VonLehman
CPA & ADVISORY FIRM

THE CANONSBURG CORPORATION

May 31, 2022

Financial Statements and Independent Auditors' Report

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THE CANONSBURG CORPORATION
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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
The Canonsburg Corporation
Indianapolis, Indiana

Opinion

We have audited the accompanying financial statements of The Canonsburg Corporation (a nonprofit organization) which comprise the statement of financial position as of May 31, 2022, 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 Canonsburg Corporation as of May 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Canonsburg Corporation 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.

Prior Period Financial Statements

The 2021 financial statements were reviewed by us, and our report thereon, dated August 30, 2021, stated we were not aware of any material modifications that should be made to those financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements as a whole.

Responsibilities of Management 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, 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 Canonsburg Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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, including omissions, 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 The Canonsburg Corporation's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made my 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 Canonsburg Corporations' 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.

VonLehman & Company Inc.

Indianapolis, Indiana
August 24, 2022

THE CANONSBURG CORPORATION
STATEMENTS OF FINANCIAL POSITION

ASSETS

	May 31,	
	2022 (Audited)	2021 (Reviewed)
Cash and Cash Equivalents	$ 1,355,110	$ 1,052,187
Loans and Interest Receivable, Net	877,001	1,033,777
Prepaid Expenses	-	116
Investments	174,277	180,883
Total Assets	$ 2,406,388	$ 2,266,963

LIABILITIES AND NET ASSETS

	2022 (Audited)	2021 (Reviewed)
Liabilities		
Guarantee Liability	$ 27,453	$ 31,073
Accounts Payable - Related Party	1,315	-
Total Liabilities	28,768	31,073
Net Assets		
Without Donor Restrictions	2,377,620	2,235,890
Total Liabilities and Net Assets	$ 2,406,388	$ 2,266,963

See accompanying notes.

THE CANONSBURG CORPORATION
STATEMENTS OF ACTIVITIES

	Years Ended May 31, 2022 (Audited)	Years Ended May 31, 2021 (Reviewed)
Revenues and Gains		
Member Assessments	$ 85,080	$ -
Interest Income - Loans	39,120	58,786
Interest Income - Bank Accounts	12,358	4,235
Net Investment Return	(6,606)	9,486
Total Revenues and Gains	129,952	72,507
Expenses		
Program Services	3,682	26,632
Management and General	18,723	31,215
Total Expenses	22,405	57,847
Excess of Revenues and Gains Over Expenses	107,547	14,660
Other Income (Expense)		
Bad Debt Recovery	31,781	-
Changes in Guarantee Risk	3,620	3,620
Provision for Income Taxes	(1,218)	(3,256)
Total Other Income (Expense)	34,183	364
Change in Net Assets	141,730	15,024
Net Assets, Beginning of Year	2,235,890	2,220,866
Net Assets, End of Year	$ 2,377,620	$ 2,235,890

See accompanying notes.

THE CANONSBURG CORPORATION
STATEMENTS OF FUNCTIONAL EXPENSES

	Years Ended May 31,					
	2022 (Audited)			2021 (Reviewed)		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Bank Service Charges	$ -	$ 364	$ 364	$ -	$ 458	$ 458
Contribution Expense	-	-	-	25,984	-	25,984
Filing Fees						
Computer and Internet	-	-	-	-	-	-
Professional Fees	1,250	17,549	18,799	-	30,541	30,541
Salaries and Wages	2,432	810	3,242	648	216	864
Total Expenses by Function	$ 3,682	$ 18,723	$ 22,405	$ 26,632	$ 31,215	$ 57,847

See accompanying notes.

THE CANONSBURG CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended May 31, 2022 (Audited)	Years Ended May 31, 2021 (Reviewed)
Cash Flows From Operating Activities		
Change in Net Assets	$ 141,730	$ 15,024
Reconciliation of Change in Net Assets with Cash Flows from Operations		
Net Investment Return	6,606	(9,486)
Change in Guarantee Risk	(3,620)	(3,620)
Changes in Operating Assets and Liabilities		
Loans and Interest Receivable, Net	156,776	502,811
Accounts Receivable - Related Party	-	48,850
Prepaid Expenses	116	(116)
Accounts Payable - Related Party	1,315	-
Net Cash Provided by Operating Activities	302,923	553,463
Cash Flows From Investing Activities		
Proceeds from Sale or Maturity of Investments	-	69,398
Net Cash Provided (Used) by Investing Activities	-	69,398
Net Change in Cash and Cash Equivalents	302,923	622,861
Cash and Cash Equivalents, Beginning of Year	1,052,187	429,326
Cash and Cash Equivalents, End of Year	$ 1,355,110	$ 1,052,187

See accompanying notes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Canonsburg Corporation (the Organization) provides housing, financing, and related services to local chapters and housing corporations affiliated with Phi Kappa Psi Fraternity.

Phi Kappa Psi Fraternity (the Fraternity), an affiliated organization, is a legally separate entity organized to provide administrative support and educational services for chapters and colonies located throughout the United States. Accordingly, the accounts of the Fraternity have not been combined with the Organization in the accompanying financial statements.

The Organization's viability is dependent on the success of the Fraternity's ability to maintain a collegiate membership base and the Organization's ability to collect on notes receivables to local chapters and housing corporations of the Fraternity.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Certain estimates relate to unsettled transactions and events as of the date of the financial statements. Other estimates relate to assumptions about the ongoing operations and May impact future periods. Accordingly, upon settlement, actual results May differ from estimated amounts.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans. In connection with the determination of the allowances for losses on loans, management obtains appraisals for significant properties.

Substantially all of the Organization's loans are secured by real estate or rental income. Accordingly, the ultimate collectability of a portion of the Organization's loan portfolio is susceptible to changes in real estate market conditions. While management uses available information to recognize losses on loans, future additions to the allowances May be necessary based on changes in economic conditions.

Loans and Interest Receivable and Loan Loss Allowance

Loans and interest receivable are stated at contractual outstanding principal and interest balances, net of any allowance for loan losses. Interest on loans is recognized monthly over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

Loans receivable are charged against the allowance for loan losses when they are deemed uncollectible. Management's periodic evaluation of the adequacy of the allowance is based on the Organization's past loan-loss experience, known and inherent risks in the portfolio, adverse situations that May affect the borrower's ability to repay, estimated value of any underlying collateral and current economic conditions. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowances for loan losses. The ultimate outcome of this estimate is not known. Due to this uncertainty, it is at least reasonably possible that actual losses May be significantly different.

Accrual of interest on a loan is discontinued when management believes, after considering economics, business conditions, and collection efforts that the borrower's financial condition is such that collection of interest is doubtful. Uncollectible interest previously accrued is charged off to the allowance for loan losses. Income is subsequently recognized only to the extent cash payments are received until, in management's judgment, the borrower's ability to make periodic interest and principal payments is back to normal, in which case the loan is returned to accrual status.

The loans are secured by some form of collateral, usually a real estate mortgage or assignment of rental income. The risk of loss on the loans is the difference between the outstanding balance of the loan and the market value of the collateral at time of default. Such collateral is usually accessible only through foreclosure or other legal proceedings. The Organization monitors its collateral and the collateral value related to the loan balance on an ongoing basis. At May 31, 2022, management is not aware of impaired collateral on outstanding loans receivable.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments if purchased are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less any external and direct internal investment expenses. Cash equivalents and other securities and investments held in brokerage accounts are protected by the Securities Investor Protection Corporation (SIPC) in the event of broker-dealer failure, up to $500,000 of protection for each brokerage account with a limit of $250,000 for claims of uninvested cash balances. The SIPC insurance does not protect against market losses on investments.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-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.

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

The Organization does not have any Net Assets With Donor Restrictions.

Revenue and Revenue Recognition

Revenue from Contracts with Customers

Revenue is measured as the amount of consideration expected to be received in exchange for transferring goods or providing service. The Organization recognizes contract revenue for financial reporting purposes over time. Contracts with customers May include multiple performance obligations for which the consideration is allocated between performance obligations. Depending on the terms of the contract, the Organization May defer the recognition of revenue and record a contract liability when a future performance obligation has not yet occurred.

Member assessments are received in exchange for services provided to the Fraternity's local chapters and housing corporations during the fall and spring semesters spanning from June 1 through May 31st. The Organization's performance obligations under these contracts include housing, financing, and related services to the local chapter and housing corporations. The Organization recognizes revenue from these contracts over time using an output method based on the time that has passed from the start of the contract. The Board of Directors elected to waive the collection of member assessments for the Fall of 2020 and Spring of 2021 due to COVID-19. Member assessment collections resumed in Fall of 2021.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include salaries and wages, which are allocated on the basis of estimates of time and effort.

Income Tax Status

The Organization is an Indiana nonprofit organization as described in Section 501(c)(7) of the Internal Revenue Code and is exempt from federal and state income taxes on related income pursuant to the Internal Revenue Code. However, the Organization is subject to income taxes on amounts generated from certain investment income, net of allocable expenses.

The Organization has adopted the provisions of the accounting pronouncement related to accounting for uncertainty in income taxes. The Organization recognized no interest or penalties in the statements of activities for either of the years ended May 31, 2022 or 2021. If the situation arose in which the Organization would have interest to recognize, it would recognize this as interest expense and penalties would be recognized in other expenses. Currently, the prior three years are open under federal and state statutes of limitations and remain subject to review and change. The Organization is not currently under audit nor has the Organization been contacted by these jurisdictions.

Based on the evaluation of the Organization’s tax positions, management believes all positions taken would be upheld under an examination. Therefore, no provision for the effects of uncertain tax positions has been recorded for either of the years ended May 31, 2022 or 2021.

Subsequent Events

The Organization has evaluated subsequent events through August 24, 2022, which is the date the financial statements were available to be issued.

NOTE 2 - LIQUIDITY

Financial assets available for general use and without donor or other restrictions or designations limiting their use, within one year of the statements of financial position are comprised of the following:

	May 31, 2022	May 31, 2021
Cash and Cash Equivalents	$ 1,355,110	$ 1,052,187
Loans and Interest Receivable	95,595	329,252
Investments	174,277	180,883
Total Financial Assets Available	$ 1,624,982	$ 1,562,322

The Organization’s cash flow is dependent on repayment of loans and collection of member assessments from affiliated Phi Kappa Psi chapters and colonies. As part of the Organization’s liquidity management, the Organization invests excess cash in short-term investments and utilizes budgeting techniques to help forecast cash disbursements and collections to assess cash needs and the availability of funds for potential lending activities.

NOTE 3 - CASH AND CASH FLOWS

For purposes of the cash flow statements, cash and cash equivalents include cash held in checking and money market accounts.

At various times throughout the year, the Organization May have cash in financial institutions in excess of the federally-insured limits. The Federal Deposit Insurance Corporation (FDIC) insures account balances up to $250,000 for each business depositor.

Cash paid for income taxes during the years ended May 31, 2022 and 2021 was $1,218 and $3,256, respectively.

NOTE 4 - LOANS AND INTEREST RECEIVABLE

The Organization lends funds to local chapters and colonies for chapter housing. Loan balances range depending on the needs of the borrower and are generally less than $450,000. Interest rates charged on the loans range from 5.0% to 6.25%.

Loans and interest receivable consisted of:

	May 31, 2022	May 31, 2021
First Mortgage Loans	$ 459,287	$ 556,888
Lines of Credit	147,597	123,637
Promissory Notes	286,335	364,068
Non-Performing Loans and Interest Receivable	-	53,217
	893,219	1,097,810
Interest Receivable	-	184
	893,219	1,097,994
Less Allowance for Loan Losses	(16,218)	(64,217)
Loans and Interest Receivable, Net	$ 877,001	$ 1,033,777

The credit risk associated with the loans receivable May be affected by the membership levels at each chapter as well as university policies and procedures relating to social organizations.

The change in allowance for loan losses is as follows for the years ended May 31, 2022 and 2021:

	2022	2021
Balance, January 1	$ 64,217	$ 64,217
Change in Loan Loss Allowance	(47,999)	-
Balance, December 31	$ 16,218	$ 64,217

As of both May 31, 2022 and 2021, the Organization's recorded investment in receivables ninety days or more past due and still accruing interest was $-0-.

NOTE 4 - LOANS AND INTEREST RECEIVABLE (Continued)

At May 31, 2022 and 2021 the following amounts included in loans and interest receivable were past due:

	May 31, 2022	May 31, 2021
Current	$ -	$ 181,721
Less than 90 Days Past Due	-	9,510
90 - 364 Days Past Due	-	7,500
Total Past Due Loans and Interest Receivable	$ -	$ 198,731

NOTE 5 - INVESTMENTS

Investments consisted of the following:

	2022	2021
Cash and Cash Equivalents	$ 28,377	$ 19,855
Corporate Bonds	65,096	71,484
Municipal Bonds	80,804	89,544
Total Investments	$ 174,277	$ 180,883

NOTE 6 - FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

LEVEL 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

LEVEL 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

LEVEL 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

NOTE 6 - FAIR VALUE MEASUREMENTS (Continued)

Following are the descriptions of the valuation methodologies used for marketable securities measured at fair value. There have been no changes in the methodologies used at May 31, 2022 and 2021.

Cash and Cash Equivalents – Fair value approximates carrying value due to the initial maturities of the instruments being three months or less.

Corporate and Municipal Bonds – Valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions.

The preceding methods described May provide a fair value calculation that May not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

At May 31, 2022 and 2021, all investments held by the Organization were valued using inputs from Level 2 within the fair value hierarchy, with the exception of cash and cash equivalents, which were valued using inputs from Level 1.

Risks and Uncertainties

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect account balances and amounts reported in the statements of financial position.

NOTE 7 - TRANSACTIONS WITH AFFILIATED ORGANIZATIONS

The Phi Kappa Psi Fraternity collects the member assessments charged by the Organization from the affiliated chapters and colonies and remits them to the Organization annually. During the years ended May 31, 2022 and 2021, the Organization recognized income of $85,080 and $-0-, respectively, for assessment fees collected by the Fraternity. At May 31, 2022 and 2021, no amounts were due from the Fraternity.

The Organization leases staff from the Fraternity. For the years ended May 31, 2022 and 2021, the Organization incurred $3,242 and $864 of expenses, respectively. At May 31, 2022 and 2021, $1,315 and $-0- was due to the Fraternity, respectively.

NOTE 8 - GUARANTEE LIABILITY

On December 19, 2019, the Organization guaranteed a $300,000 promissory note of Phi Kappa Psi Alumni Corporation of the California Eta Chapter (California Eta). This guarantee would require payment of unpaid principal and interest by the Organization in the event of default by California Eta. The promissory note requires monthly payments that include interest at 4.62% through December 20, 2024 at which point the interest rate charged changes to the 5-year Treasury rate plus 3.2%. The final payment is due December 20, 2029. California Eta is current on payments of the promissory note as of May 31, 2022. The fair value of the interest and principal payments due to the bank as of May 31, 2022 is approximately $240,000.

NOTE 8 - GUARANTEE LIABILITY (Continued)

On this same date, the Organization recorded a guarantee liability of $36,201. This liability represents the difference in the interest rate charged on the guaranteed indebtedness and the interest rate California Eta would have otherwise been charged without the Organization's guarantee. The Organization has elected to amortize the liability over 10 years, the course of the loan. For both the years ended May 31, 2022 and 2021, the Organization recognized $3,620 of amortization on the statements of financial position for changes in guarantee risks. Future amortization is as follows:

Years Ending May 31,		
2023	$	3,620
2024		3,620
2025		3,620
2026		3,620
2027		3,620
Thereafter		9,353
	$	27,453

NOTE 9 - RISKS AND UNCERTAINTIES

In 2020, the World Health Organization announced a global health emergency later classified as a global pandemic as a result of the COVID-19 outbreak. The outbreak and response have impacted financial economic markets across the World and within the United States of America. The full impact continues to evolve and as such, it is uncertain as to the full magnitude that the pandemic will have on the Organization's financial condition, liquidity, and future results of operations. Management is actively monitoring the possible effects on every aspect of the Organization.