



Financial Statements

for

**CHRISTIAN APPALACHIAN
PROJECT, INC.**

Years Ended August 31, 2022 and 2021
with Report of Independent Auditors

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Report of Independent Auditors

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

Opinion

We have audited the financial statements of Christian Appalachian Project, Inc. (CAP), which comprise the statements of financial position as of August 31, 2022 and 2021, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of CAP as of August 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of CAP and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements, continued

In performing an audit in accordance with GAAS, we:

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

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

Dean Dotson Allen Ford, PLLC

Lexington, Kentucky
November 28, 2022

CHRISTIAN APPALACHIAN PROJECT, INC.

Statements of Financial Position

August 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Cash	\$ 8,763,842	\$ 8,674,319
Accounts receivable	404,770	258,054
Contributions receivable, net	1,000,474	1,102,323
Accrued interest receivable	32,209	21,774
Inventories	1,345,130	734,758
Prepaid expenses	158,095	229,350
Investments	16,075,056	14,214,390
Notes receivable	4,089	9,223
Property and equipment, net	<u>14,140,844</u>	<u>11,767,053</u>
Total assets	<u>\$ 41,924,509</u>	<u>\$ 37,011,244</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 408,808	\$ 617,924
Accrued expenses	458,184	441,938
Annuity obligations	1,190,013	1,636,727
Capital leases payable	<u>108,898</u>	<u>97,741</u>
Total liabilities	2,165,903	2,794,330
Net assets:		
Without donor restrictions:		
Undesignated	17,643,327	14,692,747
Invested in property and equipment, net	14,031,946	11,669,312
Designated by the Board of Directors for:		
Disaster Emergency Relief Program	100,000	100,000
Self-insurance program	633,500	633,500
Annuity obligations	<u>1,684,624</u>	<u>1,999,692</u>
	34,093,397	29,095,251
With donor restrictions	<u>5,665,209</u>	<u>5,121,663</u>
Total net assets	<u>39,758,606</u>	<u>34,216,914</u>
Total liabilities and net assets	<u>\$ 41,924,509</u>	<u>\$ 37,011,244</u>

See accompanying notes.

CHRISTIAN APPALACHIAN PROJECT, INC.

Statement of Activities

Year ended August 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support:			
Contributions of cash and securities	\$ 29,961,880	\$ 2,109,813	\$ 32,071,693
Legacies and bequests	5,072,857	-	5,072,857
Government grants	283,375	-	283,375
Contributions of materials	138,570,321	-	138,570,321
Contributed services	667,776	-	667,776
Program revenue	361,399	-	361,399
Investment income	184,693	56,907	241,600
Net realized gains on investments	268,839	136,415	405,254
Actuarial adjustment on annuity obligations	216,535	-	216,535
Royalty income	548,887	-	548,887
Gift card contributions	15,620	-	15,620
Net assets released from restrictions	1,136,811	(1,136,811)	-
Total revenues, gains, and other support	177,288,993	1,166,324	178,455,317
Expenses and losses:			
Program services:			
Family services	28,697,591	-	28,697,591
Community services	95,606,615	-	95,606,615
Education services	29,049,247	-	29,049,247
Total program services	153,353,453	-	153,353,453
Supporting services:			
Management and general	4,611,877	-	4,611,877
Fund development	12,373,514	-	12,373,514
Total supporting services	16,985,391	-	16,985,391
Total expenses	170,338,844	-	170,338,844
Net unrealized losses on investments	1,952,003	622,778	2,574,781
Total expenses and losses	172,290,847	622,778	172,913,625
Change in net assets	4,998,146	543,546	5,541,692
Net assets, beginning of year	29,095,251	5,121,663	34,216,914
Net assets, end of year	\$ 34,093,397	\$ 5,665,209	\$ 39,758,606

See accompanying notes.

CHRISTIAN APPALACHIAN PROJECT, INC.

Statement of Activities

Year ended August 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support:			
Contributions of cash and securities	\$ 26,174,166	\$ 3,002,636	\$ 29,176,802
Legacies and bequests	3,715,829	-	3,715,829
Government grants	296,202	-	296,202
Contributions of materials	130,285,778	-	130,285,778
Contributed services	352,176	-	352,176
Program revenue	266,223	-	266,223
Investment income	136,395	53,784	190,179
Net realized gains on investments	503,835	180,790	684,625
Net unrealized gains on investments	1,132,266	519,764	1,652,030
Gain on forgiveness of paycheck protection program (PPP) loan	1,481,900	-	1,481,900
Royalty income	464,040	-	464,040
Gain on sale of property and equipment	75,473	-	75,473
Net assets released from restrictions	3,195,788	(3,195,788)	-
Total revenues, gains, and other support	168,080,071	561,186	168,641,257
Expenses and losses:			
Program services:			
Family services	22,806,709	-	22,806,709
Community services	98,265,033	-	98,265,033
Education services	22,274,678	-	22,274,678
Total program services	143,346,420	-	143,346,420
Supporting services:			
Management and general	5,066,709	-	5,066,709
Fund development	11,098,308	-	11,098,308
Total supporting services	16,165,017	-	16,165,017
Total expenses	159,511,437	-	159,511,437
Actuarial adjustment on annuity obligations	169,021	-	169,021
Total expenses and losses	159,680,458	-	159,680,458
Change in net assets	8,399,613	561,186	8,960,799
Net assets, beginning of year	20,695,638	4,560,477	25,256,115
Net assets, end of year	\$ 29,095,251	\$ 5,121,663	\$ 34,216,914

See accompanying notes.

CHRISTIAN APPALACHIAN PROJECT, INC.

Statement of Functional Expenses

Year ended August 31, 2022

	Program Services			Supporting Services		Total
	Family Services	Community Services	Education Services	Management and General	Fund Development	
Cash grants	\$ -	\$ 15,000	\$ -	\$ -	\$ -	\$ 15,000
Specific assistance to individuals	74,888	49	16,855	-	57	91,849
Salaries and wages	2,047,901	1,134,629	714,228	1,938,816	1,887,127	7,722,701
401(k) contribution	137,351	78,131	52,074	113,539	90,760	471,855
Other employee benefits	433,803	260,601	164,703	306,613	307,070	1,472,790
Payroll taxes	145,726	90,729	53,071	135,399	138,302	563,227
Professional fundraising fees	-	-	-	-	152,015	152,015
Accounting fees	-	-	-	47,450	-	47,450
Legal fees	-	-	-	25,462	4,900	30,362
HR/Payroll Fees	27,791	18,769	10,877	19,730	20,728	97,895
Supplies	109,381	262,126	91,858	119,617	47,102	630,084
Telephone	49,202	58,012	35,245	41,760	44,189	228,408
Information technology expense	215,475	153,970	84,339	165,049	148,285	767,118
Postage	940	938	1,112,607	200,704	3,538,854	4,854,043
Occupancy	396,792	400,288	572,368	(269,702)	148,882	1,248,628
Equipment rental/maintenance	81,976	72,243	17,587	62,960	5,317	240,083
Printing and publications	1,339	313	1,977,578	348,285	4,949,194	7,276,709
Delivery and freight	69	958,683	205	-	144	959,101
Travel	101,090	175,557	18,923	117,613	120,473	533,656
Depreciation	218,917	324,003	167,177	160,878	65,253	936,228
Volunteer stipend and insurance	94,207	(26,238)	73,625	25	43,135	184,754
Donated services used	593,824	73,952	-	-	-	667,776
Professional fees - other	381	6,167	2,332	585,671	221,775	816,326
Home repair materials/services	583,843	66,959	1,918	(210)	(19)	652,491
Donated materials used	23,213,071	91,365,010	23,802,959	188,021	-	138,569,061
Miscellaneous	169,624	116,724	78,718	304,197	439,971	1,109,234
Total	\$ 28,697,591	\$ 95,606,615	\$ 29,049,247	\$ 4,611,877	\$ 12,373,514	\$ 170,338,844

See accompanying notes.

CHRISTIAN APPALACHIAN PROJECT, INC.

Statement of Functional Expenses

Year ended August 30, 2021

	Program Services			Supporting Services		Total
	Family Services	Community Services	Education Services	Management and General	Fund Development	
Cash grants	\$ -	\$ 15,161	\$ -	\$ -	\$ -	\$ 15,161
Specific assistance to individuals	70,354	1,078	7,674	-	-	79,106
Salaries and wages	1,951,062	1,153,013	801,754	2,019,855	1,815,736	7,741,420
401(k) contribution	125,843	72,413	57,834	111,996	83,998	452,084
Other employee benefits	420,223	243,100	198,176	335,093	309,921	1,506,513
Payroll taxes	137,229	95,351	57,538	141,679	127,950	559,747
Professional fundraising fees	-	-	-	-	187,506	187,506
Accounting fees	-	-	-	45,441	-	45,441
Legal fees	-	-	-	18,333	-	18,333
HR/Payroll fees	23,642	12,413	10,639	17,113	16,018	79,825
Supplies	76,292	99,578	59,527	79,082	35,424	349,903
Telephone	43,568	58,107	34,783	58,714	41,699	236,871
Information technology expense	224,575	156,997	101,217	166,316	155,943	805,048
Postage	832	453	867,389	184,031	3,091,084	4,143,789
Occupancy	274,541	35,446	409,123	209,934	111,655	1,040,699
Equipment rental/maintenance	61,132	109,338	19,622	27,512	5,830	223,434
Printing and publications	1,617	-	1,609,190	333,457	4,653,078	6,597,342
Delivery and freight	206	1,025,836	352	-	-	1,026,394
Travel	61,677	147,221	10,954	74,672	44,511	339,035
Depreciation	221,477	276,968	174,492	150,593	66,640	890,170
Volunteer stipend and insurance	120,426	6,426	67,512	-	5,219	199,583
Donated services used	280,616	71,560	-	-	-	352,176
Professional fees - other	750	628	649	598,010	88,560	688,597
Home repair materials/services	453,889	346,310	10,387	(208)	(23)	810,355
Donated materials used	18,107,583	94,236,771	17,706,696	237,469	-	130,288,519
Miscellaneous	149,175	100,865	69,170	257,617	257,559	834,386
Total	\$ 22,806,709	\$ 98,265,033	\$ 22,274,678	\$ 5,066,709	\$ 11,098,308	\$ 159,511,437

See accompanying notes.

CHRISTIAN APPALACHIAN PROJECT, INC.

Statements of Cash Flows

Years ended August 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ 5,541,692	\$ 8,960,799
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions restricted for long-term investment	-	(10,451)
Depreciation	936,228	890,170
Gain on sale/transfer of property and equipment	-	(75,473)
Net realized gains on investments	(405,254)	(684,625)
Net unrealized losses (gains) on investments	2,574,781	(1,652,030)
Gain on forgiveness of paycheck protection program (PPP) loan	-	(1,481,900)
Common stock donated to CAP	(148,996)	(171,730)
Annuity obligations incurred	1,685	50,082
Actuarial adjustment on annuity obligations	(216,535)	169,021
Increase (decrease) in cash due to changes in:		
Accounts receivable	(146,716)	(115,892)
Contributions receivable	101,849	(182,167)
Accrued interest receivable	(10,435)	2,566
Inventories	(610,372)	(306,397)
Prepaid expenses	71,255	1,391
Accounts payable	(209,116)	288,515
Accrued expenses	<u>16,246</u>	<u>28,433</u>
Net cash provided by operating activities	7,496,312	5,710,312
Cash flows from investing activities:		
Change in investments, net	(3,881,197)	77,508
Collections on notes receivable	5,134	5,433
Purchases of property and equipment	(3,267,308)	(766,059)
Proceeds from sale of property and equipment	<u>-</u>	<u>75,473</u>
Net cash used in investing activities	(7,143,371)	(607,645)

CHRISTIAN APPALACHIAN PROJECT, INC.

Statements of Cash Flows, continued

Years ended August 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	-	10,451
Payments on annuity obligations	(231,864)	(249,348)
Payments on capital leases payable	<u>(31,554)</u>	<u>(34,747)</u>
Net cash used in financing activities	<u>(263,418)</u>	<u>(273,644)</u>
Net increase in cash	89,523	4,829,023
Cash, beginning of year	<u>8,674,319</u>	<u>3,845,296</u>
Cash, end of year	<u>\$ 8,763,842</u>	<u>\$ 8,674,319</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 51	\$ 81
Noncash investing and financing transactions:		
Capital lease obligations for acquisition of equipment	42,711	14,607

See accompanying notes.

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements

1. Description of the Organization

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

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

CAP was organized in 1958 and incorporated in 1964. CAP operates 17 Human Service programs in 11 direct service counties in Appalachia and in all 13 Appalachian states. Corporate gifts-in-kind donations valued at more than \$137 million were distributed by CAP's Operation Sharing Program to 888 Partners in 13 Appalachian States, plus Missouri, impacting 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.

Adoption of Recently Issued Accounting Standards

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires nonprofits to expand their financial statement presentation and disclosure of contributed nonfinancial assets, including in-kind contributions. The standard includes disclosure of information on an entity's policies on contributed nonfinancial assets about monetization and utilization during the reporting period, information on donor-imposed restrictions, and valuation techniques. The new standard, as amended, is to be applied retrospectively, to annual reporting periods beginning after June 15, 2021. The standard did not have a material impact on the financial statements. CAP has updated disclosures as necessary (See Note 13 and 14).

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Contributions Receivable

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

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

Inventories

Inventories consist of supplies and printed materials used in direct mailings. These supplies and materials are carried at the lower of cost or net realizable value 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 net assets with donor restrictions until the restriction has been met.

Management has elected not to further disaggregate the investments as displayed in Note 6. The investment policies maintained by CAP's board of directors contain certain requirements surrounding quality of investments such that the additional information provided by disaggregation of investments is not deemed material to the financial statements.

Property and Equipment

CAP capitalizes all expenditures in excess of \$5,000 for property and equipment at cost. Property and equipment is recorded at cost at the date of acquisition or fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range from three to thirty years.

Annuity Obligations

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

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Annuity Obligations, continued

The August 31, 2022 and 2021 annuity liability balances of \$1,190,013 and \$1,636,727 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, 2022, the estimated remaining life expectancies of the annuitants range from one to twelve 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 \$1,684,624 and \$1,999,692 included on the statements of financial position at August 31, 2022 and 2021, respectively, as net assets without donor restrictions for annuity obligations is equal to the undiscounted balance of annuity contracts under which CAP is obligated.

Net Assets

Net assets and revenues, expenses and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of CAP and changes therein are classified and reported as follows:

Net assets without donor restrictions - net assets available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions - net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by a passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The investment return on net assets with donor restriction may be restricted or unrestricted according to the donor's wishes.

Revenue Recognition

All of CAP's revenue is recorded at a point in time when contributions are received or performance obligations are achieved. Specifically, CAP recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until conditions on which they depend have been met.

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Revenue and Revenue Recognition, 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.

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 supplies received by CAP are recorded as in-kind contribution revenue with the corresponding expense in an amount approximating the estimated fair value at the time of donation.

Contributed Services

CAP receives donated services from a variety of unpaid volunteers assisting CAP in the operation of Human Service programs. 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 and would otherwise be purchased by CAP. The services of those not meeting these criteria are not recognized in the financial statements. CAP recognizes in-kind contribution revenue and a corresponding expense in an amount approximating the estimated fair value at the time of donation.

Concentration of Credit Risk

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

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Functional Allocation of Expenses

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

Income Taxes

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

Reclassifications

Certain 2021 amounts have been reclassified to conform to the 2022 presentation with no effect on total assets, total liabilities, total net assets, or change in net assets.

Subsequent Events

CAP's management has evaluated subsequent events for accounting and disclosure requirements through November 28, 2022, the date that the financial statements were available to be issued.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, requiring all leases to be recognized on CAP's statement of financial position as a right-of-use asset and a lease liability, unless the lease is a short term lease (generally a lease with a term of twelve months or less). At the commencement date of the lease, CAP will recognize: 1) a lease liability for CAP's obligation to make payments under the lease agreement, measured on a discounted basis; and 2) a right-of-use asset that represents CAP's right to use, or control the use of, the specified asset for the lease term. The ASU originally required recognition and measurement of leases at the beginning of the earliest period presented using a modified retrospective transition method. In July 2018, the FASB issued ASU 2018-11, which provided an additional (and optional) transition method that permits application of the updated standard at the adoption date with recognition of a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. In June 2020, the FASB issued ASU 2020-05, which deferred the effective date of ASU 2016-02. The updated standard will be effective for CAP for the year ending August 31, 2023. CAP has not yet selected a transition method and is currently evaluating the effect that the new standard will have on its financial statements.

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

3. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position date, comprise the following:

	<u>2022</u>
Cash	\$ 8,763,842
Accounts receivable	404,770
Contributions receivable, net	241,346
Investments, excluding donor-restricted endowment funds	<u>12,490,220</u>
	<u>\$ 21,900,178</u>

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

CAP also has a line of credit available to meet short term needs. See Note 10.

4. Contributions Receivable

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

	<u>2022</u>	<u>2021</u>
Unconditional promises to give before unamortized discount and allowance for uncollectible accounts	\$ 1,230,806	\$ 1,363,515
Less: Unamortized discount, ranging from 0% to 3%	<u>(226,396)</u>	<u>(257,256)</u>
	1,004,410	1,106,259
Less: Allowance for uncollectible accounts	<u>(3,936)</u>	<u>(3,936)</u>
	<u>\$ 1,000,474</u>	<u>\$ 1,102,323</u>
Amounts due in:		
Less than one year	\$ 241,346	\$ 354,055
One to five years	162,000	162,000
More than five years	<u>827,460</u>	<u>847,460</u>
	<u>\$ 1,230,806</u>	<u>\$ 1,363,515</u>

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

5. Notes Receivable

During 2012, CAP entered into a promissory note receivable agreement secured by a mortgage against certain real property formerly occupied by CAP. The note bears interest at 3.5% and is payable monthly. The amounts due to CAP as of August 31, 2022 and 2021 were \$4,089 and \$9,223, respectively.

6. Investments

Investments consist of the following as of August 31:

	2022		2021	
	Cost	Market	Cost	Market
Cash equivalents	\$ 469,625	\$ 469,625	\$ 1,007,908	\$ 1,007,908
Equity securities	5,276,716	4,936,683	3,338,568	3,421,241
Debt securities	8,060,957	10,668,748	5,032,458	9,785,241
	\$ 13,807,298	\$ 16,075,056	\$ 9,378,934	\$ 14,214,390

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

7. Fair Value Measurements

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

Investments at fair value at August 31, 2022 are summarized as follows:

	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 469,625	\$ -	\$ -	\$ 469,625
Equity securities	4,936,683	-	-	4,936,683
Debt securities	10,668,748	-	-	10,668,748
Total investments	\$ 16,075,056	\$ -	\$ -	\$ 16,075,056

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

7. Fair Value Measurements, continued

Investments at fair value at August 31, 2021 are summarized as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 1,007,908	\$ -	\$ -	\$ 1,007,908
Equity securities	3,421,241	-	-	3,421,241
Debt securities	<u>9,785,241</u>	<u>-</u>	<u>-</u>	<u>9,785,241</u>
Total investments	<u>\$ 14,214,390</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,214,390</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.

Equity securities and debt securities: Valued at the closing price reported on the active market on which the individual securities are traded.

There have been no changes in the methodology used as of August 31, 2022 and 2021.

8. 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.

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

8. Endowments, continued

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, 2022 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ <u>-</u>	\$ <u>3,584,836</u>	\$ <u>3,584,836</u>

Endowment net asset composition by type of fund as of August 31, 2021 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ <u>-</u>	\$ <u>4,014,292</u>	\$ <u>4,014,292</u>

Changes in endowment net assets as of August 31, 2022 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 4,014,292	\$ 4,014,292
Investment income	-	56,907	56,907
Net realized gains on investments	-	136,415	136,415
Net unrealized losses on investments	<u>-</u>	<u>(622,778)</u>	<u>(622,778)</u>
Endowment net assets, end of year	\$ <u>-</u>	\$ <u>3,584,836</u>	\$ <u>3,584,836</u>

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

8. Endowments, continued

Changes in endowment net assets as of August 31, 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 3,259,954	\$ 3,259,954
Contributions	-	1,931	1,931
Investment income	-	53,784	53,784
Net realized gains on investments	-	180,790	180,790
Net unrealized gains on investments	-	519,764	519,764
Amounts appropriated for expenditure	-	(1,931)	(1,931)
Endowment net assets, end of year	\$ -	\$ 4,014,292	\$ 4,014,292

9. Property and Equipment

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

	<u>2022</u>	<u>2021</u>
Land	\$ 2,666,085	\$ 2,556,745
Buildings	13,672,527	13,245,795
Equipment and vehicles	7,815,199	6,571,184
Leasehold improvements	3,008,202	1,219,837
Construction in progress	83,159	341,592
	27,245,172	23,935,153
Less accumulated depreciation	(13,104,328)	(12,168,100)
Property and equipment, net	\$ 14,140,844	\$ 11,767,053

10. 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, 2022). As of August 31, 2022 and 2021, there was no outstanding balance on the account. The line matures in January 2023.

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

11. 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, 2022:

2023	\$	33,629
2024		26,523
2025		23,346
2026		7,815
2027		4,298
Thereafter		<u>19,298</u>
Total minimum capital lease payments		114,909
Less amount representing interest		<u>(6,011)</u>
Present value of minimum lease payments	\$	<u>108,898</u>

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

	<u>2022</u>	<u>2021</u>
Equipment	\$ 206,651	\$ 206,630
Accumulated depreciation	<u>(139,470)</u>	<u>(114,113)</u>
	<u>\$ 67,181</u>	<u>\$ 92,517</u>

The following is a schedule of future minimum lease payments under operating leases as of August 31, 2022:

2023	\$	12,000
2024		<u>4,000</u>
	\$	<u>16,000</u>

Lease expense was \$11,928 and \$33,786 for 2022 and 2021, respectively.

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

12. Net Assets With Donor Restrictions

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

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purposes:		
Community service program activities	\$ 3,408,089	\$ 2,864,543
Education services program	10,000	10,000
Education services program summer camps	11,250	11,250
Economic development	1,000	1,000
General operations	<u>2,234,870</u>	<u>2,234,870</u>
Total	<u>\$ 5,665,209</u>	<u>\$ 5,121,663</u>

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

	<u>2022</u>	<u>2021</u>
Satisfaction of purpose restrictions:		
Community service program activities	\$ 392,279	\$ 32,551
Family services program	348,816	238,998
Education services	260,961	125,268
General operations	154,755	2,666,282
Contributions receivable	<u>(20,000)</u>	<u>132,689</u>
Total	<u>\$ 1,136,811</u>	<u>\$ 3,195,788</u>

13. Contributions of Materials

CAP receives products and food to be utilized by the human service programs classified as family, community or education services on the statement of activities. The fair market value of donated materials is determined by the donor valuation or, in the absence of a donor valuation, current retail prices for the materials donated. Fair market value of donated food is determined by rates provided by Feeding America. A summary of donated materials received and used during the years ended August 31 is as follows:

	<u>2022</u>	<u>2021</u>
Materials and supplies	\$ 137,782,808	\$ 129,207,189
Donations of food and commodities	<u>787,513</u>	<u>1,078,589</u>
Total donated materials received	138,570,321	130,285,778
Add beginning Christmas Baskets pledges receivable	12,340	15,081
Less ending Christmas Baskets pledges receivable	<u>(13,600)</u>	<u>(12,340)</u>
Total donated materials used	<u>\$ 138,569,061</u>	<u>\$ 130,288,519</u>

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

14. Contributed Services

During the fiscal years ended August 31, 2022 and 2021, CAP received donated services for assistance with carpentry and teaching assistance from 595 and 668 volunteers, respectively, who donated 183,108 and 80,887 hours of service, respectively, with an estimated value of \$1,921,840 and \$902,130, respectively. Of these amounts, 41,393 and 30,709 hours, respectively, valued at \$667,776 and \$352,176, 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 Plans

Employees of CAP are eligible to participate in a defined contribution plan. The plan covers substantially all employees who meet certain age requirements. CAP matches 100% of an employee's voluntary contributions up to a maximum of 6% of the employee's annual compensation. The plan also provides for discretionary contributions by CAP, as determined each year. CAP contributed \$450,878 and \$432,595, to the plan for the years ended August 31, 2022 and 2021, respectively.

Additionally, CAP's president participates in a deferred compensation plan. CAP contributes 10% of the president's annual compensation. CAP contributed \$20,977 and \$19,490 to the plan for years ended August 31, 2022 and 2021, respectively.

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 statements of activities.