

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
KARINA ASSOCIATION, INC.
Year ended June 30, 2025

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Karina Association, Inc.

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, 2025 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, 2025 and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 accounting principles generally accepted in the United States of America, 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 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 generally accepted auditing standards 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.

In performing an audit in accordance with generally accepted auditing standards, 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 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.

Strawns + Associates, P.A.

Owings Mills, Maryland
January 28, 2026

KARINA ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION

June 30, 2025

ASSETS

CURRENT ASSETS

Cash	\$ 372,557
Accounts receivable	19,158
Prepaid expenses and other current assets	<u>8,523</u>

Total current assets 400,238

PROPERTY AND EQUIPMENT

Land	110,000
Building and improvements	326,254
Equipment	6,626
Less: accumulated depreciation	<u>(8,288)</u>

Total property and equipment 434,592

OTHER ASSETS

Right-of-use asset, net	<u>427</u>
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Total assets \$ 835,257

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 117,403
Lease liability - current portion	427
Long-term debt - current portion	<u>1,361</u>

Total current liabilities 119,191

LONG-TERM LIABILITIES

Long-term debt	<u>31,281</u>
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Total Liabilities 150,472

NET ASSETS WITHOUT DONOR RESTRICTIONS

684,785

Total liabilities and net assets \$ 835,257

See accompanying notes to financial statements.

KARINA ASSOCIATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2025

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT			
Community learning services	\$ 718,472	\$ -	\$ 718,472
Self-directed services	372,902	-	372,902
Contributions and grants	26,955	-	26,955
Total revenues and support	1,118,329	-	1,118,329
EXPENSES			
Program	773,345	-	773,345
Management and general	199,464	-	199,464
Total expenses	972,809	-	972,809
CHANGE IN NET ASSETS			
	145,520	-	145,520
NET ASSETS			
- beginning of year	539,265	-	539,265
NET ASSETS			
- end of year	\$ 684,785	\$ -	\$ 684,785

See accompanying notes to financial statements.

KARINA ASSOCIATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2025

	<u>Program</u>	<u>Management and General</u>	<u>Total</u>
FUNCTIONAL EXPENSES			
Advertising	\$ -	\$ 5,056	\$ 5,056
Bank charges	-	405	405
Contracted services	61,184	-	61,184
Depreciation	8,288	-	8,288
Dues and subscriptions	-	6,754	6,754
Employee benefits	16,097	2,405	18,502
Food	916	2,864	3,780
Insurance	-	29,839	29,839
Interest	-	1,493	1,493
Fundraising	-	430	430
Miscellaneous	-	3,370	3,370
Office expenses	-	10,919	10,919
Payroll service	2,537	379	2,916
Payroll taxes	68,459	10,230	78,689
Professional fees	-	42,455	42,455
Rent	8,400	-	8,400
Repairs and maintenance	8,846	-	8,846
Salaries	529,575	78,010	607,585
Supplies	1,318	-	1,318
Taxes and licenses	-	4,372	4,372
Training	-	483	483
Transportation	46,557	-	46,557
Utilities	11,371	-	11,371
Vehicle	9,797	-	9,797
	<hr/>	<hr/>	<hr/>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 773,345</u>	<u>\$ 199,464</u>	<u>\$ 972,809</u>

See accompanying notes to financial statements.

KARINA ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
Year ended June 30, 2025

CASH FLOWS FROM OPERATING
ACTIVITIES

Change in net assets	\$ 145,520
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	8,288
(Increase) decrease in:	
Accounts receivable	2,428
Prepaid expenses and other current assets	(8,523)
Increase (decrease) in:	
Accounts payable and accrued expenses	<u>101,890</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES 249,603

CASH FLOWS FROM INVESTING
ACTIVITIES

Purchase of property and equipment	<u>(131,502)</u>
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NET CASH USED IN INVESTING ACTIVITIES (131,502)

CASH FLOWS FROM FINANCING
ACTIVITIES

Loan proceeds	32,500
Principal loan payments	<u>(10,656)</u>

NET CASH PROVIDED BY FINANCING ACTIVITIES 21,844

NET INCREASE IN CASH 139,945

CASH AT BEGINNING OF YEAR 232,612

CASH AT END OF YEAR \$ 372,557

SUPPLEMENTAL DISCLOSURE

Interest paid	<u>\$ 1,493</u>
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See accompanying notes to financial statements.

KARINA ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

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, as well as payments from the State of Maryland Developmental Disabilities Administration (“DDA”) for community learning services. During the year ended June 30, 2025, approximately 64% of revenues was from DDA.

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.

KARINA ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

NOTE A – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

Revenue Recognition

The Organization recognizes revenue for services in the accounting period it is earned, regardless of when cash is received. Contribution and grant revenue is recognized when the Organization receives a contribution or grant that is unconditional.

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 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. The payments from DDA are on a weekly basis.

The Organization also 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.

Cash

The Organization considers all highly liquid investments with original maturities of less than three months to be cash equivalents.

KARINA ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

NOTE A – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 credit losses as of June 30, 2025, as management deems all receivables are collectible.

As of June 30, 2025 and 2024, accounts receivable from contracts were \$19,158 and \$21,586, respectively. Contract liabilities which are included in accrued expenses in the accompanying statement of financial position were \$89,408 and \$0 as of June 30, 2025 and 2024, 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.

KARINA ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

NOTE A – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Advertising Costs

The Organization's policy is to expense advertising costs as incurred. Advertising costs charged to expenses were \$5,056 for the year ended June 30, 2025.

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 2022 through 2025 remain subject to examination. There are currently no examinations for any tax periods in progress.

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 January 28, 2026, the date the financial statements were available to be issued.

NOTE B – LONG-TERM DEBT

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, 2025, the balance of the loan was \$10,490. The loan requires monthly repayments of principal and interest of \$50 through maturity in May, 2050.

The Organization also received a commercial loan on October 22, 2024 in the amount of \$32,500 at an annual rate of 9.99%. As of June 30, 2025, the balance of the loan was \$22,152. The loan was prepaid in advance of maturity subsequent to year-end.

KARINA ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

NOTE B – LONG-TERM DEBT - CONTINUED

Maturities of the long-term debt as of June 30, 2025 are as follows:

2026	\$	1,361
2027		1,478
2028		1,608
2029		1,752
2030		1,913
Thereafter		<u>24,530</u>
Total	\$	<u>32,642</u>

NOTE C – CONTINGENCY

The Organization receives a significant portion of funding from DDA. DDA has the right to audit all funding and may disallow the use of funds as a result of an audit and require reimbursement for disallowed costs. During the year ended June 30, 2025, DDA notified the Organization that repayment of approximately \$90,000 was to be repaid for prior years. The Organization entered into a payment plan with DDA and will repay the amounts owed in full prior to June 30, 2026.

NOTE D – OPERATING LEASES

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

The weighted-average lease term and discount rate as of June 30, 2025, 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.

Weighted-average remaining lease term	2 months
Weighted-average discount rate	2.75%

KARINA ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

NOTE E – RETIREMENT PLAN

The Organization has a retirement plan for its employees. The Organization-funded retirement expense for the year ended June 30, 2025, was \$12,254.

NOTE F – RELATED PARTY TRANSACTIONS

The Organization's Executive Director is a relative of the president of the Board of Directors. In addition, the husband of the Executive Director, also a relative of the president of the Board of Directors, is an employee of the Organization. Salaries and benefits paid to the Executive Director and her husband during the year ended June 30, 2025 totaled approximately \$155,000.

NOTE G – 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	\$ 372,557
Accounts receivable	<u>19,158</u>
Total	<u>\$ 391,715</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.