AID TO DISTRESSED FAMILIES OF APPALACHIAN COUNTIES, INC.

Oak Ridge, Tennessee

FINANCIAL STATEMENTS

December 31, 2013

PUGH CPAs

AID TO DISTRESSED FAMILIES OF APPALACHIAN COUNTIES, INC.

TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors, Finance Committee and Senior Management
Aid to Distressed Families of Appalachian Counties, Inc.
Oak Ridge, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Aid to Distressed Families of Appalachian Counties, Inc. ("ADFAC") which comprise the statement of financial position as of December 31, 2013, the related statements of activities, functional expenses and cash flows for the year 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.

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Aid to Distressed Families of Appalachian Counties, Inc. as of December 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

As described in Note 11 to the financial statements there was a reclassification of amounts between unrestricted and temporarily restricted net assets as of January 1, 2013.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
September 9, 2014

AID TO DISTRESSED FAMILIES OF APPALACHIAN COUNTIES, INC.

STATEMENT OF FINANCIAL POSITION

As of December 31,	2013
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	$ 638,437
Grants Receivable	10,286
Mortgage Notes Receivable, Due Within One Year - Net	93,973
Accrued Interest Receivable	52,115
Prepaid Expenses	2,815
Total Current Assets	797,626
PROPERTY AND EQUIPMENT - NET	23,442
OTHER ASSETS	
Property Held for Sale	267,919
Mortgage Notes Receivable, Due After One Year - Net	656,529
Total Other Assets	924,448
TOTAL ASSETS	$ 1,745,516
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts Payable and Accrued Expenses	$ 16,922
Unearned Income	1,200
Total Current Liabilities	18,122
NET ASSETS	
Unrestricted	
Undesignated	305,744
Board Designated for Affordable Housing Program	1,249,196
Board Designated for Social Services Program	14,619
Total Unrestricted	1,569,559
Temporarily Restricted	
Restricted for Affordable Housing Program	61,387
Restricted for Social Services Program	96,448
Total Temporarily Restricted	157,835
Total Net Assets	1,727,394
TOTAL LIABILITIES AND NET ASSETS	$ 1,745,516

AID TO DISTRESSED FAMILIES OF APPALACHIAN COUNTIES, INC.

STATEMENT OF ACTIVITIES

For the Year Ended December 31,	2013		
	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT			
Contributions and Support	$ 144,748	$ 154,329	$ 299,077
United Way Allocations	63,832	0	63,832
Special Fundraising Events	33,409	0	33,409
In-Kind Contributions	34,529	124,721	159,250
Total Public Support	276,518	279,050	555,568
REVENUES			
Federal Grants	35,203	144,248	179,451
State Grants	5,965	42,187	48,152
Cities and Counties	31,613	123,451	155,064
Mortgage Fees & Interest	27,440	0	27,440
Interest - Other	610	0	610
Sale of Assets	0	302,171	302,171
Other	23,324	2,900	26,224
Total Revenues	124,155	614,957	739,112
NET ASSETS RELEASED FROM RESTRICTIONS	1,252,284	(1,252,284)	0
TOTAL PUBLIC SUPPORT AND REVENUES	1,652,957	(358,277)	1,294,680
EXPENSES			
Program Services			
Affordable Housing	754,456	0	754,456
Social Services	480,543	0	480,543
Total Program Services	1,234,999	0	1,234,999
Supporting Services			
Management and General	89,355	0	89,355
Fundraising	21,680	0	21,680
Total Supporting Services	111,035	0	111,035
Total Expenses	1,346,034	0	1,346,034
CHANGE IN NET ASSETS	306,923	(358,277)	(51,354)
NET ASSETS, BEGINNING OF YEAR (as previously reported)	335,581	1,443,167	1,778,748
Prior Period Reclassification (see Note 11)	927,055	(927,055)	0
NET ASSETS, BEGINNING OF YEAR (as restated)	1,262,636	516,112	1,778,748
NET ASSETS, END OF YEAR	$ 1,569,559	$ 157,835	$ 1,727,394

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

AID TO DISTRESSED FAMILIES OF APPALACHIAN COUNTIES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2013

	Program Services			Supporting Services			
	Affordable Housing	Social Services	Total Program Services	Management and General	Fundraising	Total Support Services	Total Program and Supporting Services
Direct Program Costs & Client Assistance	$ 472,389	$ 260,813	$ 733,202	$ 0	$ 0	$ 0	$ 733,202
Salaries	134,364	126,756	261,120	56,409	15,273	71,682	332,802
In-Kind Assistance	86,990	40,861	127,851	2,892	4,319	7,211	135,062
Loss on Sale of Land and Homes	4,661	0	4,661	0	0	0	4,661
Payroll Taxes and Employee Benefits	13,942	19,174	33,116	6,378	1,081	7,459	40,575
Fair Market Value Adjustment	(28,000)	0	(28,000)	0	0	0	(28,000)
In-Kind Rent	11,127	11,126	22,253	1,935	0	1,935	24,188
Insurance	11,913	2,646	14,559	8,297	0	8,297	22,856
Accounting	5,956	5,956	11,912	2,978	0	2,978	14,890
Conferences and Travel	5,027	19	5,046	473	0	473	5,519
Utilities	4,812	4,833	9,645	1,659	0	1,659	11,304
Depreciation	8,688	0	8,688	0	0	0	8,688
Telephone and Communication	5,367	3,261	8,628	926	0	926	9,554
Vehicle	5,601	0	5,601	0	0	0	5,601
Supplies	1,421	856	2,277	1,428	214	1,642	3,919
Office and Computer	1,327	3,648	4,975	1,306	0	1,306	6,281
Property - Repairs & Maintenance, Taxes, Insurance and Utilities	7,608	0	7,608	0	0	0	7,608
Miscellaneous	(1,553)	184	(1,369)	1,263	0	1,263	(106)
Postage and Shipping	690	190	880	1,797	252	2,049	2,929
Advertising	0	0	0	249	125	374	374
Memberships and Subscriptions	626	220	846	394	0	394	1,240
Warehouse Rent	1,500	0	1,500	0	0	0	1,500
Printing	0	0	0	971	416	1,387	1,387
Total	$ 754,456	$ 480,543	$ 1,234,999	$ 89,355	$ 21,680	$ 111,035	$ 1,346,034

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

AID TO DISTRESSED FAMILIES OF APPALACHIAN COUNTIES, INC.

STATEMENT OF CASH FLOWS

For the Year Ended December 31,		2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$	(51,354)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation		8,688
(Gain) Loss on Property Held for Sale		4,661
Fair Market Value Adjustment for Property Held for Sale		(28,000)
Provision for Bad Debts - Mortgage Notes Receivables		0
Change in Discount on Mortgage Notes Receivables		(844)
(Increase) Decrease in Assets:		
Accounts & Grants Receivable		96,507
Accrued Interest Receivable		1,106
Prepaid Expenses		1,225
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Liabilities		(19,289)
Unearned Revenues		1,200
Deferred Grant Revenues		(5,000)
Net Cash Flows Provided by (Used in) Operating Activities		8,900
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Property Held for Sale		302,171
Construction Costs on Property Held for Sale		(211,812)
Mortgage Notes Receivables Issued		(54,040)
Principal Collections of Mortgage Notes Receivables		57,857
Net Cash Flows Provided by (Used in) Investing Activities		94,176
NET INCREASE IN CASH AND CASH EQUIVALENTS		103,076
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		535,361
CASH AND CASH EQUIVALENTS, END OF YEAR	$	638,437

AID TO DISTRESSED FAMILIES OF APPALACHIAN COUNTIES, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities - Aid to Distressed Families of Appalachian Counties, Inc. ("ADFAC') is an independent, not-for-profit agency servicing the basic needs of primarily low-income residents in Anderson County, Tennessee and surrounding Appalachian Counties. 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.

Accounting Principles - ADFAC's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Financial Accounting Standards Board (FASB). 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.

Cash and Cash Equivalents - For purposes of the Statements of Cash Flows, ADFAC considers cash in bank, and short-term certificates of deposit with an original maturity of less than 90 days as cash and cash equivalents.

Mortgage Notes Receivable - Mortgage notes receivable (loans) are stated at the amount of unpaid principal, reduced by an allowance for uncollectible mortgages and a discount. Interest on loans is recognized over the term of the loan and calculated using the simple-interest method on principal amounts outstanding. The allowance for uncollectible mortgage notes receivable is established through a provision for bad debt expense charged to operations. Loans are considered delinquent once payment is 180 days past due. Interest on loans continues to accrue until the loan is paid off, the loan terms have been modified, the loan is charged-off, or collection procedures have been initiated.

Allowance for Uncollectible Mortgage Notes Receivables - The allowance for uncollectible mortgage notes receivables (loans) is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans and economic conditions. Allowances for impaired loans are generally determined based on the net realizable value of the collateral. Because of uncertainties associated with local economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that management's estimate of credit losses inherent in the loan portfolio and the related allowance may change materially in the near term. The allowance is increased or decreased by a provision for loan losses, which is charged or credited to expense and the allowance is reduced by charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan losses. Loans are charged against the allowance when management believes that the ability to collect the principal is unlikely.

A loan is considered impaired when, based on current information and events, it is probable that ADFAC will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all the circumstances surrounding the loan and borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

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

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 double-declining and straight-line methods based upon the following estimated useful lives:

	Years
Office Equipment	3-5
Energy Audit Equipment	3-7
Computer Equipment	5
Vehicles	5

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 Director, 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 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.

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. Assistance is provided by contributions and support from individuals and organizations in the local community as well as local utility companies, governments and foundation grants.

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.

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

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 benefited programs and support services.

Advertising - Advertising costs are expensed as incurred. ADFAC incurred $374 of advertising expenses during the year ended December 31, 2013.

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 contingences when it is probable that a liability had been incurred and that 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. Currently no provision for income taxes has been included in the financial statements. ADFAC is subject to audits by taxing authorities; however, currently no audits for any tax periods are in progress. ADFAC is no longer subject to income tax examinations for years prior to December 31, 2010.

Net Assets - Net assets are classified into three categories as described below.

Unrestricted Net Assets - Include those net assets whose use is not restricted by donors and grantors. Changes in net assets arising from exchange transactions (except income and gains on assets that are restricted by donors or by law) are included in the unrestricted net asset class. Unrestricted net assets may include those designated by the Board of Directors for specific purposes.

Designation of Unrestricted Net Assets - It is the policy of the Board of Directors of ADFAC to review its plans for future program requirements from time to time and to designate appropriate sums of unrestricted net assets to ensure adequate financing of programs.

Temporarily Restricted Net Assets - Includes resources whose use is limited by donor or grantor imposed stipulations that either expire by the passage of time or can be fulfilled by actions of the board of directors pursuant to those stipulations. When a donor-imposed restriction is fulfilled or when a time restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as restrictions satisfied.

Permanently Restricted Net Assets - Must be maintained by ADFAC in perpetuity. Permanently restricted net assets increase when ADFAC receives contributions for which donor-imposed restrictions limiting the use of an asset or its economic benefits neither expire with the passage of time nor can be removed by ADFAC meeting certain requirements. There were no permanently restricted net assets during 2013.

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, such as the allowance for uncollectible mortgage notes receivable and depreciable lives of property and equipment, 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 those estimates.

Evaluation of Subsequent Events - Management has evaluated events through September 9, 2014, which is the date the financial statements became available to be issued.

NOTE 2 - MORTGAGE NOTES RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE LOANS

Mortgage Notes Receivable - ADFAC helps provide funding for the repair, renovation and building of 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. Mortgages are collateralized by a lien on the property. Allowance for uncollectible loans was $292,905 for the year ended December 31, 2013. Due to the unusual nature of the mortgage loans receivable account, management has chosen to use 3% of the total outstanding loans as its recorded discount.

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. These loans are secured by single family owner occupied residential real estate. In addition, these loans are secured by either a first and/or second mortgage lien. Mortgage loan transactions during 2013 were as follows:

		2013
Principal Balance, Beginning of the Year	$	1,103,810
Funds Disbursed for Mortgage Notes Receivable		54,040
Balances Charged-Off		(24,316)
Principal Collections of Mortgage Notes Receivable		(57,857)
		1,075,677
Less: Allowance for Uncollectible Accounts		(292,905)
Less: Discount		(32,270)
Mortgage Notes Receivable - Net, End of the Year	$	750,502
Amount Due Within One Year	$	93,973
Amount Due After One Year		656,529
Total	$	750,502

Loan Quality - Management performs a quarterly evaluation of the allowance for loan losses (ALL). It is management's general practice to periodically review the asset valuation, of any loan throughout the year. Valuation adjustments may be made necessary based on other factors including, but not limited to, the economy, maintenance and general condition of the collateral, and the knowledge management has about a particular situation. In addition, the cost to sell or liquidate the collateral is also estimated when determining the realizable value of the loan. Certain factors in the evaluation are inherently subjective, as they require material estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans.

The analysis for determining the ALL consists of specific and general components. The specific component addresses specific reserves for impaired loans. A loan is considered impaired when, based on current information and events, it is probable that ADFAC will be unable to collect all the interest and principal payments due according to the originally contracted terms of the loan agreement. Expected cash flows on collateral values discounted for market conditions and selling costs are used to establish specific allocations. The general components include ADFAC's historical loan loss experience and other factors such as local economic and market conditions that have been determined to have an effect on the probability and amount of loss.

NOTE 2 - MORTGAGE NOTES RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE LOANS (Continued)

Loan Quality (Continued)

The following table represents the aging of the mortgage notes receivables (loans) as of December 31:

		2013
Residential Mortgage Notes Receivable:		
Current	$	376,430
30-60 Days Past Due		143,699
60-90 Days Past Due		29,863
91-180 Days Past Due		35,107
More than 181 Days Past Due		490,578
Total	$	1,075,677

The allowance for uncollectible mortgage notes receivable is increased by provision (bad debt) expense and reduced by charge-off of loans, net of recoveries. The changes in the allowance for uncollectable mortgage notes receivable during 2013 is presented below:

		2013
Balance, Beginning of Year	$	317,221
Charge-Offs		(24,316)
Provision		0
Balance, End of Year	$	292,905

The following table presents loans that were evaluated for the ALL under the specific reserve (individually) and those that were evaluated under the general reserve (collectively) as of December 31:

		2013
Residential Mortgage Notes Evaluated for Allowance:		
Individually	$	472,262
Collectively		603,415
Total	$	1,075,677
Allowance Established for Loans Evaluated:		
Individually	$	222,466
Collectively		70,439
Total Allowance	$	292,905

NOTE 2 - MORTGAGE NOTES RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE LOANS (Continued)

Loan Quality (Continued)

The following table shows additional information about the residential mortgage notes receivable loans considered to be impaired as of December 31:

	2013	
	Specific Allowance	No Specific Allowance
Impaired Loans - Mortgage Notes Receivable:		
Unpaid Principal Balance	$ 222,466	$ 249,796
Related Allowance	222,466	0
Average Recorded Investment	222,466	249,796
Accrued Interest Receivable at Year-End	8,858	1,436
Interest Income Recognized	5,005	5,620

NOTE 3 - 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.

Financial Assets Recorded at Fair Value on a Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis; that is, the assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances, for example when there is evidence of impairment. These include assets that are measured at the lower of cost or market at year-end. Assets measured at fair value on a nonrecurring basis include the following:

Impaired Loans - ADFAC does not record mortgage notes receivables (loans) at fair value on a recurring basis. However, from time to time, a loan is considered impaired in accordance with GAAP and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. If the recorded investment in impaired loans exceeds the measure of fair value, a valuation allowance is established as a component of the allowance for loan losses. The fair value of individually identified impaired loans is measured using both observable and unobservable inputs based on the present value of expected payments or the collateral value. Impaired loans are classified within Level 3 of the valuation hierarchy.

Property Held for Sale - Property held for sale is recorded at fair value on a nonrecurring basis. Fair value measurement is based on management’s estimate of the amount that will be realized when the property is sold and is classified within Level 3 of the valuation hierarchy.

NOTE 3 - FAIR VALUE (Continued)

Financial Assets Recorded at Fair Value on a Nonrecurring Basis (Continued)

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

	2013			
	Level 1	Level 2	Level 3	Total
Mortgage Notes Receivable, Net of Valuation Allowance and Discount	$ 0	$ 0	$ 249,796	$ 249,796
Property Held for Sale	0	0	267,919	267,919
Total	$ 0	$ 0	$ 517,715	$ 517,715

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31:

	2013
Office Equipment	$ 27,083
Energy Audit Equipment	20,244
Computer Equipment	16,479
Vehicles	13,280
	77,086
Less: Accumulated Depreciation	(53,644)
Total Net Property and Equipment	$ 23,442

Depreciation expense was $8,688 for the year ending December 31, 2013.

NOTE 5 - PROPERTY HELD 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. The property available for sale as of December 31, 2013 included the following:

	2013
Donated Property Held for Sale	$ 10,245
Land Held for Sale	26,630
Houses Available for Sale	238,413
Fair Market Value Allowance for Houses Available for Sale	(7,369)
Total Property Held for Sale	$ 267,919

NOTE 6 - 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:

		2013
Program Services		
Housing Specialists	$	84,125
Professional Services		24,060
Rent		22,253
Donated Materials		19,666
Total Program Services		150,104
Support Services		
Rent		1,935
Donated Materials		7,211
Total Support Services		9,146
Total In-Kind Contributions	$	159,250

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. ADFAC also receives donated services for Information Technology work related to support services.

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

Donated Materials - ADFAC receives donations consisting of items such as food, toiletries and school supplies that are 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. ADFAC received no property donations during the year ended December 31, 2013.

NOTE 7 - RETIREMENT PLAN

ADFAC has a voluntary Internal Revenue Code section 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 employer contribution up to 5% of the employee’s annual salary. Employees are 100% immediately vested in the employer matching contributions. ADFAC incurred $14,839 of retirement expense for the year ended December 31, 2013.

NOTE 8 - LEASE AGREEMENT

ADFAC entered into a 99-year lease agreement in March 2005 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 homes on the property. Ownership of the homes will revert to homeowners after the balance of the mortgage loans have been paid in full. The ownership of the property will revert back to the land trust upon the release of the lease. The lease is permitted to be released by ADFAC five years after the last constructed home has been sold.

NOTE 9 - ECONOMIC CONCENTRATIONS

ADFAC receives a significant amount of funding from various United Way Chapters, the City of Oak Ridge and other local cities and counties and the U.S. Department of Housing and Urban Development through the Tennessee Housing Development Agency. Any reductions from these various funding sources could materially impact the amount and level of service provided by ADFAC.

NOTE 10 - SUBSEQUENT EVENT

In June 2014 ADFAC was awarded a $437,903 HOME grant from the U.S. Department of Housing and Urban Development, through the Tennessee Housing Development Agency, to provide funding for homeowner occupied rehabilitation projects in Anderson, Morgan and Campbell Counties. ADFAC is required to provide a $12,000 matching contribution and the grant is scheduled to begin July 1, 2014 and be completed by June 30, 2017.

NOTE 11 - PRIOR PERIOD RECLASSIFICATION OF NET ASSETS

As of January 1, 2013, there was a reclassification of $927,055 from temporarily restricted net assets to unrestricted net assets. During 2013 management reevaluated the requirements of the initial restrictions placed upon ADFAC by various grantors and contributors under the affordable housing and social services programs. Management determined that once ADFAC had fulfilled the initial restrictions in the year funding was expended then the residual net assets for these activities should be classified as unrestricted net assets. As of December 31, 2013 unrestricted net assets from these two programs have been recorded as unrestricted net assets board designated for affordable housing and social services programs.