

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

**Independent Auditors' Report
and
Financial Statements**

December 31, 2016

DHHR - Finance

JAN 12 2018

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, 2016, 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, 2016, 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

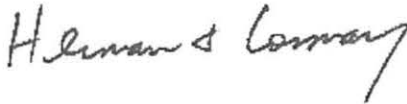
Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of grant receipts and expenditures for agreement numbers G160467 and G170307 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 December 15, 2017, 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
December 15, 2017

DHHR - Finance

JAN 12 2018

Date Received

Kanawha Institute for Social Research and Action, Inc.

Statement of Financial Position

December 31, 2016

Assets

Cash and cash equivalents	\$ 242,378
Cash restricted for loans and IDA reserves & CHDO	591,022
Investments	9,711
Grants and accounts receivable	189,743
Work in progress	406,011
Microloans receivable	317,688
Property and equipment	<u>1,054,447</u>
Total Assets	<u>\$2,811,000</u>

Liabilities and Net Assets

Accounts payable	\$ 43,684
Accrued liabilities & taxes	4,185
Accrued payroll	34,989
Grants received in advance	928,006
Notes payable	61,464
SBA Intermediary Loan Fund	<u>226,295</u>
Total Liabilities	<u>1,298,623</u>

Net Assets

Unrestricted	801,225
Temporarily restricted	<u>711,152</u>
Total Net Assets	<u>1,512,377</u>

Total Liabilities and Net Assets	<u>\$2,811,000</u>
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See notes to financial statements.

Kanawha Institute for Social Research and Action, Inc.

Statement of Activities

Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, Gains, and Other Support			
Contributions – Individuals & corporations	\$ 132,951	\$ 69,649	\$ 202,600
Contributions – Government	42,984	2,404,870	2,447,854
HCDC Income	280,702	-0-	280,702
Net assets released from restrictions	<u>2,737,590</u>	<u>(2,737,590)</u>	<u>-0-</u>
Total Revenues, Gains, and Other Support	<u>3,194,227</u>	<u>(263,071)</u>	<u>2,931,156</u>
Expenses and Losses			
Personnel	1,890,468	-0-	1,890,468
Contractual	158,653	-0-	158,653
Insurance	36,304	-0-	36,304
Internet and computer expense	84,260	-0-	84,260
Equipment rental	21,556	-0-	21,556
Training	46,190	-0-	46,190
Food	62,063	-0-	62,063
Office expense	57,996	-0-	57,996
Telephone	34,847	-0-	34,847
Depreciation	239,220	-0-	239,220
Advertising	7,418	-0-	7,418
Utilities	47,532	-0-	47,532
Postage	1,854	-0-	1,854
Cost of goods sold	4,390	-0-	4,390
Travel	43,595	-0-	43,595
Material and supplies	19,600	-0-	19,600
Other	36,722	-0-	36,722
Tax, licenses and permits	8,485	-0-	8,485
Program & program overhead	141,729	-0-	141,729
Occupancy	79,534	-0-	79,534
Interest	5,009	-0-	5,009
Loss on equipment	<u>195,763</u>	<u>-0-</u>	<u>195,763</u>
Total Expenses and Losses	<u>3,223,178</u>	<u>-0-</u>	<u>3,223,178</u>
Change in Net Assets	(28,951)	(263,071)	(292,022)
Net Assets, Beginning of Year	<u>830,176</u>	<u>974,223</u>	<u>1,804,399</u>
Net Assets, End of Year	<u>\$ 801,225</u>	<u>\$ 711,152</u>	<u>\$1,512,377</u>

See notes to financial statements.

Kanawha Institute for Social Research and Action, Inc.

Statement of Cash Flows

Year Ended December 31, 2016

Cash Flow From Operating Activities	
Change in net assets	\$(292,022)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	239,220
Loss on equipment	195,763
Gain on investments	(2,490)
Change in net assets and liabilities	
Decrease in restricted cash	68,935
Increase in grants and accounts receivable	(85,253)
Decrease in work in progress	104,129
Increase in accounts payable	1,511
Increase in accrued liabilities and taxes	3,246
Increase in accrued payroll	10,378
Increase in grants received in advance	<u>256,330</u>
Net Cash Provided By Operating Activities	<u>499,747</u>
Cash Flows From Investing Activities	
Micro loans	(3,912)
Purchase of property and equipment	<u>(225,383)</u>
Net Cash Used In Investing Activities	<u>(229,295)</u>
Cash Flows From Financing Activities	
Payments on notes payable	<u>(59,216)</u>
Net Cash Used In Financing Activities	<u>(59,216)</u>
Net Increase in Cash	211,236
Cash, Beginning of Year	<u>31,142</u>
Cash, End of Year	<u>\$ 242,378</u>
Supplemental disclosures of cash flow information:	
Interest paid	<u>\$ 5,009</u>

See notes to financial statements.

Kanawha Institute for Social Research and Action, Inc.

Statement of Functional Expenses

Year Ended December 31, 2016

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Personnel	\$1,740,088	\$150,380	\$1,890,468
Contractual	99,738	58,905	158,643
Insurance	-0-	36,304	36,304
Equipment rental	13,372	8,184	21,556
Training	27,683	18,507	46,190
Food	58,054	4,009	62,063
Office expense	30,595	27,401	57,996
Telephone	29,347	5,500	34,847
Depreciation expense	-0-	239,220	239,220
Advertising	6,034	1,384	7,418
Utilities	25,326	22,206	47,532
Postage	437	1,417	1,854
Cost of goods sold	4,390	-0-	4,390
Travel expense	46,105	(2,510)	43,595
Materials and supplies	17,919	1,681	19,600
Other	12,098	24,624	36,722
Tax, licenses and permits	8,259	226	8,485
Interest	-0-	5,009	5,009
Internet and computer expense	79,301	4,959	84,260
Occupancy	82,018	(2,484)	79,534
Loss on equipment	-0-	195,763	195,763
Program & program overhead	<u>417,519</u>	<u>(275,790)</u>	<u>141,729</u>
Total Expenses	<u>\$2,698,283</u>	<u>\$ 524,895</u>	<u>\$3,223,178</u>

See notes to financial statements.

Kanawha Institute for Social Research and Action, Inc.

Notes to Financial Statements

December 31, 2016

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, 2016

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, 2016 was \$239,220. The classification of these capitalized items are classified in the accompanying financial statements as follows:

Furniture and equipment	\$ 921,849
Leasehold improvements	<u>1,422,414</u>
	2,344,263
Less accumulated depreciation	<u>1,336,844</u>
	1,007,419
Land	<u>47,028</u>
	<u>\$1,054,447</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, 2016, the tax years that remain subject to examination begin with 2013. Tax returns for 2013, 2014, 2015 and 2016 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 – All of the current projects are part of the CHDO Home program and no new projects were started during the year

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 \$7,418.

Kanawha Institute for Social Research and Action, Inc.

Notes to Financial Statements

December 31, 2016

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, 2016 are as follows:

Fatherhood	\$141,407
CHDO	255,518
IDA Match	97,793
Child Advocacy Network	6,031
Microloan	125,081
CED/HFFI	59,553
Various other grants	<u>25,769</u>
	<u>\$711,152</u>

Kanawha Institute for Social Research and Action, Inc.

Notes to Financial Statements

December 31, 2016

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, 2016, to be fully collectible; accordingly, no allowance for doubtful accounts is required. Grants and accounts receivable consist of the following:

Community Engagement Specialist	\$ 45,278
SPOKES	10,062
PREP	6,206
HCDC	13,110
B3	52,342
HUD	6,589
SBA Technical Assistance	<u>56,156</u>
Total grants and accounts receivable	<u>\$189,743</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, 2016 as follows:

Purpose restrictions accomplished:	
HCDC	\$ 360,499
Harambee Learning Center	96,094
West Side Consultation	36,333
Fatherhood Grant	1,124,566
Re-entry	399,946
IDA Program	656
PREP Grant	32,437
Micro Loan – SBA Technical Grant	69,868
HOME Program	28,217
Healthy Food Financing Initiative	154,630
Paradise Farms	109,589
Community Engagement Specialist	157,964
Nehemiah Transitional	13,075
SPOKES	10,062
B3	104,348
SPFSIG Grant	39,030
Other	<u>276</u>
Total restrictions released	<u>\$2,737,590</u>

Kanawha Institute for Social Research and Action, Inc.

Notes to Financial Statements

December 31, 2016

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 2016. At December 31, 2016, the Organization's uninsured cash balance totaled \$510,517.

Note F – Operating Leases

The Organization has several noncancelable operating leases for office space that expire at various dates through September 30, 2017. Those leases require the Organization to pay various executory costs. Rental expenses for those leases consisted of \$76,164 for the year.

Future minimum lease payments under operating leases that have remaining terms in excess of one year as of December 31, 2016 are as follows:

2017	\$39,246
Thereafter	<u>-0-</u>
	<u>\$39,246</u>

Note G – Notes Payable

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

5.49% note payable, due in monthly installment of \$674, including interest through 2020, secured by real estate.	<u>\$61,464</u>
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The future scheduled maturities of the debts are as follows:

2017	\$ 5,944
2018	6,129
2019	6,474
2020	42,917
Thereafter	<u>-0-</u>
	<u>\$61,464</u>

Kanawha Institute for Social Research and Action, Inc.

Notes to Financial Statements

December 31, 2016

Note H – 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 I – SBA Intermediary Loan Fund

The Small Business Administration has awarded KISRA money to loan out to various small businesses. Currently, KISRA has \$317,688 of these loans outstanding with a loan loss reserve of \$113,532, 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, 2016, the balance of the amount owed to the SBA is \$226,295 with monthly payments of \$8,304.

Note J – Grants Received in Advance

Grants received in advance consist of the following:

IDA – Reserves	\$216,238
PREP	26,836
Fatherhood ReForm	565,959
Healthy Food Financing Initiative	72,567
Re-Entry	<u>46,406</u>
	<u>\$928,006</u>

Note K - 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, 2016:

	<u>Cost</u>	<u>Market Value</u>	<u>Gain (Loss)</u>
Money market	\$ 33	\$ 33	\$ -0-
Stocks	<u>1,216</u>	<u>9,678</u>	<u>8,462</u>
	<u>\$1,249</u>	<u>\$9,711</u>	<u>\$8,462</u>

Kanawha Institute for Social Research and Action, Inc.

Notes to Financial Statements

December 31, 2016

Note K – Investments (Continued)

Following is a summary of income from investments for the year ended December 31, 2016:

Market value of investments at December 31, 2015	\$7,221
Dividend income	132
Unrealized gain	<u>2,358</u>
Total return on investments	<u>2,490</u>
Market value of investments at December 31, 2016	<u>\$9,711</u>

Note L – Subsequent Events

Management has evaluated all events through December 15, 2017, 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 for Social Research and Action, Inc.
Schedule of Grant Receipts and Expenditures – Grant G160467

For Grant Period Ended June 30, 2016

Grant Receipts

<u>Invoice Number</u>	<u>Period Covered</u>	<u>Date Received</u>	<u>Amount</u>
Invoice #7	January 2016	2/24/16	\$11,449
Invoice #8	February 2016	3/16/16	12,064
Invoice #9	March 2016	4/20/16	12,064
Invoice #10	April 2016	5/31/16	11,903
Invoice #11	May 2016	6/16/16	15,925
Invoice #12	June 2016	7/28/16	11,390
Invoice #13	June 2016	12/27/16	<u>13,719</u>
Total Grant Receipts			<u>88,514</u>

Grant Expenditures

<u>Expenditures</u>	<u>Amount</u>
Personnel	\$ 37,470
Fringe benefits	10,511
Materials and supplies	1,820
Contractual costs	727
Other	<u>20,677</u>
Total Grant Expenditures	<u>71,205</u>
Grant Revenues in Excess of Grant Expenditures	17,309
Fund Balance at December 31, 2015	<u>(17,309)</u>
Fund Balance at December 31, 2016	<u>\$ -0-</u>

See independent auditors' report.

Kanawha Institute for Social Research and Action, Inc.
Schedule of Grant Receipts and Expenditures – Grant G170307

For Grant Period Ended June 30, 2017

Grant Receipts

<u>Invoice Number</u>	<u>Period Covered</u>	<u>Date Received</u>	<u>Amount</u>
Invoice #1	July 2016	10/4/16	\$10,049
Invoice #2	August 2016	10/4/16	10,867
Invoice #3	September 2016	11/4/16	10,457
Invoice #4	October 2016	12/13/16	10,109
Invoice #5	November 2016		12,435
Invoice #6	December 2016		<u>10,930</u>
Total Grant Receipts			<u>64,847</u>

Grant Expenditures

<u>Expenditures</u>	<u>Amount</u>
Personnel	\$ 79,771
Fringe benefits	3,998
Contractual costs	2,037
Other	<u>953</u>
Total Grant Expenditures	<u>86,759</u>
Fund Balance at December 31, 2016	<u>\$(21,912)</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. (KISRA) (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 15, 2017.

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 the 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 weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2016-001 that we consider to be a material weakness.

Compliance and Other Matters

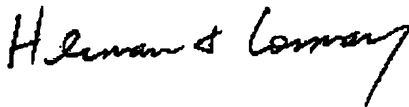
As part of obtaining reasonable assurance about whether Kanawha Institute for Social Research and Action, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 an instance 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 2016-001.

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
December 15, 2017

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 The Uniform Guidance

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 Compliance Supplement* that could have a direct and material effect on each of KISRA's major federal programs for the year ended December 31, 2016. 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 Federal statutes, regulations, contracts, and the terms and conditions of its Federal awards 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; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and The Uniform Guidance 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, 2016.

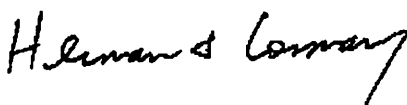
Report on Internal Control over Compliance

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 the Uniform Guidance, 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, material weaknesses may exist that have not been identified.

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 The Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Charleston, West Virginia
December 15, 2017

Kanawha Institute for Social Research and Action, Inc.

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2016

<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	HC150321034	\$ 12,255
U.S. Department of Housing and Urban Development Housing Counseling Grant	14.169	HC160321060	6,589
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)	<u>9,373</u>
Total Department of Housing and Urban Development			<u>28,217</u>
U.S. Department of Justice Direct Programs Second Chance Act Prisoner Re-entry	16.812	2014-CY-BX-0025	<u>399,946</u>
Total U.S. Department of Justice			<u>399,946</u>
Small Business Administration Direct Programs Micro Loan Program Technical Assistance	59.046	SBAHQ-15-Y-0078	<u>69,868</u>
Total Small Business Administration			<u>69,868</u>
U.S. Department of Health and Human Services Direct Programs:			
Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086	90FO0009-01-00	1,279,975
Administration for Children and Family Assets for Independent Demonstration Program	93.602	90E10617-01-02	656
Community Economic Development Healthy Food Financing Initiative Projects	93.570	90EE1085-01-01	172,455
U.S. Department of Health and Human Services Pass-Through Program:			
West Virginia Department of Health and Human Resources Office of Maternal, Child and Family Health PREP	93.092	G160619	28,481
West Virginia Department of Health and Human Resources Office of Maternal, Child and Family Health PREP	93.092	G170671	3,956
MDRC Building Bridges and Bonds	N/A	MDRC	97,176
West Virginia Department of Health and Human Resources Bureau for Children and Families Temporary Assistance for Needy Families	93.558	G170332	10,062
Total Department of Health and Human Services			<u>1,592,761</u>
Total Expenditures of Federal Awards			<u>\$2,090,792</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, 2016

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of KISRA under programs of the federal government for the year ended December 31, 2016. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

Note C - Indirect Cost Rate

KISRA has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Kanawha Institute for Social Research and Action, Inc.

Schedule of Prior Audit Findings

Year Ended December 31, 2016

Section II - Findings - Financial Statement Audit

2015-001 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.

Auditors' Recommendation: The auditor recommended that property and equipment meeting the criteria for capitalization should be capitalized. Management concurred with the recommendation and indicated that procedures would be implemented.

Current Status: Property and equipment meeting the criteria for capitalization was capitalized. No similar findings were noted in the 2016 audit.

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

2015-001 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.

Auditors' Recommendation: The auditor recommended that property and equipment meeting the criteria for capitalization should be capitalized. Management concurred with the recommendation and indicated that procedures would be implemented.

Current Status: Property and equipment meeting the criteria for capitalization was capitalized. No similar findings were noted in the 2016 audit.

Kanawha Institute for Social Research and Action, Inc.

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2016

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: unmodified

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

Federal Awards

Internal control over major programs:

- Significant Deficiency identified? ___ Yes x No
- Material Weaknesses identified? ___ Yes x 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 2CFR section 200.516(a)? x Yes ___ No

Identification of major programs:

CFDA Number(s)

93.086

Name of Federal Program or Cluster

Fatherhood Program

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

___ Yes x No

Kanawha Institute for Social Research and Action, Inc.

Schedule of Findings and Questioned Costs

Year Ended December 31, 2016

Section II - Findings - Financial Statement Audit

Department of Health and Human Services

CED Health Food financing Initiative Projects – CFDA No. 93.570

2016-001 Award No.90EE108501

Condition and Criteria: The Organization contracted with a vendor to purchase lighting, materials, and technical assistance to develop a vertical farm. Payment was submitted to the vendor, but the vendor provided no lighting, materials, or technical assistance. The vendor did not return the payment.

Effect: The vendor defrauded KISRA and the payment is subject to disallowance. The payment is considered a questioned cost.

Cause: The Organization did not follow their disbursement policy to pay for items only after they have been ordered, received, and are ready for use.

Questioned Costs: \$195,763. This is the net amount of the purchase of the lights.

Context: A review of fixed asset additions noted the of the invoice for lighting. Upon further discussion, the Organization became aware that the lights were not received.

Auditors' Recommendation: We recommend the Organization follow its disbursement policy to only pay for items after they have been ordered, received, and are ready for use.

Views of Responsible Officials and Planned Corrective Actions: The Organization agrees with the finding and the auditors' recommendation. The Organization has filed a lawsuit against the vendor to recover the payment.

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

None