

KARINA ASSOCIATION, INC.

AUDITED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT ON
CLIENT ATTENDANCE DAYS AND FEES

Year Ended June 30, 2024

KARINA ASSOCIATION, INC.

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**HANDWERGER, CARDEGNA,
FUNKHOUSER & LURMAN, P.A.**

To the Board of Directors
Karina Association, Inc.
Timonium, Maryland

INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the accompanying financial statements of Karina Association, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2024, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2024, 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 ("GAAP").

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

To the Board of Directors
Karina Association, Inc.
Timonium, Maryland

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Handwerker, Cardegna, Funkhouser & Lurman, P.A.

Handwerker, Cardegna, Funkhouser & Lurman, P.A.
Timonium, Maryland
March 3, 2025

KARINA ASSOCIATION, INC.

Statement of Financial Position
June 30, 2024

ASSETS

Current Assets

Cash	\$ 232,612
Accounts receivable from contracts	<u>21,586</u>

Total Current Assets 254,198

Property and Equipment

Land	110,000
Building and improvements	<u>201,378</u>

Total Property and Equipment 311,378

Other Assets

Right-of-use asset, net	<u>5,553</u>
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Total Other Assets 5,553

Total Assets \$ 571,129

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 7,313
Payroll liabilities	8,200
Lease liability - current portion	5,418
Small Business Administration loan - current portion	<u>313</u>

Total Current Liabilities 21,244

Long-Term Liabilities

Lease liability	135
Small Business Administration loan	<u>10,485</u>

Total Long-Term Liabilities 10,620

Total Liabilities 31,864

Net Assets Without Donor Restrictions 539,265

Total Net Assets 539,265

Total Liabilities and Net Assets \$ 571,129

KARINA ASSOCIATION, INC.

Statement of Activities
Year Ended June 30, 2024

Revenue Without Donor Restrictions

Contract revenue - community learning services	\$ 721,229
Contract revenue - self-directed services	250,701
Contributions and grants	26,318
Job coaching	<u>376</u>

Total Revenue Without Donor Restrictions 998,624

Other Income

Interest	<u>15</u>
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Total Other Income 15

Total Revenue 998,639

Expenses

Program	484,728
Management and general	<u>278,668</u>

Total Expenses 763,396

Change in Net Assets Without Donor Restrictions 235,243

Net Assets Without Donor Restrictions - Beginning of Year 304,022

Net Assets Without Donor Restrictions - End of Year \$ 539,265

KARINA ASSOCIATION, INC.

Statement of Functional Expenses Year Ended June 30, 2024

	<u>Program</u>	<u>Management and General</u>	<u>Total</u>
Expenses			
Advertising	\$ -	\$ 3,812	\$ 3,812
Bank charges	-	79	79
Benefits	6,411	-	6,411
Contracted services	38,350	-	38,350
Contributions	30,000	-	30,000
Dues and subscriptions	-	615	615
Food	5,959	-	5,959
Insurance	-	21,148	21,148
Interest	304	-	304
Miscellaneous	5,495	-	5,495
Payroll service	3,456	-	3,456
Payroll taxes	25,427	16,952	42,379
Pension	4,870	-	4,870
Professional fees	-	23,482	23,482
Rent	10,511	-	10,511
Repairs and maintenance	808	-	808
Salaries	308,981	205,987	514,968
Supplies	3,966	6,397	10,363
Taxes and licenses	-	196	196
Transportation	30,781	-	30,781
Utilities	7,197	-	7,197
Vehicle	2,212	-	2,212
	<u>2,212</u>	<u>-</u>	<u>2,212</u>
Total Functional Expenses	\$ 484,728	\$ 278,668	\$ 763,396

KARINA ASSOCIATION, INC.

Statement of Cash Flows Year Ended June 30, 2024

Cash Flows from Operating Activities

Change in net assets	\$ 235,243
Adjustments to reconcile change in net assets to net cash provided by operating activities	
(Increase) Decrease in operating assets	
Accounts receivable	(21,586)
Right-of-use asset	5,126
Decrease in operating liabilities	
Accounts payable	(77,222)
Payroll liabilities	(2,687)
Lease liability	<u>(5,126)</u>

Net Cash Provided by Operating Activities 133,748

Cash Flows from Investing Activities

Purchase of property and equipment	<u>(311,378)</u>
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Net Cash Used in Investing Activities (311,378)

Cash Flows from Financing Activities

Repayment on Small Business Administration loan	<u>(346)</u>
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Net Cash Used in Financing Activities (346)

Net Decrease in Cash (177,976)

Cash - Beginning of Year 410,588

Cash - End of Year \$ 232,612

Supplemental Disclosure of Non-Cash Investing and Financing Activities

Cash paid during the year for interest	<u>\$ 304</u>
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KARINA ASSOCIATION, INC.

Notes to Financial Statements

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Karina Association, Inc. (the "Organization"), was incorporated in March 2009 and is headquartered in Timonium, Maryland. The Organization serves families in Baltimore City and surrounding counties. A vital role of the Organization is building acceptance and inclusion for those who are disabled in a society where most people take inclusion for granted.

Revenues are derived mainly from contributions and grants, self-directed services, as well as payments from the Developmental Disabilities Administration ("DDA") for community learning services.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Accounts Receivable

The Organization provides for estimated losses on accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Based on these factors, the Organization has not recorded an allowance for doubtful accounts as of June 30, 2024, as management deems all receivables are collectible.

Revenue Recognition

The Organization recognizes revenue for services in the accounting period it is earned, regardless of when cash is received. Contributions are recognized when cash is received.

The Organization recognizes contract revenue using a process that includes identifying the contract with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations, and recognizing revenue when each performance obligation is satisfied.

The Organization has self-directed services contracts with individuals with intellectual and developmental disabilities. These revenues are recognized at a point in time as services are provided. The transaction price is based on predetermined rates for each individual supported. The Organization generally tracks these services on a weekly basis and are paid on a weekly basis for services rendered.

The Organization has a contract with DDA to provide community learning services to individuals with intellectual and developmental disabilities. These revenues are recognized at a point in time as services are provided. The transaction price is based on predetermined rates for each individual supported. The Organization tracks clients' daily attendance. Based on the attendance, DDA pays the Organization for the services provided. Effective April 1, 2024, the payments from DDA are on a weekly basis. Prior to April 1, 2024, payments from DDA were on a quarterly basis.

KARINA ASSOCIATION, INC.

Notes to Financial Statements

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recognition of Donor Restrictions

Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

Cash

For purposes of the Statement of Cash Flows, cash includes amounts on deposit at financial institutions.

Contract Assets and Liabilities

As of June 30, 2024 and 2023, accounts receivable from contracts were \$21,586 and \$0, respectively. Contract liabilities were \$0 and \$84,535 as of June 30, 2024 and 2023, respectively. These contract assets and liabilities relate to the timing of payments from DDA for community learning services provided.

Property and Equipment

Property and equipment are recorded at cost, if purchased, or fair value, if contributed. The Organization generally capitalizes all property and equipment acquisitions with useful lives greater than one year and \$5,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets once they are placed in service. Land is not depreciated.

Leases

The Organization adopted Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") 842, Leases. The standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and lease liability on the Statement of Financial Position for all leases with terms longer than 12 months. Leases are classified as either finance or operating with classification affecting the pattern of expense recognition in the Statement of Activities. The Organization will not record a ROU asset and lease liability for leases with a term of less than 12 months or that are immaterial and the payments will be recognized into profit or loss on a straight-line basis over the lease term.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities. Certain categories of expenses are attributable to both program and management and general services. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The primary expenses that are allocated are salaries and payroll taxes, which are allocated based on estimates of time and effort.

Advertising Costs

The Organization's policy is to expense advertising costs as incurred. Advertising costs charged to expenses were \$3,812 for the year ended June 30, 2024.

Income Taxes

The Organization is exempt from federal income taxes under the Internal Revenue Code Section 501(c)(3). However, income from certain activities not directly related to the Organization's tax-exempt purpose, if any, is subject to taxation as unrelated business income. The Organization's tax filings are subject to examination by various taxing authorities. The Organization files its taxes on a calendar year basis. The Organization's tax years of 2021 through 2024 remain subject to examination. There are currently no examinations for any tax periods in progress.

KARINA ASSOCIATION, INC.

Notes to Financial Statements

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through March 3, 2025, the date the financial statements were available to be issued.

NOTE B - LIQUIDITY AND AVAILABILITY

The Organization’s financial assets available within one year of the Statement of Financial Position date for general expenditures are as follows:

Cash	\$ 232,612
Accounts receivable	<u>21,586</u>
Total	<u>\$ 254,198</u>

As part of the Organization’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE C - PROPERTY PURCHASE

On May 20, 2024, the Organization purchased the property located at 2007 Taylor Avenue in Parkville, Maryland to provide respite services to individuals. The property was placed in service on July 13, 2024.

NOTE D - SMALL BUSINESS ADMINISTRATION LOAN

The Organization received an Economic Injury Disaster loan in the amount of \$11,500 at an annual rate of 2.75 percent through the Small Business Administration (“SBA”) on June 9, 2020. As of June 30, 2024, the balance of the loan was \$10,798. Interest expense was \$304 for the year ended June 30, 2024.

Maturities of this SBA loan are as follows:

<u>Year Ending June 30,</u>	
2025	\$ 313
2026	316
2027	324
2028	333
2029	343
Thereafter	<u>9,169</u>
	<u>\$ 10,798</u>

KARINA ASSOCIATION, INC.

Notes to Financial Statements

NOTE E - BUILDING USAGE

The Organization signed a building-usage agreement with the Mays Chapel United Methodist Church (the "Church") that spans from April 1, 2023 through March 31, 2025, and allows the Organization the ground floor usage of the Church during weekdays for approximately six hours per day for a fee of \$175 per week. Actual building usage costs paid during the year ended June 30, 2024, to the Church was \$9,100 and is included within rent expense on the Statement of Functional Expenses.

NOTE F - CONCENTRATIONS

During the year ended June 30, 2024, approximately 72 percent of total revenues were from DDA. One hundred percent of accounts receivable were from DDA. Under the terms of the funding agreement, DDA may disallow the use of funds as a result of an audit and require reimbursement for disallowed costs.

NOTE G - OPERATING LEASES

On August 4, 2023, the Organization entered into a 36-month auto-lease agreement. Monthly lease payments are \$452.

The weighted-average lease term and discount rate as of June 30, 2024, were as follows. The discount rate was determined using the incremental borrowing rate, which is based on the rate that the Organization would be charged for debt. Management believes the interest rate on their existing SBA loan is a reasonable incremental borrowing rate for the Organization.

	<u>2024</u>
Weighted-average remaining lease term	14 months
Weighted-average discount rate	2.75%

The future minimum lease payments, which have been updated for the subsequent lease agreement, as of June 30, 2024, are as follows:

<u>Year Ending June 30,</u>	
2025	\$ 5,418
2026	<u>452</u>
	5,870
Less: Present value discount	<u>(317)</u>
Present value of lease liability	<u>\$ 5,553</u>

NOTE H - RETIREMENT PLAN

The Organization has a retirement plan for its employees. Total pension expense for the year ended June 30, 2024, was \$4,870.



**HANDWERGER, CARDEGNA,
FUNKHOUSER & LURMAN, P.A.**

To the Board of Directors
Karina Association, Inc.
Timonium, Maryland

**INDEPENDENT AUDITOR’S REPORT ON
CLIENT ATTENDANCE DAYS AND FEES**

We have examined the Statement of Client Attendance Days and Fees of Karina Association, Inc. (the “Organization”), for the year ended June 30, 2024. These statements are the responsibility of the Organization to manage. Our responsibility is to express a reasonable opinion based on the results of our examination.

Our examination was conducted in accordance with attestation standards by the American Institute of Certified Public Accountants and the regulations of the Maryland Department of Health. It included examining, on a test basis, evidence supporting the Client Attendance Days and Fees, and performing procedures considered necessary based on individual circumstances.

We found, in all material respects, the Client Attendance Days and Fees of the Organization for the year ended June 30, 2024, is in conformity with the regulations of the Maryland Department of Health.

Based on our examination, the Organization provided the following Attendance Days for Community Learning Services.

<u>Provider Payable Days</u>	<u>1st Q</u>	<u>2nd Q</u>	<u>3rd Q</u>	<u>4th Q</u>	<u>Total</u>
Community Learning Services	506	558	523	-	1,587

Based on our examination, the Organization collected \$0 in client fees for cost of care, and \$0 in client fees for room and board costs from residential participants.

This report is intended solely for the information and use of the Maryland Department of Health, which specified the criteria. It should not be used by other persons for any other purpose.

Handwerger, Cardegna, Funkhouser & Lurman, P.A.

Handwerger, Cardegna, Funkhouser & Lurman, P.A.
Timonium, Maryland
March 3, 2025