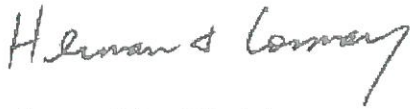
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2013-001, that we considered to be significant deficiencies.

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

To the Board of Directors of
Kanawha Institute for Social Research and Action, Inc.
Page three

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Charleston, West Virginia
September 18, 2014

DHHR - Finance

OCT 15 2014

Date Received

Kanawha Institute for Social Research and Action, Inc.

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2013

<u>Federal Grantor</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Disbursements/ Expenditures</u>
U.S. Department of Housing and Urban Development Pass-Through Program: National Community Reinvestment Coalition Housing Counseling Assistance Program	14.169	HC10-0321-196	\$ 5,079
U.S. Department of Housing and Urban Development Pass-Through Program: West Virginia Housing Development Fund Home Investment Partnership Program	14.239	KISRA Putnam I (2010-01-27)	419,582
West Virginia Housing Development Fund Home Investment Partnership Program	14.239	N/A	1,395
West Virginia Housing Development Fund Home Investment Partnership Program	14.239	RFA #2012-02-06	13,962
West Virginia Housing Development Fund Home Investment Partnership Program	14.239	RFA #2013-01-07	<u>11,227</u>
Total Department of Housing and Urban Development			<u>451,245</u>
U.S. Department of Justice Direct Programs Second Chance Act Prisoner Re-entry	16.812	2011-CY-BY-0029	127,000
U.S. Department of Justice Pass-Through Programs: State of West Virginia Division of Criminal Justice Services Violence Against Women Formula Grant	16.588	10-VAWR-015	<u>6,141</u>
Total U.S. Department of Justice			<u>133,141</u>
Small Business Administration Direct Programs Micro Loan Program Technical Assistance	59.046	SBAHQ-12-Y-005	10,261
Small Business Administration Direct Programs Micro Loan Program Technical Assistance	59.046	SBAHQ-13-Y-0140	<u>16,801</u>
Total Small Business Administration			<u>27,063</u>

Kanawha Institute for Social Research and Action, Inc.
Schedule of Expenditures of Federal Awards (Continued)

For the Year Ended December 31, 2013

<u>Federal Grantor</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Disbursements/ Expenditures</u>
U.S. Department of Health and Human Services			
Direct Programs:			
Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086	90FK0029-02-01	\$2,761,643
Administration for Children and Family Assets for Independent Demonstration Program	93.602	90E10617/01	69,485
U.S. Department of Health and Human Services			
Pass-Through Program:			
West Virginia Department of Health and Human Resources Bureau for Public Health:			
Office of Community Health Systems	93.283	G130818	80,000
State of WV Department of Health and Human Resources Block Grants for Community Mental Health Services	93.958	G130568	33,985
State of WV Department of Health and Human Resources Block Grants for Community Mental Health Services	93.958	G140473	5,722
West Virginia Department of Health and Human Resources Office of Maternal, Child and Family Health PREP	93.092	G120891	19,000
West Virginia Department of Health and Human Resources Office of Maternal, Child and Family Health PREP	93.092	G130742	24,500
West Virginia Department of Health and Human Resources Office of Maternal, Child and Family Health PREP	93.092	G140456	<u>12,246</u>
Total Department of Health and Human Services			<u>3,006,581</u>
Corporation for National and Community Service			
Pass-Through Programs:			
West Virginia Commission for National Services – AmeriCorps	94.006	06AFHW0010017	<u>55,087</u>
Total Corporation for National and Community Service			<u>55,087</u>
Total Expenditures of Federal Awards			<u>\$3,673,117</u>

See accompanying notes to schedule of expenditures of federal awards.

Kanawha Institute for Social Research and Action, Inc.

Notes to Schedule of Expenditures of Federal Awards

December 31, 2013

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of KISRA under programs of the federal government for the year ended December 31, 2013. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of KISRA, it is not intended to and does not present the financial position, changes in net assets, or cash flows of KISRA.

Note B – Summary of Significant Accounting Policies

- (1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB A-122 *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) Pass-through entity identifying numbers are presented where available.

Kanawha Institute For Social Research and Action, Inc.

Schedule of Prior Audit Findings

Year Ended December 31, 2013

Section II – Findings – Financial Statement Audit

No matters were reported.

Section III – Findings and Questioned Costs – Major Federal Program Audit

2012-1 Reporting

Condition: Due to confusion on how to report on the semi-annual reports expenses that were approved by the grantor to be incurred in the future but not yet determined, the Organization reported the expenses in question as expended.

Recommendation: The Organization should only report expenses expended or incurred as expended on the semi-annual reports.

Current Status: Expenses reported in the current year had been expended or obligated. No similar findings were noted in the 2013 audit.

Kanawha Institute for Social Research and Action, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2013

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: unmodified

- Control deficiencies disclosed? Yes No
- Control deficiencies reported as a significant deficiency? Yes No
- Control deficiencies reported as a material weakness? Yes No

Noncompliance material to financial statements notes? Yes No

Federal Awards

Internal control over major programs:

- Control deficiencies identified? Yes No
- Control deficiencies reported as a significant deficiency? Yes No
- Control deficiencies reported as material weaknesses? Yes No

Type of auditors’ report issued on compliance for major programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.086	Fatherhood Program
14.239	Home Investment Partnership Program

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

Kanawha Institute For Social Research and Action, Inc.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2013

Section II - Findings – Financial Statement Audit

2013-0011 CHDO Revenue and Expense Recording

Condition: The grantor paid funds directly to a vendor, and the Organization did not record the related revenue or expense on the general ledger.

Criteria: Revenue and expenses related to the program were not recorded on the general ledger.

Cause: Procedures in place to ensure that all revenue and expenses are recorded were not followed.

Recommendation: The Organization should record all revenue earned and expenses incurred in the period earned and incurred.

Response: The Organization will attempt to more adequately record revenue and expenses.

Section III - Findings and Questioned Costs – Major Federal Program Audit

Same as above.

Herman & Cormany

Certified Public Accountants, A.C.

Accountants & Consultants

September 18, 2014

Board of Directors
Kanawha Institute for Research and Action, Inc.

We have audited the financial statements of Kanawha Institute for Research and Action, Inc. (KISRA) for the year ended December 31, 2013, and have issued our report thereon dated September 18, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 3, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by KISRA are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the collectability of loans and receivables is based on historical collections. We evaluated the key factors and assumptions used to develop the collectability of receivables in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

The completion of our audit delayed awaiting a response from one of the organization's major grantors relating to various compliance items. When a full response was not received, the audit was issued to meet other funders' deadlines.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management. See attached audit adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 18, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

A significant deficiency in internal control over compliance and financial reporting was noted in the Schedule of Findings and Questioned Costs related to Reporting, see 2013-001.

This information is intended solely for the use of the Board of Directors and management of KISRA and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



HERMAN & CORMANY
CERTIFIED PUBLIC ACCOUNTANTS, A.C.

DHHR - Finance

OCT 15 2014

Date Received