

KARMAGAWA FOUNDATION, INC.

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019



INDEPENDENT AUDITOR'S REPORT

To the Board
Karmagawa Foundation, Inc.

We have audited the accompanying financial statements of Karmagawa Foundation, Inc. (a non-profit organization), which comprise the statement of assets, liabilities and net assets – modified cash basis as of December 31, 2019, and the related statement of revenues, expenses, and changes in net assets – modified cash basis 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 the modified cash basis of accounting as described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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.

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. 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 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 assets, liabilities and net assets of Karmagawa Foundation, Inc. as of December 31, 2019, and its revenues, expenses, and changes in net assets for the year then ended, in accordance with the modified cash basis of accounting as described in Note 2.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental Schedule of Contributions Paid is presented for purposes of additional analysis and is 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 audits 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.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

L. M. Esposito & Company PC

Hamden, CT
May 15, 2020

KARMAGAWA FOUNDATION, INC.

STATEMENT OF ASSETS, LIABILITES AND NET ASSETS
MODIFIED CASH BASIS

DECEMBER 31, 2019

<u>ASSETS:</u>	
Cash	\$ 3,879
Other receivables	<u>3,501</u>
TOTAL ASSETS	<u><u>\$ 7,380</u></u>
LIABILITES - Excise tax payable	\$ 700
<u>NET ASSETS -</u>	
Net assets without donor restrictions	<u>6,680</u>
TOTAL LIABILITES AND NET ASSETS	<u><u>\$ 7,380</u></u>

The accompanying notes are an integral part of these financial statements.

KARMAGAWA FOUNDATION, INC.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2019

REVENUES:

Contributions	\$ 523,665
Refunds and reimbursements	3,501
TOTAL REVENUES	<u>527,166</u>

EXPENSES:

Program Expenses:	
Charitable donations	476,500
Professional fees	5,300
General & Administrative:	
Licenses & registrations	10,234
Professional fees	30,845
Excise taxes payable	700
Fundraising -	
Bank and merchant fees	<u>22</u>
TOTAL EXPENSES	<u>523,601</u>
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	3,565
NET ASSETS WITHOUT DONOR RESTRICTIONS - BEGINNING	<u>3,115</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS - ENDING	<u>\$ 6,680</u>

The accompanying notes are an integral part of these financial statements.

KARMAGAWA FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

Note 1 - Nature of Organization

Karmagawa Foundation, Inc. (the foundation) is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation was formed under the laws of the State of Florida and registered to operate in 38 states as a charitable organization. The Foundation was formed primarily to support charitable, religious, educational, and scientific activities carried on by qualifying exempt organizations under Section 501(c)(3) of the Internal Revenue Code by making distributions to those who are deemed by the organization to be engaged in acts of charity and/or creativity that are inspiring to others. The Foundation is funded primarily through donations received from a private donor and other fundraising drives by the Foundation.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The accompanying financial statement has been prepared on the modified cash basis of accounting. Except for the recording of a miscellaneous receivable and excise tax payable, all transactions are recognized as either revenue or expense, and non-cash transactions are not recognized. The modified cash basis differs from generally accepted accounting principles primarily because certain revenues are recognized when received rather than when earned and certain expenses are recognized when paid rather than when the obligation is incurred.

Estimates and Assumptions

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Coronavirus Pandemic

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time.

KARMAGAWA FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

Note 2 - (continued)

However, there has been no direct impact to the Foundation's operations through the balance sheet date. The future effects and resulting impacts of the pandemic are unknown at this time.

Subsequent events were evaluated through May 15, 2020, which is the date the financial statements were available to be issued.

Financial Statement Presentation

The Foundation is required to report information regarding its financial position and activities based on three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include legal fees and licenses and registrations, which are allocated on the basis of estimates of time and effort.

Excise taxes

The Foundation is exempt from federal income taxes and classified as a private foundation under Section 501 of the Internal Revenue Code (IRC). As such, the Foundation is subject to a 2% (1% if certain criteria are met) federal excise tax on net investment income, including realized gains, as defined by the IRC. The Foundation had no investment income in 2019 and, therefore, did not incur an excise tax.

A private foundation may also incur taxable expenditures as outlined by the IRC. In 2019, the Foundation was subjected to two taxable expenditures resulting in an excise tax payable of \$700. The Foundation has taken corrective action for both disbursements and the total amount of the expenditures of \$3,501 will be reimbursed to the Foundation in 2020.

KARMAGAWA FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

Note 2 - (continued)

Accounting principles generally accepted in the United States of America require the Foundation to evaluate tax positions taken and to recognize a tax liability for any uncertain tax position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Foundation is subject to routine audits by tax authorities; however, there are currently no audits for any periods in progress. The Foundation believes that the income tax returns for years ended December 31, 2015 and prior are closed years and are not subject to the audit process.

Note 3 - Concentrations of Risk

The Foundation maintains certain cash balances in non-interest-bearing accounts that are insured by the Federal Deposit Insurance Corporation up to \$250,000. As of December 31, 2019, the Foundation had no cash in banks which exceeded the insured amount.

The Foundation receives substantially all of its revenues from donations from a single donor, which may subject it to risks associated with the economic situation of that donor.

Note 4 - Donated Services

No amounts have been reflected in the financial statements for donated services. The Foundation generally pays for services requiring specific expertise, if required. However, many individuals volunteer their time and perform a variety of tasks that assist the Foundation with specific assistance programs and various committee assignments.

Note 5 - Related Party Transactions

The Foundation receives substantially all of its donations from one donor and is deemed a related party to the Foundation. Support received from this related party in 2019 amounted to \$520,462.

Note 6 - Restrictions on Net Assets

There were no permanent or temporary restrictions on net assets at December 31, 2019.

KARMAGAWA FOUNDATION, INC

SCHEDULE OF CHARITABLE DONATIONS
MODIFIED CASH BASIS

DECEMBER 31, 2019

DONATIONS

Atitlan Fund Inc	\$ 10,000
Bali Animal Welfare Association	2,000
Bali's Children Project	90,000
Barrel Bag	15,000
Boys and Girls Club of Miami Dade	2,000
Charities Aid Foundation	81,000
Pencils of Promise	212,500
Project Chicken Soup	20,000
Rotary Club of Santa Fe Foundation	40,000
Save the Child's Heart	1,000
We are New Africa (WANA)	<u>3,000</u> *
	<u>\$476,500</u>

* Organization was not deemed a qualifying organization by the Board of Directors and the Foundation was required to report this donation as a taxable distribution.

See auditor's report on additional information