



# **The Canonsburg Corporation**

May 31, 2023

Financial Statements and Independent Auditors' Report

**THE CANONSBURG CORPORATION  
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## INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
The Canonsburg Corporation  
Indianapolis, Indiana

We have reviewed the accompanying financial statements of The Canonsburg Corporation (a nonprofit organization), which comprise the statement of financial position as of May 31, 2023, the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

### **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.

### **Accountant's Responsibility**

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of The Canonsburg Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

### **Accountant's Conclusion**

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

### **Report on 2022 Financial Statements**

The 2022 financial statements were audited by us, and we expressed an unmodified opinion on them in our report dated August 24, 2022. We have not performed any auditing procedures since that date.

*VonLehman & Company Inc.*

Indianapolis, Indiana  
July 20, 2023



**THE CANONSBURG CORPORATION**  
**STATEMENTS OF FINANCIAL POSITION**

**ASSETS**

	<b>May 31,</b>	
	<b>2023</b> <b>(Reviewed)</b>	<b>2022</b> <b>(Audited)</b>
Cash and Cash Equivalents	\$ 1,253,959	\$ 1,355,110
Accounts Receivable - Related Party	90,640	-
Loans and Interest Receivable, Net	1,054,168	877,001
Investments	177,538	174,277
<b>Total Assets</b>	<b>\$ 2,576,305</b>	<b>\$ 2,406,388</b>

**LIABILITIES AND NET ASSETS**

<b>Liabilities</b>		
Guarantee Liability	\$ 23,531	\$ 27,453
Accounts Payable - Related Party	-	1,315
Taxes Payable	10,159	-
Total Liabilities	33,690	28,768
<b>Net Assets</b>		
Without Donor Restrictions	2,542,615	2,377,620
<b>Total Liabilities and Net Assets</b>	<b>\$ 2,576,305</b>	<b>\$ 2,406,388</b>

See accountants' report and accompanying notes.

**THE CANONSBURG CORPORATION**  
**STATEMENTS OF ACTIVITIES**

	<b>Years Ended May 31,</b>	
	<b>2023</b>	<b>2022</b>
	<b>(Reviewed)</b>	<b>(Audited)</b>
<b>Revenues and Gains</b>		
Member Assessments	\$ 90,640	\$ 85,080
Interest Income - Loans	51,799	39,120
Interest Income - Bank Accounts	43,239	12,358
Net Investment Return	3,261	(6,606)
Total Revenues and Gains	188,939	129,952
<b>Expenses</b>		
Program Services	7,310	3,682
Management and General	23,666	18,723
Total Expenses	30,976	22,405
Excess of Revenues and Gains Over Expenses	157,963	107,547
<b>Other Income (Expense)</b>		
Bad Debt Recovery	16,218	31,781
Changes in Guarantee Risk	3,922	3,620
Provision for Income Taxes	(13,108)	(1,218)
Total Other Income (Expense)	7,032	34,183
Change in Net Assets	164,995	141,730
<b>Net Assets, Beginning of Year</b>	<b>2,377,620</b>	<b>2,235,890</b>
<b>Net Assets, End of Year</b>	<b>\$ 2,542,615</b>	<b>\$ 2,377,620</b>

See accountants' report and accompanying notes.

**THE CANONSBURG CORPORATION**  
**STATEMENTS OF FUNCTIONAL EXPENSES**

	Years Ended May 31,					
	2023			2022		
	(Reviewed)			(Audited)		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Bank Service Charges	\$ -	\$ 135	\$ 135	\$ -	\$ 364	\$ 364
Professional Fees	2,754	21,585	24,339	1,250	17,549	18,799
Salaries and Wages	4,556	1,519	6,075	2,432	810	3,242
Meals and Entertainment	-	157	157	-	-	-
Office Supplies	-	270	270	-	-	-
<b>Total Expenses by Function</b>	<b>\$ 7,310</b>	<b>\$ 23,666</b>	<b>\$ 30,976</b>	<b>\$ 3,682</b>	<b>\$ 18,723</b>	<b>\$ 22,405</b>

See accountants' report and accompanying notes.

**THE CANONSBURG CORPORATION**  
**STATEMENTS OF CASH FLOWS**

	Years Ended May 31,	
	2023 (Reviewed)	2022 (Audited)
<b>Cash Flows From Operating Activities</b>		
Change in Net Assets	\$ 164,995	\$ 141,730
Reconciliation of Change in Net Assets with Cash Flows from Operations		
Net Investment Return	(3,261)	6,606
Change in Guarantee Risk	(3,922)	(3,620)
Changes in Operating Assets and Liabilities		
Accounts Receivable - Related Party	(90,640)	-
Loans and Interest Receivable, Net	(177,167)	156,776
Prepaid Expenses	-	116
Accounts Payable - Related Party	(1,315)	1,315
Taxes Payable	10,159	-
Net Cash (Used) Provided by Operating Activities	(101,151)	302,923
<b>Cash and Cash Equivalents, Beginning of Year</b>	1,355,110	1,052,187
<b>Cash and Cash Equivalents, End of Year</b>	\$ 1,253,959	\$ 1,355,110

See accountants' report and accompanying notes.

**THE CANONSBURG CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**

**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 outstanding notes receivables from 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, 2023, 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 31<sup>st</sup>. 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.

**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, 2023 or 2022. 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, 2023 or 2022.

**Reclassifications**

Certain amounts in the prior period financial statements have been reclassified for comparative purposes to conform with the presentation in the current year. The reclassifications had no impact on previously reported net assets.

**Subsequent Events**

The Organization has evaluated subsequent events through July 20, 2023, 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,	
	2023	2022
Cash and Cash Equivalents	\$ 1,253,959	\$ 1,355,110
Accounts Receivable - Related Party	90,640	-
Loans and Interest Receivable, Current Portion	98,051	95,595
Investments	177,538	174,277
Total Financial Assets Available	\$ 1,620,188	\$ 1,624,982

**NOTE 2 - LIQUIDITY (Continued)**

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 flows 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, 2023 and 2022 was \$2,949 and \$1,218, 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 4.5% to 6.25%.

Loans and interest receivable consisted of:

	May 31,	
	2023	2022
First Mortgage Loans	\$ 438,591	\$ 459,287
Lines of Credit	189,277	147,597
Promissory Notes	426,030	286,335
	1,053,898	893,219
Interest Receivable	270	-
	1,054,168	893,219
Less Allowance for Loan Losses	-	16,218
Loans and Interest Receivable, Net	\$ 1,054,168	\$ 877,001

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.

**NOTE 4 - LOANS AND INTEREST RECEIVABLE (Continued)**

The change in allowance for loan losses is as follows for the years ended May 31, 2023 and 2022:

	May 31,	
	2023	2022
Balance, June 1	\$ 16,218	\$ 64,217
Change in Loan Loss Allowance	(16,218)	(47,999)
Balance, May 31	\$ -	\$ 16,218

As of both May 31, 2023 and 2022, the Organization's recorded investment in receivables ninety days or more past due and still accruing interest was \$-0-.

As of both May 31, 2023 and 2022, the Organization had no loans nor interest receivable that were past due.

**NOTE 5 - INVESTMENTS**

Investments consisted of the following:

	May 31,	
	2023	2022
Cash and Cash Equivalents	\$ 37,149	\$ 28,377
Corporate Bonds	62,261	65,096
Municipal Bonds	78,128	80,804
Total Investments	\$ 177,538	\$ 174,277

**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.

**NOTE 6 - FAIR VALUE MEASUREMENTS (Continued)**

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.

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, 2023 and 2022.

*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, 2023 and 2022, 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, 2023 and 2022, the Organization recognized income of \$90,640 and \$85,080, respectively, for assessment fees collected by the Fraternity. At May 31, 2023 and 2022, \$90,640 and \$-0- were due from the Fraternity, respectively.

The Organization leases staff from the Fraternity. For the years ended May 31, 2023 and 2022, the Organization incurred \$6,075 and \$3,242 of expenses, respectively. At May 31, 2023 and 2022, \$-0- and \$1,315 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, 2023. The fair value of the interest and principal payments due to the bank as of May 31, 2023 is approximately \$212,000.

**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 the years ended May 31, 2023 and 2022, the Organization recognized \$3,921 and \$3,620, respectively, of amortization on the statements of activities for changes in guarantee risks. Future amortization is as follows:

Years Ending May 31,	
2024	\$ 3,620
2025	3,620
2026	3,620
2027	3,620
2028	3,620
Thereafter	<u>5,431</u>
	<u>\$ 23,531</u>