



Financial Statements

for

**CHRISTIAN APPALACHIAN
PROJECT, INC.**

Years Ended August 31, 2019 and 2018
with Report of Independent Auditors

CONTENTS

	<u>Pages</u>
Report of Independent Auditors.....	1
Financial Statements:	
Statements of Financial Position.....	2
Statements of Activities.....	3 - 4
Statements of Functional Expenses.....	5 - 6
Statements of Cash Flows.....	7 - 8
Notes to the Financial Statements.....	9 - 21

Report of Independent Auditors

Board of Directors
Christian Appalachian Project, Inc.
Mount Vernon, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Christian Appalachian Project, Inc. (CAP) which comprise the statements of financial position as of August 31, 2019 and 2018, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CAP as of August 31, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, effective September 1, 2018, CAP adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Dean Dorton Allen Ford, PLLC".

Lexington, Kentucky
December 9, 2019

CHRISTIAN APPALACHIAN PROJECT, INC.

Statements of Financial Position

August 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Cash	\$ 814,684	\$ 1,442,050
Accounts receivable	106,650	91,469
Contributions receivable, net	1,771,963	2,239,227
Accrued interest receivable	32,280	28,273
Inventories	612,732	733,261
Prepaid expenses	112,231	120,921
Investments	11,217,423	11,246,615
Notes receivable	19,487	24,182
Property and equipment, net	<u>12,758,285</u>	<u>12,874,092</u>
Total assets	<u>\$ 27,445,735</u>	<u>\$ 28,800,090</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 289,300	\$ 69,599
Accrued expenses	273,389	350,154
Annuity obligations	1,612,420	1,791,868
Capital leases payable	<u>66,694</u>	<u>69,555</u>
Total liabilities	2,241,803	2,281,176
Net assets:		
Without donor restrictions:		
Undesignated	4,673,229	5,717,170
Designated by the Board of Directors for:		
Disaster Emergency Relief Program	100,000	100,000
Self-insurance program	633,500	633,500
Expended for property and equipment	12,758,285	12,874,092
Annuity obligations	<u>2,256,938</u>	<u>2,542,720</u>
	20,421,952	21,867,482
With donor restrictions	<u>4,781,980</u>	<u>4,651,432</u>
Total net assets	<u>25,203,932</u>	<u>26,518,914</u>
Total liabilities and net assets	<u>\$ 27,445,735</u>	<u>\$ 28,800,090</u>

See accompanying notes.

CHRISTIAN APPALACHIAN PROJECT, INC.

Statement of Activities

Year ended August 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support:			
Contributions of cash and securities	\$ 17,063,168	\$ 3,186,723	\$ 20,249,891
Legacies and bequests	3,846,706	-	3,846,706
Government grants	70,152	-	70,152
Contributions of materials	72,509,511	-	72,509,511
Contributed services	593,678	-	593,678
Program revenue	383,126	-	383,126
Investment income	29,023	247,099	276,122
Net realized losses on investments	(5,654)	(42,219)	(47,873)
Net unrealized gains on investments	25,973	53,146	79,119
Royalty income	429,380	-	429,380
Gain on sale of property and equipment	28,159	-	28,159
Net assets released from restrictions	3,314,201	(3,314,201)	-
Total revenues, gains, and other support	98,287,423	130,548	98,417,971
Expenses:			
Program services:			
Family services	11,718,663	-	11,718,663
Community services	60,448,659	-	60,448,659
Education services	12,931,445	-	12,931,445
Total program services	85,098,767	-	85,098,767
Supporting services:			
Management and general	4,797,655	-	4,797,655
Fund development	9,730,236	-	9,730,236
Total supporting services	14,527,891	-	14,527,891
Total expenses	99,626,658	-	99,626,658
Actuarial adjustment on annuity obligations	106,295	-	106,295
Total expenses and losses	99,732,953	-	99,732,953
Change in net assets	(1,445,530)	130,548	(1,314,982)
Net assets, beginning of year	21,867,482	4,651,432	26,518,914
Net assets, end of year	\$ 20,421,952	\$ 4,781,980	\$ 25,203,932

See accompanying notes.

CHRISTIAN APPALACHIAN PROJECT, INC.

Statement of Activities

Year ended August 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support:			
Contributions of cash and securities	\$ 16,800,448	\$ 3,892,245	\$ 20,692,693
Legacies and bequests	4,178,368	-	4,178,368
Government grants	99,862	-	99,862
Contributions of materials	94,965,074	-	94,965,074
Contributed services	891,524	-	891,524
Program revenue	485,585	-	485,585
Investment income (loss)	253,536	(6,374)	247,162
Net realized gains on investments	332,341	18,733	351,074
Net unrealized gains on investments	165,128	145,835	310,963
Royalty income	461,759	-	461,759
Gain on sale of property and equipment	119,083	-	119,083
Net assets released from restrictions	3,088,039	(3,088,039)	-
Total revenues, gains and other support	121,840,747	962,400	122,803,147
Expenses:			
Program services:			
Family services	24,386,813	-	24,386,813
Economic development	10	-	10
Community services	63,901,643	-	63,901,643
Education services	18,887,806	-	18,887,806
Total program services	107,176,272	-	107,176,272
Supporting services:			
Management and general	4,496,116	-	4,496,116
Fund development	9,266,114	-	9,266,114
Total supporting services	13,762,230	-	13,762,230
Total expenses	120,938,502	-	120,938,502
Actuarial adjustment on annuity obligations	158,580	-	158,580
Total expenses and losses	121,097,082	-	121,097,082
Change in net assets	743,665	962,400	1,706,065
Net assets, beginning of year	21,123,817	3,689,032	24,812,849
Net assets, end of year	\$ 21,867,482	\$ 4,651,432	\$ 26,518,914

See accompanying notes.

CHRISTIAN APPALACHIAN PROJECT, INC.

Statement of Functional Expenses

Year ended August 31, 2019

	Program Services			Supporting Services		Total
	Family Services	Community Services	Education Services	Management and General	Fund Development	
Cash grants	\$ -	\$ 15,000	\$ -	\$ -	\$ -	\$ 15,000
Specific assistance to individuals	78,947	-	-	-	-	78,947
Salaries and wages	1,807,166	961,547	770,886	1,736,607	1,547,170	6,823,376
401k contribution	106,103	58,802	48,727	91,888	90,393	395,913
Deferred compensation	-	-	-	18,462	-	18,462
Other employee benefits	444,780	246,213	207,341	410,281	373,179	1,681,794
Payroll taxes	130,081	78,912	54,798	124,656	113,103	501,550
Professional fundraising fees	-	-	-	-	89,808	89,808
Accounting fees	24,751	13,742	11,441	64,505	20,593	135,032
Legal fees	-	-	-	29,893	-	29,893
Supplies	98,834	126,509	79,487	65,617	47,359	417,806
Telephone	75,642	82,078	58,266	79,998	57,814	353,798
Postage	1,071	372	837,979	131,600	2,246,456	3,217,478
Occupancy	249,608	(43,641)	461,049	280,111	84,140	1,031,267
Equipment rental/maintenance	40,131	70,745	26,481	23,793	14,318	175,468
Printing and publications	889	174	1,554,352	605,010	4,255,243	6,415,668
Delivery and freight	-	870,770	-	-	3,998	874,768
Travel	18,507	34,708	3,417	75,487	156,649	288,768
Depreciation	266,601	256,565	196,413	191,584	88,692	999,855
Volunteer stipend and insurance	118,905	(41,694)	39,453	-	3,948	120,612
Donated services used	529,550	64,128	-	-	-	593,678
Professional fees - other	-	4,020	1,310	116,589	69,211	191,130
Home repair materials/services	882,762	1,528	7,371	-	6,338	897,999
Donated materials used by programs	6,503,709	57,389,805	8,410,292	-	22,896	72,326,702
Donated materials used by supporting services	-	-	-	184,405	-	184,405
Interest	-	-	-	51,286	-	51,286
Miscellaneous	340,626	258,376	162,382	515,883	438,928	1,716,195
Total	\$ 11,718,663	\$ 60,448,659	\$ 12,931,445	\$ 4,797,655	\$ 9,730,236	\$ 99,626,658

See accompanying notes.

CHRISTIAN APPALACHIAN PROJECT, INC.

Statement of Functional Expenses

Year ended August 31, 2018

	<u>Program Services</u>				<u>Supporting Services</u>		<u>Total</u>
	<u>Family Services</u>	<u>Economic Development</u>	<u>Community Services</u>	<u>Education Services</u>	<u>Management and General</u>	<u>Fund Development</u>	
Cash grants	\$ -	\$ -	\$ 60,540	\$ -	\$ -	\$ -	\$ 60,540
Specific assistance to individuals	91,295	-	-	-	-	-	91,295
Salaries and wages	1,702,189	-	866,966	713,661	1,557,551	1,423,314	6,263,681
401k contribution	75,033	-	41,118	31,634	95,216	46,275	289,276
Deferred compensation	-	-	-	-	11,077	25,847	36,924
Other employee benefits	361,695	-	197,033	151,657	356,066	330,397	1,396,848
Payroll taxes	130,572	-	89,088	46,869	103,888	115,061	485,478
Professional fundraising fees	-	-	-	-	-	184,591	184,591
Accounting fees	23,456	-	12,879	9,936	70,164	22,912	139,347
Legal fees	-	-	-	-	52,427	-	52,427
Supplies	84,221	-	120,261	90,302	88,846	61,510	445,140
Telephone	65,598	-	76,691	51,347	65,827	50,226	309,689
Postage	1,484	-	473	1,048,817	132,785	2,473,109	3,656,668
Occupancy	99,913	-	391,214	226,856	178,480	94,819	991,282
Equipment rental/maintenance	65,173	-	62,095	22,234	54,232	13,800	217,534
Printing and publications	1,954	-	281	1,639,856	598,814	3,526,639	5,767,544
Delivery and freight	-	-	1,035,285	-	-	8,952	1,044,237
Travel	10,758	-	29,487	2,459	89,806	140,606	273,116
Depreciation	229,113	-	216,421	179,890	164,414	65,682	855,520
Volunteer stipend and insurance	153,125	-	(69,687)	51,990	-	-	135,428
Donated services used	733,413	-	158,111	-	-	-	891,524
Professional fees - other	-	-	3,249	615	118,867	68,298	191,029
Home repair materials/services	620,810	-	1,857	20,018	535	15,799	659,019
Donated materials used by programs	19,586,054	-	60,354,742	14,436,652	-	-	94,377,448
Donated materials used by supporting services	-	-	-	-	569,139	18,407	587,546
Interest	-	-	-	-	-	40,745	40,745
Miscellaneous	350,957	10	253,539	163,013	187,982	539,125	1,494,626
Total	\$ 24,386,813	\$ 10	\$ 63,901,643	\$ 18,887,806	\$ 4,496,116	\$ 9,266,114	\$ 120,938,502

See accompanying notes.

CHRISTIAN APPALACHIAN PROJECT, INC.

Statements of Cash Flows

Years ended August 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ (1,314,982)	\$ 1,706,065
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions restricted for long-term investment	(122)	(612,619)
Depreciation	999,855	855,520
Net provision (recovery) for uncollectible accounts	4,314	(145,805)
Gain on sale of property and equipment	(28,159)	(119,083)
Net realized losses (gains) on investments	47,873	(351,074)
Net unrealized gains on investments	(79,119)	(310,963)
Common stock donated to CAP	(31,614)	(516,901)
Annuity obligations incurred	40,488	13,570
Actuarial adjustment on annuity obligations	106,295	158,580
Increase (decrease) in cash due to changes in:		
Accounts receivable	(15,181)	13,404
Contributions receivable	462,950	(21,458)
Accrued interest receivable	(4,007)	909
Inventories	120,529	(189,973)
Prepaid expenses	8,690	177,230
Accounts payable	219,701	(399,026)
Accrued expenses	<u>(76,765)</u>	<u>(221,999)</u>
Net cash provided by operating activities	460,746	36,377
Cash flows from investing activities:		
Decrease in investments, net	92,052	496,985
Collections of notes receivable	4,695	4,969
Purchases of property and equipment	(920,011)	(844,969)
Proceeds from sale of property and equipment	<u>64,122</u>	<u>120,883</u>
Net cash used in investing activities	(759,142)	(222,132)

CHRISTIAN APPALACHIAN PROJECT, INC.

Statements of Cash Flows, continued

Years ended August 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	122	612,619
Payments on annuity obligations	(326,231)	(353,528)
Payments on capital leases payable	<u>(2,861)</u>	<u>(28,336)</u>
Net cash (used in) provided by financing activities	<u>(328,970)</u>	<u>230,755</u>
Net (decrease) increase in cash	(627,366)	45,000
Cash, beginning of year	<u>1,442,050</u>	<u>1,397,050</u>
Cash, end of year	<u>\$ 814,684</u>	<u>\$ 1,442,050</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 51,286	\$ 40,745
Noncash investing and financing transactions:		
Capital lease obligations for acquisition of equipment	-	26,943

See accompanying notes.

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements

1. Description of the Organization

Christian Appalachian Project, Inc. (CAP) is organized as a nonprofit corporation under the laws of the Commonwealth of Kentucky, and is tax exempt under Section 501(c)(3) of the Internal Revenue Code (IRC) and similar Kentucky provisions. It has been classified as a publicly supported charitable organization under Section 509(a)(1) of the IRC and qualifies for the maximum charitable contribution deduction by donors.

CAP is an organization committed to serving people in Appalachia by meeting their physical, spiritual and emotional needs. Its articles of incorporation state that the corporation's purpose is "to initiate, foster, encourage and assist any and all programs formed for the purpose of alleviating the social, economic, and spiritual needs of the people and inhabitants of Appalachia, particularly in the area of eastern Kentucky, without regard to color, race, or religious beliefs of any of the beneficiaries hereof, and to educate the general public concerning the social, economic and spiritual needs of Appalachia."

CAP was organized in 1958 and incorporated in 1964. CAP operates 16 Human Service programs in 11 direct service counties in Appalachia and in all 13 Appalachian states. CAP has a profound influence in assisting the residents of local communities and, through its programs, impacts approximately 1.5 million individuals annually.

2. Summary of Significant Accounting Policies

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) which require management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The following is a summary of the significant accounting policies consistently followed by CAP in the presentation of its financial statements.

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as revenue until the conditions are substantially met.

An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fundraising activity.

Inventories

Inventories consist of supplies and printed materials used in direct mailings. These supplies and materials are carried at the lower of cost or market using the first-in, first-out method.

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Investments

Investments are stated at fair value (based upon quoted market prices). Net unrealized and realized gains or losses are reflected in the statement of activities. Net appreciation on endowment fund investments, whose income is unrestricted as to use, is reported as unrestricted net assets unless such net appreciation has been permanently restricted by the donor or by law. Kentucky Revised Statutes do not require net appreciation on endowment funds to be permanently restricted unless so specified by the donor. In cases where the donor has placed temporary restrictions on the use of the income from endowed gifts, related net appreciation is subject to those restrictions and is reported as a part of temporarily restricted net assets until the restriction has been met.

Management has elected not to further disaggregate the investments as displayed in Note 7. The investment policies maintained by CAP's board of directors contain certain requirements surrounding quality of investments such that the additional information provided by disaggregation of investments is not deemed material to the financial statements.

Property and Equipment

CAP capitalizes all expenditures in excess of \$5,000 for property and equipment at cost. Property and equipment is recorded at cost at the date of acquisition or 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 three to thirty years.

Annuity Obligations

CAP pays stipulated amounts periodically to individuals (annuitants) who have given to CAP certain assets and who have entered into agreements that such payments cease at the death of the annuitant or their beneficiary, if so stipulated.

The August 31, 2019 and 2018 annuity liability balances of \$1,612,420 and \$1,791,868 are the present values of the monthly, quarterly, semiannual or annual payments to the annuitants based on the life expectancies of the annuitants and interest rates ranging from 4.0% to 20.5%. As of August 31, 2019, the estimated remaining life expectancies of the annuitants range from one to thirteen years.

State laws regarding mandated reserves associated with annuity agreements vary from zero to 100% of the initial liability to be set aside. CAP's Board of Directors has gone beyond any legal requirement and designated that the entire amount to be paid under any annuity contract (i.e. before discount) be designated for investment until CAP has made all payments required by the annuity agreement. The \$2,256,938 and \$2,542,720 included on the statements of financial position at August 31, 2019 and 2018, respectively, as net assets without donor restrictions for annuity obligations is equal to the undiscounted balance of annuity contracts under which CAP is obligated.

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Net Assets

Net assets and revenues, expenses and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of CAP 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 a 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 investment return on net assets with donor restriction may be restricted or unrestricted according to the donor's wishes.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period the commitments are made. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Contributions of Materials and Property and Equipment

Contributions of materials and property and equipment which are received by CAP are valued at their estimated fair value at the date of the gift. Where the value of donated materials cannot be adequately substantiated, no donation is recorded.

Contributed Services

The amounts recorded as the value of donated services represents the compensation that would be paid if non-volunteers were to occupy these positions. Contributions are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills and are provided by individuals possessing these skills. The services of those not meeting these criteria are not recognized in the financial statements.

Concentration of Credit Risk

CAP has a concentration of credit risk in that it periodically maintains cash in bank accounts, which at times, may exceed federally insured limits. CAP has not experienced any losses on such accounts. CAP believes it is not exposed to any significant credit risk on cash.

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Functional Allocation of Expenses

The costs of providing the various programs and other activities of CAP are summarized on a functional basis in the accompanying statements of activities and functional expenses. Directly identifiable expenses are charged to the applicable program and supporting services. Expenses related to more than one function are allocated among the programs and supporting services benefited based on management's time and service estimates. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but to provide for the overall support and direction of CAP.

Income Taxes

CAP, a not-for-profit organization operating under Section 501(c)(3) of the IRC, is generally exempt from federal, state and local income taxes. CAP's management does not believe CAP has any unrelated business income. Accordingly, no provision for income taxes is recorded in the financial statements.

Subsequent Events

CAP's management has evaluated subsequent events for accounting and disclosure requirements through December 9, 2019, the date that the financial statements were available to be issued.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The core principle of ASU 2014-09 is to recognize revenues when a customer obtains control of a good or service, in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. Additionally, the ASU will require enhanced qualitative and quantitative disclosures regarding customer contacts. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or modified retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of ASU 2014-09 by one year. The updated standard becomes effective for CAP for the year ending August 31, 2020. CAP has not yet selected a transition method and is currently evaluating the effect that the new standard will have on its financial statements.

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements, continued

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, requiring all leases to be recognized on CAP's statement of net position as a right-of-use asset and a lease liability, unless the lease is a short term lease (generally a lease with a term of twelve months or less). At the commencement date of the lease, CAP will recognize: 1) a lease liability for CAP's obligation to make payments under the lease agreement, measured on a discounted basis; and 2) a right-of-use asset that represents CAP's right to use, or control the use of, the specified asset for the lease term. The ASU originally required recognition and measurement of leases at the beginning of the earliest period presented using a modified retrospective transition method. In July 2018, the FASB issued ASU 2018-11, which provided an additional (and optional) transition method that permits application of the updated standard at the adoption date with recognition of a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. In November 2019, the FASB issued ASU 2019-10, which deferred the effective date of ASU 2016-02 for CAP by one year. The updated standard will be effective for CAP for the year ending August 31, 2022, with early adoption permitted. CAP has not yet selected a transition method and is currently evaluating the effect that the new standard will have on its financial statements.

In August 2016, FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, that changes how a not-for-profit organization classifies its net assets, as well as the information it presents in the financial statements and notes about its liquidity, financial performance, and cash flows. The ASU includes a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. CAP has adopted ASU 2016-14 for the purpose of preparing the accompanying financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which addresses questions stemming from ASU No. 2014-09 regarding its implication on the grants and contracts of not-for-profit organizations. The ASU primarily addresses whether or not the transaction is reciprocal (i.e., an exchange) and therefore accounted for under ASU No. 2014-09 or nonreciprocal (i.e., a contribution) and therefore accounted for under contribution guidance. This ASU will be effective for CAP in the year ending August 31, 2020. Early adoption is permitted. CAP is currently evaluating the effects adoption of this new standard will have on its financial statements.

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

3. Liquidity and Availability

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:

	<u>2019</u>	<u>2018</u>
Cash	\$ 814,684	\$ 1,442,050
Accounts receivable	106,650	91,469
Contributions receivable, net	478,478	1,228,296
Investments	8,286,996	8,283,632
Notes receivable	<u>4,887</u>	<u>4,720</u>
	<u>\$ 9,691,695</u>	<u>\$ 11,050,167</u>

As part of CAP's liquidity management plan, CAP typically invests cash in excess of daily requirements in short-term investments and liquid investments.

4. Contributions Receivable

Included in contributions receivable are the following unconditional promises to give at August 31:

	<u>2019</u>	<u>2018</u>
Unconditional promises to give before unamortized discount and allowance for uncollectible accounts	\$ 2,116,232	\$ 2,722,295
Less: Unamortized discount, ranging from 0% to 3%	<u>(339,955)</u>	<u>(338,163)</u>
	1,776,277	2,384,132
Less: Allowance for uncollectible accounts	<u>(4,314)</u>	<u>(144,905)</u>
	<u>\$ 1,771,963</u>	<u>\$ 2,239,227</u>
Amounts due in:		
Less than one year	\$ 478,478	\$ 1,228,296
One to five years	620,294	614,934
More than five years	<u>1,017,460</u>	<u>879,065</u>
	<u>\$ 2,116,232</u>	<u>\$ 2,722,295</u>

5. Notes Receivable

During 2012, CAP entered into a promissory note receivable agreement secured by a mortgage against certain real property formerly occupied by CAP. The note bears interest at 3.5% and is payable monthly. The amounts due to CAP as of August 31, 2019 and 2018 were \$19,487 and \$24,182, respectively.

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

6. Investments

Investments consist of the following as of August 31:

	<u>2019</u>		<u>2018</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Cash equivalents	\$ 1,166,120	\$ 1,166,120	\$ 704,952	\$ 704,952
U.S. treasury obligations	-	-	313,651	594,981
U.S. government agencies	-	-	424,924	136,197
Equity securities	4,975,373	7,056,474	5,838,677	7,985,019
Debt securities	2,888,797	2,994,829	1,236,959	1,220,977
Municipal obligations	-	-	563,338	545,963
Real estate investment trusts	-	-	56,099	58,526
	<u>\$ 9,030,290</u>	<u>\$ 11,217,423</u>	<u>\$ 9,138,600</u>	<u>\$ 11,246,615</u>

Cash equivalents include certain investments in highly liquid debt instruments purchased with an original maturity of three months or less.

7. Fair Value Measurements

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Financial assets using Level 3 inputs are primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset.

Investments at fair value at August 31, 2019 are summarized as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 1,166,120	\$ -	\$ -	\$ 1,166,120
Equity securities	7,056,474	-	-	7,056,474
Debt securities	<u>2,994,829</u>	<u>-</u>	<u>-</u>	<u>2,994,829</u>
Total investments	<u>\$ 11,217,423</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,217,423</u>

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

7. Fair Value Measurements, continued

Investments at fair value at August 31, 2018 are summarized as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 704,952	\$ -	\$ -	\$ 704,952
U.S. treasury obligations	594,981	-	-	594,981
U.S. government agencies	-	136,197	-	136,197
Equity securities	7,985,019	-	-	7,985,019
Debt securities	1,220,977	-	-	1,220,977
Municipal obligations	-	545,963	-	545,963
Real estate investment trusts	-	58,526	-	58,526
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total investments	\$ <u>10,505,929</u>	\$ <u>740,686</u>	\$ <u>-</u>	\$ <u>11,246,615</u>

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis:

Cash equivalents: Valued at cost, which approximates fair value.

U.S. treasury obligations, equity securities, and debt securities: Valued at the closing price reported on the active market on which the individual securities are traded.

U.S. government agencies, municipal obligations, and real estate investment trusts: Valued based on quoted prices for similar assets in active markets based on observable inputs.

There have been no changes in the methodology used as of August 31, 2019 and 2018.

Endowments

CAP follows the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA) and its own governing documents. CAP has interpreted UPMIFA as requiring the preservation of the corpus of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, CAP classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. CAP has determined that the balance of its endowments includes funds on which there is no restriction on the use of the investment income or net appreciation, as well as funds that require that the income and net appreciation be restricted to certain uses for the benefit of participants.

Upon review, CAP has determined that appropriate expenditures have been made to meet all donor restrictions regarding the balances in the endowment fund, and as such, any amounts in excess of the historic dollar amount of the gift, which is considered as permanently restricted, have been classified as temporarily restricted.

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

7. Fair Value Measurements, continued

Endowments, continued

CAP has adopted an investment policy for endowment assets that attempt to provide a reasonable stream of funding to programs supported by the endowments while seeking to protect against erosion of the historic dollar balance of the original gift. The investment policy was developed by the finance committee of the Board of Directors and is reviewed along with the investment performance periodically to determine if the goals and objectives of the endowment funds are being met.

CAP has adopted a spending policy for endowment assets where the three year average balance of the endowment assets is the basis for computation of the annual flow of funds. Each year the year-end balance for each of the previous three years is averaged, and this three year average ending balance is the basis for computation of the annual flow of funds to the following year's budget. Once the funds available for appropriations is established, the Finance Committee of the Board of Directors shall designate 0% - 5% of the average balance for use in the operations of CAP during the next fiscal year, subject to any restrictions placed on the endowment funds by the donor. In the event that CAP is unable to spend the appropriated funds within the designated fiscal year as budgeted, the unspent appropriation may be carried over for a period of two additional years, at which point the unspent balance reverts back to the endowment balance.

Endowment net asset composition by type of fund as of August 31, 2019 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 2,930,427	\$ 2,930,427

Endowment net asset composition by type of fund as of August 31, 2018 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 2,962,983	\$ 2,962,983

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

7. Fair Value Measurements, continued

Endowments, continued

Changes in endowment net assets as of August 31, 2019 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 2,962,983	\$ 2,962,983
Contributions	-	122	122
Investment income	-	60,768	60,768
Net realized losses on investments	-	(42,219)	(42,219)
Net unrealized gains on investments	-	53,146	53,146
Amounts appropriated for expenditure	<u>-</u>	<u>(104,373)</u>	<u>(104,373)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 2,930,427</u>	<u>\$ 2,930,427</u>

Changes in endowment net assets as of August 31, 2018 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 2,248,170	\$ 2,248,170
Contributions	-	612,619	612,619
Investment loss	-	(6,374)	(6,374)
Net realized gains on investments	-	18,733	18,733
Net unrealized gains on investments	-	145,835	145,835
Amounts appropriated for expenditure	<u>-</u>	<u>(56,000)</u>	<u>(56,000)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 2,962,983</u>	<u>\$ 2,962,983</u>

8. Property and Equipment

Property and equipment consists of the following as of August 31:

	<u>2019</u>	<u>2018</u>
Land	\$ 2,556,745	\$ 2,592,709
Buildings	13,552,606	13,355,548
Equipment and vehicles	6,047,701	5,597,832
Leasehold improvements	1,157,698	1,157,698
Construction in progress	<u>169,197</u>	<u>88,197</u>
	23,483,947	22,791,984
Less accumulated depreciation	<u>(10,725,662)</u>	<u>(9,917,892)</u>
Property and equipment, net	<u>\$ 12,758,285</u>	<u>\$ 12,874,092</u>

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

8. Property and Equipment, continued

As of August 31, 2019, there are no significant construction commitments.

9. Line of Credit

CAP has a \$1.5 million revolving line of credit with a financial institution, collateralized by CAP's general investment and annuity fund accounts. Interest is payable quarterly at the greater of the prime rate or 5% (5.25% and 5% as of August 31, 2019 and 2018, respectively). As of August 31, 2019 and 2018, there were no amounts outstanding on the line of credit. The line matures in January 2020.

10. Leases

CAP has entered into lease arrangements for certain equipment and properties which are accounted for as capital and operating leases.

The following is a schedule of future minimum lease payments under the capital lease obligations together with the present value of net minimum lease payments as of August 31, 2019:

	2020	\$	37,262
	2021		21,196
	2022		12,168
	2023		<u>4,156</u>
	Total minimum capital lease payments		74,782
	Less amount representing interest		<u>(8,088)</u>
	Present value of minimum lease payments	\$	<u><u>66,694</u></u>

As of August 31, the gross amount of equipment and related accumulated depreciation recorded under capital leases was as follows:

	<u>2019</u>	<u>2018</u>
Equipment	\$ 162,195	\$ 162,195
Accumulated depreciation	<u>(118,019)</u>	<u>(84,983)</u>
	<u>\$ 44,176</u>	<u>\$ 77,212</u>

The following is a schedule of future minimum lease payments under operating leases as of August 31, 2019:

	2020	\$	12,000
	2021		<u>4,000</u>
		\$	<u><u>16,000</u></u>

Lease expense was \$18,719 and \$19,702 for 2019 and 2018, respectively.

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

11. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes as of August 31:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purposes:		
Community service program activities	\$ 2,539,173	\$ 2,408,503
Education services program	10,000	10,000
Education services program summer camps	11,250	11,250
Economic development	1,000	1,000
General operations	<u>2,220,557</u>	<u>2,220,679</u>
Total	<u>\$ 4,781,980</u>	<u>\$ 4,651,432</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by other events specified by the donors as follows for the years ended August 31:

	<u>2019</u>	<u>2018</u>
Satisfaction of purpose restrictions:		
Community service program activities	\$ 115,548	\$ 43,737
Family services program	426,424	445,955
Education services	148,179	195,098
General operations	2,587,805	2,272,686
Contributions receivable	<u>36,245</u>	<u>130,563</u>
Total	<u>\$ 3,314,201</u>	<u>\$ 3,088,039</u>

12. Contributions of Materials

A summary of donated materials received and used during the years ended August 31 is as follows:

	<u>2019</u>	<u>2018</u>
Materials and supplies	\$ 71,690,194	\$ 94,259,452
Donations of food and commodities	752,852	665,318
Other donations	<u>66,465</u>	<u>40,304</u>
Total donated materials received	72,509,511	94,965,074
Add beginning Christmas Baskets pledges receivable	16,676	16,596
Less ending Christmas Baskets pledges receivable	<u>(15,080)</u>	<u>(16,676)</u>
Total donated materials used	<u>\$ 72,511,107</u>	<u>\$ 94,964,994</u>

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

13. Contributed Services

During the fiscal years ended August 31, 2019 and 2018, 2,040 and 2,449 volunteers, respectively, donated 138,846 and 186,352 hours of service, respectively, with an estimated value of \$1,545,542 and \$2,098,724, respectively. Of these amounts, 52,312 and 77,964 hours, respectively, valued at \$593,678 and \$891,524, respectively, met the criteria for financial statement recognition (see Note 2). The length of service provided by the individual volunteers ranged from one day to the entire year. The volunteers performed a wide variety of program services including, but not limited to, elderly visitation, youth counseling, child care, teaching, and carpentry.

14. Employee Benefit Plans

Employees of CAP are eligible to participate in a defined contribution plan. The plan covers substantially all employees who meet certain age requirements. CAP matches 100% of an employee's voluntary contributions up to a maximum of 6% of the employee's annual compensation. The plan also provides for discretionary contributions by CAP, as determined each year. CAP contributed \$395,913 and \$289,276, to the plan for the years ended August 31, 2019 and 2018, respectively.

Additionally, CAP's president and CEO participates in a deferred compensation plan. CAP contributes 10% of the president's annual compensation. CAP contributed \$18,462 to the plan for the year ended August 31, 2019 and during year ended August 31, 2018 contributed \$36,924 which was for both fiscal years 2018 and 2017 (\$18,462 each year).

15. Related Party Transactions

The Board of Directors have contributed their financial support and volunteered time to CAP. The contributions are included in contributions of cash and securities on the statements of activities.