

CHURCH HILL ACTIVITIES & TUTORING, INC.

CONSOLIDATED FINANCIAL REPORTS

August 31, 2015

C O N T E N T S

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Church Hill Activities & Tutoring, Inc.
Richmond, Virginia

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Church Hill Activities & Tutoring, Inc. ("CHAT"), which comprise the consolidated statement of financial position as of August 31, 2015 and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Church Hill Activities & Tutoring, Inc., as of August 31, 2015 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The consolidated financial statements of Church Hill Activities & Tutoring, Inc., as of and for the year ended August 31, 2014, were audited by other auditors whose report dated December 31, 2014 expressed an unmodified opinion on those statements.

Mitchell, Wiggins & Company LLP

Petersburg, Virginia
January 4, 2016

CHURCH HILL ACTIVITIES & TUTORING, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

August 31, 2015 and 2014

| ASSETS | 2015 | 2014 |
|---|---------------------|---------------------|
| Cash | \$ 404,993 | \$ 423,777 |
| Grants receivable | 354,594 | - |
| Investments | - | 78,936 |
| Other assets | 6,777 | 2,201 |
| Property and equipment, net | 780,261 | 635,733 |
| Total assets | \$ 1,546,625 | \$ 1,140,647 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable | \$ 38,031 | \$ 7,825 |
| Accrued expenses | 34,799 | 21,636 |
| Note payable | 146,819 | 154,925 |
| Total liabilities | 219,649 | 184,386 |
| Net assets: | | |
| Unrestricted | 783,139 | 711,619 |
| Temporarily restricted | 543,837 | 244,642 |
| Total net assets | 1,326,976 | 956,261 |
| Total liabilities and net assets | \$ 1,546,625 | \$ 1,140,647 |

See Notes to Consolidated Financial Statements.

CHURCH HILL ACTIVITIES & TUTORING, INC.**CONSOLIDATED STATEMENT OF ACTIVITIES****Year Ended August 31, 2015**

| | Unrestricted | Temporarily Restricted | Total |
|--|-------------------|---------------------------|---------------------|
| Revenues and other support: | | | |
| Contributions | \$ 1,274,378 | \$ 664,497 | \$ 1,938,875 |
| Program income | 82,254 | - | 82,254 |
| Special events (net of expenses \$30,594) | 93,520 | - | 93,520 |
| Investment (return) loss | (119) | 75 | (44) |
| Other revenue | 4,570 | - | 4,570 |
| Total revenue and support | 1,454,603 | 664,572 | 2,119,175 |
| Net assets released from restrictions: | | | |
| Satisfaction of purpose restrictions | 365,377 | (365,377) | - |
| Total revenues, other support and reclassifications | 1,819,980 | 299,195 | 2,119,175 |
| Expenses and losses: | | | |
| Program expenses | 1,300,244 | - | 1,300,244 |
| Management and general | 271,544 | - | 271,544 |
| Fundraising | 176,022 | - | 176,022 |
| Loss on sale of property and equipment | 650 | - | 650 |
| Total expenses and losses | 1,748,460 | - | 1,748,460 |
| Changes in net assets | 71,520 | 299,195 | 370,715 |
| Net assets, beginning | 711,619 | 244,642 | 956,261 |
| Net assets, ending | \$ 783,139 | \$ 543,837 | \$ 1,326,976 |

See Notes to Consolidated Financial Statements.

CHURCH HILL ACTIVITIES & TUTORING, INC.**CONSOLIDATED STATEMENT OF ACTIVITIES****Year Ended August 31, 2014**

| | Unrestricted | Temporarily Restricted | Total |
|--|------------------|---------------------------|------------------|
| Revenues and other support: | | | |
| Contributions | \$ 1,178,237 | \$ 40,610 | \$ 1,218,847 |
| Program income | 51,692 | - | 51,692 |
| Special events (net of expenses \$20,379) | 73,410 | - | 73,410 |
| Investment return | 738 | 87 | 825 |
| Other revenue | 13,640 | - | 13,640 |
| Total revenue and support | 1,317,717 | 40,697 | 1,358,414 |
| Net assets released from restrictions: | | | |
| Satisfaction of purpose restrictions | 45,536 | (45,536) | - |
| Total revenues, other support and reclassifications | 1,363,253 | (4,839) | 1,358,414 |
| Expenses: | | | |
| Program expenses | 1,120,465 | - | 1,120,465 |
| Management and general | 209,599 | - | 209,599 |
| Fundraising | 135,660 | - | 135,660 |
| Total expenses | 1,465,724 | - | 1,465,724 |
| Changes in net assets | (102,471) | (4,839) | (107,310) |
| Net assets, beginning | 814,090 | 249,481 | 1,063,571 |
| Net assets, ending | \$ 711,619 | \$ 244,642 | \$ 956,261 |

See Notes to Consolidated Financial Statements.

CHURCH HILL ACTIVITIES & TUTORING, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended August 31, 2015 and 2014

| | 2015 | 2014 |
|--|-----------------|-----------------|
| Operating Activities | | |
| Changes in net assets | \$ 370,715 | \$ (107,310) |
| Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities: | | |
| Contributions restricted for long-term purposes | (58,228) | - |
| Depreciation | 31,355 | 23,171 |
| Loss on sale of property and equipment | 650 | - |
| (Gain) loss on sale of investment securities | 464 | (89) |
| Donated investments | (137,977) | (63,690) |
| Proceeds from sale of donated investments | 137,513 | 63,779 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in assets: | | |
| Grants receivable | (354,594) | - |
| Other assets | (4,576) | 4,143 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 30,206 | 1,253 |
| Accrued expenses | 13,163 | 3,074 |
| Net cash provided by (used in) operating activities | 28,691 | (75,669) |
| Investing Activities | | |
| Purchase of property and equipment | (176,683) | (13,064) |
| Proceeds from sale of property and equipment | 150 | - |
| Proceeds from sale of investments | 78,936 | 51,498 |
| Net cash provided by (used in) investing activities | (97,597) | 38,434 |
| Financing Activities | | |
| Proceeds from contributions restricted for purchase of capital assets | 58,228 | - |
| Payments on long-term debt | (8,106) | (9,095) |
| Net cash provided by (used in) financing activities | 50,122 | (9,095) |
| Decrease in cash and cash equivalents | (18,784) | (46,330) |
| Cash and cash equivalents, beginning | 423,777 | 470,107 |
| Cash and cash equivalents, ending | \$ 404,993 | \$ 423,777 |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash paid for interest | \$ 8,520 | \$ 7,173 |

See Notes to Consolidated Financial Statements.

CHURCH HILL ACTIVITIES & TUTORING, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended August 31, 2015

| | Program Services | | | | Program Services Total | Supporting Services | | |
|--|-------------------|------------------------------|-------------------|-------------------|------------------------------|-------------------------|-------------------|---------------------|
| | After School | Work Leadership Institute | Academy | Tiny Tikes | | Management & General | Fundraising | Total |
| Salaries | \$ 331,554 | \$ 32,164 | \$ 365,606 | \$ 84,792 | \$ 814,116 | \$ 156,661 | \$ 117,172 | \$ 1,087,949 |
| Employee benefits | 18,022 | - | 36,125 | - | 54,147 | 24,994 | 9,552 | 88,693 |
| Payroll taxes | 23,624 | 2,292 | 26,051 | 6,042 | 58,009 | 11,158 | 8,348 | 77,515 |
| Total salaries and related expenses | 373,200 | 34,456 | 427,782 | 90,834 | 926,272 | 192,813 | 135,072 | 1,254,157 |
| Contract services | 2,000 | 11,867 | - | - | 13,867 | 40,623 | - | 54,490 |
| Contributions | - | - | 2,250 | - | 2,250 | - | - | 2,250 |
| Curriculum | 1,144 | 28 | 3,202 | 272 | 4,646 | - | - | 4,646 |
| Dues & subscriptions | 12,103 | - | 1,449 | 225 | 13,777 | 3,863 | - | 17,640 |
| Insurance | 1,208 | 1,208 | 1,208 | 1,208 | 4,832 | 11,281 | - | 16,113 |
| Materials & supplies | 7,119 | 14,588 | 3,366 | 7,421 | 32,494 | 503 | 62 | 33,059 |
| Meals & snacks | 15,639 | 574 | 23,009 | 880 | 40,102 | 2,637 | 47 | 42,786 |
| Ministry fund | 34 | - | 62 | - | 96 | 188 | 169 | 453 |
| Miscellaneous | - | - | 187 | - | 187 | 133 | - | 320 |
| Occupancy | 61,324 | 6,771 | 23,312 | 11,471 | 102,878 | 2,675 | 50 | 105,603 |
| Office expenses | 71 | - | 135 | 79 | 285 | 538 | - | 823 |
| Postage & delivery | 534 | 511 | 549 | 504 | 2,098 | - | 4,953 | 7,051 |
| Printing & copying | 481 | 51 | 1,687 | 155 | 2,374 | 2,542 | 15,166 | 20,082 |
| Program stipends | 31,092 | - | - | - | 31,092 | - | - | 31,092 |
| Rewards & incentives | 2,215 | 14 | 850 | 309 | 3,388 | 129 | - | 3,517 |
| Scholarships | 16,965 | - | 3,130 | - | 20,095 | - | - | 20,095 |
| Service charges & fees | 4,357 | 517 | 3,828 | 1,714 | 10,416 | 9,388 | 43 | 19,847 |
| Special events & trips | 21,732 | 551 | 4,383 | 2,900 | 29,566 | - | - | 29,566 |
| Staff development | 3,129 | 535 | 2,659 | 1,295 | 7,618 | - | 20,460 | 28,078 |
| Telephone, cable & internet | 750 | - | 1,787 | 750 | 3,287 | 543 | - | 3,830 |
| Transportation costs | 12,429 | 12,755 | 18,209 | 3,138 | 46,531 | - | - | 46,531 |
| Volunteer & staff appreciation | 1,689 | 121 | 113 | 170 | 2,093 | 3,688 | - | 5,781 |
| Total expenses | \$ 569,215 | \$ 84,547 | \$ 523,157 | \$ 123,325 | \$ 1,300,244 | \$ 271,544 | \$ 176,022 | \$ 1,747,810 |

See Notes to Consolidated Financial Statements.

CHURCH HILL ACTIVITIES & TUTORING, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended August 31, 2014

| | <u>Program Services</u> | | | | <u>Supporting Services</u> | | |
|--|-------------------------|-------------------|-------------------|-------------------------------|---------------------------------|--------------------|---------------------|
| | <u>After School</u> | <u>Academy</u> | <u>Tiny Tikes</u> | <u>Program Services Total</u> | <u>Management & General</u> | <u>Fundraising</u> | <u>Total</u> |
| Salaries & wages | \$ 357,450 | \$ 278,585 | \$ 66,922 | \$ 702,957 | \$ 111,746 | \$ 98,394 | \$ 913,097 |
| Employee benefits | 26,460 | 18,880 | 5,042 | 50,382 | 7,755 | 6,780 | 64,917 |
| Payroll taxes | 25,630 | 19,975 | 4,799 | 50,404 | 8,013 | 7,055 | 65,472 |
| Total salaries and related expenses | 409,540 | 317,440 | 76,763 | 803,743 | 127,514 | 112,229 | 1,043,486 |
| Contract services | 1,206 | - | - | 1,206 | 12,000 | 15,000 | 28,206 |
| Curriculum | 1,637 | 1,878 | 897 | 4,412 | - | - | 4,412 |
| Dues & subscriptions | 4,885 | 3,633 | - | 8,518 | 14,530 | - | 23,048 |
| Insurance | - | - | - | - | 13,887 | - | 13,887 |
| Materials & supplies | 27,301 | 3,296 | 3,742 | 34,339 | 1,570 | - | 35,909 |
| Meals & snacks | 11,154 | 1,584 | 300 | 13,038 | 1,054 | - | 14,092 |
| Ministry fund | 188 | - | - | 188 | 30 | - | 218 |
| Miscellaneous | - | - | - | - | 1,467 | - | 1,467 |
| Occupancy | 97,711 | 30,171 | 1,695 | 129,577 | 2,601 | 287 | 132,465 |
| Office expenses | 10 | 29 | - | 39 | 4,693 | - | 4,732 |
| Postage & delivery | 615 | 687 | 138 | 1,440 | 5,652 | 1,066 | 8,158 |
| Printing & copying | 2,231 | 3,804 | 616 | 6,651 | 7,233 | 1,664 | 15,548 |
| Program stipends | 26,409 | - | - | 26,409 | - | - | 26,409 |
| Rewards & incentives | 3,195 | 166 | - | 3,361 | - | - | 3,361 |
| Scholarships | 16,361 | 2,500 | - | 18,861 | - | - | 18,861 |
| Service charges & fees | 30 | 36 | - | 66 | 4,867 | - | 4,933 |
| Special events & trips | 17,027 | 6,872 | 1,412 | 25,311 | 2,776 | 5,378 | 33,465 |
| Staff development | 1,139 | 1,097 | - | 2,236 | 7,172 | 36 | 9,444 |
| Telephone, cable & internet | - | - | - | - | 1,696 | - | 1,696 |
| Transportation costs | 19,845 | 15,353 | 3,650 | 38,848 | - | - | 38,848 |
| Travel | - | 93 | - | 93 | - | - | 93 |
| Volunteer & staff appreciation | 1,804 | 80 | 245 | 2,129 | 857 | - | 2,986 |
| Total expenses | \$ 642,288 | \$ 388,719 | \$ 89,458 | \$ 1,120,465 | \$ 209,599 | \$ 135,660 | \$ 1,465,724 |

See Notes to Consolidated Financial Statements.

CHURCH HILL ACTIVITIES & TUTORING, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Organization and Significant Accounting Policies

Nature of activities: Church Hill Activities & Tutoring, Inc. (CHAT) is a not-for-profit organization that was incorporated under the laws of the Commonwealth of Virginia since 2003. CHAT, located in Richmond, Virginia, encourages and supports personal transformation through spiritual formation, education, life enhancing skills, leadership development, mentoring, and community life to youth Pre-kindergarten through 12th grade. CHAT operates a private high school, Church Hill Academy, a preschool age program, Tiny Tykes, and an After-School program, and the Work Leadership Institute, formerly called the Entrepreneurship Program. Donations represent CHAT's primary source of revenue. CHAT Properties, LLC, a wholly-owned subsidiary of CHAT, was formed in 2007 for the primary purpose of purchasing and holding real estate used in the operations of CHAT. In addition, CHAT Properties N Street, LLC, also a wholly-owned subsidiary of CHAT, was formed in 2012 for the primary purpose of purchasing and holding real estate used in the operations of CHAT.

A summary of CHAT's significant accounting policies follows:

Consolidation: The consolidated financial statements include the accounts of Church Hill Activities & Tutoring, Inc. and its wholly-owned subsidiaries, CHAT Properties, LLC and CHAT Properties N Street, LLC.

Basis of accounting: CHAT's financial statements are presented in accordance with accounting principles generally accepted in the United States of America on an accrual basis. Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Cash and cash equivalents: For purposes of the statements of cash flows, CHAT includes all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months as cash and cash equivalents. CHAT maintains bank accounts in two financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. CHAT had cash balances in a financial institution that exceeded federal depository insurance limits at August 31, 2015.

Grants receivable: Grants receivable are recorded as received. Grants receivable due in the next year are reflected as current contributions and grants receivable and are recorded at their net realizable value. Grants receivable due in subsequent years are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises to give are received to discount the amounts. An allowance for uncollectible grants receivable is provided based on management's evaluation of potential uncollectible grants receivable at year end. No allowance for uncollectible accounts has been provided because management has evaluated the receivables and believes they are fully collectible.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Property and equipment: Property and equipment with a cost of \$500 or more and that have an estimated useful life greater than one year are capitalized at cost or if donated, at approximate 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 five to thirty-nine years. Maintenance and repairs are charged to expense when incurred.

Investments: Investments are comprised of certificates of deposit and are reported at fair value. The carrying value of certificates of deposit approximates fair value. Investments acquired by gift are recorded at their fair value at the date of the gift. CHAT's policy is to liquidate all gifts of investments as soon as possible after the gift.

Revenue recognition: Contributions which include unconditional promises to give are recognized as revenues in the period received or promised. Conditional contributions are recorded when the conditions have been substantially met. Contributions are considered to be unrestricted unless specifically restricted by the donor. Program support grants are recognized as revenue at the time of award if they are unconditional.

CHAT reports grants and contributions in the temporarily restricted net asset class if they are received with donor stipulations as to their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released and reclassified to unrestricted net assets in the statement of activities. However, if restrictions on grants and contributions are met in the same reporting period as the grant or contribution is received, the revenues are reported as increases in unrestricted net assets. Interest is recorded when earned.

Unrestricted net assets: CHAT reports assets whose use is not restricted by donors as unrestricted net assets. Contributions are available for unrestricted use unless specifically restricted by the donor. In general, the unrestricted net assets of CHAT may be used at the discretion of CHAT's management and Board of Directors to support CHAT's purpose and operations.

Temporarily restricted net assets: CHAT reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Permanently restricted net assets: Permanently restricted net assets are those which are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity and the income only be utilized for purposes specified by the donor. CHAT had no permanently restricted net assets as of August 31, 2015 and 2014.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Estimates: Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Income taxes: CHAT is exempt from Federal income taxes as an organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to CHAT's tax-exempt purpose may be subject to taxation as unrelated business income. CHAT had no unrelated business income during the year ended August 31, 2015 and 2014. In addition, CHAT qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1).

CHAT follows generally accepted accounting principles regarding "Accounting for Uncertain Tax Positions". This standard provides detailed guidance for financial statement recognition, measurement, and disclosure of uncertain tax positions recognized in CHAT's consolidated financial statements. It requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will not be sustained upon examination. The tax years of 2012 to 2014 remain subject to examination by the taxing authorities.

CHAT includes penalties and interest assessed by income taxing authorities in operating expenses. CHAT did not have penalties and interest expenses for the years ended August 31, 2015 and 2014.

CHAT Properties, LLC and CHAT Properties N Street, LLC are single member LLC entities and therefore considered disregarded entities for tax purposes.

In-kind contributions/expenses: Donated goods and services are recorded at fair market value at the date of the donation. Donated services are recognized in the financial statements at their fair value if the following criteria are met:

- i) The services require specialized skills and the services are provided by individuals possessing those skills, and the services would typically need to be purchased if not donated, or
- ii) The services enhance or create an asset.

Although CHAT utilizes the services of many outside volunteers, the fair value of these services is not recognized in the accompanying financial statements since they do not meet the criteria for recognition under generally accepted accounting principles.

For the years ended August 31, 2015 and 2014, CHAT received in-kind contributions from other than individual volunteers in the amount of \$18,693 and \$18,000, respectively, primarily for instructor support and architectural services and \$0 and \$4,500, respectively, for materials and supplies, which has been recognized as revenue and expense in the statement of activities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Grants Receivable

Unconditional promises to give are as follows:

| | <u>2015</u> | <u>2014</u> |
|--|-------------------|-------------|
| Receivable in less than one year | \$ 255,024 | \$ - |
| Receivable in one to five years | 100,000 | - |
| Total unconditional promises to give | <u>355,024</u> | - |
| Less discounts to net present value | <u>(430)</u> | - |
| Net unconditional promises to give at August 31st | <u>\$ 354,594</u> | <u>\$ -</u> |

The discount rate used on long-term pledges was .27 % as of August 31, 2015.

Note 3. Property and Equipment

Property and equipment at cost, less accumulated depreciation, as of August 31, 2015 and 2014 on the statements of financial position include the following major classifications:

| | <u>2015</u> | <u>2014</u> |
|---|-------------------|-------------------|
| Building | \$ 222,608 | \$ 222,608 |
| Building improvements | 63,849 | 63,849 |
| Building and improvements not in service | 353,075 | 234,656 |
| Furniture and equipment | 42,165 | 42,165 |
| Land | 97,983 | 97,983 |
| Vehicles | 135,128 | 78,900 |
| | <u>914,808</u> | <u>740,161</u> |
| Less accumulated depreciation | <u>(134,547)</u> | <u>(104,428)</u> |
| | <u>\$ 780,261</u> | <u>\$ 635,733</u> |

Total depreciation expense for the years ended August 31, 2015 and 2014 is \$31,355 and \$23,171, respectively.

Note 4. Operating Leases

CHAT leases facilities from a church and individuals which are currently on a month-to-month basis. Rent expense was \$49,500 and \$61,425 for the fiscal years ended August 31, 2015 and 2014, respectively. Rent expense includes amounts paid to the Founder & CEO who is a related party. Rent paid to the related party was \$12,000 for the fiscal years ended August 31, 2015 and 2014, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Fair Value Measurements

U. S. GAAP has established a framework to measure fair value, and defined the required disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance also established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date.

Level 2 – Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

The classification of assets by level within the valuation hierarchy that are measured at fair value on a recurring basis as of August 31, 2014 is as follows:

| | August 31, | | | |
|-------------------------|-------------------|------------------|----------------|----------------|
| | 2014 | Level 1 | Level 2 | Level 3 |
| Assets | | | | |
| Certificates of deposit | \$ 78,936 | \$ 78,936 | \$ - | \$ - |

Note 6. Long-Term Note Payable

Long-term note payable consists of the following at August 31, 2015 and 2014:

| | 2015 | 2014 |
|--|------------------|------------------|
| SunTrust Bank, N.A., 4.85%, due in monthly installments of \$1,356 including interest, due July 2017, secured by real estate | \$146,819 | \$154,925 |

At August 31, 2015, aggregate maturities of long-term debt are as follows:

| | |
|------|------------------|
| 2016 | \$ 9,364 |
| 2017 | 137,455 |
| | <u>\$146,819</u> |

Interest expense for the years ending August 31, 2015 and 2014 was \$8,520 and \$7,173, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods as of August 31, 2015 and 2014:

| | 2015 | 2014 |
|-----------------------------------|-------------------|-------------------|
| Building campaign | \$ 96,975 | \$ 215,964 |
| EISTC program | 5,000 | - |
| Equipment capital outlay program | 121,787 | - |
| Work Leadership Institute program | 134,570 | - |
| Retail establishment program | 150,000 | - |
| Scholarships | 35,505 | 28,678 |
| | \$ 543,837 | \$ 244,642 |

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restriction specified by grantors as of August 31, 2015 and 2014 as follows:

| | 2015 | 2014 |
|-----------------------------------|-------------------|------------------|
| Purpose restriction accomplished: | | |
| Building campaign | \$ 119,065 | \$ 26,675 |
| EISTC program | 133,004 | - |
| Equipment capital outlay program | 53,213 | - |
| Work Leadership Institute program | 40,000 | - |
| Scholarships | 20,095 | 18,861 |
| | \$ 365,377 | \$ 45,536 |

Note 8. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 9. Economic Dependency

For the year ended August 31, 2015, approximately 24% of total revenues and other support came from one funding source. A significant reduction in the level of this support, if this were to occur, may have a significant effect on CHAT's programs and activities. There were no significant funding sources for the year ended August 31, 2014.

For the year ended August 31, 2015, 99% grants receivable, or \$349,570, represent amounts due from one funding source.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Retirement Plan

CHAT has a defined contribution plan under Internal Revenue Code (IRC) Section 403(b) covering certain employees. The plan allows for elective employee deferrals. There have been no employer contributions for the years ended August 31, 2015 and 2014, respectively.

Note 11. Subsequent Events

Management has evaluated subsequent events through January 4, 2016, the date the financial statements were available for issue.