AID TO DISTRESSED FAMILIES OF APPALACHIAN COUNTIES, INC.

Oak Ridge, Tennessee

FINANCIAL STATEMENTS

December 31, 2015 and 2014

PUGH CPAs

AID TO DISTRESSED FAMILIES OF APPALACHIAN COUNTIES, INC.

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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 statements of financial position as of December 31, 2015 and 2014, 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, 2015 and 2014, 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.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
September 15, 2016

AID TO DISTRESSED FAMILIES OF APPALACHIAN COUNTIES, INC.

STATEMENTS OF FINANCIAL POSITION

As of December 31,	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 496,587	$ 751,957
Grants Receivable	58,449	9,280
Mortgage Notes Receivable, Due Within One Year - Net	74,925	85,962
Accrued Interest Receivable	2,539	24,580
Prepaid Expenses	1,002	2,073
Total Current Assets	633,502	873,852
PROPERTY AND EQUIPMENT - NET	61,521	15,409
OTHER ASSETS		
Property Held for Sale	371,588	141,679
Mortgage Notes Receivable, Due After One Year - Net	601,456	617,019
Beneficial Interest in Assets Held by Others	21,465	0
Total Other Assets	994,509	758,698
TOTAL ASSETS	$ 1,689,532	$ 1,647,959
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	$ 18,272	$ 18,094
Unearned Income	1,725	750
Total Current Liabilities	19,997	18,844
NET ASSETS		
Unrestricted		
Undesignated	202,834	258,464
Board Designated for Endowment	21,465	0
Board Designated for Affordable Housing Program	1,274,908	1,124,024
Board Designated for Social Services Program	10,064	12,344
Total Unrestricted	1,509,271	1,394,832
Temporarily Restricted		
Restricted for Affordable Housing Program	68,054	131,988
Restricted for Social Services Program	92,210	102,295
Total Temporarily Restricted	160,264	234,283
Total Net Assets	1,669,535	1,629,115
TOTAL LIABILITIES AND NET ASSETS	$ 1,689,532	$ 1,647,959

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, 2015

	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT			
Contributions and Support	$ 199,803	$ 165,638	$ 365,441
United Way Allocations	69,478	0	69,478
Special Fundraising Events	40,963	0	40,963
In-Kind Contributions	131,656	0	131,656
Total Public Support	441,900	165,638	607,538
REVENUES			
Federal and State Grants	1,500	60,160	61,660
Cities and Counties	32,339	105,602	137,941
Mortgage Fees & Interest	16,294	0	16,294
Interest - Other	1,292	0	1,292
Other	27,332	0	27,332
Total Revenues	78,757	165,762	244,519
NET ASSETS RELEASED FROM RESTRICTIONS	405,419	(405,419)	0
TOTAL PUBLIC SUPPORT AND REVENUES	926,076	(74,019)	852,057
EXPENSES			
Program Services			
Affordable Housing	221,821	0	221,821
Social Services	475,866	0	475,866
Total Program Services	697,687	0	697,687
Supporting Services			
Management and General	93,109	0	93,109
Fundraising	20,841	0	20,841
Total Supporting Services	113,950	0	113,950
Total Expenses	811,637	0	811,637
CHANGE IN NET ASSETS	114,439	(74,019)	40,420
NET ASSETS, BEGINNING OF YEAR	1,394,832	234,283	1,629,115
NET ASSETS, END OF YEAR	$ 1,509,271	$ 160,264	$ 1,669,535

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, 2014

	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT			
Contributions and Support	$ 146,124	$ 162,753	$ 308,877
United Way Allocations	69,755	0	69,755
Special Fundraising Events	19,387	0	19,387
In-Kind Contributions	10,134	47,995	58,129
Total Public Support	245,400	210,748	456,148
REVENUES			
Federal and State Grants	0	3,981	3,981
Cities and Counties	33,207	123,627	156,834
Mortgage Fees & Interest	23,803	0	23,803
Interest - Other	1,255	0	1,255
Other	33,077	1,200	34,277
Total Revenues	91,342	128,808	220,150
NET ASSETS RELEASED FROM RESTRICTIONS	263,108	(263,108)	0
TOTAL PUBLIC SUPPORT AND REVENUES	599,850	76,448	676,298
EXPENSES			
Program Services			
Affordable Housing	192,354	0	192,354
Social Services	476,105	0	476,105
Total Program Services	668,459	0	668,459
Supporting Services			
Management and General	89,859	0	89,859
Fundraising	16,259	0	16,259
Total Supporting Services	106,118	0	106,118
Total Expenses	774,577	0	774,577
CHANGE IN NET ASSETS	(174,727)	76,448	(98,279)
NET ASSETS, BEGINNING OF YEAR	1,569,559	157,835	1,727,394
NET ASSETS, END OF YEAR	$ 1,394,832	$ 234,283	$ 1,629,115

AID TO DISTRESSED FAMILIES OF APPALACHIAN COUNTIES, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31,	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 40,420	$ (98,279)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	7,658	6,384
(Gain) Loss on Disposal of Assets	0	(351)
(Gain) Loss on Property Held for Sale	0	3,338
Loss on Sale or Write-down of Property	6,804	0
Change in Discount on Mortgage Notes Receivables	(1,984)	(7,623)
Property Contributed by Donors	(60,100)	0
Property Contributed to Other Organizations	6,630	0
Net Changes in:		
Accounts & Grants Receivable	(49,169)	1,006
Accrued Interest Receivable	601	(1,278)
Prepaid Expenses	1,071	742
Beneficial Interest in Assets Held by Others	(15)	0
Accounts Payable and Accrued Liabilities	178	1,172
Unearned Revenues	975	(450)
Net Cash Flows Provided by (Used in) Operating Activities	(46,931)	(95,339)
CASH FLOWS FROM INVESTING ACTIVITIES		
Transfer to Beneficial Interest in Assets Held by Others	(21,450)	0
Purchase of Property and Equipment	(16,470)	0
Proceeds from Sale of Assets	0	2,000
Proceeds from Sale of Property Held for Sale	0	124,662
Construction Costs on Property Held for Sale	(220,543)	(1,760)
Principal Collections of Mortgage Notes Receivable	50,024	83,957
Net Cash Flows Provided by (Used in) Investing Activities	(208,439)	208,859
NET INCREASE IN CASH AND CASH EQUIVALENTS	(255,370)	113,520
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	751,957	638,437
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 496,587	$ 751,957

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, 2015

	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	$ 52,882	$ 277,441	$ 330,323	$ 0	$ 0	$ 0	$ 330,323
Salaries	85,921	130,358	216,279	59,364	12,929	72,293	288,572
In-Kind Assistance	20,818	21,645	42,463	6,179	2,405	8,584	51,047
Loss on Sale or Write-down of Property	6,804	0	6,804	0	0	0	6,804
Property Contributed to Other Organizations	6,630	0	6,630	0	0	0	6,630
Payroll Taxes and Employee Benefits	8,687	18,540	27,227	4,537	3,641	8,178	35,405
In-Kind Rent	9,024	9,024	18,048	2,461	0	2,461	20,509
Insurance	84	1,989	2,073	8,506	0	8,506	10,579
Accounting	4,960	4,960	9,920	2,480	0	2,480	12,400
Conferences and Travel	2,831	312	3,143	484	0	484	3,627
Utilities	4,358	4,368	8,726	740	0	740	9,466
Depreciation	6,077	1,581	7,658	0	0	0	7,658
Telephone and Communication	3,155	2,635	5,790	1,101	0	1,101	6,891
Vehicle	1,863	0	1,863	0	0	0	1,863
Supplies	1,519	744	2,263	1,816	25	1,841	4,104
Office and Computer	1,249	1,137	2,386	918	0	918	3,304
Property - Repairs & Maintenance, Taxes, Insurance and Utilities	2,688	0	2,688	0	0	0	2,688
Miscellaneous	27	533	560	857	0	857	1,417
Postage and Shipping	436	196	632	2,067	278	2,345	2,977
Advertising	25	0	25	739	409	1,148	1,173
Memberships and Subscriptions	658	403	1,061	485	0	485	1,546
Warehouse Rent	1,125	0	1,125	375	0	375	1,500
Special Event Supplies	0	0	0	0	1,154	1,154	1,154
Total	$ 221,821	$ 475,866	$ 697,687	$ 93,109	$ 20,841	$ 113,950	$ 811,637

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, 2014

	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	$ 7,149	$ 275,257	$ 282,406	$ 0	$ 0	$ 0	$ 282,406
Salaries	109,402	126,376	235,778	55,698	11,120	66,818	302,596
In-Kind Assistance	3,900	26,047	29,947	4,930	2,743	7,673	37,620
Loss on Sale of Land and Homes	3,388	0	3,388	0	0	0	3,388
Loss (Gain) on Sale of Assets	(351)	0	(351)	0	0	0	(351)
Payroll Taxes and Employee Benefits	9,204	15,716	24,920	4,966	1,018	5,984	30,904
In-Kind Rent	9,024	9,024	18,048	2,461	0	2,461	20,509
Insurance	7,510	1,439	8,949	8,174	0	8,174	17,123
Accounting	4,800	4,800	9,600	2,400	0	2,400	12,000
Conferences and Travel	4,404	895	5,299	433	0	433	5,732
Utilities	4,358	4,619	8,977	820	0	820	9,797
Depreciation	3,192	3,192	6,384	0	0	0	6,384
Telephone and Communication	5,032	3,114	8,146	980	0	980	9,126
Vehicle	2,345	0	2,345	0	0	0	2,345
Supplies	4,996	720	5,716	932	42	974	6,690
Office and Computer	2,497	977	3,474	999	349	1,348	4,822
Property - Repairs & Maintenance, Taxes, Insurance and Utilities	4,836	0	4,836	0	0	0	4,836
Miscellaneous	279	316	595	1,423	0	1,423	2,018
Postage and Shipping	319	274	593	1,991	223	2,214	2,807
Advertising	1,556	0	1,556	387	764	1,151	2,707
Memberships and Subscriptions	625	260	885	460	0	460	1,345
Warehouse Rent	1,500	0	1,500	0	0	0	1,500
Printing	0	27	27	516	0	516	543
Professional Fees	2,389	3,052	5,441	2,289	0	2,289	7,730
Total	$ 192,354	$ 476,105	$ 668,459	$ 89,859	$ 16,259	$ 106,118	$ 774,577

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, 2015 and 2014

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
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 $1,173 and $2,707 of advertising expenses during the years ended December 31, 2015 and 2014, 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 2015 or 2014.

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 September 15, 2016, 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 $56,389 and $93,934 for the years ended December 31, 2015 and 2014, 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 2015 and 2014 were as follows:

	2015	2014
Principal Balance, Beginning of the Year	$ 821,562	$ 1,075,677
Balances Charged-Off	(16,105)	(170,158)
Principal Collections of Mortgage Notes Receivable	(50,024)	(83,957)
	755,433	821,562
Less: Allowance for Uncollectible Accounts	(56,389)	(93,934)
Less: Discount	(22,663)	(24,647)
Mortgage Notes Receivable - Net, End of the Year	$ 676,381	$ 702,981
Amount Due Within One Year	$ 74,925	$ 85,962
Amount Due After One Year	601,456	617,019
Total	$ 676,381	$ 702,981

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:

	2015	2014
Residential Mortgage Notes Receivable:		
Current	$ 398,320	$ 449,258
31-60 Days Past Due	45,948	41,546
61-90 Days Past Due	0	29,446
91-180 Days Past Due	68,632	29,399
More than 180 Days Past Due	242,533	271,913
Total	$ 755,433	$ 821,562

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 2015 and 2014 are presented below:

	2015	2014
Balance, Beginning of Year	$ 93,934	$ 292,905
Provision for Bad Debts	0	0
Loan Principal Charged-off	(16,105)	(170,158)
Accrued Interest Receivable Charged-off	(21,440)	(28,813)
Balance, End of Year	$ 56,389	$ 93,934

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:

	2015	2014
Residential Mortgage Notes Evaluated for Allowance:		
Individually	$ 242,533	$ 271,913
Collectively	512,900	549,649
Total	$ 755,433	$ 821,562
Allowance Established for Loans Evaluated:		
Individually	$ 41,286	$ 52,630
Collectively	15,103	41,304
Total Allowance	$ 56,389	$ 93,934

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

	2015		2014	
	Specific Allowance	No Specific Allowance	Specific Allowance	No Specific Allowance
Impaired Loans - Mortgage Notes Receivable:				
Unpaid Principal Balance	$ 41,286	$ 201,247	$ 271,913	$ 0
Related Allowance	41,286	0	52,630	0
Average Recorded Investment	41,416	221,620	273,142	0
Accrued Interest Receivable at Year-End	585	457	22,709	0
Interest Income Recognized	412	4,036	5,929	0

During 2015 and 2014 ADFAC, as part of a thorough review of its client's delinquent mortgage loan status and to encourage the timely repayment of loans, forgave $21,440 and $22,709 in delinquent accrued interest income receivable. The forgiven accrued interest was charged-off against the allowance for uncollectible mortgage notes receivable as described above.

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 year ended December 31, 2015. 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, 2015, the endowment fund has a value of -, 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, 2015, 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.

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:

	2015			
	Level 1	Level 2	Level 3	Total
Beneficial Interest in Assets Held by Others	$ 0	$ 0	$ 21,465	$ 21,465

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

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 2015
Fair Value, Beginning of Year	$ 0
Transfers from ADFAC	21,450
Interest and Dividends	11
Administrative Fees	(75)
Net Realized and Unrealized Losses Included in Earnings	79
Fair Value, End of Year	$ 21,465
Net Unrealized Gains (Losses) Included in Earnings	$ (40)

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.

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:

	2015			
	Level 1	Level 2	Level 3	Total
Impaired Loans, Net of Valuation Allowance and Discount	$ 0	$ 0	$ 201,247	$ 201,247
Property Held for Sale	0	0	371,588	371,588
Total	$ 0	$ 0	$ 572,835	$ 572,835

	2014			
	Level 1	Level 2	Level 3	Total
Impaired Loans, Net of Valuation Allowance and Discount	$ 0	$ 0	$ 241,992	$ 241,992
Property Held for Sale	0	0	141,679	141,679
Total	$ 0	$ 0	$ 383,671	$ 383,671

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

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, 2015 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:

	2015	2014
Office Equipment	$ 27,083	$ 27,083
Energy Audit Equipment	20,244	20,244
Computer Equipment	15,321	15,321
Vehicles	16,470	0
Construction in Progress	37,300	0
	116,418	62,648
Less: Accumulated Depreciation	(54,897)	(47,239)
Total Net Property and Equipment	$ 61,521	$ 15,409

Depreciation expense was $7,658 and $6,384 for the years ending December 31, 2015 and 2014, 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, 2015 and 2014 included the following:

	2015	2014
Donated Property Held for Sale	$ 10,245	$ 10,245
Land Held for Sale	42,800	26,630
Houses Available for Sale	325,347	104,804
Fair Market Value Allowance for Houses Available for Sale	(6,804)	0
Total Property Held for Sale	$ 371,588	$ 141,679

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:

	2015	2014
Program Services		
Professional Services	$ 36,272	$ 18,680
Rent	18,048	18,048
Donated Property	60,100	0
Donated Materials	6,191	11,267
Total Program Services	120,611	47,995
Support Services		
Rent	2,461	2,461
Professional Services	1,888	0
Donated Materials	6,696	7,673
Total Support Services	11,045	10,134
Total In-Kind Contributions	$ 131,656	$ 58,129

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.

Donated Property - ADFAC will periodically receive donations of land, houses or stock for the purpose of assisting ADFAC's mission. During 2015 ADFAC received in-kind donations of two parcels of land and one house with an estimated fair value of approximately $60,100. ADFAC received no property donations during 2014.

NOTE 8 - RETIREMENT PLAN

In 2014, ADFAC had a voluntary Internal Revenue Code Section 403(b) retirement plan available to any employee who had been employed continuously by ADFAC for at least 90 days and was scheduled to work at least 15 hours per week. ADFAC authorized a 100% matching employer contribution up to 5% of the employee's annual compensation. Employees were 100% immediately vested in the employer matching contributions.

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 $7,721 and $4,826 of retirement expense for the years ended December 31, 2015 and 2014, 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.