

CHURCH HILL ACTIVITIES & TUTORING, INC.

CONSOLIDATED FINANCIAL REPORT

August 31, 2022



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Church Hill Activities & Tutoring, Inc.
Richmond, Virginia

Opinion

We have audited the accompanying consolidated financial statements of Church Hill Activities & Tutoring, Inc. (a nonprofit organization), which comprise the statements of financial position as of August 31, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Church Hill Activities & Tutoring, Inc. as of August 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 Church Hill Activities & Tutoring, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibility for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 Church Hill Activities & Tutoring, Inc.'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Church Hill Activities & Tutoring, Inc.'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.

Brown, Edwards & Company, S. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Petersburg, Virginia
February 24, 2023

CHURCH HILL ACTIVITIES & TUTORING, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

August 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash	\$ 2,448,076	\$ 1,947,700
Contributions receivable	5,148	1,861
Prepaid expenses	10,113	27,139
Property and equipment, net (Note 2)	539,664	586,591
Total assets	<u>\$ 3,003,001</u>	<u>\$ 2,563,291</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 76,643	\$ 62,562
Accrued expenses	56,642	34,365
Refundable advance	345,105	345,105
Total liabilities	<u>478,390</u>	<u>442,032</u>
NET ASSETS		
Without donor restrictions	2,382,064	1,845,508
With donor restrictions (Note 5)	142,547	275,751
Total net assets	<u>2,524,611</u>	<u>2,121,259</u>
Total liabilities and net assets	<u>\$ 3,003,001</u>	<u>\$ 2,563,291</u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

CHURCH HILL ACTIVITIES & TUTORING, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended August 31, 2022

	Without Restrictions	With Restrictions	Total
REVENUES AND OTHER SUPPORT			
Contributions	\$ 2,469,994	\$ 261,086	\$ 2,731,080
Program income	112,151	-	112,151
Café sales	171,550	-	171,550
Less cost of goods sold	(113,491)	-	(113,491)
Net café income	58,059	-	58,059
Net investment loss	(90)	-	(90)
Employee Retention Credit grant	287,959	-	287,959
Other income	6,509	-	6,509
Total revenue and support	2,934,582	261,086	3,195,668
NET ASSETS RELEASED FROM RESTRICTIONS			
Satisfaction of Purpose Restrictions	394,290	(394,290)	-
Total revenues, other support and reclassifications	3,328,872	(133,204)	3,195,668
FUNCTIONAL EXPENSES			
Program expenses	2,166,662	-	2,166,662
Management and general	310,703	-	310,703
Fundraising	314,951	-	314,951
Total functional expenses	2,792,316	-	2,792,316
Changes in net assets	536,556	(133,204)	403,352
NET ASSETS			
Beginning	1,845,508	275,751	2,121,259
Ending	\$ 2,382,064	\$ 142,547	\$ 2,524,611

The Notes to Consolidated Financial Statements are an integral part of this statement.

CHURCH HILL ACTIVITIES & TUTORING, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended August 31, 2021

	Without Restrictions	With Restrictions	Total
REVENUES AND OTHER SUPPORT			
Contributions	\$ 1,643,052	\$ 359,977	\$ 2,003,029
Program income	59,602	-	59,602
Café sales	22,180	-	22,180
Less cost of goods sold	(29,612)	-	(29,612)
Net café loss	(7,432)	-	(7,432)
Net investment loss	(487)	-	(487)
Gain on disposal of property and equipment	2,825	-	2,825
Employee Retention Credit grant	247,449	-	247,449
Other income	5,591	-	5,591
Total revenue and support	1,950,600	359,977	2,310,577
NET ASSETS RELEASED FROM RESTRICTIONS			
Satisfaction of Purpose Restrictions	246,957	(246,957)	-
Total revenues, other support and reclassifications	2,197,557	113,020	2,310,577
FUNCTIONAL EXPENSES			
Program expenses	1,438,464	-	1,438,464
Management and general	264,892	-	264,892
Fundraising	226,561	-	226,561
Total functional expenses	1,929,917	-	1,929,917
Changes in net assets	267,640	113,020	380,660
NET ASSETS			
Beginning	1,577,868	162,731	1,740,599
Ending	\$ 1,845,508	\$ 275,751	\$ 2,121,259

The Notes to Consolidated Financial Statements are an integral part of this statement.

CHURCH HILL ACTIVITIES & TUTORING, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended August 31, 2022

	Program Services				Supporting Services			Total
	After School	Workforce Development Program	Academy	Neighborhood School Scholarships	Program Services Total	Management & General	Fundraising	
	Salaries	\$ 176,612	\$ 409,163	\$ 638,688	\$ 7,662	\$ 1,232,125	\$ 166,235	
Employee benefits	17,450	40,718	56,714	-	114,882	16,298	14,542	145,722
Payroll taxes	12,898	29,062	47,540	586	90,086	11,817	12,227	114,130
Total salaries and related expenses	206,960	478,943	742,942	8,248	1,437,093	194,350	187,462	1,818,905
Benevolence Fund	32	74	102	-	208	29	26	263
Café cost of goods sold	-	113,491	-	-	113,491	-	-	113,491
Contract services	4,447	10,377	18,198	-	33,022	39,782	56,011	128,815
Curriculum	215	-	10,160	-	10,375	-	-	10,375
Dues & subscriptions	2,073	6,389	13,192	-	21,654	30,485	13,312	65,451
Interest expense	-	-	-	-	-	5,886	-	5,886
Insurance	1,973	4,603	6,411	-	12,987	1,808	1,644	16,439
Materials & supplies	15,386	35,909	28,336	-	79,631	1,849	916	82,396
Meals & snacks	3,259	879	42,203	-	46,341	-	-	46,341
Miscellaneous	2,691	8,234	657	-	11,582	772	4,538	16,892
Occupancy	20,514	69,462	64,335	-	154,311	12,101	12,101	178,513
Office expenses	5,565	16,305	10,979	300	33,149	6,773	7,140	47,062
Postage & delivery	-	9	17	-	26	1,148	3,875	5,049
Printing & copying	27	1,278	625	-	1,930	-	6,274	8,204
Rewards & incentives	-	-	1,373	-	1,373	-	-	1,373
Scholarships	-	-	-	102,187	102,187	-	-	102,187
Service charges & fees	1,945	28,969	8,414	-	39,328	3,124	6,416	48,868
Special events & trips	7,459	2,388	6,524	-	16,371	-	11,036	27,407
Staff development	4,018	6,343	11,040	-	21,401	9,299	2,321	33,021
Telephone, cable & internet	-	6,860	3,768	-	10,628	419	419	11,466
Transportation costs	57,060	5,589	52,320	-	114,969	-	-	114,969
Volunteer & staff appreciation	10,728	3,253	4,115	-	18,096	2,878	1,460	22,434
Total expenses by function	344,352	799,355	1,025,711	110,735	2,280,153	310,703	314,951	2,905,807
Less expenses included with revenues on the statement of activities								
Café cost of goods sold	-	(113,491)	-	-	(113,491)	-	-	(113,491)
Total expenses included in the expense section on the statement of activities	\$ 344,352	\$ 685,864	\$ 1,025,711	\$ 110,735	\$ 2,166,662	\$ 310,703	\$ 314,951	\$ 2,792,316

The Notes to Consolidated Financial Statements are an integral part of this statement.

CHURCH HILL ACTIVITIES & TUTORING, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended August 31, 2021

	Program Services				Supporting Services			Total
	After School	Workforce Development Program	Academy	Tiny Tikes	Program Services Total	Management & General	Fundraising	
Salaries	\$ 149,764	\$ 272,319	\$ 450,282	\$ -	\$ 872,365	\$ 148,691	\$ 146,179	\$ 1,167,235
Employee benefits	18,792	25,142	49,855	-	93,789	23,023	11,565	128,377
Payroll taxes	11,051	12,952	31,674	151	55,828	11,073	11,027	77,928
Total salaries and related expenses	179,607	310,413	531,811	151	1,021,982	182,787	168,771	1,373,540
Café cost of goods sold	-	29,612	-	-	29,612	-	-	29,612
Contract services	2,183	5,490	9,384	-	17,057	24,894	16,107	58,058
Curriculum	1,440	-	6,240	-	7,680	-	-	7,680
Dues & subscriptions	517	5,693	14,003	497	20,710	24,964	7,879	53,553
Insurance	1,649	3,897	5,546	-	11,092	2,248	1,649	14,989
Materials & supplies	9,548	42,421	29,103	-	81,072	2,005	1,430	84,507
Meals & snacks	651	77	2,999	-	3,727	-	-	3,727
Miscellaneous	973	6,597	771	-	8,341	702	671	9,714
Occupancy	4,375	44,321	49,154	6,000	103,850	11,545	11,545	126,940
Office expenses	4,162	7,127	8,010	-	19,299	4,492	4,279	28,070
Postage & delivery	-	40	-	-	40	1	3,364	3,405
Printing & copying	60	293	31	-	384	1,483	6,668	8,535
Rewards & incentives	-	-	267	-	267	-	-	267
Scholarships	-	-	5,000	-	5,000	-	-	5,000
Service charges & fees	3,085	6,407	4,338	45	13,875	5,351	1,007	20,233
Special events & trips	3,245	1,366	6,886	3,933	15,430	-	-	15,430
Staff development	2,060	3,987	8,113	-	14,160	3,051	2,150	19,361
Telephone, cable & internet	-	6,309	2,871	-	9,180	471	471	10,122
Transportation costs	24,747	5,479	47,515	-	77,741	94	-	77,835
Volunteer & staff appreciation	3,377	1,960	2,240	-	7,577	804	570	8,951
Total expenses by function	241,679	481,489	734,282	10,626	1,468,076	264,892	226,561	1,959,529
Less expenses included with revenues on the statement of activities								
Café cost of goods sold	-	(29,612)	-	-	(29,612)	-	-	(29,612)
Total expenses included in the expense section on the statement of activities	\$ 241,679	\$ 451,877	\$ 734,282	\$ 10,626	\$ 1,438,464	\$ 264,892	\$ 226,561	\$ 1,929,917

The Notes to Consolidated Financial Statements are an integral part of this statement.

CHURCH HILL ACTIVITIES & TUTORING, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended August 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
OPERATING ACTIVITIES		
Changes in net assets	\$ 403,352	\$ 380,660
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	59,550	60,240
Gain on sale of property and equipment	-	(2,825)
Realized loss on sale of investment securities	1,047	1,664
Donated investments	(313,660)	(343,881)
Proceeds from sale of donated investments	312,613	342,217
Changes in operating assets:		
Contributions receivable	(3,287)	(550)
Prepaid expenses	17,026	9,502
Changes in operating liabilities:		
Accounts payable	14,081	57,614
Accrued expenses	22,277	3,946
Refundable advances	-	333,949
Net cash provided by operating activities	<u>512,999</u>	<u>842,536</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(12,623)	-
Proceeds from sale of property and equipment	-	2,825
Net cash provided by (used in) investing activities	<u>(12,623)</u>	<u>2,825</u>
Net change in cash and cash equivalents	500,376	845,361
CASH AND CASH EQUIVALENTS		
Beginning	<u>1,947,700</u>	<u>1,102,339</u>
Ending	<u><u>\$ 2,448,076</u></u>	<u><u>\$ 1,947,700</u></u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

CHURCH HILL ACTIVITIES & TUTORING, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2022 and 2021

Note 1. Nature of Organization and Significant Accounting Policies

Consolidation

The consolidated financial statements (collectively, the financial statements) include the accounts of Church Hill Activities & Tutoring, Inc. and its wholly-owned subsidiaries, CHAT Properties, LLC and CHAT Properties N Street, LLC (hereafter referred to as “CHAT”).

Nature of activities

Church Hill Activities & Tutoring, Inc. is a not-for-profit organization that was incorporated under the laws of the Commonwealth of Virginia since 2003. CHAT, located in Richmond, Virginia, encourages and supports personal transformation through spiritual formation, education, life enhancing skills, leadership development, mentoring, and community life to youth Pre-kindergarten through 12th grade. CHAT operates a private high school, Church Hill Academy; a preschool age program, Tiny Tykes; an After-School program; and the Work Leadership Institute, formerly called the Entrepreneurship Program. Donations represent CHAT’s primary source of revenue. CHAT Properties, LLC, a wholly-owned subsidiary of CHAT, was formed in 2007 for the primary purpose of purchasing and holding real estate used in the operations of CHAT. In addition, CHAT Properties N Street, LLC, also a wholly-owned subsidiary of CHAT, was formed in 2012 for the primary purpose of purchasing and holding real estate used in the operations of CHAT.

A summary of CHAT’s significant accounting policies follows:

Basis of accounting

CHAT’s financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP) on an accrual basis. Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Cash and cash equivalents

For purposes of the statements of cash flows, CHAT includes all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months as cash and cash equivalents. CHAT maintains bank accounts in two financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. CHAT had cash balances in a financial institution that exceeded federal depository insurance limits at August 31, 2022 and 2021.

Contributions receivable

Contributions receivable are recorded as received. Contributions receivable due in the next year are reflected as current contributions and grants and contributions receivable and are recorded at their net realizable value. Contributions receivable due in subsequent years are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises to give are received to discount the amounts. An allowance for uncollectible contributions receivable is provided based on management’s evaluation of potential uncollectible contributions receivable at year end. No allowance for uncollectible accounts has been provided because management has evaluated the receivables and believes they are fully collectible.

CHURCH HILL ACTIVITIES & TUTORING, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2022 and 2021

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Property and equipment

Property and equipment with a cost of \$5,000 or more and that have an estimated useful life greater than one year are capitalized at cost, or if donated, at approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from five to thirty-nine years. Maintenance and repairs are charged to expense when incurred.

Revenue recognition

Contributions which include unconditional promises to give are recognized as revenues in the period received or promised. Conditional contributions are recorded when the conditions have been substantially met. Contributions are considered to be unrestricted unless specifically restricted by the donor.

CHAT reports grants and contributions in the net asset with restrictions class if they are received with donor stipulations as to their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with restrictions are released and reclassified to net assets without restrictions in the statements of activities. However, if restrictions on grants and contributions are met in the same reporting period as the grant or contribution is received, the revenues are reported as increases in net assets without restrictions. Interest is recorded when earned.

Program fees include income from tuition, school nutrition program reimbursements and miscellaneous program income. Café revenue is recognized when the sale occurs and is net of any sales taxes charged to customers. Revenue is recognized either when the associated performance obligation is satisfied or at a single point in time when ownership, risk, and rewards transfer, as in sales of merchandise.

Net assets without donor restrictions

CHAT reports assets whose use is not restricted by donors as net assets without donor restrictions. Contributions are available for unrestricted use unless specifically restricted by the donor. In general, the net assets without donor restrictions of CHAT may be used at the discretion of CHAT's management and Board of Directors to support CHAT's purpose and operations.

Net assets with donor restrictions

CHAT reports gifts of cash and other assets as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 statements of activities as net assets released from restrictions.

CHURCH HILL ACTIVITIES & TUTORING, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2022 and 2021

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Income taxes

CHAT is exempt from Federal income taxes as an organization other than a private foundation under Section 501(c)(3) of the *Internal Revenue Code*. However, income from certain activities not directly related to CHAT's tax-exempt purpose may be subject to taxation as unrelated business income. CHAT had no unrelated business income during the years ended August 31, 2022 and 2021. In addition, CHAT qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1).

CHAT follows GAAP regarding *Accounting for Uncertain Tax Positions*. This standard provides detailed guidance for financial statement recognition, measurement, and disclosure of uncertain tax positions recognized in CHAT's financial statements. It requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will not be sustained upon examination. The tax years of 2019 to 2021 remain subject to examination by the taxing authorities.

CHAT has determined that it does not have any material unrecognized tax benefits or obligations as of August 31, 2022 and 2021. CHAT includes penalties and interest assessed by income taxing authorities in operating expenses. CHAT did not have penalties and interest expenses for the years ended August 31, 2022 and 2021.

CHAT Properties, LLC and CHAT Properties N Street, LLC are single member LLC entities and therefore considered disregarded entities for tax purposes.

In-kind contributions/expenses

Donated services are recorded at fair market value at the date of the donation. Donated services are recognized in the financial statements at their fair value if the following criteria are met:

- i) The services require specialized skills and the services are provided by individuals possessing those skills, and the services would typically need to be purchased if not donated, or
- ii) The services enhance or create an asset.

Although CHAT utilizes the services of many outside volunteers, the fair value of these services is not recognized in the accompanying financial statements since they do not meet the criteria for recognition under GAAP.

CHURCH HILL ACTIVITIES & TUTORING, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2022 and 2021

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Functional allocation of expenses

The statements of activities reports expenses by both natural and functional classification. Certain categories of expenses are attributable to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Costs are directly applied to the related program or supporting category when identifiable and possible. General operating costs across nearly all natural categories are allocated based on estimates of time and effort.

Note 2. Property and Equipment

Property and equipment at cost, less accumulated depreciation, as of August 31 on the statements of financial position, include the following major classifications:

	<u>2022</u>	<u>2021</u>
Buildings	\$ 146,406	\$ 146,406
Building improvements	474,928	474,928
Leasehold improvements	12,623	-
Furniture and equipment	137,886	137,886
Land	56,833	56,833
Vehicles	<u>154,487</u>	<u>154,487</u>
	983,163	970,540
Less accumulated depreciation	<u>(443,499)</u>	<u>(383,949)</u>
	<u>\$ 539,664</u>	<u>\$ 586,591</u>

Total depreciation expense for the years ended August 31, 2022 and 2021 is \$59,550 and \$60,240, respectively.

Note 3. Operating Leases

CHAT entered into a long-term lease with a commencement date of April 19, 2017 for a cafe facility that opened in fiscal year 2018 in the Bon Secours Sarah Garland Jones Center located in Richmond, Virginia. CHAT vacated the cafe premises in September 2020 and on December 11, 2020, CHAT entered into a forbearance agreement whereby the landlord agreed to forbear from exercising its default rights and remedies under the lease with the intention that CHAT would return to the premises on June 1, 2021 to operate the cafe facilities. There was no rent due from September 2020 through May 2021. On June 1, 2021, CHAT entered into a second amendment and lease agreement to lease the facilities through April 30, 2022 with the option to renew the lease for an additional 18 month term and subsequent 24 month term.

CHURCH HILL ACTIVITIES & TUTORING, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2022 and 2021

Note 3. Operating Leases (Continued)

Total rental expense for the cafe facility lease for the years ended August 31, 2022 and 2021 totaled \$16,488 and \$5,767, respectively, and is included in occupancy expenses. Total outstanding commitment related to the office lease for the subsequent fiscal year is as follows:

<u>Year Ending August 31,</u>		
2023	\$	27,289
2024		<u>4,623</u>
	\$	<u><u>31,912</u></u>

CHAT entered into a long-term lease with a commencement date of August 1, 2018 that expired on July 31, 2020 for use of a church's facilities. Total rent expense for use of the facilities for the years ended August 31, 2022 and 2021 totaled \$18,150 and \$24,000, respectively, and is included in occupancy expenses. CHAT was leasing these facilities on a month-to-month basis for \$3,630 per month through January 31, 2022.

On July 1, 2022, CHAT entered into a new agreement for the use of the church facilities. The initial term of the agreement is for a five-year period through August 31, 2027; however, the agreement allows CHAT to terminate the lease upon ninety days written notice. There is no base rent due under the lease; however, CHAT is required to pay real estate taxes, utilities, and repairs and maintenance on the property during the lease term. The agreement allows CHAT the option to purchase the property for \$10 with the obligation that CHAT would be required to enter into a leaseback arrangement with the owner. The total amount of real estate taxes, utilities, and repairs and maintenance expense related to the property for the year ended August 31, 2022, totaled \$9,581.

CHAT also entered into a long-term lease with a commencement date of September 1, 2016 that expired December 31, 2020 for use of a church's facilities. Total rent expense for use of the facilities for the years ended August 31, 2022 and 2021 totaled \$0 and \$6,000, respectively, and is included in occupancy expenses.

CHAT also leases facilities from various individuals and entities which are currently on a month-to-month basis. Rent expense was \$7,755 and \$15,045 for the fiscal years ended August 31, 2022 and 2021, respectively.

Note 4. Note Payable, Line of Credit

CHAT has a line of credit in the amount of \$500,000, which is secured by substantially all assets of CHAT. The interest rate at August 31, 2021 was 3.50%. This line of credit is due May 6, 2023. There were no outstanding balances on the line of credit as of August 31, 2022 and 2021.

CHURCH HILL ACTIVITIES & TUTORING, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2022 and 2021

Note 5. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes or periods as of August 31:

	<u>2022</u>	<u>2021</u>
EISTC program	\$ 142,547	\$ 273,930
Retail Establishment program	-	1,821
	<u>\$ 142,547</u>	<u>\$ 275,751</u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restriction specified by grantors as of August 31 as follows:

	<u>2022</u>	<u>2021</u>
Purpose restriction accomplished:		
EISTC program	\$ 392,469	\$ 244,957
Retail Establishment program	1,821	2,000
	<u>\$ 394,290</u>	<u>\$ 246,957</u>

Note 6. Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocable include salaries and related expenses and insurance.

Note 7. Liquidity and Availability of Financial Assets

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of August 31 are:

	<u>2022</u>	<u>2021</u>
Cash	\$ 2,448,076	\$ 1,947,700
Grants and contributions receivable	5,148	1,861
Total financial assets	2,453,224	1,949,561
Less financial assets held to meet donor-imposed restrictions for purpose-restricted net assets	<u>(142,547)</u>	<u>(275,751)</u>
Amounts available for general expenditures within one year	<u>\$ 2,310,677</u>	<u>\$ 1,673,810</u>

CHURCH HILL ACTIVITIES & TUTORING, INC.

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August 31, 2022 and 2021

Note 7. Liquidity and Availability of Financial Assets (Continued)

CHAT has a policy to manage its liquidity following two guiding principles: operating within a prudent range of financial stability and maintaining adequate liquidity to fund near-term operations. Also, to manage liquidity, CHAT maintains a line-of-credit of \$500,000 with a bank that is drawn upon as needed during the year to manage cash flow. See Note 4 for further description of this line.

Note 8. Other Matter

On January 30, 2020, the World Health Organization declared the COVID-19 outbreak a “Public Health Emergency of International Concern” and on March 10, 2020, declared it to be a pandemic. COVID-19 and actions to mitigate it have had, and are expected to continue to have, an adverse impact on the economies and financial markets of many countries, including the geographical area in which CHAT operates. The extent to which the COVID-19 pandemic may impact operating results, financial condition, and cash flows will depend on future developments, which are highly uncertain and cannot be predicted as of the date of this report. CHAT is adequately capitalized and continues to evaluate operational impacts and implement mitigation tactics where possible and necessary.

In response to the Coronavirus pandemic, Congress established the Paycheck Protection Program (the PPP) to provide relief to small businesses during the Coronavirus pandemic as part of the \$2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act, P.L. 116-136. The legislation authorized Treasury to use the Small Business Administration’s (SBA) 7(a) small business lending program to fund loans of up to \$10 million per borrower that qualifying businesses could spend to cover payroll, mortgage interest, rent, and utilities. CHAT applied for the first draw of the PPP and was given a loan in the amount of \$345,105. Interest in the amount of 1% is due and payable at the time of the SBA’s measurement of possible forgiveness. As of August 31, 2021, CHAT had determined that they had substantially met the conditions for loan forgiveness by incurring qualifying expenses of \$333,949 and as such recognized grant income of \$333,949. The first draw was forgiven by the SBA on February 9, 2021 in the amount of \$333,949 and CHAT repaid the \$11,156 that was recorded as a refundable advance as of August 31, 2020.

CHAT applied for a second draw of the PPP and received a loan in amount of \$345,105. CHAT has accounted for the proceeds as a financial liability in accordance with Accounting Standards Codification 958-605, *Not-for-Profit Entities: Revenue Recognition*. Under this standard, a transfer of assets that is a conditional contribution is accounted for as a refundable advance until the conditions have been substantially met or explicitly waived by the resource provider. Interest in the amount of 1% is due and payable at the time of the SBA’s measurement of possible forgiveness. The loan is to be repaid within two years from the date of funding of February 17, 2021. As of August 31, 2022 and 2021, CHAT has classified the \$345,105 as a refundable advance.

On December 27, 2020, the Consolidated Appropriations Act, 2021 was enacted. This legislation among other things, revised the employee retention credit (ERC), which is a refundable credit against certain employment taxes of up to \$7,000 per employee per calendar quarter from January 1, 2021 through December 31, 2021. Also, the legislation allowed those that received a PPP loan to be eligible to retroactively claim a refundable credit against certain employment taxes of up to \$5,000 per employee from March 13, 2020 to December 31, 2020. CHAT qualified for and received \$287,959 and \$247,449 of ERC grant income for the years ended August 31, 2022 and 2021, respectively.

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Note 9. Contingencies

CHAT is involved in various claims and lawsuits arising in the normal course of business. Financial responsibility of such claims and lawsuits is shared by CHAT and various insurance carriers. Management believes that any financial responsibility that may be incurred by CHAT in settlement of such claims and lawsuits would not be material to its financial position.

Note 10. Subsequent Events

As of February 24, 2023, the second PPP loan is under review by the SBA for purposes of determining possible forgiveness of a portion of the loan or the entire amount of the loan.

Management has evaluated subsequent events through February 24, 2023, the date the financial statements were available for issue.