

**ST. LUKE'S COMMUNITY HOUSE
(EPISCOPAL), INC.**

FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2021 and 2020

And Report of Independent Auditor

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.

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Report of Independent Auditor

To the Board of Directors
St. Luke's Community House (Episcopal), Inc.
Nashville, Tennessee

Opinion

We have audited the accompanying financial statements of the St. Luke's Community House (Episcopal), Inc. (the "Organization") (a nonprofit organization), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related 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 financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2021 and 2020, 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 the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Cherry Bekant LLP

Nashville, Tennessee
August 24, 2022

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2021 AND 2020

| | <u>2021</u> | <u>2020</u> |
|--|----------------------------|----------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 1,725,483 | \$ 1,804,448 |
| Contributions and grants receivable, net | 468,236 | 130,086 |
| Prepaid expense | <u>32,181</u> | <u>26,611</u> |
| Total Current Assets | 2,225,900 | 1,961,145 |
| Beneficial interest in trust | 11,089 | 22,669 |
| Land, buildings, and equipment, net | 2,853,550 | 2,799,720 |
| Investments, at fair value | <u>1,499,258</u> | <u>1,364,288</u> |
| Total Assets | <u><u>\$ 6,589,797</u></u> | <u><u>\$ 6,147,822</u></u> |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities: | | |
| Accounts payable and accrued expenses | \$ 137,945 | \$ 58,736 |
| Deferred grant revenue | <u>-</u> | <u>275,011</u> |
| Total Current Liabilities | <u>137,945</u> | <u>333,747</u> |
| Net Assets: | | |
| Without Donor Restrictions: | | |
| Undesignated | 4,480,334 | 4,219,072 |
| Board designated | <u>1,039,721</u> | <u>916,331</u> |
| Total Without Donor Restrictions | 5,520,055 | 5,135,403 |
| With Donor Restrictions | <u>931,797</u> | <u>678,672</u> |
| Total Net Assets | <u>6,451,852</u> | <u>5,814,075</u> |
| Total Liabilities and Net Assets | <u><u>\$ 6,589,797</u></u> | <u><u>\$ 6,147,822</u></u> |

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

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2021

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---------------------------------------|---|--|---------------------|
| Public Support and Revenue: | | | |
| Public Support: | | | |
| Contributions | \$ 803,580 | \$ 455,404 | \$ 1,258,984 |
| Contributions - thrift shop | 210,991 | - | 210,991 |
| United Way | 211,500 | - | 211,500 |
| Net assets released from restrictions | <u>202,279</u> | <u>(202,279)</u> | <u>-</u> |
| Total Public Support | <u>1,428,350</u> | <u>253,125</u> | <u>1,681,475</u> |
| Revenue: | | | |
| Program services | 853,106 | - | 853,106 |
| Investment gain, net | 182,836 | - | 182,836 |
| Grants | 897,985 | - | 897,985 |
| Miscellaneous | <u>32,682</u> | <u>-</u> | <u>32,682</u> |
| Total Revenue | <u>1,966,609</u> | <u>-</u> | <u>1,966,609</u> |
| Total Public Support and Revenue | <u>3,394,959</u> | <u>253,125</u> | <u>3,648,084</u> |
| Expenses: | | | |
| Program Services: | | | |
| Preschool childcare | 1,700,291 | - | 1,700,291 |
| Community support services | <u>624,931</u> | <u>-</u> | <u>624,931</u> |
| Total Program Services | <u>2,325,222</u> | <u>-</u> | <u>2,325,222</u> |
| Supporting Services: | | | |
| Management and general | 429,072 | - | 429,072 |
| Fundraising | <u>256,013</u> | <u>-</u> | <u>256,013</u> |
| Total Supporting Services | <u>685,085</u> | <u>-</u> | <u>685,085</u> |
| Total Expenses | <u>3,010,307</u> | <u>-</u> | <u>3,010,307</u> |
| Change in net assets | 384,652 | 253,125 | 637,777 |
| Net assets, beginning of year | <u>5,135,403</u> | <u>678,672</u> | <u>5,814,075</u> |
| Net assets, end of year | <u>\$ 5,520,055</u> | <u>\$ 931,797</u> | <u>\$ 6,451,852</u> |

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

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2020

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---------------------------------------|---|--|---------------------|
| Public Support and Revenue: | | | |
| Public Support: | | | |
| Contributions | \$ 1,195,168 | \$ 196,104 | \$ 1,391,272 |
| Contributions - thrift shop | 180,000 | - | 180,000 |
| United Way | 207,000 | - | 207,000 |
| Net assets released from restrictions | 147,964 | (147,964) | - |
| Total Public Support | <u>1,730,132</u> | <u>48,140</u> | <u>1,778,272</u> |
| Revenue: | | | |
| Program services | 620,203 | - | 620,203 |
| Investment gain, net | 145,330 | - | 145,330 |
| Grants | 202,352 | - | 202,352 |
| Miscellaneous | 26,508 | - | 26,508 |
| Total Revenue | <u>994,393</u> | <u>-</u> | <u>994,393</u> |
| Total Public Support and Revenue | <u>2,724,525</u> | <u>48,140</u> | <u>2,772,665</u> |
| Expenses: | | | |
| Program Services: | | | |
| Preschool childcare | 1,241,329 | - | 1,241,329 |
| Senior services | 150,814 | - | 150,814 |
| Family Resource Center | 269,641 | - | 269,641 |
| Total Program Services | <u>1,661,784</u> | <u>-</u> | <u>1,661,784</u> |
| Supporting Services: | | | |
| Management and general | 434,959 | - | 434,959 |
| Fundraising | 232,169 | - | 232,169 |
| Total Supporting Services | <u>667,128</u> | <u>-</u> | <u>667,128</u> |
| Total Expenses | <u>2,328,912</u> | <u>-</u> | <u>2,328,912</u> |
| Change in net assets | 395,613 | 48,140 | 443,753 |
| Net assets, beginning of year | 4,739,790 | 630,532 | 5,370,322 |
| Net assets, end of year | <u>\$ 5,135,403</u> | <u>\$ 678,672</u> | <u>\$ 5,814,075</u> |

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

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2021

| | Program Services | | | Supporting Services | | | Total Expenses |
|-----------------------------|------------------------|----------------------------------|------------------------------|------------------------------|-------------------|---------------------------------|---------------------|
| | Preschool Childcare | Community Support Services | Total Program Services | Management and General | Fundraising | Total Supporting Services | |
| Salaries and wages | \$ 971,139 | \$ 210,090 | \$ 1,181,229 | \$ 291,984 | \$ 141,332 | \$ 433,316 | \$ 1,614,545 |
| Benefits | 178,159 | 44,430 | 222,589 | 51,044 | 29,013 | 80,057 | 302,646 |
| Program supplies | 61,132 | 76,885 | 138,017 | 89 | 1,262 | 1,351 | 139,368 |
| Occupancy | 68,661 | 43,002 | 111,663 | 14,054 | 10,800 | 24,854 | 136,517 |
| Food | 112,317 | - | 112,317 | 159 | 4,241 | 4,400 | 116,717 |
| Specific assistance | - | 104,984 | 104,984 | - | - | - | 104,984 |
| Utilities | 39,973 | 37,438 | 77,411 | 7,257 | 5,705 | 12,962 | 90,373 |
| Professional | 48,834 | 11,241 | 60,075 | 16,487 | 13,660 | 30,147 | 90,222 |
| Equipment and maintenance | 46,221 | 14,910 | 61,131 | 9,687 | 4,888 | 14,575 | 75,706 |
| Insurance | 23,879 | 12,282 | 36,161 | 4,446 | 3,374 | 7,820 | 43,981 |
| Miscellaneous | 21,546 | 5,264 | 26,810 | 6,358 | 3,046 | 9,404 | 36,214 |
| Licenses, fees, and permits | 6,139 | - | 6,139 | 1,718 | 10,219 | 11,937 | 18,076 |
| Telephone | 8,485 | 2,854 | 11,339 | 3,303 | 1,362 | 4,665 | 16,004 |
| Equipment | 10,956 | - | 10,956 | - | 4,576 | 4,576 | 15,532 |
| Conference and meetings | 4,282 | 400 | 4,682 | 1,500 | 140 | 1,640 | 6,322 |
| Printing | 155 | 354 | 509 | 249 | 4,953 | 5,202 | 5,711 |
| Staff | 3,315 | 700 | 4,015 | 747 | 255 | 1,002 | 5,017 |
| Postage and shipping | 178 | 441 | 619 | 654 | 2,381 | 3,035 | 3,654 |
| Office supplies | 1,580 | 336 | 1,916 | 922 | 164 | 1,086 | 3,002 |
| Transportation | - | 2,584 | 2,584 | 112 | - | 112 | 2,696 |
| | <u>1,606,951</u> | <u>568,195</u> | <u>2,175,146</u> | <u>410,770</u> | <u>241,371</u> | <u>652,141</u> | <u>2,827,287</u> |
| Depreciation | 93,340 | 56,736 | 150,076 | 18,302 | 14,642 | 32,944 | 183,020 |
| | <u>\$ 1,700,291</u> | <u>\$ 624,931</u> | <u>\$ 2,325,222</u> | <u>\$ 429,072</u> | <u>\$ 256,013</u> | <u>\$ 685,085</u> | <u>\$ 3,010,307</u> |

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

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2020

| | Program Services | | | Supporting Services | | | Total Expenses | |
|-----------------------------|------------------------|--------------------|------------------------------|------------------------------|------------------------------|-------------------|-------------------|---------------------------------|
| | Preschool Childcare | Senior Services | Family Resource Center | Total Program Services | Management and General | Fundraising | | Total Supporting Services |
| Salaries and wages | \$ 703,024 | \$ 52,569 | \$ 109,511 | \$ 865,104 | \$ 303,325 | \$ 137,095 | \$ 440,420 | \$ 1,305,524 |
| Benefits | 142,277 | 12,064 | 18,992 | 173,333 | 50,786 | 19,077 | 69,863 | 243,196 |
| Food | 76,485 | 43,480 | - | 119,965 | 189 | 844 | 1,033 | 120,998 |
| Occupancy | 53,406 | 8,445 | 24,198 | 86,049 | 8,105 | 7,506 | 15,611 | 101,660 |
| Utilities | 40,258 | 6,415 | 31,141 | 77,814 | 7,401 | 5,801 | 13,202 | 91,016 |
| Equipment and maintenance | 30,441 | 3,811 | 10,798 | 45,050 | 17,643 | 2,558 | 20,201 | 65,251 |
| Professional | 34,987 | 1,548 | 3,266 | 39,801 | 8,578 | 11,904 | 20,482 | 60,283 |
| Insurance | 22,899 | 3,385 | 8,038 | 34,322 | 4,491 | 4,095 | 8,586 | 42,908 |
| Miscellaneous | 15,086 | 311 | 6,077 | 21,474 | 5,243 | 5,873 | 11,116 | 32,590 |
| Program supplies | 9,887 | 20 | 7,729 | 17,636 | 291 | 1,540 | 1,831 | 19,467 |
| Licenses, fees, and permits | 2,560 | 206 | - | 2,766 | 3,150 | 9,533 | 12,683 | 15,449 |
| Telephone | 5,929 | 644 | 1,299 | 7,872 | 3,253 | 1,292 | 4,545 | 12,417 |
| Equipment | 6,083 | 220 | - | 6,303 | - | 3,899 | 3,899 | 10,202 |
| Contract labor | - | - | 9,000 | 9,000 | - | - | - | 9,000 |
| Staff | 4,529 | 202 | 288 | 5,019 | 1,406 | 1,046 | 2,452 | 7,471 |
| Printing | - | 16 | - | 16 | 442 | 3,763 | 4,205 | 4,221 |
| Office supplies | 1,027 | 52 | 717 | 1,796 | 1,688 | 274 | 1,962 | 3,758 |
| Conference and meetings | 1,798 | 300 | - | 2,098 | - | 780 | 780 | 2,878 |
| Postage and shipping | 43 | 16 | 16 | 75 | 1,136 | 1,091 | 2,227 | 2,302 |
| Transportation | 97 | 540 | 123 | 760 | 84 | - | 84 | 844 |
| | <u>1,150,816</u> | <u>134,244</u> | <u>231,193</u> | <u>1,516,253</u> | <u>417,211</u> | <u>217,971</u> | <u>635,182</u> | <u>2,151,435</u> |
| Depreciation | 90,513 | 16,570 | 38,448 | 145,531 | 17,748 | 14,198 | 31,946 | 177,477 |
| | <u>\$ 1,241,329</u> | <u>\$ 150,814</u> | <u>\$ 269,641</u> | <u>\$ 1,661,784</u> | <u>\$ 434,959</u> | <u>\$ 232,169</u> | <u>\$ 667,128</u> | <u>\$ 2,328,912</u> |

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

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2021 AND 2020

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 637,777 | \$ 443,753 |
| Adjustments to reconcile change in net assets to net cash flows from operating activities: | | |
| Depreciation | 183,020 | 177,477 |
| Realized/unrealized gain on investments | (158,599) | (115,871) |
| Changes in operating assets and liabilities: | | |
| Contributions and grants receivable | (338,150) | (7,026) |
| Prepaid expenses | (5,570) | (8,894) |
| Accounts payable and accrued expenses | 79,209 | (343) |
| Deferred grant revenue | (275,011) | 275,011 |
| Net cash flows from operating activities | <u>122,676</u> | <u>764,107</u> |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (236,850) | (33,208) |
| Distribution from beneficial interest in trust | 11,580 | 7,036 |
| Purchases of investments | (39,130) | (30,327) |
| Proceeds from liquidation of investments | 62,759 | 50,970 |
| Net cash flows from investing activities | <u>(201,641)</u> | <u>(5,529)</u> |
| Change in cash and cash equivalents | (78,965) | 758,578 |
| Cash and cash equivalents, beginning of year | <u>1,804,448</u> | <u>1,045,870</u> |
| Cash and cash equivalents, end of year | <u>\$ 1,725,483</u> | <u>\$ 1,804,448</u> |

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

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

Note 1—Nature of operations and summary of significant accounting policies

St. Luke's Community House (Episcopal), Inc. (the "Organization"), was founded in 1913 by the Daughters of the King, an order of the Episcopal Church. The Organization offers a diversity of services to the community, enabling people to maintain their lives in a more healthy and stable environment. The Organization concerns itself with the welfare and dignity of individuals and seeks to strengthen and support the family unit. The Organization is supported primarily through donor contributions, the United Way, private and public grants, and program service fees.

The following program services are offered by the Organization:

Preschool Childcare – The Organization offers a licensed preschool program with focus on kindergarten readiness, for children from six weeks of age through five years (pre-kindergarten).

Community Support Services – The Organization conducts the following as part of its community support efforts:

Senior Services – The Organization provides free lunches Monday through Friday to low-income seniors, as well as sponsors social and recreational activities for West Nashville seniors.

Family Resource Center – The Organization provides various services to the community, including food boxes, counseling services, tax return preparation, and emergency financial assistance.

Financial Statement Presentation – The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are reported as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of Organization's management and the Board of Directors. The Organization has chosen to provide further classification information about net assets without donor restrictions on the statements of financial position. The subclassifications are as follows:

Undesignated – Represents the cumulative net asset without donor restriction excluding those net assets designated for specific activities by the Board of Directors.

Board Designated – Represents resources set aside by the Board of Directors to be used for specific activities within guidelines established by the Board of Directors. The Organization maintains the following reserve: amounts designated for investment as an endowment.

Net Assets With Donor Restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Net assets with donor restrictions represent contributions receivable and amounts available for programs as well as certain amounts to be held in perpetuity.

Use of Estimates – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

Note 1—Nature of operations and summary of significant accounting policies (continued)

Cash and Cash Equivalents – For financial statement purposes, the Organization considers all highly-liquid investments with original maturities of three months or less to be cash and cash equivalents.

Contributions – The Organization accounts for contributions in accordance with standards of accounting and reporting prescribed for not-for-profit organizations. In accordance with these standards, contributions received are recorded as support with donor restrictions or without donor restrictions depending on the existence and/or nature of any donor restrictions. Under these standards, time or purpose restricted contributions are required to be reported as support with donor restrictions and are then reclassified to net assets without donor restrictions upon expiration of the donor restrictions.

Promises to Give – Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Allowances for uncollectible promises to give are based on management's estimates based on prior collection history.

Investments – Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. Realized gains and losses, as well as appreciation or depreciation in market value, are reflected in the change in net assets in the statements of activities.

Fair Value Measurements – The Organization has an established process for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, fair value is based upon internally developed models or processes that use primarily market-based or independently-sourced market data and third party information. Valuation adjustments may be made to ensure financial instruments are recorded at fair value. Furthermore, while 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 estimate of fair value at the reporting date. U.S. GAAP has a three-level valuation hierarchy for fair value measurements. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels are explained as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following are descriptions of the valuation methodologies used for asset measurement at fair value at December 31, 2021 and 2020:

Investments Maintained as Part of the Episcopal Endowment Corporation Common Trust Fund – Valued at net asset value of shares held by the Organization at year-end.

Beneficial Interest in Trust – Valued using information obtained from third party sources, including financial statements and other information from detailed listing of holdings from the trust. These valuations are typically performed annually, based on the present value of the estimated future distributions the Organization expects to receive over the term of the trust.

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

Note 1—Nature of operations and summary of significant accounting policies (continued)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization's management 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.

Beneficial Interest in Trust – Accounting standards require that the following instrument be recorded as an asset at the net present value of the Organization's ultimate interest:

Charitable Lead Trust – A donor has established and funded a trust designating the Organization as a beneficiary of specific distributions to be made over a specified period. Upon termination of the trust, the remainder of the trust assets is to be paid to a beneficiary designated by the donor.

Restricted Endowment Funds – The Uniform Prudent Management of Institutional Funds Act ("UPMIFA") was enacted in Tennessee effective July 1, 2007. The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of UPMIFA. It also requires disclosure of a description of the governing board's interpretation of the law that underlies the Organization's net asset classification of donor-restricted endowment funds, a description of the Organization's policies for the appropriation of endowment assets for expenditures (its endowment spending policies), a description of the Organization's endowment investment policies, and additional disclosures not previously required.

Land, Buildings, and Equipment – Land, buildings, and equipment are stated in the accompanying statements of financial position at cost, or if contributed, at estimated fair market value at date of gift. Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or betterments are capitalized. Depreciation is calculated using the straight-line basis with estimated useful lives ranging as follows:

| | |
|----------------------------|--------------|
| Buildings and improvements | 5 – 39 years |
| Equipment and furniture | 3 – 10 years |

Revenue Recognition – See Note 2.

Donated Services – Donated services are recognized if such services (a) create or enhance non-financial assets or (b) require specialized skills, are provided by persons possessing those skills and would be purchased if not donated. Amounts have not been reported in the financial statements for certain donated services because they do not meet the criteria for recognition. However, a substantial number of volunteers have donated approximately 4,500 and 1,900 volunteer hours to the Organization's programs during the years ended December 31, 2021 and 2020, respectively.

Income Taxes – The Organization is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and is not considered a private foundation. Accordingly, no provision for income taxes has been made in the financial statements.

Allocation of Functional Expenses – Expenses that can be directly attributed to a particular function are charged to that function. Expenses that relate to more than one function are allocated among applicable functions on the basis of objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management. Expenses that were allocated consist primarily of salary and related expenses which have been allocated based on time and effort.

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

Note 1—Nature of operations and summary of significant accounting policies (continued)

Future Pronouncements – In February 2016, FASB issued Accounting Standards Update (“ASU”) 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the Organization’s year ending December 31, 2022. Management is currently evaluating the impact of this standard on the Organization’s financial statements.

In September 2020, FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU will require not-for-profit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. In addition, for each category of contributed nonfinancial assets recognized, the following will have to be disclosed: (1) qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period. If utilized, a not-for-profit will disclose a description of the programs or other activities in which those assets were used; (2) the not-for-profit’s policy (if any) about monetizing rather than utilizing contributed nonfinancial assets; (3) a description of any donor-imposed restrictions associated with the contributed nonfinancial assets; and (4) a description of the valuation techniques and inputs used to arrive at a fair value measure, in accordance with the requirements in Topic 820, *Fair Value Measurement*, at initial recognition. This standard is effective for the year ending December 31, 2022. Management is currently evaluating the impact of this standard on the Organization’s financial statements.

Reclassifications – Certain reclassifications were made to 2020 balances to conform with 2021 presentation.

Note 2—Revenue recognition

The Organization adopted FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize revenue when it transfers the promised goods or services to a customer in an amount that reflects consideration to which the entity expects to be entitled to in exchange for those goods and services. The Organization recognizes revenue for services in accordance with the following five steps outlined in ASC 606:

- Identification of the contract or contracts with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction prices
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when or as the Organization satisfies a performance obligation

The Organization has analyzed the provisions of ASC 606 and has concluded the following:

Preschool Tuition Fees – The Organization operates a daycare and preschool for newborns through five years. Such revenue is included in program service revenue in the statements of activities. Revenue is recognized over time as the customer receives the benefit of the Organization’s services and when collectability is reasonably assured.

Performance Obligations – A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account under ASC 606. The transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The Organization’s contracts with customers do not typically include multiple performance obligations.

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
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Note 2—Revenue recognition (continued)

Payment Terms –The Organization’s payment terms vary by the type of products offered. The time between invoicing and when payment is due is not significant. The Organization’s contracts with customers do not generally result in significant obligations associated with returns, refunds, or warranties.

Disaggregation of Revenue – The table below depicts the disaggregation of revenue by service for the years ended December 31, 2021 and 2020, and is consistent with how the Organization evaluates financial performance:

| | <u>2021</u> | <u>2020</u> |
|--------------------------------------|-------------------|-------------------|
| Preschool program fees - general | \$ 476,141 | \$ 299,974 |
| Preschool program fees - DHS subsidy | 366,131 | 310,395 |
| Family Resource Center program fees | 10,834 | 9,714 |
| Development program fees | - | 120 |
| | <u>\$ 853,106</u> | <u>\$ 620,203</u> |

Note 3—Liquidity and availability of resources

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing program services, as well as general and administration to support those activities, to be general expenditures. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at December 31:

| | <u>2021</u> | <u>2020</u> |
|---|---------------------|---------------------|
| Financial assets: | | |
| Cash and cash equivalents | \$ 1,725,483 | \$ 1,804,448 |
| Contributions and accounts receivable | 468,236 | 130,086 |
| Investments | 1,499,258 | 1,364,288 |
| Beneficial interest in trust | 11,089 | 22,669 |
| Total financial assets, at year-end | 3,704,066 | 3,321,491 |
| Less amounts unavailable for general expenditures within one year, due to: | | |
| Net assets restricted for specific purposes | (5,767) | (91,942) |
| Net assets to be retained in perpetuity | (470,626) | (470,626) |
| Net assets subject to designation | (1,039,721) | (916,331) |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 2,187,952</u> | <u>\$ 1,842,592</u> |

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
NOTES TO THE FINANCIAL STATEMENTS

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Note 4—Contributions and grants receivable

Contributions and grants receivable are summarized below at December 31:

| | <u>2021</u> | <u>2020</u> |
|--|-------------------|-------------------|
| Receipts expected within one year | \$ 471,236 | \$ 133,086 |
| Less allowance for estimated uncollectible amounts | (3,000) | (3,000) |
| | <u>\$ 468,236</u> | <u>\$ 130,086</u> |

Note 5—Beneficial interest in trust

A donor has established a trust held by a third party naming the Organization as a beneficiary of a charitable lead trust. Under terms of the split-interest agreement, the Organization is to receive 3% of the net fair market value of the trust principal for a period of 10 years. Upon termination of the trust, the remaining trust assets are to be distributed to others. Based upon earnings at an estimated rate of 3% over the life of the trust and a 3.04% discount rate, the present value of future benefits expected to be received by the Organization totaled approximately \$11,089 and \$22,669 at December 31, 2021 and 2020, respectively. This asset is deemed to be a Level 3 asset within the fair value measurement hierarchy (see Note 1). The summary of change in the fair value of Level 3 assets is as follows for the years ended December 31:

| | <u>2021</u> | <u>2020</u> |
|----------------------------|------------------|------------------|
| Balance, beginning of year | \$ 22,669 | \$ 29,705 |
| Distribution | (11,580) | (7,036) |
| Balance, end of year | <u>\$ 11,089</u> | <u>\$ 22,669</u> |

Note 6—Land, buildings, and equipment

Land, buildings, and equipment consist of the following at December 31:

| | <u>2021</u> | <u>2020</u> |
|---------------------------|---------------------|---------------------|
| Land | \$ 211,746 | \$ 211,746 |
| Building and improvements | 5,050,561 | 4,937,565 |
| Equipment and furniture | 635,773 | 615,360 |
| Construction in progress | 123,564 | 20,123 |
| | 6,021,644 | 5,784,794 |
| Accumulated depreciation | (3,168,094) | (2,985,074) |
| | <u>\$ 2,853,550</u> | <u>\$ 2,799,720</u> |

Depreciation expense amounted to \$183,020 and \$177,477 for the years ended December 31, 2021 and 2020, respectively.

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
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Note 7—Investments

Investments (Level 2) consist of the following at December 31:

| | <u>2021</u> | <u>2020</u> |
|--------------------------------|---------------------|---------------------|
| In perpetuity fund | \$ 862,988 | \$ 791,946 |
| Board-designated fund | 296,621 | 272,204 |
| Magruder family endowment fund | 339,649 | 300,138 |
| | <u>\$ 1,499,258</u> | <u>\$ 1,364,288</u> |

The pooled investment funds are invested with other Episcopal churches and institutions at the Episcopal Endowment Corporation Common Trust Fund (the "Fund"). The Fund primarily invests in mutual funds and common stocks. The Organization may withdraw its fund at any time. Investment income recognized by the Organization includes the Organization's share of any gains or losses on such pooled funds. The Organization values these funds as Level 2 because the valuation methodology includes quoted prices for similar assets in active markets.

Investment income is comprised of the following for the years ended December 31:

| | <u>2021</u> | <u>2020</u> |
|------------------------------------|-------------------|-------------------|
| Interest and dividends | \$ 24,237 | \$ 29,459 |
| Realized and unrealized gains, net | 158,599 | 115,871 |
| | <u>\$ 182,836</u> | <u>\$ 145,330</u> |

Note 8—Net assets with donor restrictions

The Organization receives specific contributions for expenses associated with the mission of the Organization. These contributions are classified as net assets with donor restrictions until the restricted purpose has been fulfilled.

The following table represents a summary of net assets with donor restrictions for the years ended December 31:

| | <u>2021</u> | <u>2020</u> |
|--|-------------------|-------------------|
| Donor-restricted endowment funds | \$ 470,626 | \$ 470,626 |
| Unconditional promise to give due in future periods, net | 455,404 | 116,104 |
| Capital improvements | - | 80,000 |
| Outcome measurement project | - | 6,175 |
| Living room project | 5,767 | 5,767 |
| | <u>\$ 931,797</u> | <u>\$ 678,672</u> |

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
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Note 9—Endowment

The Organization's endowment consists of donor-restricted gifts as well as assets designated by the board which are held in investment accounts. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

Endowment net asset composition by type of fund as of December 31, 2021:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|----------------------------------|---|--|---------------------|
| Board-designated endowment funds | \$ 1,039,721 | \$ - | \$ 1,039,721 |
| Donor-restricted endowment funds | - | 470,626 | 470,626 |
| | <u>\$ 1,039,721</u> | <u>\$ 470,626</u> | <u>\$ 1,510,347</u> |

Endowment net asset composition by type of fund as of December 31, 2020:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|----------------------------------|---|--|---------------------|
| Board-designated endowment funds | \$ 916,331 | \$ - | \$ 916,331 |
| Donor-restricted endowment funds | - | 470,626 | 470,626 |
| | <u>\$ 916,331</u> | <u>\$ 470,626</u> | <u>\$ 1,386,957</u> |

Changes in endowment net assets for the year ended December 31, 2021:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|--|---------------------|
| Endowment net assets, beginning of year | \$ 916,331 | \$ 470,626 | \$ 1,386,957 |
| Additions | 11,580 | - | 11,580 |
| Investment return | 161,117 | - | 161,117 |
| Distributions, net | (49,307) | - | (49,307) |
| Endowment net assets, end of year | <u>\$ 1,039,721</u> | <u>\$ 470,626</u> | <u>\$ 1,510,347</u> |

Changes in endowment net assets for the year ended December 31, 2020:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|--|---------------------|
| Endowment net assets, beginning of year | \$ 853,614 | \$ 470,626 | \$ 1,324,240 |
| Additions | 11,881 | - | 11,881 |
| Investment return | 97,749 | - | 97,749 |
| Distributions, net | (46,913) | - | (46,913) |
| Endowment net assets, end of year | <u>\$ 916,331</u> | <u>\$ 470,626</u> | <u>\$ 1,386,957</u> |

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
NOTES TO THE FINANCIAL STATEMENTS

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Note 9—Endowment (continued)

Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as donor-restricted endowment (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions is classified as net assets with time or purpose restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. To the extent unrealized losses exceed original net assets in perpetuity plus gains earned in prior periods and earnings for which donor restrictions have not been met, such losses are recognized as losses in the net asset with donor restriction class. As of December 31, 2021 and 2020, there were no donor-restricted endowment funds that had a market value below the original contribution value.

Endowment Investment Policy and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets to support the Organization and to enable it to more completely fulfill its mission by providing funds for (a) capital needs, (b) operating expenses, (c) programs and special projects, and (d) such other purposes as specifically designated by donors. Endowment assets include those assets of donor-restricted funds the Organization must hold in perpetuity or for a donor-specified period as well as amounts designated by the Board of Directors to be held in perpetuity. Under this policy, as approved by the Board of Directors, the primary objective is to achieve a reasonable return on the assets, while limiting the risk exposure to ensure the preservation of capital. Investment funds are to be maintained as cash or as publicly traded securities.

Strategies Employed for Achieving Investment Objectives

To satisfy its long term objectives, the Organization relies on a strategy meant to preserve the corpus while providing a reasonable return on assets. The Organization has established a long-term investment goal of earning a minimum real rate of return equal to 5% per annum in excess of the rate of inflation, as measured by the greater of the Consumer Price Index or the GNP Deflator. This goal is measured over 5 to 10-year time periods.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization determines expendable funds on the basis of a total return principle. The funds available for distribution during any one year shall be determined at the beginning of such year and are limited to 4% of the average value of the corpus. The average value is determined by computing a three-year rolling average of the 12 end-of-quarter market values. Any expended funds from those available for distribution for a given year are accrued and continue to be considered available for distribution in subsequent years, unless otherwise designated by the action of the Board of Directors.

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
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Note 10—CARES Act funding

During fiscal 2020, the Organization received a Paycheck Protection Program loan ("PPP") in the amount of \$275,011. The PPP loan was granted by the Small Business Administration under the Coronavirus Aid Relief, and Economic Security Act ("CARES Act"). PPP loans are considered conditional contributions under ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*. The loan must be repaid if the Organization does not overcome certain barriers within the CARES Act. The barriers under the program include the requirement to maintain employee headcount; spend up to 60% of the loan proceeds on certain payroll and employee benefits; and restricts other loan proceeds to be used for other qualifying expenses such as mortgage interest, rent, and utilities. The Organization has reflected the loan as deferred grant revenue at December 31, 2020, because conditions for forgiveness had not been met at December 31, 2020. In January 2021, the Organization determined it had met the aforementioned requirements. The PPP loan of \$275,011, and accrued interest, was fully forgiven by the SBA and has been reflected this amount in grants revenue in the statement of activities for the year ended December 31, 2021.

In addition, the Organization was awarded \$237,981 under the American Rescue Plan Act childcare stabilization program related to the negative economic impacts caused by COVID-19. This award was based on the Organization's childcare center licensed capacity and staff headcount. The Organization determined it had met the requirements for the grant award at December 31, 2021 and, as such, this award is included in grants revenue in the statement of activities for the year ended December 31, 2021.

Note 11—Contributions - thrift shop and associated organizations

The Organization receives support from income generated by a local thrift shop. Such contributions totaled \$210,991 and \$180,000 for the years ended December 31, 2021 and 2020, respectively. The thrift shop's board chair or their designee serves as a voting, ex officio member of the Organization's Board of Directors.

In addition, the Organization receives contributions from churches and other organizations associated with the Episcopal Church. Contributions from these organizations totaled \$174,483 and \$240,031 for the years ended December 31, 2021 and 2020, respectively.

Note 12—Benefit plan

Effective February 2001, the Organization established a 401(k) Retirement Savings Plan. Under the plan, the Organization will match up to 6% of employees' contributions to the plan. Retirement plan contributions totaled \$45,478 and \$36,527 for the years ended December 31, 2021 and 2020, respectively.

Note 13—Concentrations

The Organization maintains its deposits at financial institutions with accounts insured by the Federal Deposit Insurance Corporation up to \$250,000. The Organization's balances, at times, may exceed federally insured limits. Amounts in excess of federally insured limits at December 31, 2021 and 2020 were approximately \$1,276,000 and \$1,269,000, respectively.

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
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Note 14—Commitments

The Organization has entered into an agreement with a third party to provide meal services for its preschool and mobile meals programs through December 31, 2023. Under this arrangement, the Organization is obligated to pay the third party for the meals provided. Annual estimated costs under this agreement approximates \$171,500. This agreement also allows the third party to use a portion of the Organization's facility for the preparation of such meals.

The Organization has also entered into certain other arrangements with third parties to allow for use of part of the Organization's facility for other purposes, which serve the community. One such arrangement extends through March 2023.

Note 15—Risks and uncertainty

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") a global pandemic, which continues to spread throughout the world and has adversely impacted global commercial activity and contributed to significant declines and volatility in the financial markets. As a result of the spread of COVID-19, economic uncertainties have arisen, which may likely negatively impact operating results of the Organization. Other financial impacts could occur though such potential impact is unknown at this time.

Note 16—Subsequent events

Management has evaluated subsequent events through August 24, 2022, the date the financial statements were available for issuance. Management has determined there are no subsequent events that require disclosure.