APPALACHIA SERVICE PROJECT, INC.

FINANCIAL REPORT

December 31, 2021

CONTENTS

BROWNEDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Appalachia Service Project, Inc. as of December 31, 2021 and 2020, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Appalachia Service Project, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2022, 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, and 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
June 15, 2022

FINANCIAL STATEMENTS

APPALACHIA SERVICE PROJECT, INC.

STATEMENTS OF FINANCIAL POSITION
December 31, 2021 and 2020

ASSETS	**2021**	**2020**
CURRENT ASSETS		
Cash and cash equivalents:		
Undesignated	$ 657,442	$ 1,284,286
Board designated - operating reserve	1,230,000	1,230,000
Board designated - revolving loan fund	61,079	59,049
Board designated - endowment (Note 7)	13,479	16,080
Unrestricted cash	1,962,000	2,589,415
Board designated endowment fund (Notes 5, 7, and 13)	1,289,110	1,148,428
Project income receivable	589,036	446,649
Mortgages receivable current, net (Note 6)	3,064	3,157
Employee retention credit receivable, net (Note 16)	331,409	-
Current prepaid expenses	50,322	47,452
Assets held for donation (Note 8)	-	72,172
Inventories (Note 9)	582,042	366,533
Total current assets	4,806,983	4,673,806
NONCURRENT ASSETS		
Restricted cash (Note 12)	1,277,978	1,183,817
Property and equipment, net (Note 10)	1,628,009	1,684,100
Long-term mortgages receivable, net (Note 6)	37,786	38,932
Long-term prepaid expenses	-	5,000
Total noncurrent assets	2,943,773	2,911,849
Total assets	$ 7,750,756	$ 7,585,655
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 300,912	$ 181,425
Lines of credit (Note 11)	100,000	100,000
Deferred revenue	571,961	724,266
Promise-to-give (Note 8)	-	72,172
Total current liabilities	972,873	1,077,863
NET ASSETS		
Without donor restrictions (Note 12)	5,425,979	5,295,141
With donor restrictions by purpose (Note 12)	1,351,904	1,212,651
Total net assets	6,777,883	6,507,792
Total liabilities and net assets	$ 7,750,756	$ 7,585,655

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

APPALACHIA SERVICE PROJECT, INC.

STATEMENTS OF ACTIVITIES
Years Ended December 31, 2021 and 2020

	2021	2020
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUES		
Donations	$ 2,598,340	$ 4,689,604
Grants	788,894	354,421
Volunteer work crews fees	1,692,739	81,388
Project income	617,931	522,666
Merchandise sales	77,970	57,255
Interest and investment income	141,862	142,236
Gain on sale of assets	16,717	-
Loss on disposal of assets (Note 8)	-	(152,533)
Miscellaneous (Note 16)	374,582	60,790
PPP loan forgiveness other income (Note 17)	613,090	623,505
Total revenues and gains without donor restrictions	6,922,125	6,379,332
NET ASSETS RELEASED FROM RESTRICTIONS		
Satisfaction of purpose restrictions	146,063	443,608
Total revenues, gains, and other support without donor restrictions	7,068,188	6,822,940
EXPENSES		
Program services	5,885,970	4,267,667
SUPPORTING SERVICES		
Office and administration	525,088	567,982
Fundraising	526,292	594,324
Total supporting services	1,051,380	1,162,306
Total expenses	6,937,350	5,429,973
Change in net assets without donor restrictions	130,838	1,392,967

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, 2021 and 2020

	2021	2020
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	$ 285,316	$ 280,476
Net assets released from restrictions	(146,063)	(443,608)
Change in net assets with donor restrictions	139,253	(163,132)
Change in total net assets	270,091	1,229,835
BALANCE, beginning	6,507,792	5,277,957
BALANCE, ending	$ 6,777,883	$ 6,507,792

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

APPALACHIA SERVICE PROJECT, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended December 31, 2021 and 2020

	Program Services	Supporting Services		
	Home Repair and Building	Office and Administration	Fundraising	Total 2021
Salaries and related taxes	$ 1,929,220	$ 294,507	$ 204,288	$ 2,428,015
Employee benefits	402,636	69,825	42,816	515,277
Total salaries and related expenses	2,331,856	364,332	247,104	2,943,292
Staff expenses	95,585	1,734	11,660	108,979
Group expenses	301,747	-	-	301,747
Repair/rehabilitation/construction	2,146,564	-	-	2,146,564
Transportation/maintenance	141,486	1,089	3,208	145,783
Publications	42,152	-	168,610	210,762
Office expenses	435,672	64,617	62,661	562,950
Program expenses	238,217	6,535	19,258	264,010
Taxes, licenses, and fees	30,769	20,524	6,492	57,785
Warehouse	10,663	-	-	10,663
Professional fees	36,049	60,376	5,600	102,025
Total expenses before depreciation	5,810,760	519,207	524,593	6,854,560
Depreciation	75,210	5,881	1,699	82,790
Total expenses	$ 5,885,970	$ 525,088	$ 526,292	$ 6,937,350

APPALACHIA SERVICE PROJECT, INC.

STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)
Years Ended December 31, 2021 and 2020

	Program Services	Supporting Services		
	Home Repair and Building	Office and Administration	Fundraising	Total 2020
Salaries and related taxes	$ 1,471,598	$ 281,006	$ 190,674	$ 1,943,278
Employee benefits	374,292	69,133	41,865	485,290
Total salaries and related expenses	1,845,890	350,139	232,539	2,428,568
Staff expenses	60,431	996	10,160	71,587
Group expenses	72,446	-	-	72,446
Repair/rehabilitation/construction	1,173,294	-	-	1,173,294
Transportation/maintenance	78,989	756	1,926	81,671
Publications	65,582	-	262,326	327,908
Office expenses	482,473	65,078	54,833	602,384
Program expenses	278,847	8,492	21,619	308,958
Taxes, licenses, and fees	47,671	24,501	5,900	78,072
Warehouse	8,262	-	-	8,262
Professional fees	800	37,730	3,200	41,730
Contribution of property and equipment	-	72,171	-	72,171
Miscellaneous expenses	22,159	3	-	22,162
Total expenses before depreciation	4,136,844	559,866	592,503	5,289,213
Depreciation	130,823	8,116	1,821	140,760
Total expenses	$ 4,267,667	$ 567,982	$ 594,324	$ 5,429,973

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

APPALACHIA SERVICE PROJECT, INC.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2021 and 2020

	2021	2020
OPERATING ACTIVITIES		
Change in total net assets	$ 270,091	$ 1,229,835
Adjustments to reconcile change in total net assets to net cash (used in) provided by operating activities:		
Depreciation	82,790	140,760
Contribution of property and equipment	-	72,171
Gain on sale of assets	(16,717)	-
Loss on disposal of assets	-	152,533
Unrealized (gains) losses on investments	168,776	(54,296)
Loans forgiven	2,283	22,159
Allowance for loan losses	(7,287)	(27,889)
(Increase) decrease in:		
Project income receivable	(142,387)	(105,787)
Employee retention credit receivable	(331,409)	-
Mortgages receivable	6,243	7,091
Prepaid expenses	2,130	(9,614)
Assets held for donation	72,172	(72,172)
Inventories	(215,509)	42,672
Increase (decrease) in:		
Accounts payable and accrued expenses	119,487	(2,736)
Deferred revenue	(152,305)	(189,674)
Promise-to-give	(72,172)	72,172
Net cash (used in) provided by operating activities	(213,814)	1,277,225
INVESTING ACTIVITIES		
Purchase of property and equipment	(9,982)	-
Purchase of investments	(296,459)	(74,415)
Endowment dividends reinvested	(12,999)	(12,143)
Net cash used in investing activities	(319,440)	(86,558)
FINANCING ACTIVITIES		
Principal payments on notes payable	-	(393,537)
Net cash used in financing activities	-	(393,537)
INCREASE (DECREASE) IN CASH	(533,254)	797,130
CASH, beginning	3,773,232	2,976,102
CASH, ending	$ 3,239,978	$ 3,773,232
RECONCILIATION OF CASH TO STATEMENT OF FINANCIAL POSITION		
Cash and cash equivalents, unrestricted	$ 1,962,000	$ 2,589,415
Cash and cash equivalents, restricted	1,277,978	1,183,817
	$ 3,239,978	$ 3,773,232
SUPPLEMENTAL INFORMATION		
Interest paid	$ 1,797	$ 6,673

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 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, and Jonesville, VA.

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 restriction 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)

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, 2021 and 2020, 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
Office Equipment	5	years
Buildings	30-39	years

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

(Continued)

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 8^{th} 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.

Note 2. Revenue Recognition

During the first quarter of 2019, the Organization 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. Volunteer work crew fees represent contributions from churches and individuals to purchase materials and supplies for volunteers and is treated as a contribution. 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 $4,269,530 and $290,061 for 2021 and 2020, 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:

	2021	2020
Cash and cash equivalents	$ 657,442	$ 1,284,286
Board designated - operating reserve	1,230,000	1,230,000
Project income receivable	589,036	446,649
Mortgages receivable, current	3,064	3,157
	$ 2,479,542	$ 2,964,092

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

(Continued)

Note 4. Liquidity and Availability (Continued)

ASP's board-designated endowment of $1,302,589 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 11.

Note 5. Investments

Endowment investments at December 31 included the following:

	2021			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Mutual funds	$ 1,457,886	$ -	$ (168,776)	$ 1,289,110

	2020			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Mutual funds	$ 1,094,132	$ 54,296	$ -	$ 1,148,428

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 $40,850 and $42,089 at December 31, 2021 and 2020, 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.

	2021	2020
Mortgages receivable	$ 123,839	$ 132,364
Less: allowance for loan losses	(82,989)	(90,275)
Mortgages receivable, net	40,850	42,089
Less: mortgages receivable, current	3,064	3,157
Mortgages receivable, long-term	$ 37,786	$ 38,932

Note 7. Endowment

ASP's endowment funds consist of cash and investments. 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 assets consist of the following:

	2021	2020
Board designated endowment cash	$ 13,479	$ 16,080
Board designated endowment investments	1,289,110	1,148,428
	$ 1,302,589	$ 1,164,508

Endowment Net Asset Composition by Type of Fund as of December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	$ 1,302,589	$ -	$ 1,302,589

Endowment Net Asset Composition by Type of Fund as of December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	$ 1,164,508	$ -	$ 1,164,508

(Continued)

Note 7. Endowment (Continued)

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2021		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Endowment net assets, beginning of year	$ 1,164,508	$ -	$ 1,164,508
Investment return:			
Investment dividend income, net	12,999	-	12,999
Net appreciation (realized and unrealized)	127,682	-	127,682
Total investment return	140,681	-	140,681
Contributions	-	-	-
Appropriation of endowment assets for expenditure	(2,600)	-	(2,600)
Endowment net assets, end of year	$ 1,302,589	$ -	$ 1,302,589

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2020		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Endowment net assets, beginning of year	$ 1,076,532	$ -	$ 1,076,532
Investment return:			
Investment dividend income, net	12,143	-	12,143
Net appreciation (realized and unrealized)	128,711	-	128,711
Total investment return	140,854	-	140,854
Contributions	23,575	-	23,575
Appropriation of endowment assets for expenditure	(76,453)	-	(76,453)
Endowment net assets, end of year	$ 1,164,508	$ -	$ 1,164,508

(Continued)

Note 7. Endowment (Continued)

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

Net Assets Without Donor Restrictions	December 31, 2021	December 31, 2020
Board designated endowment funds	$ 1,302,589	$ 1,164,508

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. Disposition of Property

During 2020, the Organization discontinued operations at the Guyan Valley, WV & Chavies, KY properties. The assets were removed from property and equipment at the end of 2020; however, the transfer of the deeds did not occur until 2021. The Chavies property was contributed to a local government resulting in the asset held for donation, promise-to-give, and contribution of $72,172. According to the agreement in place when the property was originally obtained by ASP, and in the event that the property was abandoned or no longer utilized by ASP, the Guyan Valley property reverted back to another governmental entity. Consequently, no contribution was recorded, and a loss on abandonment was recorded in the amount of $152,533. That governmental entity subsequently donated the property to another non-profit organization.

Note 9. Inventories

Inventories consist of the following:

	2021	2020
Resale items	$ 46,156	$ 59,222
Homes under construction	413,359	166,041
Small tools	122,527	141,270
	$ 582,042	$ 366,533

Note 10. Property and Equipment

Property and equipment consists of the following:

	2021	2020
Land	$ 619,705	$ 619,705
Vehicles	1,676,892	1,719,383
Buildings	2,036,321	2,036,321
Building improvements	59,434	59,434
Office equipment	339,324	339,324
Equipment	199,223	199,223
	4,930,899	4,973,390
Less: accumulated depreciation	(3,302,890)	(3,289,290)
	$ 1,628,009	$ 1,684,100

Note 11. 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 3.75% through June 2023. This line of credit is secured by certain property of ASP and had no balance December 31, 2021 or 2020.

Bank of Tennessee, up to $100,000, interest at 2.75% through November 2022. This line of credit is secured by certain property of ASP and had a balance of $100,000 at December 31, 2021 and 2020.

Federation of Appalachian Housing Enterprises, Inc. up to $150,000, interest at 5.75% at both December 31, 2021 and 2020. This line of credit is unsecured and was unused at December 31, 2021 and 2020.

Note 12. Net Assets

Net assets without donor restrictions consist of the following categories:

	2021	2020
Board designated – operating reserve	$ 1,230,000	$ 1,230,000
Board designated – revolving loan fund	61,079	59,049
Board designated – endowment	13,479	16,080
Other net assets without donor restrictions	4,121,421	3,990,012
	$ 5,425,979	$ 5,295,141

Restricted cash and net assets with donor restrictions are available for the following purposes:

	2021	2020
Purchase of vehicles	$ 2,012	$ 2,012
Front porch fund	4,949	4,949
Capital Campaign	1,270,017	1,176,856
	1,277,978	1,183,817
Sevier County disaster relief fund	73,926	28,834
	$ 1,351,904	$ 1,212,651

Note 13. 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, 2021 and 2020, 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, 2021 and 2020.

Description	Level 2: Significant Other Observable Inputs	
	2021	2020
Mutual funds	$ 1,289,110	$ 1,148,428

Note 14. 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 $100,843 and $95,241 for 2021 and 2020, respectively.

Note 15. Commitments and Contingencies

As of December 31, 2021 and 2020, ASP is contingently liable as guarantor with respect to $38,794 and $43,592 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 16. Employee Retention Credit

The Organization has applied for $883,406 in Employee Retention Credits as allowable under the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020. As December 31, 2021, the Organization estimates that $331,409 will be received in the next 12 months and has recorded that amount into miscellaneous income. The remaining amount is reserved in the event that the credit will be disallowed. The Organization has recorded the entire amount as a receivable net of the allowances. See below for the calculation.

Total employee retention credit applied for	$ 883,046
Less: reserve for disallowed credit	(551,637)
Net employee retention credit	$ 331,409

Note 17. COVID-19

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.

(Continued)

Note 17. COVID-19 (Continued)

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 2022.

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. 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 2022.

On April 8, 2020, the Organization received a loan in the amount of $623,505 under the Payroll Protection Program (PPP Loan). The loan, in its entirety, was forgiven by the Small Business Administration on November 11, 2020 and is presented in the financial statements as other income. In January 2021, the Organization received a second PPP Loan in the amount of $613,090. The loan was forgiven in the same year.

Note 18. Pending Accounting Standards

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the income statement. This standard will be effective for the year ending December 31, 2022.

Note 19. Subsequent Events

In accordance with FASB ASC 855, ASP evaluated subsequent events through June 15, 2022, the issue date of the 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 statements of financial position as of December 31, 2021, 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 June 15, 2022.

Report on 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 or significant deficiencies may exist that were not identified.

Report on 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
June 15, 2022