

**CHRISTIAN APPALACHIAN PROJECT, INC.**  
**Financial Statements and Single Audit Reports**  
**Under OMB Circular A-133**

*Years Ended August 31, 2011 and 2010*  
*with Independent Auditors' Report Thereon*

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DEAN || DORTON || ALLEN || FORD<sub>PLLC</sub>**Independent Auditors' Report**

Board of Directors  
Christian Appalachian Project, Inc.

We have audited the accompanying statement of financial position of Christian Appalachian Project, Inc. (CAP) as of August 31, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of CAP's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Christian Appalachian Project, Inc. as of and for the year ended August 31, 2010, were audited by Dean Dorton Ford, PSC, whose report dated December 14, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Christian Appalachian Project, Inc. as of August 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2011 on our consideration of CAP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditure of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

December 14, 2011  
Lexington, Kentucky

A handwritten signature in black ink that reads "Dean Norton Allen Ford, PLLC". The signature is written in a cursive, flowing style.

**CHRISTIAN APPALACHIAN PROJECT, INC.**

Statements of Financial Position

August 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Cash	\$ 2,442,371	\$ 1,223,268
Accounts receivable	236,884	160,807
Contributions receivable, net	1,069,197	1,781,419
Accrued interest receivable	42,753	59,141
Inventories	620,757	425,374
Prepaid expenses	142,627	39,417
Investments	14,298,283	13,460,316
Note receivable and other assets	403,247	430,654
Property and equipment, net	<u>6,514,599</u>	<u>6,557,426</u>
 Total assets	 <u>\$ 25,770,718</u>	 <u>\$ 24,137,822</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 721,055	\$ 762,000
Accrued expenses	1,116,994	940,239
Annuity obligations	3,319,020	3,579,072
Capital leases payable	165,541	203,411
Note payable	<u>255,044</u>	<u>-</u>
 Total liabilities	 5,577,654	 5,484,722
Net assets:		
Unrestricted but 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	6,514,599	6,557,426
Annuity obligations	<u>4,820,766</u>	<u>5,243,031</u>
 Total unrestricted but designated by the Board of Directors	 12,068,865	 12,533,957
Unrestricted and undesignated, available for general activities	<u>4,240,618</u>	<u>3,930,125</u>
 Total unrestricted	 16,309,483	 16,464,082
Temporarily restricted	2,260,920	749,022
Permanently restricted	<u>1,622,661</u>	<u>1,439,996</u>
 Total net assets	 <u>20,193,064</u>	 <u>18,653,100</u>
 Total liabilities and net assets	 <u>\$ 25,770,718</u>	 <u>\$ 24,137,822</u>

See accompanying notes.

**CHRISTIAN APPALACHIAN PROJECT, INC.**

Statement of Activities

Year ended August 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Revenues, gains, and other support:				
Contributions of cash and securities	\$ 16,285,629	\$ 3,820,533	\$ 182,665	\$ 20,288,827
Legacies and bequests	3,479,766	-	-	3,479,766
Government grants	-	1,311,912	-	1,311,912
Contributions of materials	110,925,536	-	-	110,925,536
Contributed services	802,726	-	-	802,726
Program revenue	1,395,297	-	-	1,395,297
Investment income	379,886	58,376	-	438,262
Net realized gains on investments	214,414	132,110	-	346,524
Net unrealized gains (losses) on investments	415,600	(49,881)	-	365,719
Royalty income	553,888	-	-	553,888
Gain on sale of property and equipment	26,637	-	-	26,637
Net assets released from restrictions	<u>3,761,152</u>	<u>(3,761,152)</u>	<u>-</u>	<u>-</u>
 Total revenues, gains, and other support	 138,240,531	 1,511,898	 182,665	 139,935,094
Expenses:				
Program services:				
Family services	15,253,259	-	-	15,253,259
Economic development	610,993	-	-	610,993
Community services	81,083,468	-	-	81,083,468
Education services	<u>28,076,742</u>	<u>-</u>	<u>-</u>	<u>28,076,742</u>
 Total program services	 125,024,462	 -	 -	 125,024,462
Supporting services:				
Management and general	4,635,905	-	-	4,635,905
Fund development	<u>8,425,095</u>	<u>-</u>	<u>-</u>	<u>8,425,095</u>
 Total supporting services	 <u>13,061,000</u>	 <u>-</u>	 <u>-</u>	 <u>13,061,000</u>
 Total expenses	 138,085,462	 -	 -	 138,085,462
Actuarial adjustment on annuity obligations	<u>309,668</u>	<u>-</u>	<u>-</u>	<u>309,668</u>
 Total expenses and losses	 <u>138,395,130</u>	 <u>-</u>	 <u>-</u>	 <u>138,395,130</u>
 Change in net assets	 (154,599)	 1,511,898	 182,665	 1,539,964
Net assets, beginning of year	<u>16,464,082</u>	<u>749,022</u>	<u>1,439,996</u>	<u>18,653,100</u>
Net assets, end of year	<u>\$ 16,309,483</u>	<u>\$ 2,260,920</u>	<u>\$ 1,622,661</u>	<u>\$ 20,193,064</u>

See accompanying notes.

**CHRISTIAN APPALACHIAN PROJECT, INC.**

Statement of Activities

Year ended August 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Revenues, gains, and other support:				
Contributions of cash and securities	\$ 16,011,867	\$ 3,054,942	\$ 20,000	\$ 19,086,809
Legacies and bequests	3,166,228	-	-	3,166,228
Government grants	-	1,296,330	-	1,296,330
Contributions of materials	109,333,553	-	-	109,333,553
Contributed services	709,367	-	-	709,367
Program revenue	1,434,983	-	-	1,434,983
Investment income	320,801	54,563	-	375,364
Net realized gains on investments	138,520	50,266	-	188,786
Net unrealized gains on investments	89,993	7,571	-	97,564
Royalty income	550,442	-	-	550,442
Gain on sale of property and equipment	189,121	-	-	189,121
Net assets released from restrictions	<u>4,632,196</u>	<u>(4,632,196)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	136,577,071	(168,524)	20,000	136,428,547
Expenses:				
Program services				
Family services	14,554,249	-	-	14,554,249
Economic development	1,174,480	-	-	1,174,480
Community services	60,040,279	-	-	60,040,279
Education services	<u>45,133,061</u>	<u>-</u>	<u>-</u>	<u>45,133,061</u>
Total program services	120,902,069	-	-	120,902,069
Supporting services:				
Management and general	5,724,590	-	-	5,724,590
Fund development	<u>6,763,174</u>	<u>-</u>	<u>-</u>	<u>6,763,174</u>
Total supporting services	<u>12,487,764</u>	<u>-</u>	<u>-</u>	<u>12,487,764</u>
Total expenses	133,389,833	-	-	133,389,833
Actuarial adjustment on annuity obligations	<u>396,192</u>	<u>-</u>	<u>-</u>	<u>396,192</u>
Total expenses and losses	<u>133,786,025</u>	<u>-</u>	<u>-</u>	<u>133,786,025</u>
Change in net assets	2,791,046	(168,524)	20,000	2,642,522
Net assets, beginning of year	13,673,036	927,546	1,409,996	16,010,578
Transfer of net assets	<u>-</u>	<u>(10,000)</u>	<u>10,000</u>	<u>-</u>
Net assets, end of year	<u>\$ 16,464,082</u>	<u>\$ 749,022</u>	<u>\$ 1,439,996</u>	<u>\$ 18,653,100</u>

See accompanying notes.

CHRISTIAN APPALACHIAN PROJECT, INC.

Statement of Functional Expenses

Year ended August 31, 2011

	Program Services			Supporting Services		Total	
	Family Services	Economic Development	Community Services	Education Services	Management and General		Fund Development
Cash grants	\$ -	\$ -	\$ 20,826	\$ 9,000	\$ -	\$ -	\$ 29,826
Specific assistance to individuals	220,337	-	3,968	-	-	-	224,305
Salaries and wages	2,404,607	122,152	717,082	723,409	1,400,690	1,251,433	6,619,373
Pension plan contribution	85,811	3,370	23,174	26,604	48,510	38,838	226,307
Other employee benefits	629,486	26,816	171,376	196,540	373,846	286,512	1,684,576
Payroll taxes	181,649	6,740	46,533	51,968	106,282	72,287	465,459
Professional fundraising fees	-	-	-	-	-	315,539	315,539
Accounting fees	10,829	7,455	2,887	3,333	49,779	4,845	79,128
Legal fees	-	-	-	-	36,881	-	36,881
Supplies	230,954	11,115	145,561	102,911	58,851	43,143	592,535
Telephone	88,289	3,842	37,595	25,387	49,990	69,345	274,448
Postage	5,846	444	4,552	1,495,803	99,438	2,269,370	3,875,453
Occupancy	302,489	15,834	322,150	425,806	151,080	239,897	1,457,256
Equipment rental/maintenance	81,092	4,321	42,162	19,567	32,817	15,143	195,102
Printing and publications	38	33	3,719	2,004,532	541,163	2,998,702	5,548,187
Delivery and freight	-	-	738,817	-	-	24,906	763,723
Travel	43,888	14,827	40,099	8,048	42,043	102,686	251,591
Depreciation	276,774	14,198	175,729	76,544	93,397	70,780	707,422
Volunteer stipend and insurance	-	-	258,663	-	-	-	258,663
Donated services used	738,827	-	-	63,899	-	-	802,726
Professional fees- other	4,966	108,488	2,571	45	44,822	93,350	254,242
Home repair materials/services	446,840	-	-	-	-	-	446,840
Donated materials used by programs	8,975,196	206,183	78,137,734	22,787,544	-	-	110,106,657
Donated materials used by supporting services	-	-	-	-	1,383,071	20,228	1,403,299
Miscellaneous	525,341	65,175	188,270	55,802	123,245	508,091	1,465,924
Total	\$ 15,253,259	\$ 610,993	\$ 81,083,468	\$ 28,076,742	\$ 4,635,905	\$ 8,425,095	\$ 138,085,462

See accompanying notes.

CHRISTIAN APPALACHIAN PROJECT, INC.

Statement of Functional Expenses

Year ended August 31, 2010

	Program Services				Supporting Services		Total
	Family Services	Economic Development	Community Services	Education Services	Management and General	Fund Development	
Cash grants	\$ -	\$ 9,950	\$ 950	\$ 16,000	\$ -	\$ -	\$ 26,900
Specific assistance to individuals	243,684	-	589	-	-	-	244,273
Salaries and wages	2,164,580	92,443	668,347	660,087	1,501,037	1,040,465	6,126,959
Pension plan contribution	78,572	3,481	21,720	23,434	55,670	32,765	215,642
Other employee benefits	452,189	18,382	130,392	141,085	314,505	194,557	1,251,110
Payroll taxes	238,046	6,439	42,246	108,345	160,201	70,881	626,158
Professional fundraising fees	-	-	-	-	-	129,056	129,056
Accounting fees	11,145	417	3,331	3,476	63,516	8,253	90,138
Legal fees	-	-	-	-	76,505	-	76,505
Supplies	216,335	8,011	127,136	80,696	198,845	41,943	672,966
Telephone	90,170	10,539	37,409	22,971	55,984	62,578	279,651
Postage	5,901	297	4,732	1,533,805	121,302	1,665,394	3,331,431
Occupancy	310,353	75,174	258,872	324,773	119,522	157,657	1,246,351
Equipment rental/maintenance	67,921	490	30,604	28,618	46,048	12,562	186,243
Printing and publications	-	-	5,260	2,322,846	164,727	2,491,647	4,984,480
Delivery and freight	-	-	802,475	-	-	17,089	819,564
Travel	34,853	8,949	26,485	3,913	47,712	48,677	170,589
Depreciation	255,533	16,657	163,259	81,631	83,593	68,235	668,908
Volunteer stipend and insurance	-	-	209,930	-	-	1,875	211,805
Donated services used	656,776	-	-	52,590	-	-	709,366
Professional fees- other	6,346	50,213	7,378	102	89,706	83,149	236,894
Home repair materials/services	472,258	-	19	-	-	-	472,277
Donated materials used by programs	8,837,585	846,604	57,376,830	39,724,518	-	-	106,785,537
Donated materials used by supporting services	-	-	-	-	2,352,570	192,158	2,544,728
Miscellaneous	412,002	26,434	122,315	4,171	273,147	444,233	1,282,302
<b>Total</b>	<b>\$ 14,554,249</b>	<b>\$ 1,174,480</b>	<b>\$ 60,040,279</b>	<b>\$ 45,133,061</b>	<b>\$ 5,724,590</b>	<b>\$ 6,763,174</b>	<b>\$ 133,389,833</b>

See accompanying notes.

**CHRISTIAN APPALACHIAN PROJECT, INC.**

Statements of Cash Flows

Years ended August 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 1,539,964	\$ 2,642,522
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions restricted for long-term investment	(60,601)	(65,636)
Depreciation	707,422	668,908
Net provision for uncollectible accounts	65,228	56,046
Gain on sale of property and equipment	(26,637)	(189,121)
Net realized gains on investments	(346,524)	(188,786)
Net unrealized gains on investments	(365,719)	(97,564)
Common stock donated to CAP	(11,614)	(30,801)
Property and equipment donated to CAP	-	(17,500)
Annuity obligations incurred	22,923	72,217
Actuarial adjustment on annuity obligations	309,668	396,192
Increase (decrease) in cash due to changes in:		
Accounts receivable	(76,077)	72,691
Contributions receivable	646,994	(134,109)
Accrued interest receivable	16,388	(9,754)
Inventories	(195,383)	54,863
Prepaid expenses	(103,210)	37,031
Other assets	-	91
Accounts payable	(40,945)	(297,821)
Accrued expenses	176,755	267,739
Other liabilities	-	(30,000)
	<hr/>	<hr/>
Net cash provided by operating activities	2,258,632	3,207,208
<b>Cash flows from investing activities:</b>		
Increase in investments, net	(114,110)	(1,951,918)
Purchases of property and equipment	(675,434)	(272,233)
Proceeds from sale of property and equipment	373,976	443,968
Proceeds from note receivable	-	(417,500)
Repayments of note receivable	27,407	7,647
	<hr/>	<hr/>
Net cash used in investing activities	(388,161)	(2,190,036)

CHRISTIAN APPALACHIAN PROJECT, INC.

Statement of Cash Flows, continued

Years ended August 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>Cash flows from financing activities:</b>		
Proceeds from contributions restricted for long-term investment	60,601	65,636
Payments on annuity obligations	(592,643)	(621,119)
Payments on note payable	(20,956)	-
Payments on capital leases payable	<u>(98,370)</u>	<u>(78,671)</u>
Net cash used in financing activities	<u>(651,368)</u>	<u>(634,154)</u>
Net increase in cash	1,219,103	383,018
Cash, beginning of year	<u>1,223,268</u>	<u>840,250</u>
Cash, end of year	<u>\$ 2,442,371</u>	<u>\$ 1,223,268</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the year for:		
Interest	\$ 27,858	\$ 31,696
Noncash investing and financing transactions:		
Capital lease obligations for acquisition of equipment	60,500	9,700
Purchase of property and equipment with note payable	276,000	-

See accompanying notes.

## CHRISTIAN APPALACHIAN PROJECT, INC.

### Notes to the Financial Statements

#### 1. Description of the Organization

The 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 27 programs in 30 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 2.6 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.

##### Basis of Presentation

In accordance with GAAP, net assets and revenues, expenses, 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:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that can be fulfilled by actions of CAP pursuant to those stipulations or that expire by the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by CAP. Generally, the donors of these assets permit CAP to use all or part of the income earned on related investments for general or specific purposes.

CAP follows the policy of reporting restricted contributions and restricted endowment income in the statement of activities as increases in restricted net assets in the period received. Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations that

## CHRISTIAN APPALACHIAN PROJECT, INC.

### Notes to the Financial Statements, continued

#### 2. Summary of Significant Accounting Policies, continued

##### Basis of Presentation, continued

simultaneously increase one category of net assets and decrease another are reported as net assets released from restrictions between the applicable classes of net assets.

Gifts of property and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Without explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

##### 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 5. All investments are traded in active markets (Level 1), which decreases the level of risk associated with these investments. Additionally, 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.

##### Note Receivable

During 2010, 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 4% and is payable monthly. Amounts due to CAP as of August 31, 2011 and 2010 were \$385,907 and \$413,273, respectively.

##### 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.

## CHRISTIAN APPALACHIAN PROJECT, INC.

### Notes to the Financial Statements, continued

#### 2. Summary of Significant Accounting Policies, continued

##### Inventories

Inventories consist principally of donated materials for distribution to recipient organizations and for use by programs and supporting services. These items are recorded at estimated fair value at the date of donation. There were no donated materials included in inventories as of August 31, 2011 and 2010.

Also included in inventories are 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. Supplies and printed materials in inventories totaled \$620,757 and \$425,374 as of August 31, 2011 and 2010, respectively.

##### 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. Depreciation expense was \$707,422 and \$668,908 for the years ended August 31, 2011 and 2010, respectively.

##### 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. Total annuity payments for the years ended August 31, 2011 and 2010 were \$592,643 and \$621,119, respectively.

The August 31, 2011 and 2010 annuity liability balances of \$3,319,020 and \$3,579,072 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 5.0% to 20.5%. The estimated remaining life expectancies of the annuitants range from one to thirty years for the years ended August 31, 2011 and 2010, respectively.

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 \$4,820,766 and \$5,243,031 shown on the statements of financial position at August 31, 2011 and 2010, respectively, as unrestricted net assets designated by the Board of Directors for annuity obligations is equal to the undiscounted balance of annuity contracts under which CAP is obligated as of August 31, 2011 and 2010, respectively.

## CHRISTIAN APPALACHIAN PROJECT, INC.

### Notes to the Financial Statements, continued

#### 2. Summary of Significant Accounting Policies, continued

##### 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.

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.

##### 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 less any stipend provided to the volunteers. Contributions are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing these skills, and would typically need to be purchased if not provided by donation. 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 bank accounts which, at times, may exceed the coverage provided by the Federal Deposit Insurance Corporation (FDIC). On July 21, 2010, U.S. Congress passed legislation that permanently increases the coverage from \$100,000 to \$250,000 for each depositor. Cash deposits in excess of insured limits were approximately \$1,899,000 and \$712,000 as of August 31, 2011 and 2010, respectively.

##### Income Taxes

CAP qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

CAP has evaluated the tax positions taken on all income tax returns that remain open to examination, tax years 2007 and forward with few exceptions, by the respective taxing authorities. CAP does not believe that there are any uncertain positions on those returns that require recognition or disclosure in the financial statements.

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Subsequent Events

CAP's management has evaluated subsequent events for accounting and disclosure requirements through December 14, 2011, the date that the financial statements were available to be issued.

3. Contributions Receivable

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

	<u>2011</u>	<u>2010</u>
Unconditional promises to give before unamortized discount and allowance for uncollectible accounts	\$ 1,189,335	\$ 1,967,045
Less: Unamortized discount, ranging from 2% to 5.5%	<u>(31,947)</u>	<u>(41,247)</u>
	1,157,388	1,925,798
Less: Allowance for uncollectible accounts	<u>(88,191)</u>	<u>(144,379)</u>
	<u>\$ 1,069,197</u>	<u>\$ 1,781,419</u>
Amounts due in:		
Less than one year	\$ 1,117,751	\$ 1,841,715
One to five years	45,382	90,160
More than five years	<u>26,202</u>	<u>35,170</u>
	<u>\$ 1,189,335</u>	<u>\$ 1,967,045</u>

4. Investments

Investments consist of the following as of August 31:

	<u>2011</u>		<u>2010</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Cash equivalents	\$ 1,599,411	\$ 1,599,411	\$ 2,454,904	\$ 2,454,904
U.S. government obligations	2,694,455	2,774,667	2,629,419	2,703,051
Equity securities	7,247,467	7,708,162	6,746,328	6,822,060
Debt Securities	<u>2,110,698</u>	<u>2,216,043</u>	<u>1,379,855</u>	<u>1,480,301</u>
	<u>\$ 13,652,031</u>	<u>\$ 14,298,283</u>	<u>\$ 13,210,506</u>	<u>\$ 13,460,316</u>

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

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

5. Fair Value Measurements

Investments at fair value at August 31, 2011 are summarized as follows:

	<u>Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash equivalents	\$ 1,599,411	\$ 1,599,411	\$ -	\$ -
U.S. government obligations	2,774,667	2,774,667	-	-
Equity securities	7,708,162	7,708,162	-	-
Debt securities	<u>2,216,043</u>	<u>2,216,043</u>	<u>-</u>	<u>-</u>
<b>Total investments</b>	<b>\$ <u>14,298,283</u></b>	<b>\$ <u>14,298,283</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>-</u></b>

Investments at fair value at August 31, 2010 are summarized as follows:

	<u>Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash equivalents	\$ 2,454,904	\$ 2,454,904	\$ -	\$ -
U.S. government obligations	2,703,051	2,703,051	-	-
Equity securities	6,822,060	6,822,060	-	-
Debt securities	<u>1,480,301</u>	<u>1,480,301</u>	<u>-</u>	<u>-</u>
<b>Total investments</b>	<b>\$ <u>13,460,316</u></b>	<b>\$ <u>13,460,316</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>-</u></b>

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. Valuation techniques utilized to determine fair value are consistently applied. All assets have been valued using a market approach.

## CHRISTIAN APPALACHIAN PROJECT, INC.

### Notes to the Financial Statements, continued

#### 5. Fair Value Measurements, continued

##### 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 purchasing power (real value) 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, (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, and (4) the portion of investment return added to the permanent endowment to maintain its purchasing power. 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.

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.

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

5. Fair Value Measurements, continued

Endowments, continued

Endowment net asset composition by type of fund as of August 31, 2011 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ <u>-</u>	\$ <u>335,662</u>	\$ <u>1,622,661</u>	\$ <u>1,958,323</u>

Endowment net asset composition by type of fund as of August 31, 2010 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ <u>-</u>	\$ <u>317,314</u>	\$ <u>1,439,996</u>	\$ <u>1,757,310</u>

Changes in endowment net assets as of August 31, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ -	\$ 317,314	\$ 1,439,996	\$ 1,757,310
Contributions	-	-	182,665	182,665
Investment income	-	58,376	-	58,376
Net realized gains on investments	-	132,110	-	132,110
Net unrealized losses on investments	-	(49,881)	-	(49,881)
Amounts appropriated for expenditure	<u>-</u>	<u>(122,257)</u>	<u>-</u>	<u>(122,257)</u>
Endowment net assets, end of year	\$ <u>-</u>	\$ <u>335,662</u>	\$ <u>1,622,661</u>	\$ <u>1,958,323</u>

**CHRISTIAN APPALACHIAN PROJECT, INC.**

Notes to the Financial Statements, continued

**5. Fair Value Measurements, continued**

Endowments, continued

Changes in endowment net assets as of August 31, 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ -	\$ 194,734	\$ 1,409,996	\$ 1,604,730
Contributions	-	20,180	20,000	40,180
Investment income	-	54,563	-	54,563
Net realized gains on investments	-	50,266	-	50,266
Net unrealized gains on investments	-	7,571	-	7,571
Net assets transferred	-	(10,000)	10,000	-
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 317,314</u>	<u>\$ 1,439,996</u>	<u>\$ 1,757,310</u>

**6. Property and Equipment**

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

	<u>2011</u>	<u>2010</u>
Land	\$ 1,034,569	\$ 1,644,569
Buildings	9,704,233	8,820,042
Equipment and vehicles	4,979,265	4,858,873
Leasehold improvements	<u>533,046</u>	<u>533,046</u>
	16,251,113	15,856,530
Less accumulated depreciation	<u>(9,736,514)</u>	<u>(9,299,104)</u>
Property and equipment, net	<u>\$ 6,514,599</u>	<u>\$ 6,557,426</u>

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

7. Note Payable

Note payable consists of the following as of August 31:

	<u>2011</u>
Promissory note of \$276,000, bearing interest at 4%, with monthly payments of \$5,083, maturing March 2016. Note is secured by mortgage of property.	\$ <u>255,044</u>

Future maturities of debt are as follows:

2012	\$ 51,740
2013	53,848
2014	56,042
2015	58,325
2016	<u>35,089</u>
Total principal payments	\$ <u>255,044</u>

8. 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% as of August 31, 2011 and 2010, respectively). There were no amounts outstanding on the line as of August 31, 2011 or 2010. The line of credit expires on September 23, 2012.

**CHRISTIAN APPALACHIAN PROJECT, INC.**

Notes to the Financial Statements, continued

**9. 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, 2011:

2012	\$	104,103
2013		49,256
2014		36,421
2015		15,404
2016		<u>27,045</u>
Total minimum capital lease payments		232,229
Less amount representing interest		<u>(66,688)</u>
Present value of minimum lease payments		<u>\$ 165,541</u>

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

	<u>2011</u>	<u>2010</u>
Equipment	\$ 542,727	\$ 484,227
Accumulated depreciation	<u>(353,996)</u>	<u>(276,594)</u>
	<u>\$ 188,731</u>	<u>\$ 207,633</u>

Interest expense related to capital lease obligations was \$27,858 and \$31,696 for 2011 and 2010, respectively.

The following is a schedule of future minimum lease payments under operating leases as of August 31, 2011 :

2012	\$	224,466
2013		207,467
2014		152,111
2015		<u>42,556</u>
		<u>\$ 626,600</u>

Lease expense was \$267,963 and \$191,866 for 2011 and 2010, respectively.

**CHRISTIAN APPALACHIAN PROJECT, INC.**

Notes to the Financial Statements, continued

**10. Temporarily Restricted Net Assets**

Temporarily restricted net assets consist of the following as of August 31 :

	<u>2011</u>	<u>2010</u>
Contributions receivable	\$ 54,547	\$ 103,791
Community service program activities	776,771	607,639
Capital campaign for regional care center	<u>1,429,602</u>	<u>37,592</u>
Total	<u>\$ 2,260,920</u>	<u>\$ 749,022</u>

Net assets were released from donor restrictions during 2011 and 2010 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2011</u>	<u>2010</u>
Purpose restrictions accomplished:		
Community service program expenses	\$ 1,049,052	\$ 1,409,841
Family services program expenses	2,446,513	2,299,968
Education services	198,119	392,042
Contributions receivable	<u>67,468</u>	<u>530,345</u>
Total	<u>\$ 3,761,152</u>	<u>\$ 4,632,196</u>

**11. Permanently Restricted Net Assets**

Permanently restricted net assets consist of the following as of August 31:

	<u>2011</u>	<u>2010</u>
Education services program	\$ 10,000	\$ 10,000
Education services program summer camps	11,250	11,250
Economic development	1,000	1,000
Endowment	<u>1,600,411</u>	<u>1,417,746</u>
Total	<u>\$ 1,622,661</u>	<u>\$ 1,439,996</u>

**12. Government Grants**

CAP received \$514,063 and \$478,334 during 2011 and 2010, respectively, under cost reimbursement grant agreements with the Commonwealth of Kentucky. Amounts have been recognized as government grant income in the statements of activities as all income was spent in the year received.

**CHRISTIAN APPALACHIAN PROJECT, INC.**

Notes to the Financial Statements, continued

**13. Contributions of Materials**

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

	<u>2011</u>	<u>2010</u>
Materials and supplies	\$ 110,153,823	\$ 108,552,142
Donation of fixed assets	-	17,500
Donations of food and commodities	594,805	617,001
Other donations	<u>176,908</u>	<u>146,910</u>
Total donated materials received	110,925,536	109,333,553
Donations of fixed assets- undistributed	-	(17,500)
Add return of donated fixed assets	610,000	-
Add beginning Christmas Baskets pledges receivable	94,749	108,961
Less ending Christmas Baskets pledges receivable	<u>(120,329)</u>	<u>(94,749)</u>
Total donated materials used	<u>\$ 111,509,956</u>	<u>\$ 109,330,265</u>

Return of donated fixed assets includes land valued at \$610,000 donated to CAP in 2010 that was returned to the original owner in the current year. During 2011, CAP management determined that they could not utilize the land effectively to further the mission of CAP. As a result, management believed the best action would be to return the land to the original owner.

**14. Contributed Services**

During the fiscal years ended August 31, 2011 and 2010, 2,346 and 2,510 volunteers, respectively, donated 238,093 and 218,736 hours of service, respectively, with an estimated value of \$2,646,474 and \$2,187,846, respectively. Of these amounts, 28,588 and 68,738 hours, respectively, valued at \$802,726 and \$709,367, 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.

**15. Employee Benefit Plan**

Employees of CAP are eligible to participate in a defined contribution plan. The plan covers substantially all employees who meet certain age and length of service 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 profit-sharing contributions by CAP. No discretionary contributions were made in 2011 or 2010.

Plan expense for the years ended August 31, 2011 and 2010 was \$226,307 and \$215,642, respectively.

**CHRISTIAN APPALACHIAN PROJECT, INC.**

Notes to the Financial Statements, continued

**16. 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 statement of activities.

**CHRISTIAN APPALACHIAN PROJECT, INC.**

Schedule of Expenditures of Federal Awards

Year ended August 31, 2011

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U. S. Department of Agriculture:		
Passed through the Kentucky Dept. of Agriculture Division of School & Community Nutrition: Child & Adult Care Food Program	10.558	\$ <u>65,671</u>
Total U.S. Department of Agriculture		65,671
U.S. Department of Justice:		
Passed through the Kentucky Justice Cabinet: Victims of Crime Act	16.588	<u>61,651</u>
Total U.S. Department of Justice		61,651
U.S. Department of Health and Human Services:		
Passed through Kentucky Domestic Violence Association: Domestic Violence Services	93.671	<u>413,798</u>
Total U.S. Department of Health and Human Services		413,798
Corporation for National and Community Service:		
Passed through the Kentucky Vista Office: Volunteers in Service to America - VISTA	94.013	<u>18,589</u>
Total Corporation for National and Community Service		18,589
U.S. Department of Housing and Urban Development:		
Passed through the Kentucky Housing Corporation: Stewart B. McKinney Homeless Assistance Act	14.235	<u>238,140</u>
Total U.S. Department of Housing and Urban Development		<u>238,140</u>
Total Expenditures of Federal Awards		<u>\$ 797,849</u>

*See accompanying notes.*

## CHRISTIAN APPALACHIAN PROJECT, INC.

### Notes to Schedule of Expenditures of Federal Awards

#### 1. **Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Christian Appalachian Project, Inc. (CAP) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

DEAN || DORTON || ALLEN || FORD<sup>PLLC</sup>**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards**

Board of Directors  
Christian Appalachian Project, Inc.

We have audited the financial statements of Christian Appalachian Project, Inc. (CAP) as of and for the year ended August 31, 2011, and have issued our report thereon dated December 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered CAP's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CAP's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CAP's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether CAP's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Board of Directors  
Christian Appalachian Project, Inc.  
Page 2

We noted certain other matters that we reported to management of CAP in a separate letter dated December 14, 2011.

This report is intended solely for the information and use of CAP's Board of Directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

December 14, 2011  
Lexington, Kentucky

A handwritten signature in black ink that reads "Deane Doherty Allen Ford, PLLC". The signature is written in a cursive, flowing style.

DEAN || DORTON || ALLEN || FORD PLLC

**Independent Auditors' Report on Compliance with Requirements that Could  
Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance  
in Accordance with OMB Circular A-133**

Board of Directors  
Christian Appalachian Project, Inc.

**Compliance**

We have audited the compliance of Christian Appalachian Project, Inc. ("CAP") with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of CAP's major federal programs for the year ended August 31, 2011. CAP's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of CAP's management. Our responsibility is to express an opinion on CAP's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CAP's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on CAP's compliance with those requirements.

In our opinion, Christian Appalachian Project, Inc. complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2011.

**Internal Control Over Compliance**

Management of CAP is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered CAP's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of CAP's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We noted certain other matters that we have reported to management in a separate letter dated December 14, 2011.

This report is intended solely for the information and use of CAP's Board of Directors, management, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

December 14, 2011  
Lexington, Kentucky

A handwritten signature in black ink that reads "Dean Dorton Allen Ford, PLLC". The signature is written in a cursive, flowing style.

**CHRISTIAN APPALACHIAN PROJECT, INC.**

Schedule of Findings and Questioned Costs

Year ended August 31, 2011

**Section I – Summary of Auditors’ Results (under Section .505(d)(1) of OMB Circular A-133):**

Financial Statements:

- a. The type of report issued on the financial statements: **Unqualified opinion**
- b. Internal control over financial reporting:  
Material weaknesses in internal control over financial reporting: **No**  
Significant deficiencies identified that are not considered to be material weaknesses: **No**
- c. Noncompliance which is material to the financial statements: **No**

Federal Award:

- d. Internal control over financial reporting:  
Material weaknesses in internal control over financial reporting: **No**  
Significant deficiencies identified that are not considered to be material weaknesses: **No**
- e. The type of report issued on compliance for major programs: **Unqualified opinion**
- f. Any audit findings which are required to be reported under Section .510(a) of OMB Circular A-133: **No**
- g. Major programs: **Domestic Violence Services (CFDA 93.671)**
- h. Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000**
- i. Auditee qualified as a low-risk auditee: **Yes**

**Section II – Financial Statement Findings (under Section .505(d)(2) of OMB Circular A-133):**

Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*:  
**None**

**Section III – Federal Award Findings and Questioned Costs (under Section .505(d)(3) of OMB Circular A-133):**

Findings and Questioned Costs relating to Federal Awards: **None**