APPALACHIA SERVICE PROJECT, INC.

FINANCIAL REPORT

DECEMBER 31, 2016

APPALACHIA SERVICE PROJECT, INC.

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BROWNEDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Appalachia Service Project, Inc.
Johnson City, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Appalachia Service Project, Inc., (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Appalachia Service Project, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2017, on our consideration of Appalachia Service Project, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Appalachia Service Project, Inc.'s internal control over financial reporting and compliance.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Bristol, Virginia
May 25, 2017

FINANCIAL STATEMENTS

APPALACHIA SERVICE PROJECT, INC.

STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015

ASSETS

	2016	2015
CURRENT ASSETS		
Cash and cash equivalents:		
Undesignated	$ 810,136	$ 461,081
Board designated - Operating reserve	1,230,000	1,230,000
Board designated - Revolving loan fund	49,596	46,179
Board designated - Endowment (Note 5)	36,791	113,593
Unrestricted cash	2,126,523	1,850,853
Board designated endowment fund (Notes 3, 5 and 10)	810,621	702,081
Project income receivable	96,798	118,449
Other receivables	3,400	200
Employee notes receivable (due within one year)	200	1,300
Mortgages receivable current, net (Note 4)	3,536	4,006
Current prepaid expenses	13,810	14,103
Inventories (Note 6)	597,087	268,831
Total current assets	3,651,975	2,959,823
NONCURRENT ASSETS		
Restricted cash (Note 9)	11,393	18,045
Property and equipment, net (Note 7)	2,299,135	2,381,892
Employee notes receivable (due after one year)	-	200
Long-term mortgages receivable, net (Note 4)	43,609	44,552
Long-term prepaid expenses	20,000	25,000
Total noncurrent assets	2,374,137	2,469,689
	$ 6,026,112	$ 5,429,512

LIABILITIES AND NET ASSETS

	2016	2015
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 218,799	$ 168,939
Line of credit	75,000	25,000
Deferred revenue	890,420	1,102,206
Total current liabilities	1,184,219	1,296,145
LONG-TERM LIABILITIES (Note 8)	630,511	630,511
Total liabilities	1,814,730	1,926,656
NET ASSETS (Note 9)		
Unrestricted	3,661,053	3,484,811
Temporarily restricted	550,329	18,045
Total net assets	4,211,382	3,502,856
	$ 6,026,112	$ 5,429,512

The Notes to Financial Statements are an integral part of these statements.

APPALACHIA SERVICE PROJECT, INC.

STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2016 and 2015

	2016	2015
UNRESTRICTED NET ASSETS		
Revenues		
Donations	$ 3,025,644	$ 2,179,630
Grants	211,860	100,000
Volunteer work crews fees	5,187,841	5,113,194
Project income	254,797	138,900
In-kind donations	-	120,000
Merchandise sales	207,900	146,294
Interest and investment income	16,190	15,905
Gain on sale of assets	7,700	7,837
Miscellaneous	79,604	120,700
Total unrestricted revenues	8,991,536	7,942,460
NET ASSETS RELEASED FROM RESTRICTIONS		
Satisfaction of purpose restrictions	8,612	6,805
Total unrestricted revenues and net assets released from restrictions	9,000,148	7,949,265
Expenses		
Program services	7,637,598	7,262,061
Supporting services		
Office and administration	585,431	537,722
Fundraising	600,877	670,866
Total supporting services	1,186,308	1,208,588
Total expenses	8,823,906	8,470,649
Change in unrestricted net assets	176,242	(521,384)
Balance, beginning	3,484,811	4,006,195
Balance, ending	$ 3,661,053	$ 3,484,811

The Notes to Financial Statements are an integral part of these statements.

(Continued)

APPALACHIA SERVICE PROJECT, INC.

STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2016 and 2015
(Continued)

	2016	2015
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	$ 540,896	$ 18,765
Net assets released from restrictions	(8,612)	(6,805)
Change in temporarily restricted net assets	532,284	11,960
Balance, beginning	18,045	6,085
Balance, ending	$ 550,329	$ 18,045
SUMMARY OF CHANGES IN NET ASSETS		
Change in total net assets	$ 708,526	$ (509,424)
Balance, beginning	3,502,856	4,012,280
Balance, ending	$ 4,211,382	$ 3,502,856

The Notes to Financial Statements are an integral part of these statements.

APPALACHIA SERVICE PROJECT, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2016 and 2015

	Program Services	Supporting Services			
	Home Repair and Building	Office and Administration	Fundraising	2016	2015
Salaries and related taxes	$ 2,091,801	$ 283,506	$ 197,500	$ 2,572,807	$ 2,663,708
Employee benefits	402,535	70,999	37,911	511,445	552,365
Total salaries and related expenses	2,494,336	354,505	235,411	3,084,252	3,216,073
Staff expenses	183,233	23,777	18,798	225,808	168,304
Group expenses	621,623	-	-	621,623	736,752
Repair/rehabilitation/construction	2,954,520	-	-	2,954,520	2,336,722
Transportation/maintenance	176,378	3,950	13,956	194,284	196,637
Publications	47,234	-	246,850	294,084	416,398
Office expenses	499,250	70,028	32,880	602,158	653,795
Program expenses	382,403	9,865	45,550	437,818	360,974
Taxes, licenses, and fees	69,547	51,395	5,657	126,599	95,067
Ranch and warehouse	7,667	-	-	7,667	6,836
Professional fees	48,000	64,804	-	112,804	120,795
Total expenses before depreciation	7,484,191	578,324	599,102	8,661,617	8,308,353
Depreciation	153,407	7,107	1,775	162,289	162,296
Total expenses	$ 7,637,598	$ 585,431	$ 600,877	$ 8,823,906	$ 8,470,649

The Notes to Financial Statements are an integral part of these statements.

APPALACHIA SERVICE PROJECT, INC.

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in total net assets	$ 708,526	$ (509,424)
Adjustments to reconcile change in total net assets to net cash provided by operating activities:		
Depreciation	162,289	162,296
Gain on sale of assets	(7,700)	(7,837)
In-kind donations	-	(120,000)
(Gain) loss on investments	(38,042)	19,528
Allowance for loan losses	(12,063)	(15,448)
(Increase) decrease in:		
Grant receivables	-	183,995
Project income receivable	21,651	(13,349)
Mortgages receivable	13,476	16,330
Other receivables	(3,200)	1,217
Prepaid expenses	5,293	4,907
Inventories	(328,256)	(28,814)
Increase (decrease) in:		
Accounts payable and accrued expenses	49,860	(14,466)
Deferred revenue	(211,786)	492,822
Net cash provided by operating activities	360,048	171,757
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(79,532)	(177,855)
Proceeds from sale of equipment	7,700	7,837
Payments received on employee receivables	1,300	1,300
Purchase of investments	(56,000)	-
Endowment dividends reinvested	(14,498)	(11,471)
Net cash used in investing activities	(141,030)	(180,189)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from borrowing	50,000	35,511
Net cash provided by financing activities	50,000	35,511
INCREASE IN CASH	269,018	27,079
CASH, beginning	1,868,898	1,841,819
CASH, ending	$ 2,137,916	$ 1,868,898
RECONCILIATION OF CASH TO STATEMENT OF FINANCIAL POSITION		
Cash and cash equivalents, unrestricted	$ 2,126,523	$ 1,850,853
Cash and cash equivalents, restricted	11,393	18,045
	$ 2,137,916	$ 1,868,898
SUPPLEMENTAL INFORMATION		
Interest paid	$ 30,272	$ 22,596
Property and equipment purchased with debt financing	$ -	$ 620,000

The Notes to Financial Statements are an integral part of these statements.

Note 1. Significant Accounting Policies

Nature of Activities

Appalachia Service Project, Inc. (ASP) is a nonprofit corporation organized for the purpose of alleviating sub-standard housing conditions in Appalachia by utilizing volunteers to repair, renovate and construct housing for the individuals affected by these conditions. ASP allows for the exchange of culture, hopes, talents, faith and love between volunteers and Appalachian families. The purpose of the project is to extend a helping hand to fellow human beings in the spirit of love and acceptance. ASP's programs are supported primarily by grants, donations, and fees paid by volunteer work groups. ASP operates year-round centers in Johnson City, TN; Chavies, KY; Jonesville, VA; and Guyan Valley, WV.

ASP performs major remodeling and repairs to various homes. When necessary, ASP has allowed notes to be carried for the remodeling work performed. Individuals apply for assistance through grants and low or non-interest bearing mortgages. Assistance is determined based upon financial need and debt to equity ratios with a varying amount of grants and mortgages per individual.

Basis of Accounting and Presentation

The accompanying financial statements are presented on the accrual basis of accounting.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities.* Under FASB ASC 958, ASP is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

ASP 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 as net assets released from restrictions. All temporarily restricted contributions in which the restrictions are met in the same reporting period as the donation are reported as unrestricted.

ASP reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, ASP reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

ASP reports gifts of land, buildings, and equipment as permanently restricted support if they are received with donor stipulations that do not expire with the passage of time and cannot be removed or fulfilled by organization actions. Permanently restricted contributions must be maintained by ASP in perpetuity.

Cash and Cash Equivalents

ASP considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Note 1. Significant Accounting Policies (Continued)

Cash and Cash Equivalents (continued)

Funds kept in regular checking and savings accounts are secured by the Federal Deposit Insurance Corporation (FDIC). At times, these funds may be in excess of the FDIC insurance limit. ASP has not experienced any losses in such accounts.

ASP also maintains funds in registered money market funds covered by fidelity bonds and held by custodian banks.

The ASP Board of Directors has designated a cash reserve for the purpose of meeting the Organization's cash flow needs. At the end of each calendar year, this Board designation requires a cash reserve of no less than $1,230,000, not including any cash balance in the Revolving Loan Fund, to be maintained in the General Fund. At December 31, 2016 and 2015, the Organization was in compliance with the Board designated reserve.

Mortgages Receivable

Mortgages receivable are reported at their outstanding unpaid principal balances adjusted by an allowance for loan losses. ASP maintains an allowance for loan losses to absorb an estimate of losses inherent in the receivables. The allowance is reviewed periodically by management to provide assurance that an appropriate level of loan loss reserve is maintained. The allowance for loan losses is maintained at an amount management deems adequate to cover inherent losses at the balance sheet date. The Organization considers a loan to be impaired when, based upon current information and events, it believes it is probable that the Organization will be unable to collect all amounts due according to the contractual terms of the loan agreement. If an impaired loan is forgiven, loss of principal, if any, is recorded through a charge-off to the appropriate expense account.

Inventories

Inventories of resale items and purchased building materials are valued at cost. Small tools and building materials, which are donated, are valued at flea market value.

Property and Equipment

Property and equipment are capitalized at cost for purchases and at fair market value for donated items. Depreciation is computed on a straight-line basis over the estimated service lives of the assets. ASP follows the practice of capitalizing, at cost, all expenses for fixed assets in excess of $400. Estimated useful lives are as follows:

Vehicles	3 years
Equipment	5-10 years
Furniture and fixtures	10 years
Buildings	30-39 years

Small tools and other materials are included in inventory and are not depreciated.

Note 1. Significant Accounting Policies (Continued)

Compensated Absences

Personal days are accrued at a rate of 1.25 days for the first two years of employment, 1.67 days for years 3 through 7, and 2.08 days beginning in the 8th year, for each month worked, based on the employee's anniversary date. Employees are encouraged to use their personal time in the calendar year in which it is earned. A maximum of five days of personal time may be carried over into the first quarter of the following year. If the personal time earned is not taken by the end of the first quarter, it is forfeited. However, ASP is liable for the amount of accrued but unused personal time, up to the maximum allowed, for any employee who left ASP as of the end of the calendar year.

Full-time employees accrue sick leave at the rate of one day per month. Part-time employees earn sick leave on a prorated basis relative to the average number of hours worked per month. At the end of the calendar year, employees with unused sick leave days will be credited with 1/3 of remaining sick days as additional personal days in the first quarter of the new year. ASP does not provide for any payment of unused sick days.

Allocation of Expenses

ASP's expenses are presented on a functional basis, showing basic program activities and support services. ASP allocates expenses to home repair and building, office and administration, and fundraising based on the organizational cost centers in which expenses are incurred. Expenses are allocated between support and program services based upon specific identification, or a defined allocation method.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could vary from the estimates that were used.

Deferred Revenue

Income from prepaid summer program registration fees and prepaid summer volunteer fees are deferred and recognized in the period to which the fees relate. Also, federal grant funds received but not expended are deferred and recognized in the period the grant expenditures are made.

Income Tax Status

ASP is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*, clarifies the accounting and recognition for income tax positions taken or expected to be taken in ASP's income tax returns. ASP files income tax returns in the U.S. federal jurisdiction. ASP's income tax filings are subject to audit by various taxing authorities. ASP's open audit periods are 2013-2016.

Note 2. Contributed Services

A substantial number of unpaid volunteers make significant contributions of their time to work in ASP's programs. Although these services are necessary to the program, they are, for the most part, not provided by volunteers with specialized skills. In addition, they probably would not be purchased if they were not

(Continued)

Note 2. Contributed Services (Continued)

donated, a requirement of FASB ASC 958-605, *Revenue Recognition*, to be recognized in the financial statements. Accordingly, the value of this labor has not been recorded in the financial statements. Management estimates the value of these services to be $12,254,381 and $12,333,314 for 2016 and 2015, respectively.

Note 3. Investments

Endowment investments at December 31 included the following:

	2016			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Mutual funds	$ 772,710	$ 37,911	$ -	$ 810,621

	2015			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Mutual funds	$ 724,015	$ -	$ 21,934	$ 702,081

Investment expenses netted against investment income in the statement of activities were $8,396 for the year ended December 31, 2016.

Note 4. Mortgages Receivable

ASP issues non-interest and low-interest loans for construction and remodeling of homes. The mortgages result primarily from funds received from federal and state programs. These funds have a predetermined interest rate set by the grantor agencies. For this reason, no imputed interest has been calculated.

Mortgages receivable, net totaled $47,145 and $48,558 at December 31, 2016 and 2015, respectively. Due to the inherent uncertainties associated with the collectability of the loans, the value of the underlying collateral, and the reputational risk associated with foreclosure, mortgages receivable, net are recorded at an amount that management believes approximates net realizable value as stated below.

	2016	2015
Mortgages receivable	$ 197,224	$ 210,699
Less: Allowance for loan losses	(150,079)	(162,141)
Mortgages receivable, net	47,145	48,558
Less: Mortgages receivable, current	3,536	4,006
Mortgages receivable, long-term	$ 43,609	$ 44,552

Note 5. Endowment

ASP's endowment funds consist of contributions received from individuals providing them the opportunity to make charitable gifts to ASP. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

ASP's Board of Directors has segregated a portion of unrestricted net assets as a board designated endowment to be invested to provide income for an unspecified period. The board designated endowment is classified as unrestricted net assets.

Endowment Net Asset Composition by Type of Fund
as of December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment funds	$ 847,412	$ -	$ -	$ 847,412

Endowment Net Asset Composition by Type of Fund
as of December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment funds	$ 815,673	$ -	$ -	$ 815,673

Changes in Endowment Net Assets
for the Fiscal Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 815,673	$ -	$ -	$ 815,673
Investment return:				
Investment dividend income, net	14,498	-	-	14,498
Net appreciation (realized and unrealized)	38,041	-	-	38,041
Total investment return	52,539	-	-	52,539
Contributions	56,000	-	-	56,000
Appropriation of endowment assets for expenditure	(76,800)	-	-	(76,800)
Endowment net assets, end of year	$ 847,412	$ -	$ -	$ 847,412

Note 5. Endowment (Continued)

Changes in Endowment Net Assets
for the Fiscal Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 728,941	$ -	$ -	$ 728,941
Investment return:				
Investment dividend income, net	11,471	-	-	11,471
Net appreciation (realized and unrealized)	(19,528)	-	-	(19,528)
Total investment return	(8,057)	-	-	(8,057)
Contributions	94,789	-	-	94,789
Appropriation of endowment assets for expenditure	-	-	-	-
Endowment net assets, end of year	$ 815,673	$ -	$ -	$ 815,673

Description of Amounts Classified as Permanently Restricted Net Assets,
Temporarily Restricted Net Assets and Unrestricted Net Assets

	December 31, 2016	December 31, 2015
Unrestricted Net Assets		
Board designated endowment funds	$847,412	$815,673

Return Objectives and Risk Parameters

ASP has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under these policies, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results while assuming a moderate level of investment risk. ASP expects its endowment funds, over time, to provide an average rate of return that is above the combined rate of inflation and spending rate of ASP. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, ASP relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). ASP targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to the Spending Policy

ASP has a policy of appropriating distributions only after the endowment exceeds $500,000. Once the endowment achieves this minimum threshold, the maximum annual distribution permitted is five percent of the average of the previous three years fair market value at December 31. In establishing this policy, the Organization considered the long-term expected return on its endowment. This is consistent with the Organization’s objective to maintain the purchasing power of the endowment assets held.

Note 6. Inventories

Inventories consist of the following:

	2016	2015
Resale items (includes homes)	$ 42,523	$ 6,832
Homes under construction	438,028	139,392
Small Tools	116,536	115,422
Building materials	-	7,185
	$ 597,087	$ 268,831

Note 7. Property and Equipment

Property and equipment consists of the following:

	2016	2015
Vehicles	$ 1,745,765	$ 1,720,032
Buildings	2,644,778	2,644,778
Furniture and fixtures	25,230	25,230
Land	646,205	646,205
Equipment	522,602	522,602
	5,584,580	5,558,847
Less: accumulated depreciation	(3,285,445)	(3,176,955)
	$ 2,299,135	$ 2,381,892

Note 8. Lines of Credit and Long Term Debt

ASP has the following lines of credit:

Bank of Tennessee, up to $500,000, interest at 3.25% through May 2017. This line of credit is secured by certain property of ASP and was unused at December 31, 2016 and 2015.

Bank of Tennessee, up to $100,000, interest at 1.50% through December 2017. This line of credit is secured by certain property of ASP and had a balance of $75,000 and $25,000 at December 31, 2016 and 2015, respectively.

Federation of Appalachian Housing Enterprises, Inc. up to $150,000, interest at 5.25% at December 31, 2016 and 2015, respectively through June 2017. This line of credit is unsecured and was unused at December 31, 2016 and 2015.

In February, 2015, ASP entered into a loan agreement with a financial institution for $635,000 for the purchase of certain property. The fixed interest rate is 4.57%. The loan terms are quarterly interest only payments to the maturity date of February 24, 2020. The entire outstanding principal along with all accrued interest shall be due and payable on this date. The balance at December 31, 2016 was $630,511.

Note 9. Restricted Net Assets

Temporarily restricted net assets and restricted cash are available for the following purposes:

	2016	2015
Collegiate Weekend fund	$ 4,119	$ 4,119
Purchase of vehicles	3,158	485
Front Porch fund	4,116	13,441
New Build West Virginia fund	538,936	-
	$ 550,329	$ 18,045

Note 10. Fair Value of Financial Instruments

FASB ASC 820-10, *Fair Value Measurements*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of quoted prices in active markets for identical investments and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs consist of unobservable inputs where there is little or no market activity. Level 3 inputs have the lowest priority.

The following are the major categories of investments measured at fair value on a recurring basis during the years ended December 31, 2016 and 2015, using quoted prices in active markets for identical assets (Level 1) and significant other observable inputs (Level 2). For these investments, for which there are no quoted market prices available, a reasonable estimate of fair value was based on quoted prices for similar investments in active markets. ASP had no Level 3 valuations at December 31, 2016 and 2015.

Description	Level 2: Significant Other Observable Inputs	
	2016	2015
Mutual funds	$ 810,621	$ 702,081

Note 11. Pension Plan

ASP permits employees to contribute to a tax-deferred annuity program for the purchase of an annuity contract or the establishment of a custodial account as described by Internal Revenue Code Section 403(b). ASP matches the employee's contribution up to a maximum of 6% of the employee's salary. Matching funds totaled $87,738 and $94,120 for 2016 and 2015, respectively.

Note 12. Supplemental Cash Flow Information

ASP recorded the following non-cash operating and financing transactions:

In-kind donations of $120,000 are recorded as support in the statements of activities for 2015.

Note 13. Commitments and Contingencies

As of December 31, 2016 and 2015, ASP is contingently liable as guarantor with respect to $72,351 and $80,750 of indebtedness for certain recipients of federal monies received for the purpose of home repair or construction. No material loss is anticipated by reason of such guarantee.

The ASP endowment program invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect account balances and amounts reported in the financial statements.

Note 14. Subsequent Events

In accordance with FASB ASC 855, ASP evaluated subsequent events through May 25, 2017, the date these financial statements were issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

INTERNAL CONTROL AND COMPLIANCE

BROWNEDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Appalachia Service Project, Inc.
Johnson City, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Appalachia Service Project, Inc. (ASP) (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 25, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ASP's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ASP's internal control. Accordingly, we do not express an opinion on the effectiveness of ASP's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Bristol, Virginia
May 25, 2017