

CHRISTIAN APPALACHIAN PROJECT, INC.
Financial Statements

Years Ended August 31, 2016 and 2015
with Report of Independent Auditors

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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, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to 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.

Board of Directors
Christian Appalachian Project, Inc.
Report of Independent Auditors, continued

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, 2016 and 2015, 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.

Dean Dotson Allen Ford, PLLC

December 9, 2016
Lexington, Kentucky

CHRISTIAN APPALACHIAN PROJECT, INC.

Statements of Financial Position

August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Cash	\$ 211,321	\$ 1,177,885
Accounts receivable	71,512	45,353
Contributions receivable, net	2,367,267	2,025,744
Accrued interest receivable	41,631	44,349
Inventories	626,138	632,892
Prepaid expenses	116,616	99,024
Investments	14,534,572	16,337,176
Notes receivable	33,380	40,122
Property and equipment, net	<u>13,055,143</u>	<u>10,418,059</u>
Total assets	<u>\$ 31,057,580</u>	<u>\$ 30,820,604</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 1,065,909	\$ 877,649
Accrued expenses	578,666	992,566
Annuity obligations	2,121,497	2,261,620
Capital leases payable	90,565	17,742
Notes payable	1,000,000	1,029,508
Line of credit	<u>650,000</u>	<u>-</u>
Total liabilities	5,506,637	5,179,085
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	13,055,143	10,418,059
Annuity obligations	<u>3,051,515</u>	<u>3,271,227</u>
Total unrestricted but designated by the Board of Directors	16,840,158	14,422,786
Unrestricted and undesignated, available for general activities	<u>6,021,589</u>	<u>8,904,872</u>
Total unrestricted	22,861,747	23,327,658
Temporarily restricted	1,059,098	683,930
Permanently restricted	<u>1,630,098</u>	<u>1,629,931</u>
Total net assets	<u>25,550,943</u>	<u>25,641,519</u>
Total liabilities and net assets	<u>\$ 31,057,580</u>	<u>\$ 30,820,604</u>

See accompanying notes.

CHRISTIAN APPALACHIAN PROJECT, INC.

Statement of Activities

Year ended August 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Revenues, gains, and other support:				
Contributions of cash and securities	\$ 15,091,168	\$ 3,029,150	\$ 167	\$ 18,120,485
Legacies and bequests	4,250,554	-	-	4,250,554
Government grants	178,359	-	-	178,359
Contributions of materials	74,550,685	-	-	74,550,685
Contributed services	914,462	-	-	914,462
Program revenue	516,701	-	-	516,701
Investment income	385,372	2,046	-	387,418
Net realized gains (losses) on investments	349,713	(15,594)	-	334,119
Net unrealized gains on investments	280,227	94,389	-	374,616
Royalty income	534,627	-	-	534,627
Gain on sale of property and equipment	1,012,121	-	-	1,012,121
Net assets released from restrictions	<u>2,734,823</u>	<u>(2,734,823)</u>	<u>-</u>	<u>-</u>
Total revenues, gains, and other support	100,798,812	375,168	167	101,174,147
Expenses:				
Program services:				
Family services	11,115,007	-	-	11,115,007
Economic development	21,441	-	-	21,441
Community services	60,087,228	-	-	60,087,228
Education services	<u>16,471,696</u>	<u>-</u>	<u>-</u>	<u>16,471,696</u>
Total program services	87,695,372	-	-	87,695,372
Supporting services:				
Management and general	4,547,808	-	-	4,547,808
Fund development	<u>8,774,627</u>	<u>-</u>	<u>-</u>	<u>8,774,627</u>
Total supporting services	<u>13,322,435</u>	<u>-</u>	<u>-</u>	<u>13,322,435</u>
Total expenses	101,017,807	-	-	101,017,807
Actuarial adjustment on annuity obligations	<u>246,916</u>	<u>-</u>	<u>-</u>	<u>246,916</u>
Total expenses and losses	<u>101,264,723</u>	<u>-</u>	<u>-</u>	<u>101,264,723</u>
Change in net assets	(465,911)	375,168	167	(90,576)
Net assets, beginning of year	<u>23,327,658</u>	<u>683,930</u>	<u>1,629,931</u>	<u>25,641,519</u>
Net assets, end of year	<u>\$ 22,861,747</u>	<u>\$ 1,059,098</u>	<u>\$ 1,630,098</u>	<u>\$ 25,550,943</u>

See accompanying notes.

CHRISTIAN APPALACHIAN PROJECT, INC.

Statement of Activities

Year ended August 31, 2015

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Totals</u>
Revenues, gains, and other support:				
Contributions of cash and securities	\$ 17,837,545	\$ 1,104,525	\$ 158	\$ 18,942,228
Legacies and bequests	5,695,745	-	-	5,695,745
Government grants	999,770	-	-	999,770
Contributions of materials	57,465,007	-	-	57,465,007
Contributed services	929,829	-	-	929,829
Program revenue	525,088	-	-	525,088
Investment income	273,745	54,825	-	328,570
Net realized gains (losses) on investments	168,599	(34,469)	-	134,130
Net unrealized losses on investments	(659,109)	(42,386)	-	(701,495)
Royalty income	596,164	-	-	596,164
Gain on sale of property and equipment	46,389	-	-	46,389
Net assets released from restrictions	<u>1,167,437</u>	<u>(1,167,437)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	85,046,209	(84,942)	158	84,961,425
Expenses:				
Program services:				
Family services	11,121,065	-	-	11,121,065
Economic development	98,094	-	-	98,094
Community services	39,363,433	-	-	39,363,433
Education services	<u>19,878,762</u>	<u>-</u>	<u>-</u>	<u>19,878,762</u>
Total program services	70,461,354	-	-	70,461,354
Supporting services:				
Management and general	4,400,120	-	-	4,400,120
Fund development	<u>8,652,465</u>	<u>-</u>	<u>-</u>	<u>8,652,465</u>
Total supporting services	<u>13,052,585</u>	<u>-</u>	<u>-</u>	<u>13,052,585</u>
Total expenses	83,513,939	-	-	83,513,939
Actuarial adjustment on annuity obligations	<u>(22,164)</u>	<u>-</u>	<u>-</u>	<u>(22,164)</u>
Total expenses and gains	<u>83,491,775</u>	<u>-</u>	<u>-</u>	<u>83,491,775</u>
Change in net assets	1,554,434	(84,942)	158	1,469,650
Net assets, beginning of year	<u>21,773,224</u>	<u>768,872</u>	<u>1,629,773</u>	<u>24,171,869</u>
Net assets, end of year	\$ <u>23,327,658</u>	\$ <u>683,930</u>	\$ <u>1,629,931</u>	\$ <u>25,641,519</u>

See accompanying notes.

CHRISTIAN APPALACHIAN PROJECT, INC.

Statement of Functional Expenses

Year ended August 31, 2016

	Program Services				Supporting Services		Total
	Family Services	Economic Development	Community Services	Education Services	Management and General	Fund Development	
Cash grants	\$ 111,986	\$ 9,468	\$ -	\$ -	\$ -	\$ 275	\$ 121,454
Specific assistance to individuals	76,827	-	-	-	-	77,102	77,102
Salaries and wages	1,682,903	4,406	907,436	633,406	1,460,515	1,391,620	6,080,286
401k contribution	76,329	300	41,913	32,272	93,091	70,112	314,017
Other employee benefits	404,552	6,586	221,970	171,799	408,096	371,322	1,584,325
Payroll taxes	117,713	360	70,629	41,599	97,711	95,144	423,156
Professional fundraising fees	-	-	-	-	-	159,941	159,941
Accounting fees	9,800	-	5,381	4,143	64,449	14,208	97,981
Legal fees	-	-	-	-	74,013	(2)	74,011
Supplies	90,537	30	135,490	80,681	132,692	76,129	515,559
Telephone	63,559	-	45,289	37,945	66,158	40,701	253,652
Postage	1,428	-	412	1,241,941	139,238	2,188,933	3,571,952
Occupancy	265,040	-	485,962	358,025	10,873	167,554	1,287,454
Equipment rental/maintenance	66,398	-	70,662	22,633	78,999	19,315	258,007
Printing and publications	-	-	-	2,113,521	587,320	3,434,245	6,135,086
Delivery and freight	56	-	679,966	913	67	4,820	685,822
Travel	16,508	-	31,476	1,075	71,267	181,406	301,732
Depreciation	250,997	-	200,651	167,807	194,588	66,480	880,523
Volunteer stipend and insurance	-	-	80,586	39,375	625	200	120,786
Donated services used	802,457	-	-	112,005	-	-	914,462
Professional fees - other	646	291	3,830	3,018	146,651	186,792	341,228
Home repair materials/services	804,027	-	16,410	27,585	1,883	62,188	912,093
Donated materials used by programs	6,001,593	-	56,828,311	11,244,133	-	-	74,074,037
Donated materials used by supporting services	-	-	-	-	471,967	-	471,967
Miscellaneous	271,651	-	260,854	137,820	447,605	243,244	1,361,174
Total	\$ 11,115,007	\$ 21,441	\$ 60,087,228	\$ 16,471,696	\$ 4,547,808	\$ 8,774,627	\$ 101,017,807

See accompanying notes.

CHRISTIAN APPALACHIAN PROJECT, INC.

Statement of Functional Expenses

Year ended August 31, 2015

	Program Services				Supporting Services		Total
	Family Services	Economic Development	Community Services	Education Services	Management and General	Fund Development	
Cash grants	\$ -	\$ 18,054	\$ 179,709	\$ -	\$ -	\$ -	\$ 197,763
Specific assistance to individuals	82,884	-	-	10	-	-	82,894
Salaries and wages	1,945,859	9,730	774,671	694,540	1,515,050	1,359,110	6,298,960
401k contribution	92,505	616	36,726	28,355	65,152	58,460	281,814
Other employee benefits	516,037	1,984	202,306	153,288	372,956	321,747	1,568,318
Payroll taxes	153,557	739	111,499	50,319	109,915	115,209	541,238
Professional fundraising fees	-	-	-	-	-	186,102	186,102
Accounting fees	15,874	-	6,321	4,866	77,326	17,249	121,636
Legal fees	-	-	-	-	80,873	-	80,873
Supplies	115,855	20	128,143	83,980	66,041	55,437	449,476
Telephone	84,190	-	53,328	32,089	75,882	53,844	299,333
Postage	4,011	-	1,911	1,157,934	145,914	2,325,617	3,635,387
Occupancy	366,872	31,646	332,264	423,285	246,468	159,172	1,559,707
Equipment rental/maintenance	64,020	-	40,590	25,332	48,435	16,608	194,985
Printing and publications	-	-	-	1,848,136	646,288	3,092,169	5,586,593
Delivery and freight	-	-	710,600	-	-	1,827	712,427
Travel	19,509	150	24,760	2,740	71,853	166,470	285,482
Depreciation	276,571	33,014	228,689	150,981	158,905	74,118	922,278
Volunteer stipend and insurance	-	-	129,006	20,625	-	-	149,631
Donated services used	768,617	-	-	161,212	-	-	929,829
Professional fees - other	3,399	-	7,778	6,239	122,962	248,428	388,806
Home repair materials/services	472,398	-	223	-	-	-	472,621
Donated materials used by programs	5,711,351	-	36,272,771	14,988,543	-	-	56,972,665
Donated materials used by supporting services	-	-	-	-	493,724	618	494,342
Miscellaneous	427,556	2,141	122,138	46,288	102,376	400,280	1,100,779
Total	\$ 11,121,065	\$ 98,094	\$ 39,363,433	\$ 19,878,762	\$ 4,400,120	\$ 8,652,465	\$ 83,513,939

See accompanying notes.

CHRISTIAN APPALACHIAN PROJECT, INC.

Statements of Cash Flows

Years ended August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ (90,576)	\$ 1,469,650
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions restricted for long-term investment	(167)	(158)
Depreciation	880,523	922,278
Net (recovery) provision for uncollectible accounts	(15)	77,707
Gain on sale of property and equipment	(1,012,121)	(46,389)
Net realized gains on investments	(334,119)	(134,130)
Net unrealized (gains) losses on investments	(374,616)	701,495
Common stock donated to CAP	(33,167)	(220,603)
Annuity obligations incurred	23,259	29,938
Actuarial adjustment on annuity obligations	246,916	(22,164)
Increase (decrease) in cash due to changes in:		
Accounts receivable	(26,159)	61,259
Contributions receivable	(341,508)	(109,885)
Accrued interest receivable	2,718	7,849
Inventories	6,754	12,844
Prepaid expenses	(17,592)	(29,158)
Accounts payable	188,260	(319,312)
Accrued expenses	<u>(413,900)</u>	<u>45,969</u>
Net cash (used in) provided by operating activities	(1,295,510)	2,447,190
Cash flows from investing activities:		
Decrease (increase) in investments, net	2,544,506	(611,555)
Purchases of property and equipment	(5,045,663)	(1,729,197)
Proceeds from sale of property and equipment	2,648,636	74,059
Collections of notes receivable	<u>6,742</u>	<u>286,768</u>
Net cash provided by (used in) investing activities	154,221	(1,979,925)

CHRISTIAN APPALACHIAN PROJECT, INC.

Statements of Cash Flows, continued

Years ended August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	167	158
Payments on annuity obligations	(410,298)	(436,286)
Payments on note payable	(29,508)	(62,451)
Increase in line of credit	650,000	-
Payments on capital leases payable	<u>(35,636)</u>	<u>(40,937)</u>
Net cash provided by (used in) financing activities	<u>174,725</u>	<u>(539,516)</u>
Net decrease in cash	(966,564)	(72,251)
Cash, beginning of year	<u>1,177,885</u>	<u>1,250,136</u>
Cash, end of year	<u>\$ 211,321</u>	<u>\$ 1,177,885</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 12,605	\$ 10,239
Noncash investing and financing transactions:		
Capital lease obligations for acquisition of equipment	108,459	6,000
Purchase of property and equipment with note payable	-	1,000,000

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 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.

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.

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Basis of Presentation, continued

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 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.

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.

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.

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. 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.

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Notes 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 beared interest at 4% and was payable monthly. The remaining balance was received during 2015.

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, 2016 and 2015 were \$33,280 and \$40,022, 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 \$880,523 and \$922,278 for the years ended August 31, 2016 and 2015, 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, 2016 and 2015 were \$410,298 and \$436,286, respectively.

The August 31, 2016 and 2015 annuity liability balances of \$2,121,497 and \$2,261,620 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, 2016, 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 \$3,051,515 and \$3,271,227 shown on the statements of financial position at August 31, 2016 and 2015, 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, 2016 and 2015, 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. 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.

Income Taxes

Christian Appalachian Project, Inc., 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, 2016, the date that the financial statements were available to be issued.

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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. Upon adopting the ASU, CAP will be required to recognize and measure its leases at the beginning of the earliest period presented using a modified retrospective approach. ASU 2016-02 will be effective for CAP for the year ending August 31, 2021, with early adoption permitted. CAP is currently evaluating the effect that the new standard will have on its financial statements.

In August 2016, the 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. This ASU will be effective for CAP for fiscal years beginning after December 15, 2017. Early adoption is permitted. CAP is currently evaluating the effects adoption of this guidance will have on the financial statements.

3. Contributions Receivable

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

	<u>2016</u>	<u>2015</u>
Unconditional promises to give before unamortized discount and allowance for uncollectible accounts	\$ 2,896,615	\$ 2,236,994
Less: Unamortized discount, ranging from 2% to 3%	<u>(381,692)</u>	<u>(63,594)</u>
	2,514,923	2,173,400
Less: Allowance for uncollectible accounts	<u>(147,656)</u>	<u>(147,656)</u>
	\$ <u>2,367,267</u>	\$ <u>2,025,744</u>
Amounts due in:		
Less than one year	\$ 1,948,492	\$ 2,136,678
One to five years	161,802	63,876
More than five years	<u>786,321</u>	<u>36,440</u>
	\$ <u>2,896,615</u>	\$ <u>2,236,994</u>

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

4. Investments

Investments consist of the following as of August 31:

	<u>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Cash equivalents	\$ 937,116	\$ 937,116	\$ 1,970,913	\$ 1,970,913
U.S. treasury obligations	371,685	373,475	232,304	233,898
U.S. government agencies	956,979	979,990	918,375	925,698
Equity securities	8,960,261	10,659,255	10,096,505	11,431,505
Debt securities	954,338	968,958	1,269,086	1,257,620
Municipal obligations	482,022	496,183	382,540	387,631
Real estate investment trusts	<u>116,306</u>	<u>119,595</u>	<u>141,436</u>	<u>129,911</u>
	<u>\$ 12,778,707</u>	<u>\$ 14,534,572</u>	<u>\$ 15,011,159</u>	<u>\$ 16,337,176</u>

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

5. 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, 2016 are summarized as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 937,116	\$ -	\$ -	\$ 937,116
U.S. treasury obligations	373,475	-	-	373,475
U.S. government agencies	-	979,990	-	979,990
Equity securities	10,659,255	-	-	10,659,255
Debt securities	968,958	-	-	968,958
Municipal obligations	-	496,183	-	496,183
Real estate investment trusts	<u>-</u>	<u>119,595</u>	<u>-</u>	<u>119,595</u>
Total investments	<u>\$ 12,938,804</u>	<u>\$ 1,595,768</u>	<u>\$ -</u>	<u>\$ 14,534,572</u>

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

5. Fair Value Measurements, continued

Investments at fair value at August 31, 2015 are summarized as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 1,970,913	\$ -	\$ -	\$ 1,970,913
U.S. treasury obligations	233,898	-	-	233,898
U.S. government agencies	-	925,698	-	925,698
Equity securities	11,431,505	-	-	11,431,505
Debt securities	1,257,620	-	-	1,257,620
Municipal obligations	-	387,631	-	387,631
Real estate investment trusts	<u>-</u>	<u>129,911</u>	<u>-</u>	<u>129,911</u>
Total investments	<u>\$ 14,893,936</u>	<u>\$ 1,443,240</u>	<u>\$ -</u>	<u>\$ 16,337,176</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, 2016 and 2015.

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

5. 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, 2016 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>418,079</u>	\$ <u>1,630,098</u>	\$ <u>2,048,177</u>

Endowment net asset composition by type of fund as of August 31, 2015 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>389,400</u>	\$ <u>1,629,931</u>	\$ <u>2,019,331</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, 2016 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	\$ -	\$ 389,400	\$ 1,629,931	\$ 2,019,331
Contributions	-	-	167	167
Investment income	-	2,046	-	2,046
Net realized gains on investments	-	(15,594)	-	(15,594)
Net unrealized gains on investments	-	94,389	-	94,389
Amounts appropriated for expenditure	-	(52,162)	-	(52,162)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 418,079</u>	<u>\$ 1,630,098</u>	<u>\$ 2,048,177</u>

Changes in endowment net assets as of August 31, 2015 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	\$ -	\$ 411,588	\$ 1,629,773	\$ 2,041,361
Contributions	-	-	158	158
Investment income	-	54,825	-	54,825
Net realized gains on investments	-	(34,469)	-	(34,469)
Net unrealized gains on investments	-	(42,386)	-	(42,386)
Amounts appropriated for expenditure	-	(158)	-	(158)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 389,400</u>	<u>\$ 1,629,931</u>	<u>\$ 2,019,331</u>

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

6. Property and Equipment

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

	<u>2016</u>	<u>2015</u>
Land	\$ 2,657,957	\$ 2,375,827
Buildings	13,639,399	12,199,719
Equipment and vehicles	4,923,483	4,758,156
Leasehold improvements	<u>853,875</u>	<u>820,114</u>
	22,074,714	20,153,816
Less accumulated depreciation	<u>(9,019,571)</u>	<u>(9,735,757)</u>
Property and equipment, net	<u>\$ 13,055,143</u>	<u>\$ 10,418,059</u>

7. Notes Payable

Notes payable consists of the following as of August 31:

	<u>2016</u>	<u>2015</u>
Promissory note of \$1,000,000, bearing no interest, with one time payment of \$1,000,000 due in June 2017. Note is secured by mortgage of property.	\$ 1,000,000	\$ 1,000,000
Promissory note of \$276,000, bearing interest at 4%, with monthly payments of \$5,083. The note matured in March 2016.	<u>-</u>	<u>29,508</u>
	1,000,000	1,029,508
Less: amounts due within one year	<u>(1,000,000)</u>	<u>(29,508)</u>
Long-term portion of notes payable	<u>\$ -</u>	<u>\$ 1,000,000</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, 2016 and 2015, respectively). As of August 31, 2016, there was a \$650,000 outstanding balance on the line of credit. The line of credit expires on January 23, 2017.

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, 2016:

2017	\$	34,027
2018		30,573
2019		26,785
2020		23,788
2021		<u>10,766</u>
Total minimum capital lease payments		125,939
Less amount representing interest		<u>(35,374)</u>
Present value of minimum lease payments	\$	<u>90,565</u>

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

	<u>2016</u>	<u>2015</u>
Equipment	\$ 166,954	\$ 153,306
Accumulated depreciation	<u>(48,579)</u>	<u>(124,073)</u>
	<u>\$ 118,375</u>	<u>\$ 29,233</u>

The following is a schedule of future minimum lease payments under operating leases as of August 31, 2016 :

2017	\$	12,000
2018		<u>4,000</u>
	\$	<u>16,000</u>

Lease expense was \$35,197 and \$93,836 for 2016 and 2015, respectively.

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

10. Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following purposes as of August 31:

	<u>2016</u>	<u>2015</u>
Community service program activities	\$ 1,059,098	\$ 673,930
Capital campaign for regional care center	<u>-</u>	<u>10,000</u>
Total	<u>\$ 1,059,098</u>	<u>\$ 683,930</u>

Net assets were released from donor restrictions during 2016 and 2015 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2016</u>	<u>2015</u>
Purpose restrictions accomplished:		
Community service program expenses	\$ 34,871	\$ 100,349
Family services program expenses	320,677	229,148
Education services	90,574	61,345
General expense	2,271,379	589,508
Contributions receivable	<u>17,322</u>	<u>187,087</u>
Total	<u>\$ 2,734,823</u>	<u>\$ 1,167,437</u>

11. Permanently Restricted Net Assets

Permanently restricted net assets are restricted for the following purposes as of August 31:

	<u>2016</u>	<u>2015</u>
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>1,607,848</u>	<u>1,607,681</u>
Total	<u>\$ 1,630,098</u>	<u>\$ 1,629,931</u>

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

12. Contributions of Materials

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

	<u>2016</u>	<u>2015</u>
Materials and supplies	\$ 73,832,161	\$ 56,876,562
Donations of food and commodities	658,036	512,902
Other donations	<u>60,488</u>	<u>75,543</u>
Total donated materials received	74,550,685	57,465,007
Add beginning Christmas Baskets pledges receivable	12,134	14,134
Less ending Christmas Baskets pledges receivable	<u>(16,815)</u>	<u>(12,134)</u>
Total donated materials used	<u>\$ 74,546,004</u>	<u>\$ 57,467,007</u>

13. Contributed Services

During the fiscal years ended August 31, 2016 and 2015, 2,404 and 2,408 volunteers, respectively, donated 193,771 and 201,091 hours of service, respectively, with an estimated value of \$2,169,627 and \$2,262,152, respectively. Of these amounts, 80,377 and 81,344 hours, respectively, valued at \$914,462 and \$929,829, 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 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 4% of the employee's annual compensation. The plan also provides for discretionary contributions by CAP, which will typically be 2%.

CAP contributed \$295,555 and \$281,814, to the plan for the years ended August 31, 2016 and 2015, respectively.

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.