

**AID TO DISTRESSED FAMILIES OF  
APPALACHIAN COUNTIES, INCORPORATED  
(ADFAC, INC.)**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2010**

AID TO DISTRESSED FAMILIES OF APPALACHIAN  
COUNTIES, INCORPORATED (ADFAC, INC.)  
YEAR ENDED DECEMBER 31, 2010

CONTENTS

Independent Auditors' Report	1
Financial Statements:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 10

# Bible Harris Smith, P.C.

Certified Public Accountants and Business Advisors Since 1949

507 West Clinch Avenue  
Knoxville, TN 37902-2104  
Phone 865-546-2300  
Fax 865-525-7454  
E-mail lastname@BHSpc.com

Member of the AICPA Peer  
Review Program  
Member of the Tennessee Society  
of Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Aid to Distressed Families of Appalachian  
Counties, Incorporated (ADFAC, Inc.)  
Oak Ridge, Tennessee

We have audited the accompanying statement of financial position of Aid to Distressed Families of Appalachian Counties, Incorporated (ADFAC, Inc.) (a nonprofit organization) as of December 31, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of ADFAC, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ADFAC, Inc. as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Bible Harris Smith, P.C.*

Bible Harris Smith, P.C.

Knoxville, Tennessee  
September 20, 2011

AID TO DISTRESSED FAMILIES OF APPALACHIAN  
COUNTIES, INCORPORATED (ADFAC, INC.)  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2010

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents		\$ 892,425
Grants and Contracts Receivable		12,825
Accrued Interest Receivable		43,069
Prepaid Expenses		4,798
Mortgage Notes Receivable - Current Portion		126,321
Donated Property Held for Sale		11,374
Total Current Assets		1,090,812

PROPERTY AND EQUIPMENT

Office Equipment	\$ 31,363	
Computer Equipment	16,479	
Energy Audit Equipment	20,244	
Vehicles	13,280	
Total	81,366	
Less Accumulated Depreciation and Amortization	(29,913)	
Property and Equipment, Net		51,453

LAND AND DEVELOPMENT COSTS

218,602

MORTGAGE NOTES RECEIVABLE -

Less Current Portion, Net of Allowance for Uncollectible  
Accounts of \$140,000 and Discount of \$23,000

840,848

TOTAL ASSETS

\$ 2,201,715

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable and Accrued Expenses		\$ 126,446
---------------------------------------	--	------------

TOTAL LIABILITIES

126,446

NET ASSETS

Unrestricted	\$ 426,627	
Temporarily Restricted	1,648,642	
Total Net Assets	2,075,269	

TOTAL LIABILITIES AND NET ASSETS

\$ 2,201,715

The accompanying notes are an integral part of these financial statements.

AID TO DISTRESSED FAMILIES OF APPALACHIAN  
COUNTIES, INCORPORATED (ADFAC, INC.)  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>REVENUES AND OTHER SUPPORT</b>			
State and Federal Assistance	\$ -	\$ 228,705	\$ 228,705
Local Government Grants and Contracts	-	155,957	155,957
Contributions and Support	270,656	170,262	440,918
In-kind Contributions	138,979	77,648	216,627
Client Loan Setup	-	134,837	134,837
Interest	3,085	43,704	46,789
Other	1,652	-	1,652
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>			
Satisfaction of Program Restrictions	<u>739,858</u>	<u>(739,858)</u>	<u>-</u>
<b>TOTAL REVENUES AND OTHER SUPPORT</b>	<u>1,154,230</u>	<u>71,255</u>	<u>1,225,485</u>
<b>EXPENSES</b>			
Program:			
Housing Rehabilitation Costs	687,816	-	687,816
Energy Assistance	283,348	-	283,348
Occupancy Assistance	61,069	-	61,069
Other Individual Assistance	104,340	-	104,340
Total Program	<u>1,136,573</u>	<u>-</u>	<u>1,136,573</u>
Management and General	61,458	-	61,458
Fundraising	21,340	-	21,340
<b>TOTAL EXPENSES</b>	<u>1,219,371</u>	<u>-</u>	<u>1,219,371</u>
<b>CHANGE IN NET ASSETS</b>	(65,141)	71,255	6,114
<b>NET ASSETS - BEGINNING</b>	<u>491,768</u>	<u>1,577,387</u>	<u>2,069,155</u>
<b>NET ASSETS - ENDING</b>	<u>\$ 426,627</u>	<u>\$ 1,648,642</u>	<u>\$ 2,075,269</u>

The accompanying notes are an integral part of these financial statements.

AID TO DISTRESSED FAMILIES OF APPALACHIAN  
COUNTIES, INCORPORATED (ADFAC, INC.)  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2010

	Program Services	Supporting Services		Total Expenses
		Management and General	Fundraising	
Direct Program Costs	\$ 711,629	\$ -	\$ -	\$ 711,629
Salaries	254,337	41,756	16,287	312,380
Payroll Taxes and Benefits	43,184	4,176	1,629	48,989
Professional Fees	21,803	7,685	-	29,488
Insurance	22,334	2,304	-	24,638
In-kind Rent	23,473	118	59	23,650
Depreciation and Amortization	9,215	-	-	9,215
Conferences and Travel	7,860	14	-	7,874
Telephone and Communications	6,938	178	-	7,116
Supplies	5,590	2,138	99	7,827
Contract Labor	5,250	-	-	5,250
Office and Computer	4,844	-	-	4,844
Dues, Fees and Taxes	3,913	1,680	-	5,593
Utilities	3,623	18	9	3,650
Printing	2,149	-	1,111	3,260
Memberships and Subscriptions	2,886	353	-	3,239
Postage and Shipping	1,524	-	1,690	3,214
Warehouse Rent	1,500	-	-	1,500
Education and Staff Development	1,171	62	-	1,233
Advertising	529	232	456	1,217
Miscellaneous	2,821	744	-	3,565
Total	<u>\$ 1,136,573</u>	<u>\$ 61,458</u>	<u>\$ 21,340</u>	<u>\$ 1,219,371</u>

The accompanying notes are an integral part of these financial statements.

AID TO DISTRESSED FAMILIES OF APPALACHIAN  
COUNTIES, INCORPORATED (ADFAC, INC.)  
STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ 6,114
Adjustments to Reconcile Change in Net Assets	
To Net Cash Provided (Used) by Operating Activities:	
Depreciation and Amortization	9,215
Net Additions in Client Mortgage Loans	(153,075)
Donated Property	(81,584)
Loss on Sale of Land	2,669
Increase in Allowance for Uncollectible Accounts and Discount	13,000
(Increase) Decrease in Assets:	
Grants And Contracts Receivable	83,785
Accrued Interest Receivable	(14,403)
Prepaid Expenses	717
Increase (Decrease) in Liabilities:	
Accounts Payable and Accrued Expenses	74,575
Net Cash Provided (Used) by Operating Activities	(58,987)

CASH FLOWS FROM INVESTING ACTIVITIES

Mortgage Note Payments	210,972
Purchase of Land	(57,208)
Proceeds of Land Sales	11,127
Development Costs	(57,251)
Purchase of Equipment	(6,752)
Net Cash Provided (Used ) by Investing Activities	100,888

CASH FLOWS FROM FINANCING ACTIVITIES

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	41,901
CASH AND CASH EQUIVALENTS - BEGINNING	850,524
CASH AND CASH EQUIVALENTS - ENDING	\$ 892,425

SUPPLEMENTAL DISCLOSURES

NON CASH INVESTING AND FINANCING TRANSACTIONS

Donated Land and Equipment	\$ 97,891
----------------------------	-----------

The accompanying notes are an integral part of these financial statements.

AID TO DISTRESSED FAMILIES OF APPALACHIAN  
COUNTIES, INCORPORATED (ADFAC, INC.)  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

Note 1 - Organization and Summary of Significant Accounting Policies

Organization - Aid to Distressed Families of Appalachian Counties, Incorporated (ADFAC, Inc.) is an independent, not-for-profit agency serving the charitable needs of Anderson and surrounding county residents. Working through the Social Services and Affordable Housing programs, ADFAC, Inc's goal is to help impoverished families become stable and self-sufficient through a variety of direct assistance and educational services.

Description of Programs

**Affordable Housing** - ADFAC, Inc.'s Affordable Housing program repairs, improves or reconstructs substandard owner-occupied homes and constructs new affordable homes for low income families by matching government grants with volunteer crews and local contractors.

**Energy Assistance** - ADFAC, Inc. provides emergency utility assistance to qualifying families through projects SAFE and ASSIST and through support by local government. Local utility companies sponsor these programs.

**Occupancy Assistance** - ADFAC, Inc. provides rent, mortgage, and other assistance in meeting basic shelter needs of families in emergency situations. This assistance is provided by contributions and support from individuals and organizations in the local community.

**Other Individual Assistance** - ADFAC, Inc. provides help to needy families by covering the cost of medicine, food, and other urgent needs, as well as the School Supplies and Warm Fuzzies programs. This assistance is provided by contributions and support from individuals and organizations in the local community and through support by local government.

Not-For-Profit Status - ADFAC, Inc. is exempt from Federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code.

General - The accompanying financial statements are presented on the accrual basis of accounting. Using this method, revenues are recognized when earned and expenses are recognized when incurred.

Basis of Presentation - Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (FASB) ASC 958-210 (formerly SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*). Under ASC 958-210, the Council is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Donor-Imposed Restrictions - All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.



Property and Equipment - Purchased property and equipment is recorded at cost. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Unless the donor has stipulated how long donated assets must be maintained, ADFAC, Inc. reports the expiration of donor restrictions when the donated or acquired assets are placed in service; at that time, the assets are transferred from restricted net assets to unrestricted net assets. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in that period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

Fundraising - The majority of ADFAC, Inc.'s fundraising costs are related to government and non-government grant solicitation costs. Traditional fundraising efforts are conducted primarily by the Executive Director and Development Coordinator, along with assistance by volunteers.

Functional Expenses - The costs of providing the various programs, fundraising and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and activities benefited.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash Equivalents - For purposes of the statement of cash flows, ADFAC, Inc. considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Mortgage Loans Receivable - ADFAC, Inc. repairs, or builds new homes for qualified elderly, disabled, or low-income families using local, state and federal grants. A portion of the amounts expended on these projects are recorded as low interest Mortgage Notes Receivable to ADFAC, Inc. with principal and interest repayments being used to fund future rehabilitation projects and construction costs not covered by grant funds. Interest income is recognized and receivables are determined to be delinquent based on the terms of the mortgage agreements entered into with clients. Mortgage receivables are reported at the outstanding principal amount, less charge-offs and discounts. Mortgages are collateralized by a lien on the property. Interest continues to accrue until paid. It is the policy of management to review the outstanding accounts receivable periodically, as well as the bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts if considered necessary. Write-offs are charged directly to client loan setup.

If the low interest rate is not mandated under government grants and if it is below market, the value of the below market loans is estimated using discounted cash flow analysis, based on current market interest rates for loans of this type.

Fair Value Measurement – In determining fair value, FASB ASC 820-10 (formerly FASB No. 157, “*Fair Value Measurements*”), provides guidance for measuring fair value and required additional disclosures. The related disclosures are included in Note 4.

Subsequent Events – Management has evaluated subsequent events through September 20, 2011, the date the financial statements were available to be issued.

#### Note 2 - Bank Deposit In Excess of FDIC Coverage

ADFAC, Inc. has accounts with area financial institutions. These accounts are insured by the FDIC up to \$250,000 per institution. At December 31, 2010, ADFAC, Inc. had cash balances of \$28,348 over the deposit insurance amount of \$250,000.

#### Note 3 - Mortgage Notes Receivable

Under its Affordable Housing program, ADFAC, Inc. may require a portion of the building rehabilitation costs and all single family developments to be repaid with low interest mortgage loans. Mortgage Loan transactions during 2010 included:

Principal Balance January 1, 2010	
(Net of Allowance and Discount totaling \$150,000)	\$ 1,038,066
New Loans and Adjustments	169,883
Payments (Net of Interest of \$22,165)	(210,972)
Write-Offs	(16,808)
Change in Allowance and Discount	<u>(13,000)</u>
Principal Balance December 31, 2010	<u>\$ 967,169</u>

Principal balances over 90 days past due total approximately \$663,000.

#### Note 4 - Fair Value

Fair Value Hierarchy:

The fair value framework described in FASB ASC 820-10 requires the categorization of assets and liabilities into three levels based upon the assumptions (inputs) used to value the assets or liabilities. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment. The three levels are defined as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities.
- Level 2: Observable inputs other than those included in Level 1. For example, quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.
- Level 3: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability.

Assets measured at fair value on a non-recurring basis consist of mortgage notes receivable totaling \$967,169 valued using Level 3 inputs. Valuation inputs used include published mortgage interest rates.

#### Note 5 - Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2010 are to be used in ADFAC Inc.'s programs as described in Note 1 and include:

Cash	\$ 560,756
Land	77,648
Loan Balances and Accrued Interest	<u>1,010,238</u>
Total	<u>\$ 1,648,642</u>

#### Note 6 - Donated Services and Materials

ADFAC, Inc. receives significant amounts of contributed services, facilities, and materials. These contributed resources are disclosed in the financial statements under varying criteria, which are explained below.

General Services - A substantial number of unpaid volunteers have made significant contributions of their time to develop and implement ADFAC, Inc.'s programs, principally in office staffing and fundraising activities. The value of this contributed time is not reflected in these statements because the criteria for recognition of such volunteer effort under FASB ASC 958-605 have not been satisfied.

Construction Labor and Professional Services - In ADFAC, Inc.'s Affordable Housing Program, \$63,793 of construction labor and \$20,400 of professional services was recorded as In-kind Contributions in the financial statements.

Donated Facilities - ADFAC, Inc. occupies office space at the First Presbyterian Church of Oak Ridge. ADFAC, Inc. pays no rent. The estimated fair value of the annual rental is \$23,650 and is included in In-kind Contributions.

Donated Materials - ADFAC, Inc. recorded \$10,893 of donated materials as In-kind Contributions. Most of these donations consisted of items such as food, toiletries, school supplies, and Christmas stocking gifts that were used to provide assistance to families and children.

Donated Assets - As defined in Note 1 under Property and Equipment, ADFAC, Inc. has recorded assets received at their estimated fair value including equipment of \$20,244 and land of \$77,648.

#### Note 7 - Economic Concentrations

The mortgage notes receivable are due from low-income people in the East Tennessee area.

#### Note 8 - Tax-Deferred Savings

ADFAC, Inc. has a voluntary 403(b) retirement plan available to any employee who has been employed continuously by ADFAC, Inc. for 90 days in is scheduled to work at least 30 hours per week. ADFAC, Inc. authorizes a matching agency contribution of fifteen percent of the amount contributed by employees up to a maximum agency contribution of \$900 per year. ADFAC, Inc. incurred retirement expense of \$1,020 for the year ended December 31, 2010.

#### Note 9 - Lease Agreement

ADFAC, Inc. entered in to a 99-year lease agreement in March 2001 with a community land trust in order to develop housing for low and very low income families. The property is granted to ADFAC, Inc. at no cost pending the construction of six homes on the property. Ownership will revert to homeowners after the terms of the housing contract have been met, with the remainder of the property reverting back to the land trust at the completion of the project.

#### Note 10 - Income Taxes

ADFAC, Inc. is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is made in the accompanying financial statements as ADFAC, Inc. had no net unrelated business income. ADFAC, Inc. has adopted the authoritative guidance for the uncertainty in income taxes recognized in an entity's financial statements that prescribes a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. ADFAC, Inc. performed an evaluation of uncertain tax positions for the year ended December 31, 2010, and determined that there were no matters that would require recognition in the financial statements or which may have any affect on its tax-exempt status. As of December 31, 2010, the statute of limitations for tax years 2007 through 2009 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which ADFAC, Inc. files tax returns. It is ADFAC, Inc.'s policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of December 31, 2010, ADFAC, Inc. had no accruals for interest and/or penalties.