APPALACHIA SERVICE PROJECT, INC.

FINANCIAL REPORT

December 31, 2022

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, 2022 and 2021, 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, 2022 and 2021, 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 opinions.

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.

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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 and *Government 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 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2023, 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 7, 2023

FINANCIAL STATEMENTS

APPALACHIA SERVICE PROJECT, INC.

STATEMENTS OF FINANCIAL POSITION
December 31, 2022 and 2021

ASSETS	**2022**	**2021**
CURRENT ASSETS		
Cash and cash equivalents:		
Undesignated	$ 1,776,261	$ 657,442
Board designated - operating reserve	1,230,000	1,230,000
Board designated - revolving loan fund	64,048	61,079
Board designated - endowment (Note 7)	194	13,479
Unrestricted cash	3,070,503	1,962,000
Board designated endowment fund (Notes 5, 7, and 12)	1,058,620	1,289,110
Project income receivable	361,899	589,036
Mortgages receivable current, net (Note 6)	2,931	3,064
Employee retention credit receivable, net (Note 15)	-	331,409
Current prepaid expenses	63,398	50,322
Inventories (Note 8)	1,579,096	582,042
Total current assets	6,136,447	4,806,983
NONCURRENT ASSETS		
Restricted cash (Note 11)	1,856,586	1,277,978
Property and equipment, net (Note 9)	1,714,714	1,628,009
Long-term mortgages receivable, net (Note 6)	36,148	37,786
Total noncurrent assets	3,607,448	2,943,773
Total assets	$ 9,743,895	$ 7,750,756
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 543,959	$ 300,912
Lines of credit (Note 10)	117,500	100,000
Deferred revenue	612,674	571,961
Total current liabilities	1,274,133	972,873
NET ASSETS		
Without donor restrictions (Note 11)	4,670,195	5,425,979
With donor restrictions by purpose (Note 11)	3,799,567	1,351,904
Total net assets	8,469,762	6,777,883
Total liabilities and net assets	$ 9,743,895	$ 7,750,756

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

APPALACHIA SERVICE PROJECT, INC.

STATEMENTS OF ACTIVITIES
Years Ended December 31, 2022 and 2021

	2022	2021
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUES		
Donations	$ 4,371,001	$ 2,598,340
Grants	1,139,143	788,894
Volunteer work crews fees	2,777,937	1,692,739
Project income	942,800	617,931
Merchandise sales	148,262	77,970
Investment return, net	(223,164)	141,862
Gain on sale of assets	36,447	16,717
Miscellaneous	263,330	374,582
PPP loan forgiveness other income	-	613,090
Total revenues and gains without donor restrictions	9,455,756	6,922,125
NET ASSETS RELEASED FROM RESTRICTIONS		
Satisfaction of purpose restrictions	-	146,063
Total revenues, gains, and other support without donor restrictions	9,455,756	7,068,188
EXPENSES		
Program services	9,033,373	5,885,970
SUPPORTING SERVICES		
Office and administration	584,349	525,088
Fundraising	593,818	526,292
Total supporting services	1,178,167	1,051,380
Total expenses	10,211,540	6,937,350
Change in net assets without donor restrictions	(755,784)	130,838

APPALACHIA SERVICE PROJECT, INC.

STATEMENTS OF ACTIVITIES (CONTINUED)
Years Ended December 31, 2022 and 2021

	2022	2021
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	$ 2,447,663	$ 285,316
Net assets released from restrictions	-	(146,063)
Change in net assets with donor restrictions	2,447,663	139,253
BALANCE, beginning	1,351,904	1,212,651
BALANCE, ending	3,799,567	1,351,904
Change in total net assets	1,691,879	270,091
BALANCE, beginning	6,777,883	6,507,792
BALANCE, ending	$ 8,469,762	$ 6,777,883

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

APPALACHIA SERVICE PROJECT, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended December 31, 2022 and 2021

	Program Services	Supporting Services		
	Home Repair and Building	Office and Administration	Fundraising	Total 2022
Salaries and related taxes	$ 2,417,227	$ 295,150	$ 219,150	$ 2,931,527
Employee benefits	496,928	73,707	45,819	616,454
Total salaries and related expenses	2,914,155	368,857	264,969	3,547,981
Staff expenses	185,847	2,697	28,140	216,684
Group expenses	428,368	-	-	428,368
Repair/rehabilitation/construction	4,067,154	-	-	4,067,154
Transportation/maintenance	208,111	1,928	5,664	215,703
Publications	47,068	-	188,274	235,342
Office expenses	537,344	76,403	62,434	676,181
Program expenses	401,818	11,503	33,802	447,123
Taxes, licenses, and fees	46,946	32,771	9,324	89,041
Warehouse	9,644	-	-	9,644
Professional fees	70,179	83,966	20	154,165
Miscellaneous expenses	1,799	-	-	1,799
Total expenses before depreciation	8,918,433	578,125	592,627	10,089,185
Depreciation	114,940	6,224	1,191	122,355
Total expenses	$ 9,033,373	$ 584,349	$ 593,818	$ 10,211,540

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, 2022 and 2021

	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

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

APPALACHIA SERVICE PROJECT, INC.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021

	2022	2021
OPERATING ACTIVITIES		
Change in total net assets	$ 1,691,879	$ 270,091
Adjustments to reconcile change in total net assets to net cash provided by (used in) operating activities:		
Depreciation	122,355	82,790
Gain on sale of assets	(36,447)	(16,717)
Unrealized (gains) losses on investments	241,903	168,776
Loans forgiven	-	2,283
Allowance for loan losses	-	(7,287)
(Increase) decrease in:		
Project income receivable	227,137	(142,387)
Employee retention credit receivable	331,409	(331,409)
Mortgages receivable	1,771	6,243
Prepaid expenses	(13,076)	2,130
Assets held for donation	-	72,172
Inventories	(997,054)	(215,509)
Increase (decrease) in:		
Accounts payable and accrued expenses	243,047	119,487
Deferred revenue	40,713	(152,305)
Promise-to-give	-	(72,172)
Net cash provided by (used in) operating activities	1,853,637	(213,814)
INVESTING ACTIVITIES		
Purchase of property and equipment	(172,613)	(9,982)
Purchase of investments	2,799	(296,459)
Endowment dividends reinvested	(14,212)	(12,999)
Net cash used in investing activities	(184,026)	(319,440)
FINANCING ACTIVITIES		
Net withdrawals from line of credit	17,500	-
Net cash provided by financing activities	17,500	-
INCREASE (DECREASE) IN CASH	1,687,111	(533,254)
CASH, beginning	3,239,978	3,773,232
CASH, ending	$ 4,927,089	$ 3,239,978
RECONCILIATION OF CASH TO STATEMENT OF FINANCIAL POSITION		
Cash and cash equivalents, unrestricted	$ 3,070,503	$ 1,962,000
Cash and cash equivalents, restricted	1,856,586	1,277,978
	$ 4,927,089	$ 3,239,978
SUPPLEMENTAL INFORMATION		
Interest paid	$ 3,371	$ 1,797

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 Statements 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.

Cash and cash equivalents

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

(Continued)

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.

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. ASP considers a loan to be impaired when, based upon current information and events, it believes it is probable that ASP 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 the lower of cost or net realizable value. 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.

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.

(Continued)

Note 1. Significant Accounting Policies (Continued)

Compensated absences (Continued)

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. Such expenses include salaries and wages, which are allocated based on time and effort and occupancy expenses.

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, ASP 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).

(Continued)

Note 2. Revenue Recognition (Continued)

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 $9,117,259 and $4,269,530 for 2022 and 2021, 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:

	2022	2021
Cash and cash equivalents	$ 1,776,261	$ 657,442
Board designated - operating reserve	1,230,000	1,230,000
Project income receivable	361,899	589,036
Mortgages receivable, current	2,931	3,064
	$ 3,371,091	$ 2,479,542

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

ASP's board-designated endowment of $1,058,814 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 ASP's liquidity management plan, five lines of credit have also been acquired and are detailed in Note 10.

Note 4. Liquidity and Availability (Continued)

ASP Board of Directors has designated a cash reserve for the purpose of meeting ASP'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, 2022 and 2021, ASP was in compliance with the Board designated reserve.

Note 5. Investments

Endowment investments at December 31 included the following:

	2022			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Mutual funds	$ 1,300,523	$ -	$ (241,903)	$ 1,058,620

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

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 $39,079 and $40,850 at December 31, 2022 and 2021, 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.

	2022	2021
Mortgages receivable	$ 116,999	$ 123,839
Less: allowance for loan losses	(77,920)	(82,989)
Mortgages receivable, net	39,079	40,850
Less: mortgages receivable, current	2,931	3,064
Mortgages receivable, long-term	$ 36,148	$ 37,786

(Continued)

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:

	2022	2021
Board designated endowment cash	$ 194	$ 13,479
Board designated endowment investments	1,058,620	1,289,110
	$ 1,058,814	$ 1,302,589

Endowment Net Asset Composition by Type of Fund as of December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	$ 1,058,814	$ -	$ 1,058,814

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

(Continued)

Note 7. Endowment (Continued)

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 1,302,589	$ -	$ 1,302,589
Investment return:			
Investment dividend income, net	14,213	-	14,213
Net appreciation (realized and unrealized)	(244,702)	-	(2,800)
Total investment return	(230,489)	-	11,413
Contributions	-	-	-
Appropriation of endowment assets for expenditure	(13,286)	-	(255,188)
Endowment net assets, end of year	$ 1,058,814	$ -	$ 1,058,814

	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

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, 2022	December 31, 2021
Board designated endowment funds	$ 1,058,814	$ 1,302,589

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, ASP considered the long-term expected return on its endowment. This is consistent with ASP's objective to maintain the purchasing power of the endowment assets held.

Note 8. Inventories

Inventories consist of the following:

	2022	2021
Resale items	$ 23,181	$ 46,156
Homes under construction	1,427,909	413,359
Small tools	128,006	122,527
	$ 1,579,096	$ 582,042

Note 9. Property and Equipment

Property and equipment consists of the following:

	2022	2021
Land	$ 619,705	$ 619,705
Vehicles	1,789,520	1,676,892
Buildings	2,036,321	2,036,321
Building improvements	86,398	59,434
Office equipment	339,324	339,324
Equipment	199,223	199,223
	5,070,491	4,930,899
Less: accumulated depreciation	(3,355,777)	(3,302,890)
	$ 1,714,714	$ 1,628,009

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 3.75% through June 2023. This line of credit is secured by certain property of ASP and had no balance December 31, 2022 or 2021.

Bank of Tennessee, up to $100,000, variable interest at a minimum of 2.75% through December 2023. This line of credit is secured by certain property of ASP and had a balance of $100,000 at December 31, 2022 and 2021.

Federation of Appalachian Housing Enterprises, Inc. up to $150,000, interest at 5.25% at both December 31, 2022 and 2021. This line of credit is unsecured and was unused at December 31, 2022 and 2021.

Bank of Tennessee, up to $100,000, interest at a minimum of 6.5% through December 2023. This line of credit is unsecured and had a balance of $17,500 at December 31, 2022. This line of credit is new in 2022.

Bank of Tennessee, up to $1,250,000, interest fixed at 6.71% through December 2023. This line of credit is secured by certain property of ASP and had no balance December 31, 2022. This line of credit is new in 2022.

(Continued)

Note 11. Net Assets

Net assets without donor restrictions consist of the following categories:

	2022	2021
Board designated – operating reserve	$ 1,230,000	$ 1,230,000
Board designated – revolving loan fund	64,048	61,079
Board designated – endowment	194	13,479
Other net assets without donor restrictions	3,375,953	4,121,421
	$ 4,670,195	$ 5,425,979

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

	2022	2021
Purchase of vehicles	$ 2,877	$ 2,012
Front porch fund	5,689	4,949
Capital Campaign	1,848,020	1,271,017
	1,856,586	1,277,978
Disaster relief funds	1,942,981	73,926
	$ 3,799,567	$ 1,351,904

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, 2022 and 2021, 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 2021.

Description	Level 2: Significant Other Observable Inputs	
	2022	2021
Mutual funds	$ 1,058,620	$ 1,289,110

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 $121,011 and $100,843 for 2022 and 2021, respectively.

Note 14. Commitments and Contingencies

As of December 31, 2022 and 2021, ASP is contingently liable as guarantor with respect to $36,403 and $38,794 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.

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. Employee Retention Credit

ASP has applied for $883,046 in Employee Retention Credits as allowable under the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020. As December 31, 2022, ASP has received $507,945. The remaining amount is fully reserved in the event that the credit will be disallowed. ASP 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	(375,101)
Net employee retention credit	$ 507,945

Note 16. Subsequent Events

In accordance with FASB ASC 855, ASP evaluated subsequent events through June 7, 2023, the issue date of the financial statements.

OTHER INFORMATION

APPALACHIA SERVICE PROJECT, INC

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2022

Federal Grantor/Pass - Through Grantor/ Program or Cluster Title	Assistance Listing Number	Pass-through Entity Identifying Number	Passed-through to Subrecipients	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
Direct Award:				
Rural Housing Preservation Grants	10.433	N/A		$ 184,106
Total U.S. Department of Agriculture				184,106
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:				
Pass-through City of Johnson City, Tennessee:				
CDBG Entitlement Grants Cluster:				
Community Development Block Grant	14.218	N/A		292,106
Total CDBG Entitlement Grants Cluster				292,106
Pass-through State of Tennessee:				
HOME Investment Partnership Program	14.239	N/A		381,787
Total U.S. Department of Housing and Urban Development				673,893
APPALACHIAN REGIONAL COMMISSION:				
Direct Award:				
Appalachian Area Development	23.002	N/A		231,672
Total Appalachian Regional Commission				231,672
TOTAL FEDERAL AWARDS				**$ 1,089,671**

See Independent Auditor's Report

APPALACHIA SERVICE PROJECT, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2022

NOTE 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the activity of all federally assisted programs of ASP and is presented on the accrual basis of accounting, as described in Note 1 to ASP's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on this schedule.

NOTE 2. De Minimis Indirect Cost Rate

The entity did not elect to use the 10% de minimis indirect cost rate.

NOTE 3. Federal Loans

At December 31, 2022, ASP had no outstanding loan balances requiring continuing disclosure.

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 and Senior Management of
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"), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated June 7, 2023.

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) as a basis for designing 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 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.**

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 financial statements. 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 7, 2023

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Appalachia Service Project, Inc.'s. ("ASP") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on ASP's major federal programs for the year ended December 31, 2022. ASP's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, ASP complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of ASP and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of ASP's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to ASP's federal programs.

Report on Compliance for Each Major Federal Program (Continued)

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on ASP's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about ASP's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 ASP's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of ASP's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of ASP's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed two instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of finding and questioned costs as item 2022-001 and 2022-002. Our opinion on each major federal program is not modified with respect to these matters.

Appalachia Service Project's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on ASP's response to the noncompliance findings identified in our audit and is described in the accompanying schedule of findings and questions costs. ASP's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

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

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

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Bristol, Virginia
June 7, 2023

APPALACHIA SERVICE PROJECT, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2022

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements.

2. **No significant deficiencies or material weaknesses** relating to the audit of the financial statements were reported in the 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 Accounting Standards*.

3. **No instances of noncompliance** material to the financial statements were disclosed during the audit.

4. **No significant deficiencies and no material weaknesses** relating to the audit of the major federal award program were reported in the Independent Auditor's Report on Compliance for each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.

5. The auditor's report on compliance for the major federal award program expresses an **unmodified opinion**.

6. The audit disclosed **two** audit findings related to the major programs.

7. The programs tested as major programs include:

Name of Program	AL Number
Community Development Block Grant Entitlement Cluster	14.218
HOME Investment Partnership Program	14.239

8. The threshold for distinguishing Types A and B programs was **$750,000.**

9. Appalachia Service Project, Inc. was **not** determined to be a **low-risk auditee**.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None.

(Continued)

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

2022-001: Community Development Block Grant – AL# 14.218 and HOME Investment Partnership Program – AL# - 14.239, Uniform Guidance Procurement Documentation

Condition: ASP does not have written procurement policies that fully align with requirements in the Uniform Guidance.

Criteria: In December 2018, the sections of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) covering procurement became effective after a three-year grace period on the implementation date. The Uniform Guidance requires entities to have written policies and procedures in place covering most types of procurement, as well as related matters such as conflicts of interest, avoidance of geographical preferences, bidding thresholds, required contract language, and others.

Cause: ASP hasn't been subject to the Uniform Guidance single audit requirements during recent fiscal years and while having various components of policies in places, has not adopted a complete policy.

Effect: Procurement procedures may not be conducted in accordance with Uniform Guidance requirements.

Context: Several Uniform Guidance procurement requirements were not noted in ASP's procurement policy.

Questioned Costs: N/A

Recommendation: ASP should prepare a revised policy for procurement procedures to more closely align with Uniform Guidance requirements.

Repeat Finding: No.

Management's Response: ASP had updated our written procurement policies and procedures to comply with the December 2018 Uniform Guidance. However, we will review and write a more detailed version of those policies to ensure complete and continuous compliance with the requirements in the Uniform Guidance.

(Continued)

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (CONTINUED)

2022-002: Community Development Block Grant – AL# 14.218, Reporting

Condition: ASP, a sub-recipient, did not retain documentation of submission of all required reports to the pass-through entity, the City of Johnson City.

Criteria: The grant agreement with the City requires an annual report, a projected expenditures report, and four quarterly reports be submitted by ASP.

Cause: ASP did not retain documentation of submission of all required reports and controls and procedures in place did not allow for timely detection and correction of this error.

Effect: ASP could not show that all reports that were required of them per the grant agreement were submitted.

Context: Several reports required by the grant agreement between ASP and the City of Johnson City were not retained or documented in a way that provides detail as to the form, timeliness, or content of the report submission.

Questioned Costs: N/A

Recommendation: ASP should document and retain evidence of submission of all required reports per the grant agreement, including copies of any reporting, support for timeliness of reporting, and any feedback from the pass-through entity on reporting. Additionally, ASP should review controls and procedures in place to ensure that there are policies to help aid with timely report completion, review, and submission.

Repeat Finding: No.

Management's Response: ASP complied with and submitted required progress reports, proof of expenditures, and communication requests from the Community Development Block Grant administrators. Some of those reports were requested and accepted orally therefore producing minimal written record of their occurrence. ASP did receive a letter of affirmation by the CDBG Administrator of ASP's compliance. In the future, ASP will ensure written record of and tracking of all submitted reports.