

APPALACHIA SERVICE PROJECT, INC.

FINANCIAL REPORT

December 31, 2019

CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position.....	4
Statements of Activities	5
Statements of Functional Expenses	7
Statements of Cash Flows	9
Notes to Financial Statements.....	10
INTERNAL CONTROL AND COMPLIANCE	
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 <i>GOVERNMENT AUDITING STANDARDS</i>	22



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, 2019 and 2018, 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 the 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, 2019 and 2018, 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 28, 2020 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 solely 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 the effectiveness of Appalachia Service Project, Inc.'s 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 28, 2020

FINANCIAL STATEMENTS

APPALACHIA SERVICE PROJECT, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2019 and 2018

ASSETS	2019	2018
CURRENT ASSETS		
Cash and cash equivalents:		
Undesignated	\$ 276,039	\$ -
Board designated - Operating reserve	1,230,000	1,090,536
Board designated - Revolving loan fund	56,656	54,546
Board designated - Endowment (Note 7)	68,958	16,820
Unrestricted cash	<u>1,631,653</u>	<u>1,161,902</u>
Board designated endowment fund (Notes 5, 7 and 12)	1,007,574	874,480
Project income receivable	340,862	199,350
Mortgages receivable current, net (Note 6)	3,259	3,349
Current prepaid expenses	37,838	34,988
Inventories (Note 8)	<u>409,205</u>	<u>973,687</u>
Total current assets	<u>3,430,391</u>	<u>3,247,756</u>
NONCURRENT ASSETS		
Restricted cash (Note 11)	1,344,449	299,508
Property and equipment, net (Note 9)	2,049,564	2,218,957
Long-term mortgages receivable, net (Note 6)	40,191	41,308
Long-term prepaid expenses	<u>5,000</u>	<u>10,000</u>
Total noncurrent assets	<u>3,439,204</u>	<u>2,569,773</u>
Total assets	<u>\$ 6,869,595</u>	<u>\$ 5,817,529</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 184,161	\$ 379,042
Line of credit	100,000	100,000
Deferred revenue	913,940	1,039,546
Current maturities of long-term debt	<u>393,537</u>	<u>-</u>
Total current liabilities	<u>1,591,638</u>	<u>1,518,588</u>
LONG-TERM LIABILITIES (Note 10)	<u>-</u>	<u>393,537</u>
Total liabilities	<u>1,591,638</u>	<u>1,912,125</u>
NET ASSETS (Note 11)		
Without donor restrictions	3,902,174	3,374,621
With donor restrictions by purpose	<u>1,375,783</u>	<u>530,783</u>
Total net assets	<u>5,277,957</u>	<u>3,905,404</u>
Total liabilities and net assets	<u>\$ 6,869,595</u>	<u>\$ 5,817,529</u>

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

APPALACHIA SERVICE PROJECT, INC.

**STATEMENTS OF ACTIVITIES
Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUES		
Donations	\$ 3,964,233	\$ 3,388,217
Grants	316,485	683,079
Volunteer work crews fees	4,799,091	4,724,114
Project income	991,213	749,000
Merchandise sales	226,826	203,575
Interest and investment income (loss)	174,546	(44,803)
Gain (loss) on sale of assets	61,400	(1,946)
Miscellaneous	<u>258,331</u>	<u>12,437</u>
Total revenues and gains without donor restrictions	10,792,125	9,713,673
NET ASSETS RELEASED FROM RESTRICTIONS		
Satisfaction of purpose restrictions	<u>310,406</u>	<u>591,579</u>
Total revenues, gains, and other support without donor restrictions	<u>11,102,531</u>	<u>10,305,252</u>
EXPENSES		
Program services	<u>9,486,380</u>	<u>9,451,719</u>
SUPPORTING SERVICES		
Office and administration	541,771	568,070
Fundraising	<u>546,827</u>	<u>722,880</u>
Total supporting services	<u>1,088,598</u>	<u>1,290,950</u>
Total expenses	<u>10,574,978</u>	<u>10,742,669</u>
Change in net assets without donor restrictions	527,553	(437,417)
BALANCE, beginning	<u>3,374,621</u>	<u>3,812,038</u>
BALANCE, ending	<u>\$ 3,902,174</u>	<u>\$ 3,374,621</u>

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

(Continued)

APPALACHIA SERVICE PROJECT, INC.

STATEMENTS OF ACTIVITIES (CONTINUED)

Years Ended December 31, 2019 and 2018

	2019	2018
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	\$ 1,155,406	\$ 537,197
Net assets released from restrictions	(310,406)	(591,579)
Change in net assets with donor restrictions	845,000	(54,382)
BALANCE, beginning	530,783	585,165
BALANCE, ending	<u>\$ 1,375,783</u>	<u>\$ 530,783</u>
SUMMARY OF CHANGES IN NET ASSETS		
Change in total net assets	\$ 1,372,553	\$ (491,799)
BALANCE, beginning	3,905,404	4,397,203
BALANCE, ending	<u>\$ 5,277,957</u>	<u>\$ 3,905,404</u>

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

APPALACHIA SERVICE PROJECT, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended December 31, 2019 and 2018

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total 2019</u>
	<u>Home Repair and Building</u>	<u>Office and Administration</u>	<u>Fundraising</u>	
Salaries and related taxes	\$ 2,455,955	\$ 303,134	\$ 231,024	\$ 2,990,113
Employee benefits	500,553	81,136	55,812	637,501
Total salaries and related expenses	2,956,508	384,270	286,836	3,627,614
Staff expenses	191,886	2,895	32,377	227,158
Group expenses	621,407	-	-	621,407
Repair/rehabilitation/construction	3,998,839	-	-	3,998,839
Transportation/maintenance	285,309	2,632	8,058	295,999
Publications	40,036	-	160,146	200,182
Office expenses	555,803	61,146	23,991	640,940
Program expenses	561,776	8,586	26,289	596,651
Taxes, licenses, and fees	101,437	37,203	6,966	145,606
Ranch and warehouse	8,155	-	-	8,155
Professional fees	-	35,484	-	35,484
Total expenses before depreciation	9,321,156	532,216	544,663	10,398,035
Depreciation	165,224	9,555	2,164	176,943
Total expenses	\$ 9,486,380	\$ 541,771	\$ 546,827	\$ 10,574,978

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

APPALACHIA SERVICE PROJECT, INC.

STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)
Years Ended December 31, 2019 and 2018

	Program Services	Supporting Services		
	Home Repair and Building	Office and Administration	Fundraising	Total 2018
Salaries and related taxes	\$ 2,495,499	\$ 304,960	\$ 232,000	\$ 3,032,459
Employee benefits	530,265	69,234	45,922	645,421
Total salaries and related expenses	3,025,764	374,194	277,922	3,677,880
Staff expenses	224,509	4,567	32,504	261,580
Group expenses	665,305	-	-	665,305
Repair/rehabilitation/construction	3,663,435	-	-	3,663,435
Transportation/maintenance	295,938	1,861	5,715	303,514
Publications	73,766	-	346,061	419,827
Office expenses	774,729	79,496	25,123	879,348
Program expenses	479,174	6,310	19,371	504,855
Taxes, licenses, and fees	64,506	57,792	11,354	133,652
Ranch and warehouse	9,084	-	-	9,084
Professional fees	716	34,235	2,717	37,668
Total expenses before depreciation	9,276,926	558,455	720,767	10,556,148
Depreciation	174,793	9,615	2,113	186,521
Total expenses	\$ 9,451,719	\$ 568,070	\$ 722,880	\$ 10,742,669

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

APPALACHIA SERVICE PROJECT, INC.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
OPERATING ACTIVITIES		
Change in total net assets	\$ 1,372,553	\$ (491,799)
Adjustments to reconcile change in total net assets to net cash provided by (used in) operating activities:		
Depreciation	176,943	186,521
(Gain) loss on sale of assets	(61,400)	1,946
(Gain) loss on investments	(154,965)	66,002
Loans forgiven	2,870	1,989
Allowance for loan losses	(12,653)	(9,756)
(Increase) decrease in:		
Project income receivable	(141,512)	(79,205)
Mortgages receivable	10,989	8,954
Prepaid expenses	2,150	(11,528)
Inventories	564,482	(197,211)
Increase (decrease) in:		
Accounts payable and accrued expenses	(194,881)	71,846
Deferred revenue	(125,606)	251,393
	<u>1,438,970</u>	<u>(200,848)</u>
Net cash provided by (used in) operating activities		
	<u>1,438,970</u>	<u>(200,848)</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(41,849)	(156,417)
Proceeds from sale of equipment	95,700	200
Endowment dividends reinvested	21,871	(19,893)
	<u>75,722</u>	<u>(176,110)</u>
Net cash provided by (used in) investing activities		
	<u>75,722</u>	<u>(176,110)</u>
FINANCING ACTIVITIES		
Principal payments on notes payable	-	(219,064)
Line of credit, net	-	50,000
	<u>-</u>	<u>(169,064)</u>
Net cash used in financing activities		
	<u>-</u>	<u>(169,064)</u>
INCREASE (DECREASE) IN CASH	1,514,692	(546,022)
CASH, beginning	1,461,410	2,007,432
	<u>1,461,410</u>	<u>2,007,432</u>
CASH, ending	\$ 2,976,102	\$ 1,461,410
	<u>\$ 2,976,102</u>	<u>\$ 1,461,410</u>
RECONCILIATION OF CASH TO STATEMENT OF FINANCIAL POSITION		
Cash and cash equivalents, unrestricted	\$ 1,631,653	\$ 1,161,902
Cash and cash equivalents, restricted	1,344,449	299,508
	<u>1,344,449</u>	<u>299,508</u>
	<u>\$ 2,976,102</u>	<u>\$ 1,461,410</u>
SUPPLEMENTAL INFORMATION		
Interest paid	\$ 22,578	\$ 26,039
	<u>\$ 22,578</u>	<u>\$ 26,039</u>

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

APPALACHIA SERVICE PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Note 1. Significant Accounting Policies

Nature of activities

Appalachia Service Project, Inc. ("ASP") is a nonprofit organization 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 two classes of net assets: without donor restrictions and with donor restrictions.

ASP reports gifts of cash and other assets as net assets with donor restrictions 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 restrictions is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. All net assets with donor restrictions that have their restrictions met in the same reporting period as the donation received are reported as net assets without donor restrictions.

ASP reports gifts of land, buildings, and equipment as net assets without donor restrictions 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 net assets with donor restrictions. 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.

Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or net assets.

(Continued)

APPALACHIA SERVICE PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Note 1. Significant Accounting Policies (Continued)

Cash and cash equivalents

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

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, 2019, the Organization was in compliance with the Board designated reserve. At December 31, 2018, the Organization was not in compliance.

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
Office Equipment	5	years
Buildings	30-39	years

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

(Continued)

APPALACHIA SERVICE PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

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 2016-2019.

APPALACHIA SERVICE PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Note 2. Adoption of New Accounting Standards

During the first quarter of 2019, the Company adopted ASU 2014-09, “Revenue from Contracts with Customers” (ASC Topic 606) and ASU 2018-08, Not-For-Profit Entities (ASC Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. Topic 606 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry specific guidance. Topic 958 clarifies whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance (for example, ASU 2014-09, Revenue from Contracts with Customers).

There have been no significant changes to the amount or timing of our revenue recognition as a result of our adoption of ASU 2014-09, “Revenue from Contracts with Customers” (Accounting Standards Codification Topic 606) and ASU 2018-08 (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. Total revenues are primarily derived from donor contributions, program fees and grant funding. Based on the guidance in ASU 2018-08 (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, these revenue sources were determined to be contributions (nonreciprocal transactions) within the scope of Topic 958. As a result, the amount and timing of our revenues remain materially unchanged.

Note 3. 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 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 \$12,596,878 and \$12,237,297 for 2019 and 2018, respectively.

Note 4. Liquidity and Availability

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

Cash and cash equivalents	\$	276,039
Board designated – Operating reserve		1,230,000
Project income receivable		340,862
Mortgages receivable, current		3,259
	\$	<u>1,850,160</u>

ASP also has endowment funds consisting of funds designated by the board as endowments.

(Continued)

APPALACHIA SERVICE PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Note 4. Liquidity and Availability (Continued)

ASP's board-designated endowment of \$1,076,532 does have a spending policy detailed in Note 7. Although management does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of our Board's annual budget approval and appropriation), these amounts could be made available if necessary.

As part of the Organization's liquidity management plan, three lines of credit have also been acquired and are detailed in Note 10.

Note 5. Investments

Endowment investments at December 31 included the following:

	2019			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Mutual Funds	\$ 886,474	\$ 121,100	\$ -	\$ 1,007,574
	2018			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Mutual Funds	\$ 956,296	\$ -	\$ 81,816	\$ 874,480

Note 6. 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 \$43,450 and \$44,657 at December 31, 2019 and 2018, 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.

	<u>2019</u>	<u>2018</u>
Mortgages receivable	\$ 161,613	\$ 175,472
Less: Allowance for loan losses	(118,163)	(130,815)
Mortgages receivable, net	43,450	44,657
Less: Mortgages receivable, current	3,259	3,349
Mortgages receivable, long-term	<u>\$ 40,191</u>	<u>\$ 41,308</u>

APPALACHIA SERVICE PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Note 7. 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 net assets without donor restrictions as a board designated endowment to be invested to provide income for an unspecified period. The board designated endowment is classified as net assets without donor restrictions.

**Endowment Net Asset Composition by Type of Fund
as of December 31, 2019**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board designated endowment funds	<u>\$ 1,076,532</u>	<u>\$ -</u>	<u>\$ 1,076,532</u>

**Endowment Net Asset Composition by Type of Fund
as of December 31, 2018**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board designated endowment funds	<u>\$ 891,300</u>	<u>\$ -</u>	<u>\$ 891,300</u>

(Continued)

APPALACHIA SERVICE PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Note 7. Endowment (Continued)

**Changes in Endowment Net Assets
for the Fiscal Year Ended December 31, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 891,300	\$ -	\$ 891,300
Investment return:			
Investment dividend income, net	18,130	-	18,130
Net appreciation (realized and unrealized)	154,964	-	154,965
Total investment return	173,094	-	173,094
Contributions	95,640	-	95,640
Appropriation of endowment assets for expenditure	(83,502)	-	(83,502)
Endowment net assets, end of year	\$ 1,076,532	\$ -	\$ 1,076,532

**Changes in Endowment Net Assets
for the Fiscal Year Ended December 31, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 937,098	\$ -	\$ 937,098
Investment return:			
Investment dividend income, net	20,204	-	20,204
Net losses (realized and unrealized)	(66,002)	-	(66,002)
Total investment return	(45,798)	-	(45,798)
Contributions	-	-	-
Appropriation of endowment assets for expenditure	-	-	-
Endowment net assets, end of year	\$ 891,300	\$ -	\$ 891,300

(Continued)

APPALACHIA SERVICE PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Note 7. Endowment (Continued)

**Description of Amounts Classified as Net Assets Without Donor Restrictions,
and Net Assets With Donor Restrictions**

<u>Net Assets Without Donor Restrictions</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Board designated endowment funds	\$ 1,076,532	\$ 891,300

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 8. Inventories

Inventories consist of the following:

	<u>2019</u>	<u>2018</u>
Resale items (includes homes)	\$ 33,628	\$ 43,869
Homes under construction	224,514	777,377
Small tools	151,063	152,441
	<u>\$ 409,205</u>	<u>\$ 973,687</u>

APPALACHIA SERVICE PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Note 9. Property and Equipment

Property and equipment consists of the following:

	<u>2019</u>	<u>2018</u>
Vehicles	\$ 1,719,383	\$ 1,816,573
Buildings	2,567,505	2,567,505
Building improvements	94,823	77,273
Land	646,205	646,205
Office equipment	354,999	354,999
Equipment	285,000	306,500
	<u>5,667,915</u>	<u>5,769,055</u>
Less: accumulated depreciation	<u>(3,618,351)</u>	<u>(3,550,098)</u>
	<u>\$ 2,049,564</u>	<u>\$ 2,218,957</u>

Note 10. Lines of Credit and Long-Term Debt

ASP has the following lines of credit:

Bank of Tennessee, up to \$500,000, variable interest at a minimum of 5.50% through May 2020. This line of credit is secured by certain property of ASP and was unused at December 31, 2019 and 2018.

Bank of Tennessee, up to \$100,000, interest at 4.25% through December 2020. This line of credit is secured by certain property of ASP and had a balance of \$100,000 at December 31, 2019 and 2018.

Federation of Appalachian Housing Enterprises, Inc. up to \$150,000, interest at 6.15% and 6.00% as of December 31, 2019 and 2018, respectively, through June 2020. This line of credit is unsecured and was unused at December 31, 2019 and 2018.

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, 2019 and 2018 was \$393,537. The balance was paid in full in February 2020.

APPALACHIA SERVICE PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Note 11. Net Assets With Donor Restrictions

Net assets with donor restrictions and restricted cash are available for the following purposes:

	<u>2019</u>	<u>2018</u>
Collegiate weekend fund	\$ -	\$ 4,119
Purchase of vehicles	1,360	170
Front porch fund	4,396	4,396
Hancock County	-	25,000
Capital Campaign	1,338,693	265,823
New build West Virginia fund	-	75,900
Sevier County disaster relief fund	31,334	155,375
	<u>\$ 1,375,783</u>	<u>\$ 530,783</u>

Note 12. 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, 2019 and 2018, 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, 2019 and 2018.

<u>Description</u>	Level 2: Significant Other Observable Inputs	
	<u>2019</u>	<u>2018</u>
Mutual funds	<u>\$ 1,007,574</u>	<u>\$ 874,480</u>

Note 13. 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 \$109,219 and \$105,626 for 2019 and 2018, respectively.

APPALACHIA SERVICE PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Note 14. Commitments and Contingencies

As of December 31, 2019 and 2018, ASP is contingently liable as guarantor with respect to \$48,809 and \$58,637 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 15. Subsequent Events

In accordance with FASB ASC 855, ASP evaluated subsequent events through May 28, 2020, the issue date of the financial statements. On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Organization’s financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Organization is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for 2020. The outbreak could have a continued material adverse impact on economic and market conditions and trigger a period of global economic slowdown, which could negatively impact the organizational and financial goals of ASP. As a result of the COVID-19 outbreak, the summer volunteer program for 2020 has been cancelled. Although ASP cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues it may have an adverse effect on the Organization’s results of future operations, financial positions, and liquidity in 2020.

INTERNAL CONTROL AND COMPLIANCE



**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 statements of financial position as of December 31, 2019, 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 28, 2020.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of ASP'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 ASP's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ASP'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 28, 2020