



Financial Statements

for

**CHRISTIAN APPALACHIAN
PROJECT, INC.**

Years Ended August 31, 2020 and 2019
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, 2020 and 2019, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CAP as of August 31, 2020 and 2019, 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

Lexington, Kentucky
November 25, 2020

CHRISTIAN APPALACHIAN PROJECT, INC.

Statements of Financial Position

August 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Cash	\$ 3,845,296	\$ 814,684
Accounts receivable	142,162	106,650
Contributions receivable, net	920,156	1,771,963
Accrued interest receivable	24,340	32,280
Inventories	428,361	612,732
Prepaid expenses	230,741	112,231
Investments	11,783,513	11,217,423
Notes receivable	14,656	19,487
Property and equipment, net	<u>11,876,557</u>	<u>12,758,285</u>
Total assets	<u>\$ 29,265,782</u>	<u>\$ 27,445,735</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 329,409	\$ 289,300
Accrued expenses	413,505	273,389
Annuity obligations	1,666,972	1,612,420
Capital leases payable	117,881	66,694
PPP loan	<u>1,481,900</u>	<u>-</u>
Total liabilities	<u>4,009,667</u>	<u>2,241,803</u>
Net assets:		
Without donor restrictions:		
Undesignated	5,888,176	4,673,229
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	11,876,557	12,758,285
Annuity obligations	<u>2,197,405</u>	<u>2,256,938</u>
	<u>20,695,638</u>	<u>20,421,952</u>
With donor restrictions	<u>4,560,477</u>	<u>4,781,980</u>
Total net assets	<u>25,256,115</u>	<u>25,203,932</u>
Total liabilities and net assets	<u>\$ 29,265,782</u>	<u>\$ 27,445,735</u>

See accompanying notes.

CHRISTIAN APPALACHIAN PROJECT, INC.

Statement of Activities

Year ended August 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support:			
Contributions of cash and securities	\$ 19,679,871	\$ 3,916,871	\$ 23,596,742
Legacies and bequests	3,028,396	-	3,028,396
Government grants	105,171	-	105,171
Contributions of materials	106,698,721	-	106,698,721
Contributed services	286,345	-	286,345
Program revenue	296,531	-	296,531
Investment income	158,860	66,376	225,236
Net realized gains (losses) on investments	199,147	(7,307)	191,840
Net unrealized gains on investments	660,855	337,814	998,669
Royalty income	439,711	-	439,711
Loss on transfer of property and equipment	(761,459)	-	(761,459)
Net assets released from restrictions	<u>4,535,257</u>	<u>(4,535,257)</u>	<u>-</u>
Total revenues, gains, and other support	135,327,406	(221,503)	135,105,903
Expenses:			
Program services:			
Family services	16,409,976	-	16,409,976
Community services	86,043,236	-	86,043,236
Education services	<u>16,571,565</u>	<u>-</u>	<u>16,571,565</u>
Total program services	119,024,777	-	119,024,777
Supporting services:			
Management and general	4,624,867	-	4,624,867
Fund development	<u>11,153,149</u>	<u>-</u>	<u>11,153,149</u>
Total supporting services	<u>15,778,016</u>	<u>-</u>	<u>15,778,016</u>
Total expenses	134,802,793	-	134,802,793
Actuarial adjustment on annuity obligations	<u>250,927</u>	<u>-</u>	<u>250,927</u>
Total expenses and losses	<u>135,053,720</u>	<u>-</u>	<u>135,053,720</u>
Change in net assets	273,686	(221,503)	52,183
Net assets, beginning of year	<u>20,421,952</u>	<u>4,781,980</u>	<u>25,203,932</u>
Net assets, end of year	<u>\$ 20,695,638</u>	<u>\$ 4,560,477</u>	<u>\$ 25,256,115</u>

See accompanying notes.

CHRISTIAN APPALACHIAN PROJECT, INC.

Statement of Activities

Year ended August 31, 2019

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

See accompanying notes.

CHRISTIAN APPALACHIAN PROJECT, INC.

Statement of Functional Expenses

Year ended August 31, 2020

	Program Services			Supporting Services		Total
	Family Services	Community Services	Education Services	Management and General	Fund Development	
Cash grants	\$ -	\$ 15,095	\$ -	\$ -	\$ -	\$ 15,095
Specific assistance to individuals	67,477	125	2,281	-	-	69,883
Salaries and wages	1,803,396	1,096,461	766,058	1,758,312	1,548,225	6,972,452
401(k) contribution	117,139	66,021	60,456	91,159	80,572	415,347
Deferred compensation	-	-	-	18,462	-	18,462
Other employee benefits	417,279	246,091	213,247	335,557	306,467	1,518,641
Payroll taxes	129,119	92,854	52,722	123,562	114,092	512,349
Professional fundraising fees	-	-	-	-	131,781	131,781
Accounting fees	-	-	-	53,298	-	53,298
Legal fees	-	-	-	41,565	-	41,565
HR/Payroll Fees	25,869	14,955	13,228	20,497	18,194	92,743
Supplies	73,495	75,885	15,256	74,830	38,376	277,842
Telephone	38,345	44,956	32,053	46,386	33,135	194,875
Information technology expense	180,306	137,052	93,248	152,753	127,879	691,238
Postage	1,659	614	949,680	210,312	2,979,952	4,142,217
Occupancy	181,992	(25,696)	357,761	181,827	93,730	789,614
Equipment rental/maintenance	46,507	53,209	26,173	36,330	10,309	172,528
Printing and publications	929	349	1,616,443	352,921	5,027,786	6,998,428
Delivery and freight	-	1,029,906	-	-	5,580	1,035,486
Travel	59,375	110,748	12,285	99,278	129,613	411,299
Depreciation	231,193	277,705	193,797	196,196	72,201	971,092
Donated services used	230,093	56,252	-	-	-	286,345
Volunteer stipend and insurance	108,125	11,200	33,125	-	34,087	186,537
Donated materials used	11,889,975	82,613,729	12,037,848	137,811	27,197	106,706,560
Professional fees - other	508	4,539	614	332,371	82,744	420,776
Home repair materials/services	664,640	712	13,656	354	(8)	679,354
Interest	-	-	-	15,631	-	15,631
Miscellaneous	142,555	120,474	81,634	345,455	291,237	981,355
Total	\$ 16,409,976	\$ 86,043,236	\$ 16,571,565	\$ 4,624,867	\$ 11,153,149	\$ 134,802,793

See accompanying notes.

CHRISTIAN APPALACHIAN PROJECT, INC.

Statement of Functional Expenses

Year ended August 31, 2019

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

See accompanying notes.

CHRISTIAN APPALACHIAN PROJECT, INC.

Statements of Cash Flows

Years ended August 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 52,183	\$ (1,314,982)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions restricted for long-term investment	(12,382)	(122)
Depreciation	971,092	999,855
Net (recovery) provision for uncollectible accounts	(3,936)	4,314
Loss (gain) on transfer/sale of property and equipment	761,459	(28,159)
Net realized (gains) losses on investments	(191,840)	47,873
Net unrealized gains on investments	(998,669)	(79,119)
Common stock donated to CAP	(51,825)	(31,614)
Annuity obligations incurred	77,151	40,488
Actuarial adjustment on annuity obligations	250,927	106,295
Increase (decrease) in cash due to changes in:		
Accounts receivable	(35,512)	(15,181)
Contributions receivable	855,742	462,950
Accrued interest receivable	7,940	(4,007)
Inventories	184,371	120,529
Prepaid expenses	(118,510)	8,690
Accounts payable	40,109	219,701
Accrued expenses	<u>140,117</u>	<u>(76,765)</u>
Net cash provided by operating activities	1,928,417	460,746
Cash flows from investing activities:		
Decrease in investments, net	676,244	92,052
Collections of notes receivable	4,831	4,695
Purchases of property and equipment	(768,196)	(920,011)
Proceeds from sale of property and equipment	<u>-</u>	<u>64,122</u>
Net cash provided by (used in) investing activities	(87,121)	(759,142)

CHRISTIAN APPALACHIAN PROJECT, INC.

Statements of Cash Flows, continued

Years ended August 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	12,382	122
Payments on annuity obligations	(273,526)	(326,231)
Proceeds from PPP loan	1,481,900	-
Payments on capital leases payable	<u>(31,440)</u>	<u>(2,861)</u>
Net cash provided by (used in) financing activities	<u>1,189,316</u>	<u>(328,970)</u>
Net increase (decrease) in cash	3,030,612	(627,366)
Cash, beginning of year	<u>814,684</u>	<u>1,442,050</u>
Cash, end of year	<u>\$ 3,845,296</u>	<u>\$ 814,684</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 15,631	\$ 51,286
Noncash investing and financing transactions:		
Capital lease obligations for acquisition of equipment	82,627	-

See accompanying notes.

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements

1. Description of the Organization

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

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

CAP was organized in 1958 and incorporated in 1964. CAP operates 16 Human Service programs in 11 direct service counties in Appalachia and in all 13 Appalachian states. Corporate gifts-in-kind donations valued at more than \$105 million were distributed by CAP's Operation Sharing Program to 1,173 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.

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.

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Investments

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

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

Property and Equipment

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

Annuity Obligations

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

The August 31, 2020 and 2019 annuity liability balances of \$1,666,972 and \$1,612,420 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, 2020, the estimated remaining life expectancies of the annuitants range from one to eleven years.

State laws regarding mandated reserves associated with annuity agreements vary from zero to 100% of the initial liability to be set aside. CAP's Board of Directors has gone beyond any legal requirement and designated that the entire amount to be paid under any annuity contract (i.e. before discount) be designated for investment until CAP has made all payments required by the annuity agreement. The \$2,197,405 and \$2,256,938 included on the statements of financial position at August 31, 2020 and 2019, respectively, as net assets without donor restrictions for annuity obligations is equal to the undiscounted balance of annuity contracts under which CAP is obligated.

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Forgivable Loan

As described in Note 16, CAP received a Paycheck Protection Program loan (PPP loan) under the *Coronavirus Aid, Relief and Economic Security Act* (CARES Act) in the amount of \$1,481,900. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the PPP loan, subject to limitations, based on the use of loan proceeds for payment of eligible expenses (payroll costs and payments of mortgage interest, rent and utilities). CAP accounts for the PPP loan as debt.

The PPP loan amount is included in liabilities on the statements of financial position. Amounts of the PPP loan and accrued interest forgiven will be recognized as a gain upon extinguishment of the debt in the statements of activities when CAP receives notification from the lender that the Small Business Administration has approved the PPP loan forgiveness application and remitted the forgiveness amount to the lender.

Net Assets

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

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

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

Contributions

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

Contributions of Materials and Property and Equipment

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

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

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.

Functional Allocation of Expenses

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

Income Taxes

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

Subsequent Events

CAP's management has evaluated subsequent events for accounting and disclosure requirements through November 25, 2020, 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 May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The core principle of ASU 2014-09 is to recognize revenues when a customer obtains control of a good or service, in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. Additionally, the ASU will require enhanced qualitative and quantitative disclosures regarding customer contracts. The standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or modified retrospective with cumulative effect transition method. In June 2020, the FASB issued ASU 2020-05, which deferred the effective date of ASU 2014-09. The updated standard will be effective for CAP for the year ending August 31, 2021. CAP has not yet selected a transition method and is currently evaluating the effect that the new standard will have on its financial statements.

In 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, with early adoption permitted. CAP has not yet selected a transition method and is currently evaluating the effect that the new standard will have on its financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which addresses questions stemming from ASU No. 2014-09 regarding its implication on the grants and contracts of not-for-profit organizations. The ASU primarily addresses whether or not the transaction is reciprocal (i.e., an exchange) and therefore accounted for under ASU No. 2014-09 or nonreciprocal (i.e., a contribution) and therefore accounted for under contribution guidance. This ASU was adopted by CAP in 2020. The adoption had no impact on previous years' net assets or change in net assets.

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements, continued

In September 2020, the FASB released ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU requires a not-for-profit organization to present, apart from contributions of cash or other financial assets, contributed nonfinancial assets as a separate line item within its statement of activities. The ASU also requires additional quantitative and qualitative disclosures. The ASU requires a not-for-profit to disaggregate the non-financial gift, presented in the statement of activities, by asset category and disclose the category type and corresponding asset value. The ASU should be applied retroactively and is effective for years beginning after June 15, 2021 - for CAP, the year ending August 31, 2022. Early adoption is permitted. CAP is currently evaluating the effect that the new standard will have on its financial statements.

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>2020</u>	<u>2019</u>
Cash	\$ 3,845,296	\$ 814,684
Accounts receivable	142,162	106,650
Contributions receivable, net	170,242	478,478
Investments	8,444,702	8,286,996
Notes receivable	<u>5,061</u>	<u>4,887</u>
	<u>\$ 12,607,463</u>	<u>\$ 9,691,695</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 9.

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

4. Contributions Receivable

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

	<u>2020</u>	<u>2019</u>
Unconditional promises to give before unamortized discount and allowance for uncollectible accounts	\$ 1,187,013	\$ 2,116,232
Less: Unamortized discount, ranging from 0% to 3%	<u>(262,921)</u>	<u>(339,955)</u>
	924,092	1,776,277
Less: Allowance for uncollectible accounts	<u>(3,936)</u>	<u>(4,314)</u>
	<u>\$ 920,156</u>	<u>\$ 1,771,963</u>
Amounts due in:		
Less than one year	\$ 170,242	\$ 478,478
One to five years	166,311	620,294
More than five years	<u>850,460</u>	<u>1,017,460</u>
	<u>\$ 1,187,013</u>	<u>\$ 2,116,232</u>

5. Notes Receivable

During 2012, CAP entered into a promissory note receivable agreement secured by a mortgage against certain real property formerly occupied by CAP. The note bears interest at 3.5% and is payable monthly. The amounts due to CAP as of August 31, 2020 and 2019 were \$14,656 and \$19,487, respectively.

6. Investments

Investments consist of the following as of August 31:

	<u>2020</u>		<u>2019</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Cash equivalents	\$ 935,425	\$ 935,425	\$ 1,166,120	\$ 1,166,120
Equity securities	5,011,613	8,032,014	4,975,373	7,056,474
Debt securities	<u>2,642,659</u>	<u>2,816,074</u>	<u>2,888,797</u>	<u>2,994,829</u>
	<u>\$ 8,589,697</u>	<u>\$11,783,513</u>	<u>\$ 9,030,290</u>	<u>\$11,217,423</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

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, 2020 are summarized as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 935,425	\$ -	\$ -	\$ 935,425
Equity securities	8,032,014	-	-	8,032,014
Debt securities	<u>2,816,074</u>	<u>-</u>	<u>-</u>	<u>2,816,074</u>
Total investments	<u>\$ 11,783,513</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,783,513</u>

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

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

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, 2020 and 2019.

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

7. 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 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.

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.

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

7. Fair Value Measurements, continued

Endowments, continued

Endowment net asset composition by type of fund as of August 31, 2020 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 3,259,954	\$ 3,259,954

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 2,930,427	\$ 2,930,427

Changes in endowment net assets as of August 31, 2020 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 2,930,427	\$ 2,930,427
Contributions	-	12,382	12,382
Investment income	-	66,376	66,376
Net realized losses on investments	-	(7,307)	(7,307)
Net unrealized gains on investments	-	337,813	337,813
Amounts appropriated for expenditure	-	(79,737)	(79,737)
Endowment net assets, end of year	\$ -	\$ 3,259,954	\$ 3,259,954

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

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

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

8. Property and Equipment

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

	<u>2020</u>	<u>2019</u>
Land	\$ 2,491,745	\$ 2,556,745
Buildings	13,008,212	13,552,605
Equipment and vehicles	6,429,418	6,047,701
Leasehold improvements	1,157,698	1,157,698
Construction in progress	<u>309,306</u>	<u>169,197</u>
	23,396,379	23,483,946
Less accumulated depreciation	<u>(11,519,822)</u>	<u>(10,725,661)</u>
Property and equipment, net	<u>\$ 11,876,557</u>	<u>\$ 12,758,285</u>

As of August 31, 2020, there are no significant construction commitments.

9. Line of Credit

CAP has a \$1.5 million revolving line of credit with a financial institution, collateralized by CAP's general investment and annuity fund accounts. Interest is payable quarterly at the greater of the prime rate or 5% (5% as of August 31, 2020). As of August 31, 2020 and 2019, there was no outstanding balance on the account. The line matures in January 2021.

10. Leases

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

The following is a schedule of future minimum lease payments under the capital lease obligations together with the present value of net minimum lease payments as of August 31, 2020:

2021	\$ 42,186
2022	30,390
2023	24,055
2024	16,950
2025	<u>14,659</u>
Total minimum capital lease payments	128,240
Less amount representing interest	<u>(10,359)</u>
Present value of minimum lease payments	<u>\$ 117,881</u>

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

10. Leases, continued

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

	<u>2020</u>	<u>2019</u>
Equipment	\$ 192,875	\$ 162,195
Accumulated depreciation	<u>(112,343)</u>	<u>(118,019)</u>
	<u>\$ 80,532</u>	<u>\$ 44,176</u>

The following is a schedule of future minimum lease payments under operating leases as of August 31, 2020:

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

Lease expense was \$19,417 and \$18,719 for 2020 and 2019, respectively.

11. Net Assets With Donor Restrictions

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

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purposes:		
Community service program activities	\$ 2,305,288	\$ 2,539,173
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>2,232,939</u>	<u>2,220,557</u>
Total	<u>\$ 4,560,477</u>	<u>\$ 4,781,980</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>2020</u>	<u>2019</u>
Satisfaction of purpose restrictions:		
Community service program activities	\$ 92,196	\$ 115,548
Family services program	440,277	426,424
Education services	143,784	148,179
General operations	3,098,016	2,587,805
Contributions receivable	<u>760,984</u>	<u>36,245</u>
Total	<u>\$ 4,535,257</u>	<u>\$ 3,314,201</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>2020</u>	<u>2019</u>
Materials and supplies	\$ 105,824,650	\$ 71,690,194
Donations of food and commodities	871,910	752,852
Other donations	<u>10,001</u>	<u>66,465</u>
Total donated materials received	106,706,561	72,509,511
Add beginning Christmas Baskets pledges receivable	15,080	16,676
Less ending Christmas Baskets pledges receivable	<u>(15,081)</u>	<u>(15,080)</u>
Total donated materials used	<u>\$ 106,706,560</u>	<u>\$ 72,511,107</u>

13. Contributed Services

During the fiscal years ended August 31, 2020 and 2019, 752 and 2,040 volunteers, respectively, donated 71,809 and 138,846 hours of service, respectively, with an estimated value of \$790,282 and \$1,545,542, respectively. Of these amounts, 25,693 and 52,312 hours, respectively, valued at \$286,345 and \$593,678, respectively, met the criteria for financial statement recognition (see Note 2). The length of service provided by the individual volunteers ranged from one day to the entire year. The volunteers performed a wide variety of program services including, but not limited to, elderly visitation, youth counseling, child care, teaching, and carpentry.

14. Employee Benefit Plans

Employees of CAP are eligible to participate in a defined contribution plan. The plan covers substantially all employees who meet certain age requirements. CAP matches 100% of an employee's voluntary contributions up to a maximum of 6% of the employee's annual compensation. The plan also provides for discretionary contributions by CAP, as determined each year. CAP contributed \$415,347 and \$395,913, to the plan for the years ended August 31, 2020 and 2019, respectively.

Additionally, CAP's president and CEO participates in a deferred compensation plan. CAP contributes 10% of the president's annual compensation. CAP contributed \$18,462 to the plan for both years ended August 31, 2020 and 2019.

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.

CHRISTIAN APPALACHIAN PROJECT, INC.

Notes to the Financial Statements, continued

16. Paycheck Protection Program

On March 27, 2020, President Trump signed into law the CARES Act, which, among other things, outlines the provisions of the Paycheck Protection Program (the PPP). In addition, President Trump signed into law the *Paycheck Protection Program and Health Care Enhancement Act* on April 24, 2020, which increased funding provided by the CARES Act. On June 5, 2020, the *Paycheck Protection Program Flexibility Act* was signed into law and extended the program until December 31, 2020, as well as revised certain terms associated with the PPP.

On April 14, 2020, CAP received a PPP loan from Community Trust Bank, Inc. in the amount of \$1,481,900. The PPP loan matures on April 13, 2022 and bears interest at a rate of 1.00% per annum. Monthly principal and interest payments are deferred until the date on which the Small Business Administration remits the amount of forgiveness to Peoples Bankcorp, Inc. or 10 months subsequent to the end of the PPP loan forgiveness covered period, whichever is earlier. The interest accrued during the deferral period, that is not forgiven, becomes due and payable throughout the remainder of the loan term once notified by Community Trust Bank, Inc. subsequent to the date when forgiveness of the PPP loan was determined. Any remaining principal balance that is not forgiven is due and payable on the maturity date. The PPP loan may be prepaid at any time prior to maturity with no prepayment penalty.

It is CAP's intent to apply for loan forgiveness under the provisions of the CARES Act, however, no assurance is provided that CAP will obtain forgiveness of the PPP loan in whole or in part.

17. Business Disruption

In March 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak to be a pandemic. COVID-19 continues to spread across the globe and is impacting worldwide economic activity and financial markets. The continued spread of the disease represents a significant risk that operations could be disrupted in the near future.

The extent to which COVID-19 impacts CAP will depend on future developments, which are highly uncertain and cannot be predicted. As a result, CAP has not yet determined the impact this disruption may have on its financial statements for the year ending August 31, 2021.