

AID TO DISTRESSED FAMILIES OF APPALACHIAN  
COUNTIES, INCORPORATED

Financial Statements

Years Ended December 31, 2012 and 2011



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COUNTIES, INCORPORATED  
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## Independent Auditors' Report

To the Board of Directors  
Aid to Distressed Families of Appalachian Counties, Incorporated

We have audited the accompanying financial statements of Aid to Distressed Families of Appalachian Counties, Incorporated ("ADFAC") (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011 and the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the ADFAC's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ADFAC's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ADFAC as of December 31, 2012 and 2011, 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.

**Correction of Error**

Certain errors resulting in an overstatement of previously reported cash and cash equivalents was discovered during the current year. Accordingly, an adjustment of \$24,713 was made to write down cash and cash equivalents as of January 1, 2012. A corresponding entry was made to reduce previously reported unrestricted net assets by \$24,713.

*Roddefn Moss & Co, PLLC*

Knoxville, Tennessee  
September 26, 2013



AID TO DISTRESSED FAMILIES OF APPALACHIAN  
COUNTIES, INCORPORATED  
Statements of Financial Position  
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 535,361	\$ 797,236
Grants receivable	106,793	101,275
Mortgage notes receivable, due within a year, net	135,322	170,215
Accrued interest receivable	53,221	51,842
Prepaid expenses	<u>4,040</u>	<u>4,995</u>
Total current assets	<u>834,737</u>	<u>1,125,563</u>
Property and Equipment		
Office equipment	27,083	31,363
Energy audit equipment	20,244	20,244
Computer equipment	16,479	16,479
Vehicles	<u>13,280</u>	<u>13,280</u>
	77,086	81,366
Less accumulated depreciation	<u>(44,956)</u>	<u>(40,017)</u>
Property and equipment, net	<u>32,130</u>	<u>41,349</u>
Other Assets		
Property held for sale	334,939	271,511
Mortgage notes receivable, due after one year, net	<u>618,153</u>	<u>676,575</u>
Total other assets	<u>953,092</u>	<u>948,086</u>
Total assets	<u>\$ 1,819,959</u>	<u>\$ 2,114,998</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 36,211	\$ 25,784
Deferred grant revenue, current	<u>5,000</u>	<u>5,000</u>
Total current liabilities	41,211	30,784
Deferred grant revenue, non-current	<u>-</u>	<u>5,000</u>
Total liabilities	<u>41,211</u>	<u>35,784</u>
Net Assets		
Unrestricted	335,581	666,518
Temporarily restricted	<u>1,443,167</u>	<u>1,412,696</u>
Total net assets	<u>1,778,748</u>	<u>2,079,214</u>
Total liabilities and net assets	<u>\$ 1,819,959</u>	<u>\$ 2,114,998</u>

See notes to financial statements.

AID TO DISTRESSED FAMILIES OF APPALACIAN  
COUNTIES, INCORPORATED

Statements of Activities  
Years Ended December 31, 2012 and 2011

	2012			2011
	Unrestricted	Temporarily Restricted	Total	Total
Revenues and Other Support				
Federal grants	\$ 205,832	\$ 215,706	\$ 421,538	\$ 548,001
Contributions and support	254,190	113,924	368,114	500,058
Other	225,955	-	225,955	122,534
In-kind contributions	176,660	-	176,660	123,166
Local grants	137,382	-	137,382	139,841
State grants	54,456	-	54,456	40,342
Interest	22,642	-	22,642	21,548
Gain on sale	-	-	-	3,613
Net assets released from restrictions due to satisfaction of program requirements	<u>299,159</u>	<u>(299,159)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>1,376,276</u>	<u>30,471</u>	<u>1,406,747</u>	<u>1,499,103</u>
Expenses				
Functional expenses				
Program services	1,570,769	-	1,570,769	1,423,371
Support services	<u>111,731</u>	<u>-</u>	<u>111,731</u>	<u>97,053</u>
Total functional expenses	<u>1,682,500</u>	<u>-</u>	<u>1,682,500</u>	<u>1,520,424</u>
Change in net assets	<u>(306,224)</u>	<u>30,471</u>	<u>(275,753)</u>	<u>(21,321)</u>
Net assets at the beginning of the year, as previously stated	666,518	1,412,696	2,079,214	2,075,269
Prior period adjustments	<u>(24,713)</u>	<u>-</u>	<u>(24,713)</u>	<u>25,266</u>
Net assets at the beginning of the year, as restated	<u>641,805</u>	<u>1,412,696</u>	<u>2,054,501</u>	<u>2,100,535</u>
Net assets at the end of the year	<u>\$ 335,581</u>	<u>\$ 1,443,167</u>	<u>\$ 1,778,748</u>	<u>\$ 2,079,214</u>

AID TO DISTRESSED FAMILIES OF APPALACIAN  
COUNTIES, INCORPORATED  
Statements of Functional Expenses  
Years Ended December 31, 2012 and 2011

	2012						2011	
	Program Services			Support Services			Total Program and Support Services	Total Program and Support Services
	Affordable Housing	Social Services	Total Program Services	Management and General	Fundraising	Total Support Services		
Direct program costs	\$ 639,966	\$ 261,472	\$ 901,438	\$ -	\$ -	\$ -	\$ 901,438	\$ 846,172
Salaries	144,219	123,920	268,139	58,829	10,006	68,835	336,974	338,408
In-kind assistance	104,145	37,682	141,827	396	10,787	11,183	153,010	123,166
Loss on sale of land and homes	56,485	-	56,485	-	-	-	56,485	60,058
Payroll taxes and benefits	18,497	21,616	40,113	6,019	2,969	8,988	49,101	47,626
Fair market value adjustment	35,369	-	35,369	-	-	-	35,369	-
In-kind rent	10,879	10,879	21,758	1,892	-	1,892	23,650	23,651
Insurance	14,213	2,780	16,993	5,806	-	5,806	22,799	9,734
Fair market value write down	14,360	-	14,360	-	-	-	14,360	-
Accounting	4,775	4,774	9,549	2,387	-	2,387	11,936	8,440
Conferences and travel	7,864	107	7,971	3,720	-	3,720	11,691	8,340
Utilities	4,255	4,253	8,508	794	-	794	9,302	7,850
Depreciation	9,219	-	9,219	-	-	-	9,219	10,104
Telephone and communication	5,162	3,159	8,321	724	-	724	9,045	8,067
Vehicle	7,417	-	7,417	-	-	-	7,417	6,063
Supplies	3,753	1,437	5,190	1,273	243	1,516	6,706	5,588
Office and computer	3,342	2,469	5,811	617	-	617	6,428	2,292
Property expense	6,409	-	6,409	-	-	-	6,409	2,053
Miscellaneous	(378)	278	(100)	102	-	102	2	1,064
Postage and shipping	830	223	1,053	1,669	312	1,981	3,034	3,509
Advertising	1,437	-	1,437	1,149	427	1,576	3,013	2,923
Memberships and subscriptions	871	270	1,141	379	-	379	1,520	1,271
Warehouse rent	1,500	-	1,500	-	-	-	1,500	1,500
Printing	17	114	131	1,178	53	1,231	1,362	1,510
Professional fees	600	130	730	-	-	-	730	500
Dues, fees and taxes	-	-	-	-	-	-	-	535
Total	<u>\$ 1,095,206</u>	<u>\$ 475,563</u>	<u>\$ 1,570,769</u>	<u>\$ 86,934</u>	<u>\$ 24,797</u>	<u>\$ 111,731</u>	<u>\$ 1,682,500</u>	<u>\$ 1,520,424</u>

See notes to financial statements.

AID TO DISTRESSED FAMILIES OF APPALACHIAN  
COUNTIES, INCORPORATED

Statements of Cash Flows  
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (275,753)	\$ (21,321)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	9,219	10,104
Loss on home sales	56,485	-
Fair market value write down of property available for sale	14,360	-
Fair market value allowance on property available for sale	35,369	-
Bad debt recovery	(19,510)	233,690
Change in discount on mortgage notes receivable	(4,632)	14,746
(Increase) decrease in assets		
Grants receivable	(5,518)	(88,450)
Accrued interest receivable	(1,379)	(8,773)
Prepaid expenses	955	(197)
Property available for sale	-	(17,398)
Construction costs on property available for sale	(303,195)	1,129
Proceeds from sale of property held for sale	179,342	-
Construction in process	(45,789)	-
Increase (decrease) in liabilities:		
Deferred revenue	(5,000)	-
Accounts payable and accrued expenses	10,427	(90,662)
Net cash flows from operating activities	(354,619)	32,868
Cash Flows from Investing Activities		
Principal collections of mortgage notes receivable	297,965	148,746
Funds disbursed for mortgage notes receivable	(180,508)	(276,803)
Net cash flows from investing activities	117,457	(128,057)
Net change in cash and cash equivalents	(237,162)	(95,189)
Cash and cash equivalents at the beginning of the year, as previously stated	797,236	892,425
Prior period adjustment	(24,713)	-
Cash and cash equivalents at the beginning of the year, as restated	772,523	892,425
Cash and cash equivalents at the end of the year	<u>\$ 535,361</u>	<u>\$ 797,236</u>
Supplemental disclosure of non-cash investing activities:		
Write-offs of bad debts previously reserved	<u>\$ 20,356</u>	<u>\$ -</u>
Other non-cash adjustments to mortgage notes receivable	<u>\$ 16,603</u>	<u>\$ -</u>

See notes to financial statements.



AID TO DISTRESSED FAMILIES OF APPALACHIAN  
COUNTIES, INCORPORATED  
Notes to Financial Statements  
December 31, 2012 and 2011

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization and Nature of Activities** - Aid to Distressed Families of Appalachian Counties, Incorporated (“ADFAC”) is an independent, not-for-profit agency servicing the basic needs of primarily low-income residents in Anderson and surrounding Appalachian counties in Tennessee. ADFAC’s goal is to help families become stable and self-sufficient through a variety of direct assistance services provided by Social Services and Affordable Housing programs.

**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. 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. 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.

**Use of 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 and Cash Equivalents** - For purposes of the Statements of Cash Flows, ADFAC considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

**Property and Equipment** - Purchased property and equipment are stated at cost. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose or time of use. 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. Absent donor restrictions on how long donated assets must be maintained, ADFAC reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor, ADFAC reclassifies temporarily restricted net assets to unrestricted net assets at that time. 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 exceeding \$1,000 are capitalized. Property and equipment are depreciated using the straight-line method based upon the following estimated useful lives:

Office equipment	3-7 years
Energy audit equipment	3-7 years
Computer equipment	5 years
Vehicles	5 years

Depreciation expense was \$9,219 and \$10,104 for the years ending December 31, 2012 and 2011, respectively.

**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.

**Fundraising** - The majority of ADFAC’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.

**Grants** - The Affordable Housing program receives grant money from various entities for the purpose of assisting low-income first time homebuyers with an affordable home and for assisting low-income homeowners with repairs and/or reconstruction. The Social Services program receives grant money from various entities to assist low-income clients with payments for utilities and /or rent as well as school supplies.

AID TO DISTRESSED FAMILIES OF APPALACHIAN  
COUNTIES, INCORPORATED  
Notes to Financial Statements (Continued)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Revenue Recognition** - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence and nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contribution is recognized. All other donor-restricted net assets are reported as an increase in temporarily restricted or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as “net assets released from restrictions.”

**Description of Programs**

**Social Services** - ADFAC’s Social Services program provides aid to lower income families with immediate needs such as rent, mortgage, or utilities assistance. The program also provides other services such as the school supply program and the Warm Fuzzies program. Assistance is provided by contributions and support from individuals and organizations in the local community as well as local utility companies and governments.

**Affordable Housing** - ADFAC’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.

**Functional Expense Allocation** - The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities and in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among other programs and supporting services benefited.

**Advertising** - ADFAC advertises its services using brochures and other reading materials to inform the public of its services. ADFAC incurred \$3,013 and \$2,923 of advertising expenses during the years ended December 31, 2012 and 2011 respectively.

**Income Taxes** - ADFAC is exempt from federal income tax under Internal Revenue Code 501(c)(3). Management believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

ADFAC recognizes tax loss contingencies when it is probable that a liability had been incurred and the amount of the loss could be reasonably estimated. The amount recognized would be subject to estimates and management’s judgment with respect to the likely outcome of each uncertain tax position. Although the tax years ending December 31, 2009 through December 31, 2012 remain open for examination by various taxing authorities, it is management’s opinion that no significant uncertain tax positions remain open at December 31, 2012.

**Date of Management’s Review** - Management has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2012 for items that should potentially be recognized or disclosed in the financial statements. The evaluation was conducted through the date of these financial statements, September 26, 2013, and no items of significant nature were noted.

AID TO DISTRESSED FAMILIES OF APPALACHIAN  
COUNTIES, INCORPORATED  
Notes to Financial Statements (Continued)

NOTE 2 - MORTGAGE NOTES RECEIVABLE

**Mortgage Notes Receivable** - ADFAC 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 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 notes receivables are reported at the outstanding principal amount, less discounts and allowance for doubtful accounts. 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 in the year incurred. Allowance for uncollectible loans was \$317,221 and \$373,690 for the years ended December 2012 and 2011. Due to the unusual nature of the mortgage loans receivable account, management had chosen to use 3% of the total outstanding loans as its recorded discount. 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.

Under its Affordable Housing program, ADFAC 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 2012 and 2011 included:

	<u>2012</u>	<u>2011</u>
Principal balance, at the beginning of the year	\$ 1,258,226	\$ 1,130,169
Funds disbursed for mortgage notes receivable	180,508	276,803
Balances written-off	(36,959)	-
Principal collections of mortgage notes receivable	<u>(297,965)</u>	<u>(148,746)</u>
	<u>1,103,810</u>	<u>1,258,226</u>
Less: allowance for uncollectible accounts	(317,221)	(373,690)
Less: discount	<u>(33,114)</u>	<u>(37,746)</u>
Mortgage loan receivable, net at the end of the year	<u>\$ 753,475</u>	<u>\$ 846,790</u>

NOTE 3 - CONCENTRATION OF CREDIT RISK

All of ADFAC's non-interest bearing cash balances were fully insured at December 31, 2012 and 2011 due to temporary federal program in effect. Beginning in 2013, insurance coverage will revert back to \$250,000 per depositor at each financial institution, and ADFAC's non-interest bearing cash balances may exceed federally insured limits. At no time during the fiscal year did ADFAC's cash in bank balances exceed the federally insured limits. At December 31, 2012 and 2011, ADFAC had no uninsured cash balances.

NOTE 4 - ECONOMIC CONCENTRATIONS

The mortgage notes receivables are due from low-income people in the East Tennessee area. Combined with current effects of economic conditions, this presents an inherent risk to the collectability of such receivables. An allowance for this risk has been recorded and is included in the statements of financial position.

AID TO DISTRESSED FAMILIES OF APPALACHIAN  
COUNTIES, INCORPORATED  
Notes to Financial Statements (Continued)

NOTE 5 - FAIR VALUE

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A valuation hierarchy has been established for disclosure of the inputs used to measure fair value. This hierarchy prioritizes the inputs into three broad levels. Level 1 input is quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on ADFAC's assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following table sets forth by level, within the fair value hierarchy, ADFAC's assets at fair value as of December 31, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mortgage notes receivable	\$ -	\$ 753,475	\$ -	\$ 753,475
Donated Property	<u>10,245</u>	<u>-</u>	<u>-</u>	<u>10,245</u>
Total	<u>\$ 10,245</u>	<u>\$ 753,475</u>	<u>\$ -</u>	<u>\$ 763,720</u>

The following table sets forth by level, within the fair value hierarchy, ADFAC's assets at fair value as of December 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mortgage notes receivable	\$ -	\$ 846,790	\$ -	\$ 846,790
Donated Property	<u>10,245</u>	<u>-</u>	<u>-</u>	<u>10,245</u>
Total	<u>\$ 10,245</u>	<u>\$ 846,790</u>	<u>\$ -</u>	<u>\$ 857,035</u>

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2012 and 2011 are to be used in ADFAC's programs as described in Note 1 and include:

	<u>2012</u>	<u>2011</u>
Social services	\$ 87,219	\$ 95,096
Affordable housing	242,410	223,544
House available for sale	252,509	135,369
Construction in process	45,789	-
Land	61,765	111,897
Mortgage balances	<u>753,475</u>	<u>846,790</u>
Total	<u>\$ 1,443,167</u>	<u>\$ 1,412,696</u>

AID TO DISTRESSED FAMILIES OF APPALACHIAN  
COUNTIES, INCORPORATED  
Notes to Financial Statements (Continued)

NOTE 7 - DONATED SERVICES AND MATERIALS

ADFAC 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 and include the following:

	<u>2012</u>	<u>2011</u>
<b>Program Services</b>		
Housing specialists	\$ 69,645	\$ 55,200
Professional services	57,460	20,910
Rent	21,758	21,758
Donated materials	<u>14,722</u>	<u>23,406</u>
Total program services	<u>163,585</u>	<u>121,274</u>
<b>Support Services</b>		
Rent	1,892	1,892
Donated materials	<u>11,183</u>	<u>-</u>
Total support services	<u>13,075</u>	<u>1,892</u>
Total in-kind contributions	<u>\$ 176,660</u>	<u>\$ 123,166</u>

**General Services** - A substantial number of unpaid volunteers have made significant contributions of their time to develop and implement ADFAC's programs, mainly in the areas of 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.

**Donated Services** - Many specialists will donate their time to ADFAC for the purpose of aiding in home construction. In addition, ADFAC receives professional services donated for the purpose of help in the social services program.

**Donated Facilities** - ADFAC occupies office space at the First Presbyterian Church of Oak Ridge. ADFAC pays no rent for its use of this space.

**Donated Materials** - ADFAC receives donations consisting 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 has recorded assets received at their estimated fair value at the date of donation.

**Donated Property** - ADFAC will periodically receive donations of land or stock for the purpose of assisting ADFAC's mission. At December 31, 2012 and 2011, ADFAC owned \$35,135 and \$89,354 of donated land and property. ADFAC received \$22,887 of property donations during the year ended December 31, 2011 and no property for the year ended December 31, 2012.

NOTE 8 - TAX-DEFERRED SAVINGS

ADFAC has a voluntary 403(b) retirement plan available to any employee who has been employed continuously by ADFAC for at least 90 days and is scheduled to work at least 15 hours per week. ADFAC authorizes a 100% matching agency contribution up to 5% of the employee's salary. ADFAC incurred \$15,452 and \$13,793 of retirement expense for the years ended December 31, 2012 and 2011, respectively.

AID TO DISTRESSED FAMILIES OF APPALACHIAN  
COUNTIES, INCORPORATED

Notes to Financial Statements (Continued)

NOTE 9 - PROPERTY AVAILABLE FOR SALE

The cost of property held for resale is based on the costs related to the purchase or construction of the property. Such cost is evaluated whenever events or changes in circumstances indicate the carrying amount of property held for sale may not be recoverable. When it is determined that a test for recoverability is necessary, such cost is evaluated by management for impairment based upon third-party appraisals utilizing future estimated cash flows (undiscounted) from each property (primarily sales proceeds). In the event future estimated cash flows are less than the carrying value, a property is designated as impaired. A discounted cash flow analysis or market appraisal is utilized to recognize the amount of any impairment. During 2013, ADFAC sold one of the homes available for sale for \$117,140 (a loss of \$14,360) and estimated that the remaining home would sell at a loss of \$35,369. The property available for sale as of December 30, 2012 and 2011 included the following:

	<u>2012</u>	<u>2011</u>
Donated property held for sale	\$ 10,245	\$ 10,245
Land held for sale	61,765	125,897
Construction in process	45,789	-
Homes available for sale	252,509	135,369
Fair market value allowance for home available for sale	<u>(35,369)</u>	<u>-</u>
Total property held for sale	<u>\$ 334,939</u>	<u>\$ 271,511</u>

NOTE 10 - LEASE AGREEMENT

ADFAC entered in to a 99-year lease agreement in March 2001 with a community land trust in order to develop housing for low income families. The property is granted to ADFAC 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 11 - PRIOR PERIOD ADJUSTMENTS

During fiscal year ending December 31, 2011, invoices totaling \$24,713 were reported as a cash transfer balance when paid rather than being expensed. This resulted in an erroneous increase of net assets for 2011 by the same amount.

During fiscal year ending December 31, 2010, invoices totaling \$40,952 were expensed when paid rather than being capitalized to construction in progress by the predecessor auditor. This resulted in an erroneous reduction of net assets for 2010 by this same amount.

During the fiscal year ending December 31, 2010, land was recorded in the accounting records at fair market value rather than cost. Land held at the end of the fiscal year would be considered inventory for the future use and should be recorded at the lower of cost or market. This resulted in total assets being overstated by \$15,686.

In prior periods the allocation of unrestricted and temporarily restricted net assets has not reflected the true purpose of ADFAC's funds and any restrictions placed on those funds. To better reflect the restrictions placed on ADFAC by the grantors and donors, a prior period adjustment was recorded in the amount of \$283,895 to reduce temporarily restricted net assets and increase unrestricted net assets by the same amount.