

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

**Independent Auditors' Report
and
Financial Statements**

December 31, 2014

DHHR - Finance

OCT 22 2015

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, 2014, 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, 2014, 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

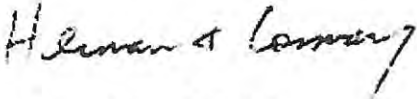
Supplementary and Other Information

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 G140029 and G150619 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 October 7, 2015, 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
October 7, 2015

DHHR - Finance

OCT 22 2015

Date Received

Kanawha Institute for Social Research and Action, Inc.

Statement of Financial Position

December 31, 2014

Assets	
Cash restricted for loans and IDA reserves & CHDO	\$ 591,572
Investments	7,370
Grants and accounts receivable	185,919
Work in progress	985,518
Microloans receivable	327,110
Property and equipment	<u>1,344,596</u>
Total Assets	<u>\$3,442,085</u>
Liabilities and Net Assets	
Outstanding checks in excess of unrestricted bank balance	\$ 120,344
Accounts payable	67,443
Accrued liabilities & taxes	2,379
Accrued payroll	28,493
Grants received in advance	572,519
Notes payable	84,875
SBA Intermediary Loan Fund	<u>333,488</u>
Total Liabilities	<u>1,209,541</u>
Net Assets	
Unrestricted	1,649,444
Temporarily restricted	<u>583,100</u>
Total Net Assets	<u>2,232,544</u>
Total Liabilities and Net Assets	<u>\$3,442,085</u>

See notes to financial statements.

Kanawha Institute for Social Research and Action, Inc.

Statement of Activities

Year Ended December 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, Gains, and Other Support			
Contributions – Individuals & corporations	\$ 109,769	\$ 183,128	\$ 292,897
Contributions – Government	50,834	3,251,097	3,301,931
HCDC Income	214,699	-0-	214,699
Net assets released from restrictions	<u>3,473,815</u>	<u>(3,473,815)</u>	<u>-0-</u>
Total Revenues, Gains, and Other Support	<u>3,849,117</u>	<u>(39,590)</u>	<u>3,809,527</u>
Expenses and Losses			
Personnel	2,217,777	-0-	2,217,777
Insurance	13,784	-0-	13,784
Internet and computer expense	14,102	-0-	14,102
Equipment rental	27,036	-0-	27,036
Training	66,119	-0-	66,119
Food	57,797	-0-	57,797
Office expense	15,679	-0-	15,679
Telephone	11,770	-0-	11,770
Depreciation	155,389	-0-	155,389
Advertising	8,698	-0-	8,698
Utilities	47,565	-0-	47,565
Postage	3,212	-0-	3,212
Cost of goods sold	29,111	-0-	29,111
Travel	53,284	-0-	53,284
Material and supplies	45,888	-0-	45,888
Other	99,019	-0-	99,019
Tax, licenses and permits	2,839	-0-	2,839
Program & program overhead	465,162	-0-	465,162
Occupancy	152,170	-0-	152,170
Interest	<u>10,447</u>	<u>-0-</u>	<u>10,447</u>
Total Expenses and Losses	<u>3,496,848</u>	<u>-0-</u>	<u>3,496,848</u>
Change in Net Assets	352,169	(39,590)	312,679
Net Assets, Beginning of Year	<u>1,297,175</u>	<u>622,690</u>	<u>1,919,865</u>
Net Assets, End of Year	<u>\$1,649,444</u>	<u>\$ 583,100</u>	<u>\$2,232,544</u>

See notes to financial statements.

Kanawha Institute for Social Research and Action, Inc.

Statement of Cash Flows

Year Ended December 31, 2014

Cash Flow From Operating Activities	
Change in net assets	\$ 312,679
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	155,389
Gain on investments	(903)
Change in net assets and liabilities	
Decrease in restricted cash	67,957
Increase in grants and accounts receivable	(40,381)
Increase in work in progress	(90,844)
Decrease in accounts payable	(600)
Increase in accrued liabilities and taxes	2,134
Increase in accrued payroll	28,493
Decrease in grants received in advance	<u>(52,232)</u>
Net Cash Provided By Operating Activities	<u>381,692</u>
Cash Flows From Investing Activities	
Micro loans	(70,626)
Purchase of property and equipment	<u>(408,345)</u>
Net Cash Used In Investing Activities	<u>(478,971)</u>
Cash Flows From Financing Activities	
Payments on notes payable	<u>(86,920)</u>
Net Cash Used In Financing Activities	<u>(86,920)</u>
Net Decrease in Cash	(184,199)
Cash, Beginning of Year	<u>63,855</u>
Cash, End of Year	<u>\$(120,344)</u>
Supplemental disclosures of cash flow information:	
Interest paid	<u>\$ 10,447</u>

See notes to financial statements.

Kanawha Institute for Social Research and Action, Inc.

Statement of Functional Expenses

Year Ended December 31, 2014

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Personnel	\$2,130,299	\$ 87,478	\$2,217,777
Insurance	-0-	13,784	13,784
Equipment rental	27,036	-0-	27,036
Training	64,251	1,868	66,119
Food	55,349	2,448	57,797
Office expense	6,288	9,391	15,679
Telephone	2,048	9,722	11,770
Depreciation expense	-0-	155,389	155,389
Advertising	6,109	2,589	8,698
Utilities	45,485	2,080	47,565
Postage	3,212	-0-	3,212
Cost of goods sold	29,111	-0-	29,111
Travel expense	51,627	1,657	53,284
Materials and supplies	42,437	3,451	45,888
Other	46,829	52,190	99,019
Tax, licenses and permits	1,316	1,523	2,839
Interest	-0-	10,447	10,447
Internet and computer expense	8,700	5,402	14,102
Occupancy	152,170	-0-	152,170
Program & program overhead	<u>633,167</u>	<u>(168,005)</u>	<u>465,162</u>
Total Expenses	<u>\$3,305,434</u>	<u>\$ 191,414</u>	<u>\$3,496,848</u>

See notes to financial statements.

Kanawha Institute For Social Research and Action, Inc.

Notes to Financial Statements

December 31, 2014

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.

Investments - Investments in marketable securities with readily determinable fair values are reported at their fair values in the statement of financial position. Fair value is determined by reference to quoted market prices and other relevant information generated by market transactions. Unrealized and realized gains and losses are included in the change in net assets.

Fair Value Measurements - Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting standards set a framework for measuring fair value using a three-tier hierarchy based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or inputs (interest rates, currency exchange rates, commodity rates and yield curves) that are observable or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Inputs that are not observable in the market and reflect management's judgment about the assumptions that market participants would use in pricing the asset or liability.

Kanawha Institute For Social Research and Action, Inc.

Notes to Financial Statements

December 31, 2014

Note A – Summary of Significant Accounting Policies (Continued)

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, 2014 was \$155,389. The classification of these capitalized items are classified in the accompanying financial statements as follows:

Furniture and equipment	\$ 791,358
Leasehold improvements	<u>1,388,376</u>
	2,179,734
Less accumulated depreciation	<u>882,166</u>
	1,297,568
Land	<u>47,028</u>
	<u>\$1,344,596</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.

As of December 31, 2014, the tax years that remain subject to examination begin with 2011. Tax returns for 2011, 2012, 2013 and 2014 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. No new projects were started during the year and two projects started in the prior year were completed 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 \$8,698.

Kanawha Institute For Social Research and Action, Inc.

Notes to Financial Statements

December 31, 2014

Note A – Summary of Significant Accounting Policies (Continued)

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.

Revenue Recognition - All contributions and grants are considered available for the Organization's general programs unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor or grantor are reported as temporarily or permanently restricted support and increase the respective class of net assets. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets. Investment income that is limited to specific uses by donor restrictions is reported as increases in unrestricted net assets if the restrictions are met in the same reporting period as the income is recognized.

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, 2014 are as follows:

Fatherhood	\$126,937
CHDO	187,504
IDA Match	56,409
Compeer	9,630
AmeriCorps	11,887
Microloan	106,011
Various other grants	<u>84,721</u>
	<u>\$583,100</u>

Kanawha Institute For Social Research and Action, Inc.

Notes to Financial Statements

December 31, 2014

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, 2014, to be fully collectible; accordingly, no allowance for doubtful accounts is required. Grants and accounts receivable consist of the following:

Care coordinator	\$ 53,886
Compeer	10,837
Re-Entry	20,000
Micro loan	28,494
PREP	6,243
HCDC	14,941
HUD	11,843
Healthy Food Financing Initiative	20,000
Growing health	9,239
WVHDF	4,182
Accounts receivable	<u>6,254</u>
 Total grants and accounts receivable	 <u>\$185,919</u>

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, 2014 as follows:

Purpose restrictions accomplished:	
Benedem Grant	\$ 19,601
Harambee Learning Center	103,912
KISRA Works/VAWA	62
Fatherhood Grant	2,606,500
Re-entry	3,598
IDA Program	89,345
PREP Grant	36,532
Micro Loan – SBA Technical Grant	56,544
CHDO	154,352
Healthy Food Financing Initiative	257,434
Compeer/Care Coordinator	131,890
HUD	<u>14,045</u>
Total restrictions released	<u>\$3,473,815</u>

Kanawha Institute For Social Research and Action, Inc.

Notes to Financial Statements

December 31, 2014

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 2014. At December 31, 2014, the Organization's uninsured cash balance totaled \$187,009.

Note F – Operating Leases

The Organization has several noncancelable operating leases for office space that expire at various dates through June 30, 2016. Those leases require the Organization to pay various executory costs. Rental expenses for those leases consisted of \$97,863 for the year.

Future minimum lease payments under operating leases that have remaining terms in excess of one year as of December 31, 2014 are as follows:

2015	\$49,800
2016	12,00
Thereafter	<u>-0-</u>
	<u>\$61,800</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, 2014 was \$6,500. 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.

Kanawha Institute For Social Research and Action, Inc.

Notes to Financial Statements

December 31, 2014

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.	\$10,907
5.875% note payable, due in monthly installment of \$494, including interest through 2015, secured by real estate.	46,800
5.875% note payable, due in monthly installment of \$674, including interest through 2015, secured by real estate.	<u>27,168</u>
Total notes payable	<u>\$84,875</u>

The future scheduled maturities of the debts are as follows:

2015	\$84,875
2016	-0-
2017	-0-
2018	-0-
2019	-0-
Thereafter	<u>-0-</u>
	<u>\$84,875</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 \$327,508 of these loans outstanding with a loan loss reserve of \$163,501, which is included in the balance of cash restricted for loans and IDA reserves and CHDO on the Statement of Financial Position. Due to collectibility issues, interest income is recorded when payments are received. As of December 31, 2014, the balance of the amount owed to the SBA is \$333,488 with monthly payments of \$8,304.

Kanawha Institute For Social Research and Action, Inc.

Notes to Financial Statements

December 31, 2014

Note K – Grants Received in Advance

Grants received in advance consist of the following:

IDA – Reserves	\$347,071
PREP	14,265
Microloan – Benedum	84,002
Compeer	14,313
Fatherhood	41,692
Healthy Food Financing Initiative	54,772
Re-Entry	16,404
	<u>\$572,519</u>

Note L - Investments

Marketable securities and other investments are stated at fair value (of which all are Level 1 investments) and are summarized as follows at December 31, 2014:

	<u>Cost</u>	<u>Market Value</u>	<u>Gain (Loss)</u>
Money market	\$ 6	\$ 6	\$ -0-
Stocks	<u>3,764</u>	<u>7,364</u>	<u>3,600</u>
	<u>\$3,770</u>	<u>\$7,370</u>	<u>\$3,600</u>

Following is a summary of income from investments for the year ended December 31, 2014:

Market value of investments at December 31, 2013	\$6,467
Dividend income	109
Unrealized gain	<u>794</u>
Total return on investments	<u>903</u>
Market value of investments at December 31, 2014	<u>\$7,370</u>

Note M – Subsequent Events

Management has evaluated all events through October 7, 2015, 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 G140029 and G150619

Contract Years Ended October 31, 2014 and June 30, 2015

Contract Year Ended October 31, 2014

<u>BHHF Account Number</u>	<u>Final BHHF Award</u>	<u>Deferred Revenue June 30, 2013</u>	<u>Amount Earned and Billed</u>	<u>Deferred Revenue October 31, 2014</u>	<u>Amount Not Billed</u>	<u>Amount Collected</u>
0525-2014-3701-219-258	\$ 83,809	\$ -0-	\$ 83,809	\$ -0-	\$ -0-	\$ 77,321
0525-2014-3702-219-258	<u>23,999</u>	<u>-0-</u>	<u>23,999</u>	<u>-0-</u>	<u>-0-</u>	<u>18,387</u>
	<u>107,808</u>	<u>-0-</u>	<u>107,808</u>	<u>-0-</u>	<u>-0-</u>	<u>95,708</u>

Contract Year Ended June 30, 2015

<u>BHHF Account Number</u>	<u>Final BHHF Award</u>	<u>Deferred Revenue June 30, 2013</u>	<u>Amount Earned and Billed</u>	<u>Deferred Revenue June 30, 2014</u>	<u>Amount Not Billed</u>	<u>Amount Collected</u>
0525-2015-3701-219-258	\$ 53,333	\$ -0-	\$ 14,869	\$ -0-	\$26,916	\$ -0-
	<u>\$161,141</u>	<u>\$ -0-</u>	<u>\$122,677</u>	<u>\$ -0-</u>	<u>\$26,916</u>	<u>\$95,708</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, 2014, 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 October 7, 2015.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

To the Board of Directors of
Kanawha Institute for Social Research and Action, Inc.
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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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness 2014-001.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency 2014-002.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2014-003.

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
October 7, 2015

DHHR - Finance

OCT 22 2015

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, 2014. 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, 2014.

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.

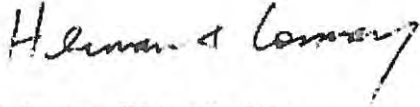
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-001, that we considered to be a significant deficiency.

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
October 7, 2015

DHHR - Finance
OCT 22 2015
Date Received

OCT 22 2015

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2014

Date Received

<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 Housing Counseling Grant	14.169	HC140321027	\$ 11,843
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)	355,893
West Virginia Housing Development Fund Home Investment Partnership Program	14.239	N/A	7,308
West Virginia Housing Development Fund Home Investment Partnership Program	14.239	RFA #2013-01-07	<u>7,773</u>
Total Department of Housing and Urban Development			<u>382,817</u>
U.S. Department of Justice Direct Programs Second Chance Act Prisoner Re-entry	16.812	2014-CY-BX-0025	3,598
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	1,265
State of West Virginia Division of Justice and Community Services Juvenile Justice and Delinquency Prevention Grant	16.540	15-1211	9,239
City of Charleston Drug Market Intervention Project	16.817	2012-AJ-BX-0007	<u>19,415</u>
Total U.S. Department of Justice			<u>33,517</u>
Small Business Administration Direct Programs Micro Loan Program Technical Assistance	59.046	SBAHQ	28,494
Small Business Administration Direct Programs Micro Loan Program Technical Assistance	59.046	SBAHQ-13-Y-0140	<u>16,492</u>
Total Small Business Administration			<u>44,986</u>

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

For the Year Ended December 31, 2014

<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	90FK0029-03-01	1,700,008
Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086	90FK0029-04-00	906,492
Administration for Children and Family Assets for Independent Demonstration Program	93.602	90E10617-01-02	89,497
Community Economic Development Healthy Food Financing Initiative Projects	93.570	90EE1085-01-01	245,229
U.S. Department of Health and Human Services			
Pass-Through Program:			
State of WV Department of Health and Human Resources Block Grants for Community Mental Health Services	93.958	G140473	35,801
West Virginia Department of Health and Human Resources Office of Maternal, Child and Family Health PREP	93.092	G140456	<u>36,532</u>
Total Department of Health and Human Services			<u>3,013,558</u>
Total Expenditures of Federal Awards			<u>\$3,474,878</u>

DHHR - Finance

OCT 22 2015

Date Received

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, 2014

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, 2014. 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, 2014

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.

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

Current Status: Revenue earned and expenses incurred in the current year were recorded in current year. No similar findings were noted in the 2014 audit.

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

Same as above.

Kanawha Institute for Social Research and Action, Inc.

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2014

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

unmodified

- Significant Deficiency identified? Yes No
- Material Weakness identified? Yes No
- Noncompliance material to financial statements notes? Yes No

Federal Awards

Internal control over major programs:

- Significant Deficiency identified? Yes No
- Material Weaknesses identified? 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, 2014

Section II - Findings – Financial Statement Audit

2014-001 Fixed Asset Capitalization

Condition and Criteria: During the year expenses were incurred for property and equipment meeting the criteria for capitalization, but the items were expensed and not recorded as fixed assets.

Effect: Expenses were over stated and property and equipment and change in net assets were understated.

Cause: The procedure for capitalizing fixed assets was not followed.

Context: A review of the general ledger noted large balances in expense accounts for building and construction.

Auditors' Recommendation: Property and equipment meeting the criteria for capitalization should be capitalized.

Views of Responsible Officials and Planned Corrective Actions: The Organization will record all fixed assets meeting the criteria for capitalization.

2014-002 Payroll Accrual

Condition and Criteria: The payroll schedule was changed from a semi-monthly payment schedule with no holdback period to a bi-weekly payment with a three day holdback. Due to the change, there were hours worked during the year that were not paid until the following year and no accrual of the payroll costs were made.

Effect: Expenses and liabilities were under stated and change in net assets was overstated.

Criteria: The payroll expenses incurred but not paid in the year were not accrued.

Cause: The lack of a procedure on the accrual of payroll was not developed prior to year end.

Context: A review of the first payroll paid in the subsequent year found that wages for hours worked during the year ended December 31, 2014 were not accrued.

Auditors' Recommendation: All payroll hours worked but not paid should be accrued in the year worked.

Views of Responsible Officials and Planned Corrective Actions: The Organization will record all payroll in the year worked.

Kanawha Institute For Social Research and Action, Inc.

Schedule of Findings and Questioned Costs

Year Ended December 31, 2014

Section II - Findings – Financial Statement Audit (Continued)

2014-003 Unauthorized Spending of Restricted Cash

Condition and Criteria: Cash restricted for the IDA Program was transferred to the operating account.

Effect: The cash should be transferred back to the IDA account.

Cause: The operating cash account was overdrawn, and funds were drawn from the IDA account to cover the overdrafts.

Context: A review of the general ledger cash accounts noted transfers out of the IDA account and into the operating account.

Auditors' Recommendation: The restricted funds should be transferred back to the IDA account.

View of Responsible Officials and Planned Corrective Actions: The funds will be transferred back to the IDA account.

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

2014-002 Payroll Accrual

Condition and Criteria: The payroll schedule was changed from a semi-monthly payment schedule with no holdback period to a bi-weekly payment with a three day holdback. Due to the change, there were hours worked during the year that were not paid until the following year and no accrual of the payroll costs were made.

Effect: Expenses and liabilities were under stated and change in net assets was overstated.

Criteria: The payroll expenses incurred but not paid in the year were not accrued.

Cause: The lack of a procedure on the accrual of payroll was not developed prior to year end.

Context: A review of the first payroll paid in the subsequent year found that wages for hours worked during the year ended December 31, 2014 were not accrued.

Auditors' Recommendation: All payroll hours worked but not paid should be accrued in the year worked.

Views of Responsible Officials and Planned Corrective Actions: The Organization will record all payroll in the year worked.