AID TO DISTRESSED FAMILIES OF APPALACHIAN COUNTIES, INC.

Oak Ridge, Tennessee

FINANCIAL STATEMENTS

December 31, 2017 and 2016

AID TO DISTRESSED FAMILIES OF APPALACHIAN COUNTIES, INC.

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WOODALLGROUP
CPAs & Advisors

Partners:
Gregg A. Woodall, CPA, CVA, CGMA
Ben Woodall, CPA, MBA

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 statements of financial position as of December 31, 2017 and 2016, the related statements of activities, cash flows and functional expenses 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.

Auditor's 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 audits 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 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, 2017 and 2016, 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.

Woodall Group, LLC
Certified Public Accountants
Knoxville, Tennessee
October 1, 2018

AID TO DISTRESSED FAMILIES OF APPALACHIAN COUNTIES, INC.

STATEMENTS OF FINANCIAL POSITION

As of December 31,	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 554,405	$ 651,832
Grants Receivable	71,830	112,976
Mortgage Notes Receivable, Due Within One Year - Net	73,498	72,462
Accrued Interest Receivable	4,547	3,149
Prepaid Expenses	1,000	1,002
Total Current Assets	705,280	841,421
PROPERTY AND EQUIPMENT - NET	190,282	198,848
OTHER ASSETS		
Property Held for Sale	123,636	53,045
Mortgage Notes Receivable, Due After One Year - Net	483,459	512,437
Beneficial Interest in Assets Held by Others	45,166	30,978
Total Other Assets	652,261	596,460
TOTAL ASSETS	$ 1,547,823	$ 1,636,729
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	$ 37,531	$ 20,218
FAHE Loan Payable	23,650	23,650
Total Current Liabilities	61,181	43,868
NET ASSETS		
Unrestricted		
Undesignated	262,885	197,248
Board Designated for Endowment	45,166	30,978
Board Designated for Affordable Housing Program	949,817	1,165,452
Board Designated for Social Services Program	953	6,252
Total Unrestricted	1,258,821	1,399,930
Temporarily Restricted		
Restricted for Affordable Housing Program	134,359	107,973
Restricted for Social Services Program	93,462	84,958
Total Temporarily Restricted	227,821	192,931
Total Net Assets	1,486,642	1,592,861
TOTAL LIABILITIES AND NET ASSETS	$ 1,547,823	$ 1,636,729

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

AID TO DISTRESSED FAMILIES OF APPALACHIAN COUNTIES, INC.

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT			
Contributions and Support	$ 164,182	$ 180,569	$ 344,751
United Way Allocations	77,490	0	77,490
Special Fundraising Events	41,062	0	41,062
In-Kind Contributions	56,316	0	56,316
Total Public Support	339,050	180,569	519,619
REVENUES			
Federal and State Grants	7,000	99,012	106,012
Cities and Counties	32,493	124,004	156,497
Mortgage Fees & Interest	13,547	0	13,547
Interest - Other	5,670	0	5,670
Other	40,984	0	40,984
Total Revenues	99,694	223,016	322,710
NET ASSETS RELEASED FROM RESTRICTIONS	368,695	(368,695)	0
TOTAL PUBLIC SUPPORT AND REVENUES	807,439	34,890	842,329
EXPENSES			
Program Services			
Affordable Housing	348,903	0	348,903
Social Services	477,626	0	477,626
Total Program Services	826,529	0	826,529
Supporting Services			
Management and General	90,220	0	90,220
Fundraising	31,799	0	31,799
Total Supporting Services	122,019	0	122,019
Total Expenses	948,548	0	948,548
CHANGE IN NET ASSETS	(141,109)	34,890	(106,219)
NET ASSETS, BEGINNING OF YEAR	1,399,930	192,931	1,592,861
NET ASSETS, END OF YEAR	$ 1,258,821	$ 227,821	$ 1,486,642

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

AID TO DISTRESSED FAMILIES OF APPALACHIAN COUNTIES, INC.

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT			
Contributions and Support	$ 158,404	$ 173,580	$ 331,984
United Way Allocations	80,186	0	80,186
Special Fundraising Events	34,560	0	34,560
In-Kind Contributions	58,921	0	58,921
Total Public Support	332,071	173,580	505,651
REVENUES			
Federal and State Grants	13,346	149,794	163,140
Cities and Counties	32,348	137,802	170,150
Mortgage Fees & Interest	22,690	0	22,690
Interest - Other	2,510	0	2,510
Other	38,714	0	38,714
Total Revenues	109,608	287,596	397,204
NET ASSETS RELEASED FROM RESTRICTIONS	428,509	(428,509)	0
TOTAL PUBLIC SUPPORT AND REVENUES	870,188	32,667	902,855
EXPENSES			
Program Services			
Affordable Housing	350,827	0	350,827
Social Services	515,057	0	515,057
Total Program Services	865,884	0	865,884
Supporting Services			
Management and General	86,395	0	86,395
Fundraising	27,250	0	27,250
Total Supporting Services	113,645	0	113,645
Total Expenses	979,529	0	979,529
CHANGE IN NET ASSETS	(109,341)	32,667	(76,674)
NET ASSETS, BEGINNING OF YEAR	1,509,271	160,264	1,669,535
NET ASSETS, END OF YEAR	$ 1,399,930	$ 192,931	$ 1,592,861

AID TO DISTRESSED FAMILIES OF APPALACHIAN COUNTIES, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31,	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ (106,219)	$ (76,674)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	9,816	6,940
(Gain) Loss on Disposal of Assets	0	3,148
(Gain) Loss on Property Held for Sale	0	40,143
Loss on Sale or Write-down of Property	16,389	0
Provision for Bad Debts - Mortgage Notes Receivables	1,654	15,000
Change in Discount on Mortgage Notes Receivables	(864)	(2,616)
Property Contributed by Donors	(1,250)	(20,400)
Net Changes in:		
Accounts & Grants Receivable	41,146	(54,527)
Accrued Interest Receivable	(1,398)	(610)
Prepaid Expenses	2	0
Beneficial Interest in Assets Held by Others	(4,128)	(1,120)
Accounts Payable and Accrued Liabilities	17,313	25,596
Unearned Revenues	0	(1,725)
Net Cash Flows Provided by (Used in) Operating Activities	(27,539)	(66,845)
CASH FLOWS FROM INVESTING ACTIVITIES		
Transfer to Beneficial Interest in Assets Held by Others	(10,060)	(8,393)
Purchase of Property and Equipment	0	(113,422)
Proceeds from Sale of Assets	0	5,000
Proceeds from Sale of Property Held for Sale	13,000	283,000
Construction Costs on Property Held for Sale	(99,980)	(4,600)
Principal Collections of Mortgage Notes Receivable	27,152	60,505
Net Cash Flows Provided by (Used in) Investing Activities	(69,888)	222,090
NET INCREASE IN CASH AND CASH EQUIVALENTS	(97,427)	155,245
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	651,832	496,587
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 554,405	$ 651,832

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, 2017

	Program Services			Supporting Services			
	Affordable Housing	Social Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Program and Supporting Services
Direct Program Costs & Client Assistance	$ 178,931	286,681	465,612	0	0	0	465,612
Salaries	88,001	123,687	211,688	57,122	14,197	71,319	283,007
In-Kind Assistance	1,440	19,151	20,591	6,900	7,066	13,966	34,557
Loss (Gain) on Sale of Assets	8,487	0	8,487	0	0	0	8,487
Payroll Taxes and Employee Benefits	9,415	17,782	27,197	6,069	1,541	7,610	34,807
Fair Market Value Adjustment	16,389	0	16,389	0	0	0	16,389
In-Kind Rent	9,024	9,024	18,048	2,461	0	2,461	20,509
Insurance	570	2,690	3,260	4,411	0	4,411	7,671
Accounting	5,780	5,780	11,560	2,890	0	2,890	14,450
Conferences and Travel	1,733	60	1,793	0	0	0	1,793
Utilities	4,358	4,368	8,726	740	0	740	9,466
Depreciation	3,534	125	3,659	0	0	0	3,659
Telephone and Communication	1,607	2,840	4,447	1,259	0	1,259	5,706
Vehicle	1,637	0	1,637	0	0	0	1,637
Supplies	69	870	939	1,743	171	1,914	2,853
Office and Computer	1,481	1,695	3,176	721	0	721	3,897
Property - Repairs & Maintenance, Taxes, Insurance and Utilities	518	0	518	0	0	0	518
Miscellaneous	26	721	747	2,012	0	2,012	2,759
Postage and Shipping	323	254	577	1,698	302	2,000	2,577
Advertising	975	0	975	420	0	420	1,395
Memberships and Subscriptions	630	308	938	1,004	0	1,004	1,942
Warehouse Rent	1,125	0	1,125	375	0	375	1,500
Mileage	0	190	190	395	0	395	585
Fundraising Expense	0	0	0	0	8,522	8,522	8,522
Rental Property Expense	11,196	0	11,196	0	0	0	11,196
Rent Expense	0	1,400	1,400	0	0	0	1,400
Bad Debt Expense	1,654	0	1,654	0	0	0	1,654
Total	$ 348,903	$ 477,626	$ 826,529	$ 90,220	$ 31,799	$ 122,019	$ 948,548

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, 2016

	Program Services			Supporting Services			
	Affordable Housing	Social Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Program and Supporting Services
Direct Program Costs & Client Assistance	$ 150,322	317,469	467,791	0	0	0	467,791
Salaries	88,694	129,308	218,002	58,699	12,603	71,302	289,304
In-Kind Assistance	1,448	20,582	22,030	7,616	7,566	15,182	37,212
Loss (Gain) on Sale of Assets	43,289	0	43,289	0	0	0	43,289
Payroll Taxes and Employee Benefits	9,128	17,133	26,261	5,877	1,294	7,171	33,432
In-Kind Rent	9,024	9,024	18,048	2,461	0	2,461	20,509
Insurance	559	3,478	4,037	787	0	787	4,824
Accounting	5,100	5,100	10,200	2,550	0	2,550	12,750
Conferences and Travel	3,492	120	3,612	150	0	150	3,762
Utilities	4,358	4,618	8,976	990	0	990	9,966
Depreciation	5,826	891	6,717	223	0	223	6,940
Telephone and Communication	1,874	2,692	4,566	1,314	0	1,314	5,880
Vehicle	1,698	0	1,698	0	0	0	1,698
Supplies	1,281	837	2,118	430	1,121	1,551	3,669
Office and Computer	2,076	857	2,933	857	0	857	3,790
Property - Repairs & Maintenance, Taxes, Insurance and Utilities	4,762	0	4,762	0	0	0	4,762
Miscellaneous	5	539	544	1,172	0	1,172	1,716
Postage and Shipping	303	257	560	1,788	474	2,262	2,822
Advertising	0	0	0	234	0	234	234
Memberships and Subscriptions	627	413	1,040	659	0	659	1,699
Warehouse Rent	1,125	0	1,125	375	0	375	1,500
Rental Property Expense	836	0	836	0	0	0	836
Mileage	0	539	539	213	0	213	752
Fundraising Expense	0	0	0	0	4,192	4,192	4,192
Rent Expense	0	1,200	1,200	0	0	0	1,200
Bad Debt Expense	15,000	0	15,000	0	0	0	15,000
Total	$ 350,827	$ 515,057	$ 865,884	$ 86,395	$ 27,250	$ 113,645	$ 979,529

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

AID TO DISTRESSED FAMILIES OF APPALACHIAN COUNTIES, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

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. Receivables are recorded at present value using a discount rate of 3%. 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, trend 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 less costs to sell. 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
Computer Equipment	5
Vehicles	5
Rental Property	27.5

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 $1,395 and $234 of advertising expenses during the years ended December 31, 2017 and 2016, respectively.

Income Taxes - ADFAC is exempt from federal income tax under Internal Revenue Code 501(c)(3).

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

Unrestricted Net Assets - Includes 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. 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 are 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 2017 or 2016.

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.

Subsequent Events - Management has evaluated subsequent events through October 1, 2018, which is the date the financial statements became available to be issued, and has determined that there are no subsequent events that require disclosure.

NOTE 2 - MORTGAGE NOTES RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE LOANS

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. The allowance for uncollectible loans was $63,303 and $63,303 for the years ended December 31, 2017 and 2016, respectively. Additionally, loans receivable are recorded at the present value of the amount expected to be received, using a discount rate of 3%.

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

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 either a first and/or second mortgage lien on single family, owner occupied residential real estate. Mortgage loan transactions during 2017 and 2016 were as follows:

	2017	2016
Principal Balance, Beginning of the Year	$ 668,249	$ 755,433
Balances Charged-Off	(1,654)	(8,086)
Balances Capitalized - Foreclosure	0	(18,593)
Principal Collections of Mortgage Notes Receivable	(27,152)	(60,505)
	639,443	668,249
Less: Allowance for Uncollectible Accounts	(63,303)	(63,303)
Less: Discount	(19,183)	(20,047)
Mortgage Notes Receivable - Net, End of the Year	$ 556,957	$ 584,899
Amount Due Within One Year	$ 73,498	$ 72,462
Amount Due After One Year	483,459	512,437
Total	$ 556,957	$ 584,899

Loan Quality - Management performs a quarterly evaluation of the allowance for loan losses (ALL). Valuation adjustments may be made necessary based on 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.

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

	2017	2016
Residential Mortgage Notes Receivable:		
Current	$ 375,537	$ 309,544
31-60 Days Past Due	13,951	21,645
61-90 Days Past Due	0	0
91-180 Days Past Due	78,308	58,745
More than 180 Days Past Due	171,647	278,315
Total	$ 639,443	$ 668,249

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

Loan Quality (Continued) - The allowance for uncollectible mortgage notes receivable is increased by provision (bad debt) expense and reduced by charge-offs of loans, net of recoveries. The changes in the allowance for uncollectable mortgage notes receivable during 2017 and 2016 are presented below:

	2017	2016
Balance, Beginning of Year	$ 63,303	$ 56,389
Provision for Bad Debts	0	15,000
Loan Principal Charged-off	0	(8,086)
Balance, End of Year	$ 63,303	$ 63,303

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:

	2017	2016
Residential Mortgage Notes Evaluated for Allowance:		
Individually	$ 171,647	$ 278,315
Collectively	467,796	389,934
Total	$ 639,443	$ 668,249
Allowance Established for Loans Evaluated:		
Individually	$ 41,803	$ 47,033
Collectively	21,500	16,270
Total Allowance	$ 63,303	$ 63,303

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

	2017		2016	
	Specific Allowance	No Specific Allowance	Specific Allowance	No Specific Allowance
Impaired Loans - Mortgage Notes Receivable:				
Unpaid Principal Balance	$ 41,803	$ 129,844	$ 47,033	$ 231,282
Related Allowance	41,803	0	47,033	0
Average Recorded Investment	39,326	133,531	45,593	214,831
Accrued Interest Receivable at Year-End	2,666	714	1,600	404
Interest Income Recognized	77	2,464	446	4,557

NOTE 3 - BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

In 2015, ADFAC transferred assets to the East Tennessee Foundation ("ETF") to establish an endowment fund. The fund is the property of the ETF, and as such the ETF shall have the ultimate authority and control of all property of the fund and the income derived therefrom, for the charitable purposes of the ETF. Under the terms of ADFAC's agreement with the ETF, at the ETF's discretion, only the net income of the fund, or an amount calculated according to the annual spending rate (a percentage of market value), shall be distributed to ADFAC each year. ADFAC can withdraw all or a portion of the fund, provided that a 75% majority of the governing board of ADFAC and the ETF approve of the withdrawal. No distributions were made during the years ended December 31, 2017 and 2016. In establishing the fund, ADFAC granted variance power to the ETF. That power gives the ETF the right to make fund distributions to another not-for-profit organization of its choice or amend the terms of the agreement as it sees necessary if ADFAC ceases to exist or if the governing board of the ETF votes that support of ADFAC (a) is no longer necessary, (b) is incapable of fulfillment, or (c) is inconsistent with the charitable needs of the East Tennessee community. At December 31, 2017 and 2016, the endowment fund had a value of $45,166 and $30,978, which is reported in the statement of financial position as beneficial interest in assets held by others. The endowment fund does not have any associated donor restrictions as of December 31, 2017 and 2016, consisting of funds designated by the Board of Directors to function as an endowment. As a result, the net assets associated with the endowment fund are classified as board designated.

NOTE 4 - FAIR VALUE MEASUREMENTS

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 Recurring Basis

Beneficial Interest in Assets Held by Others – ADFAC's beneficial interest in endowment assets held by the East Tennessee Foundation is recorded at fair value, which is estimated as the fair value of the underlying assets. This endowment fund is held in the ETF's long-term commingled investment fund, for which there is no active market. This investment fund is comprised of fixed income, equity, and alternative investments and is reported at fair value using Level 3 inputs. The fair value measurements consider observable data that may include closing prices, calculated net asset per share, pricing models, and discounted cash flows.

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

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

	2017			
	Level 1	Level 2	Level 3	Total
Beneficial Interest in Assets				
Held by Others	$ 0	$ 0	$ 45,166	$ 45,166
Total	$ 0	$ 0	$ 45,166	$ 45,166

	2016			
	Level 1	Level 2	Level 3	Total
Beneficial Interest in Assets				
Held by Others	$ 0	$ 0	$ 30,978	$ 30,978
Total	$ 0	$ 0	$ 30,978	$ 30,978

The table below includes a roll forward of ADFAC's assets measured at fair value on a recurring basis and classified within Level 3 of the valuation hierarchy.

	Beneficial Interest in Assets Held by Others	
	2017	2016
Fair Value, Beginning of Year	$ 30,978	$ 21,465
Transfers from ADFAC	10,060	8,393
Interest and Dividends	1,158	183
Administrative Fees	(405)	(300)
Net Realized and Unrealized Gains Included in Earnings	3,375	1,237
Fair Value, End of Year	$ 45,166	$ 30,978
Net Unrealized Gains (Losses) Included in Earnings	$ 1,185	$ 489

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 4 - FAIR VALUE MEASUREMENTS (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:

	2017			
	Level 1	Level 2	Level 3	Total
Impaired Loans, Net of Valuation Allowance and Discount	$ 0	$ 0	$ 129,844	$ 129,844
Property Held for Sale	0	0	123,636	123,636
Total	$ 0	$ 0	$ 253,480	$ 253,480

	2016			
	Level 1	Level 2	Level 3	Total
Impaired Loans, Net of Valuation Allowance and Discount	$ 0	$ 0	$ 231,282	$ 231,282
Property Held for Sale	0	0	53,045	53,045
Total	$ 0	$ 0	$ 284,327	$ 284,327

Changes in Fair Value

To assess the appropriate classification of investments within the fair value hierarchy, the availability of market data is monitored. Changes in economic conditions or valuation techniques may require the transfer of investments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. Management evaluates the significance of transfers between levels based upon the nature of the investment and size of the transfer relative to net assets. For the year ended December 31, 2017 there were no transfers in or out of Levels 1, 2, or 3.

NOTE 5 - PROPERTY AND EQUIPMENT

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

	2017	2016
Office Equipment	$ 19,983	$ 18,733
Computer Equipment	14,271	14,271
Vehicles	16,470	16,470
Rental Property	169,314	169,314
Land	19,200	19,200
	239,238	237,988
Less: Accumulated Depreciation	(48,956)	(39,140)
Total Net Property and Equipment	$ 190,282	$ 198,848

Depreciation expense was $9,816 and $6,940 for the years ending December 31, 2017 and 2016, respectively.

NOTE 6 - 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, 2017 and 2016 included the following:

	2017	2016
Donated Property Held for Sale	$ 10,245	$ 10,245
Land Held for Sale	7,000	42,800
Houses Available for Sale	122,780	0
Fair Market Value Allowance for Houses Available for Sale	(16,389)	0
Total Property Held for Sale	$ 123,636	$ 53,045

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:

	2017	2016
Program Services		
Professional Services	$ 12,960	$ 12,718
Rent	18,048	18,048
Donated Materials	7,631	10,512
Total Program Services	38,639	41,278
Support Services		
Rent	2,461	2,461
Professional Services	1,440	2,172
Donated Property	1,250	0
Donated Materials	12,526	13,010
Total Support Services	17,677	17,643
Total In-Kind Contributions	$ 56,316	$ 58,921

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 printed materials, toiletries and school supplies that are used to provide assistance to families and children.

NOTE 7 - DONATED SERVICES AND MATERIALS (Continued)

Donated Property - ADFAC will periodically receive donations of land, houses or stock for the purpose of assisting ADFAC's mission. During 2017, ADFAC received an in-kind donation of telecom system to replace the system previously used in the office. ADFAC received no property donations during 2016.

NOTE 8 - RETIREMENT PLAN

In September 2014, the Board of Directors approved the termination of the 403(b) plan, and an amendment was made to the ADFAC personnel policy to adopt a SIMPLE IRA plan that permits the deferral of employees' compensation with an employer matching contribution. The amendment states that all employees with 90 days of service may defer directly to the SIMPLE IRA with a discretionary employer matching contribution of 100% match up to 3% of employee's salary. The SIMPLE IRA accounts were created on January 1, 2015. The former 403(b) plan was terminated in early 2015.

ADFAC incurred $8,210 and $8,069 of retirement expense for the years ended December 31, 2017 and 2016, respectively.

NOTE 9 - 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 10 - 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 of support from these various funding sources could materially impact the amount and level of service provided by ADFAC.