

**AID TO DISTRESSED FAMILIES OF  
APPALACHIAN COUNTIES, INC.**

**Oak Ridge, Tennessee**

**FINANCIAL STATEMENTS**

**December 31, 2020 and 2019**



**AID TO DISTRESSED FAMILIES OF APPALACHIAN COUNTIES, INC.**

**TABLE OF CONTENTS**

	Page
Independent Auditor's Report .....	1
Statements of Financial Position .....	2
Statements of Activities.....	3-4
Statements of Cash Flows .....	5
Statements of Functional Expenses .....	6-7
Notes to the Financial Statements.....	8-17



**WOODALLGROUP**  
*CPAs & Advisors*

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*Member of the American Institute of Certified Public Accountants and Tennessee Society of Certified Public Accountants*

*Member of the National Association of Certified Valuators and Analysts*

## 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, 2020 and 2019, 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, 2020 and 2019, 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  
September 20, 2021

**AID TO DISTRESSED FAMILIES OF APPALACHIAN COUNTIES, INC.**

**STATEMENTS OF FINANCIAL POSITION**

	As of December 31,	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$	792,397	\$ 617,644
Grants Receivable		27,808	7,644
Mortgage Notes Receivable, Due Within One Year - Net		57,115	64,179
Accrued Interest Receivable		3,041	2,531
Prepaid Expenses		920	888
<b>Total Current Assets</b>		<u>881,281</u>	<u>692,886</u>
<b>PROPERTY AND EQUIPMENT - NET</b>		<u>177,785</u>	<u>185,359</u>
<b>OTHER ASSETS</b>			
Property Held for Sale		162,394	137,545
Mortgage Notes Receivable, Due After One Year - Net		266,156	338,190
Beneficial Interest in Assets Held by Others		104,854	80,616
<b>Total Other Assets</b>		<u>533,404</u>	<u>556,351</u>
<b>TOTAL ASSETS</b>	<b>\$</b>	<u><u>1,592,470</u></u>	<b>\$</b> <u><u>1,434,596</u></u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable and Accrued Expenses	\$	42,959	\$ 28,203
FAHE Loan Payable		23,650	23,650
<b>Total Current Liabilities</b>		<u>66,609</u>	<u>51,853</u>
<b>NET ASSETS</b>			
Without Donor Restrictions		1,188,403	1,153,664
With Donor Restrictions		337,458	229,079
<b>Total Net Assets</b>		<u>1,525,861</u>	<u>1,382,743</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$</b>	<u><u>1,592,470</u></u>	<b>\$</b> <u><u>1,434,596</u></u>

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, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
<b>PUBLIC SUPPORT</b>			
Contributions and Support	\$ 225,154	\$ 148,825	\$ 373,979
United Way Allocations	92,931	0	92,931
Special Fundraising Events	39,910	0	39,910
In-Kind Contributions	132,255	0	132,255
<b>Total Public Support</b>	<u>490,250</u>	<u>148,825</u>	<u>639,075</u>
<b>REVENUES</b>			
Federal and State Grants	700	9,400	10,100
Cities and Counties	32,103	125,591	157,694
COVID Grants	17,638	241,654	259,292
Mortgage Fees & Interest	8,158	0	8,158
Endowment Fund Investment Gain/Loss	12,316	0	12,316
Gain(Loss) on Sale of Assets	15,453	0	15,453
Interest - Other	1,520	0	1,520
PPP Loan Forgiveness	56,051	0	56,051
Other	23,141	0	23,141
<b>Total Revenues</b>	<u>167,080</u>	<u>376,645</u>	<u>543,725</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>417,091</u>	<u>(417,091)</u>	<u>0</u>
<b>TOTAL PUBLIC SUPPORT AND REVENUES</b>	<u>1,074,421</u>	<u>108,379</u>	<u>1,182,800</u>
<b>EXPENSES</b>			
<b>Program Services</b>			
Appalachian Housing Partners	209,964	0	209,964
Household Assistance Program	541,633	0	541,633
School Supplies	112,915	0	112,915
<b>Total Program Services</b>	<u>864,512</u>	<u>0</u>	<u>864,512</u>
<b>Supporting Services</b>			
Management and General	126,232	0	126,232
Fundraising	48,938	0	48,938
<b>Total Supporting Services</b>	<u>175,170</u>	<u>0</u>	<u>175,170</u>
<b>Total Expenses</b>	<u>1,039,682</u>	<u>0</u>	<u>1,039,682</u>
<b>CHANGE IN NET ASSETS</b>	34,739	108,379	143,118
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>1,153,664</u>	<u>229,079</u>	<u>1,382,743</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 1,188,403</u>	<u>\$ 337,458</u>	<u>\$ 1,525,861</u>

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, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
<b>PUBLIC SUPPORT</b>			
Contributions and Support	\$ 169,757	\$ 182,901	\$ 352,658
United Way Allocations	79,386	0	79,386
Special Fundraising Events	55,951	0	55,951
In-Kind Contributions	107,353	0	107,353
<b>Total Public Support</b>	<u>412,447</u>	<u>182,901</u>	<u>595,348</u>
<b>REVENUES</b>			
Federal and State Grants	1,750	40,789	42,539
Cities and Counties	32,028	128,877	160,905
Mortgage Fees & Interest	9,506	0	9,506
Interest - Other	2,556	0	2,556
Other	20,529	0	20,529
<b>Total Revenues</b>	<u>66,369</u>	<u>169,666</u>	<u>236,035</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>245,552</u>	<u>(245,552)</u>	<u>0</u>
<b>TOTAL PUBLIC SUPPORT AND REVENUES</b>	<u>724,368</u>	<u>107,015</u>	<u>831,383</u>
<b>EXPENSES</b>			
<b>Program Services</b>			
Appalachian Housing Partners	213,864	0	213,864
Household Assistance Program	320,273	0	320,273
School Supplies	132,552	0	132,552
<b>Total Program Services</b>	<u>666,689</u>	<u>0</u>	<u>666,689</u>
<b>Supporting Services</b>			
Management and General	99,729	0	99,729
Fundraising	54,546	0	54,546
<b>Total Supporting Services</b>	<u>154,275</u>	<u>0</u>	<u>154,275</u>
<b>Total Expenses</b>	<u>820,964</u>	<u>0</u>	<u>820,964</u>
<b>CHANGE IN NET ASSETS</b>	(96,596)	107,015	10,419
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>1,250,260</u>	<u>122,064</u>	<u>1,372,324</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 1,153,664</u>	<u>\$ 229,079</u>	<u>\$ 1,382,743</u>

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

## AID TO DISTRESSED FAMILIES OF APPALACHIAN COUNTIES, INC.

## STATEMENTS OF CASH FLOWS

For the Years Ended December 31,	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 143,118	\$ 10,419
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	7,574	10,868
(Gain) Loss on Property Held for Sale	(12,767)	6,895
Loss on Sale or Write-down of Property	(2,686)	0
Provision for Bad Debts - Mortgage Notes Receivables	55,990	18,600
Change in Discount on Mortgage Notes Receivables	(1,436)	(3,145)
Net Changes in:		
Accounts & Grants Receivable	(20,164)	43,305
Accrued Interest Receivable	(510)	3,787
Prepaid Expenses	(32)	116
Beneficial Interest in Assets Held by Others	(12,316)	(8,492)
Accounts Payable and Accrued Liabilities	14,756	10,868
	<u>171,527</u>	<u>93,221</u>
<b>Net Cash Flows Provided by (Used in) Operating Activities</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Transfer to Beneficial Interest in Assets Held by Others	(13,000)	(18,425)
Endowment Fund Administration Fees	1,078	0
Purchase of Property Held for Sale	(151,858)	0
Proceeds from Sale of Property Held for Sale	177,500	2,500
Construction Costs on Property Held for Sale	(35,038)	(104,805)
Principal Collections of Mortgage Notes Receivable	24,544	27,023
	<u>3,226</u>	<u>(93,707)</u>
<b>Net Cash Flows Provided by (Used in) Investing Activities</b>		
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	174,753	(486)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR, AS PREVIOUSLY STATED</b>	617,644	618,130
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>617,644</u>	<u>618,130</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 792,397</u>	<u>\$ 617,644</u>

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, 2020**

	Program Services				Supporting Services			Total Program and Supporting Services
	Appalachian Housing Partners	Household Assistance Program	School Program	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Direct Program Costs & Client Assistance	\$ 15,925	412,646	56,447	485,018	0	0	0	485,018
Salaries	69,772	81,775	15,457	167,004	74,323	17,672	91,995	258,999
In-Kind Assistance	23,152	11,601	35,029	69,782	20,702	21,262	41,964	111,746
Payroll Taxes and Employee Benefits	5,761	8,419	1,150	15,330	6,774	1,352	8,126	23,456
In-Kind Rent	8,204	8,204	0	16,408	4,102	0	4,102	20,510
Insurance	259	531	641	1,431	4,453	0	4,453	5,884
Accounting	5,936	5,936	1,696	13,568	3,392	0	3,392	16,960
Conferences and Travel	(41)	0	0	(41)	0	0	0	(41)
Utilities	4,376	4,408	0	8,784	783	0	783	9,567
Depreciation	7,574	0	0	7,574	0	0	0	7,574
Telephone and Communication	1,567	3,414	0	4,981	1,437	0	1,437	6,418
Vehicle	1,355	0	0	1,355	0	0	0	1,355
Supplies	428	2,887	679	3,994	2,299	0	2,299	6,293
Office and Computer	528	1,585	0	2,113	446	0	446	2,559
Property - Repairs & Maintenance, Taxes, Insurance and Utilities	269	0	0	269	0	0	0	269
Miscellaneous	(22)	98	0	76	2,235	0	2,235	2,311
Postage and Shipping	165	110	70	345	2,059	0	2,059	2,404
Advertising	0	0	0	0	186	0	186	186
Memberships and Subscriptions	685	0	59	744	1,454	0	1,454	2,198
Warehouse Rent	1,125	0	0	1,125	375	0	375	1,500
Mileage	0	19	237	256	134	0	134	390
Fundraising Expense	0	0	0	0	0	8,652	8,652	8,652
Rental Property Expense	6,956	0	0	6,956	0	0	0	6,956
Rent Expense	0	0	1,450	1,450	0	0	0	1,450
Bad Debt Expense	55,990	0	0	55,990	0	0	0	55,990
Endowment Fund Expense	0	0	0	0	1,078	0	1,078	1,078
<b>Total</b>	<b>\$ 209,964</b>	<b>\$ 541,633</b>	<b>\$ 112,915</b>	<b>\$ 864,512</b>	<b>\$ 126,232</b>	<b>\$ 48,938</b>	<b>\$ 175,170</b>	<b>\$ 1,039,682</b>

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, 2019**

	Program Services				Supporting Services			Total Program and Supporting Services
	Appalachia n Housing Partners	Household Assistance Program	School Program	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Direct Program Costs & Client Assistance	\$ 53,613	203,998	76,455	334,066	0	0	0	334,066
Salaries	74,340	74,800	19,218	168,358	46,901	34,814	81,715	250,073
In-Kind Assistance	6,385	11,423	29,889	47,697	31,903	5,877	37,780	85,477
Payroll Taxes and Employee Benefits	6,449	5,643	1,462	13,554	3,321	3,727	7,048	20,602
In-Kind Rent	8,750	8,750	0	17,500	4,375	0	4,375	21,875
Insurance	345	1,045	1,118	2,508	6,722	0	6,722	9,230
Accounting	5,425	5,425	1,550	12,400	3,100	0	3,100	15,500
Conferences and Travel	1,599	0	0	1,599	0	0	0	1,599
Utilities	4,358	4,474	0	8,832	743	0	743	9,575
Depreciation	10,868	0	0	10,868	0	0	0	10,868
Telephone and Communication	1,559	3,155	0	4,714	1,367	0	1,367	6,081
Vehicle	2,851	0	0	2,851	0	0	0	2,851
Supplies	(111)	467	104	460	2,466	335	2,801	3,261
Office and Computer	1,104	684	0	1,788	1,152	0	1,152	2,940
Property - Repairs & Maintenance, Taxes, Insurance and Utilities	1,241	0	0	1,241	0	0	0	1,241
Miscellaneous	(28)	302	0	274	2,269	43	2,312	2,586
Postage and Shipping	146	0	187	333	2,539	304	2,843	3,176
Advertising	0	0	0	0	197	0	197	197
Memberships and Subscriptions	685	0	59	744	1,154	0	1,154	1,898
Warehouse Rent	1,125	0	0	1,125	375	0	375	1,500
Mileage	0	107	710	817	424	0	424	1,241
Fundraising Expense	0	0	0	0	0	9,446	9,446	9,446
Rental Property Expense	7,665	0	0	7,665	0	0	0	7,665
Rent Expense	0	0	1,800	1,800	0	0	0	1,800
Bad Debt Expense	18,600	0	0	18,600	0	0	0	18,600
Gain/Loss on Sale of Assets	6,895	0	0	6,895	0	0	0	6,895
Endowment Fund Loss	0	0	0	0	(9,279)	0	(9,279)	(9,279)
<b>Total</b>	<b>\$ 213,864</b>	<b>\$ 320,273</b>	<b>\$ 132,552</b>	<b>\$ 666,689</b>	<b>\$ 99,729</b>	<b>\$ 54,546</b>	<b>\$ 154,275</b>	<b>\$ 820,964</b>

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, 2020 and 2019**

**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. ADFAC's vision is of sustainable, healthy, and viable communities where all families are self-sufficient, productive and free of the need for continued public assistance. ADFAC focuses on addressing the needs of the most vulnerable in our area by striving to provide a comprehensive scope of services with compassion:

- Short term assistance for basic needs;
- Affordable solutions for home rehabilitation, new construction and rental housing;
- Children and youth education services; and
- Education via life coaching and/or referrals.

**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:

	<u>Years</u>
Office Equipment	3-5
Computer Equipment	5
Vehicles	5
Rental Property	27.5
Leasehold Improvements	27.5

**Net Assets** - Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor- (or certain grantor-) imposed restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

*Net Assets With Donor Restrictions* – We report contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

**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 Appalachian Housing Partners 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 Household Assistance Program receives grant money from various entities to assist low-income clients with payments for utilities and/or rent. The School Supplies program receives grant money to help provide backpacks and school supplies to children in need.

**Revenue Recognition** - Contributions received are recorded as with or without donor restrictions depending on the existence and nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions 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 net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as "net assets released from restrictions".

**Donated Services and In-Kind Contributions** - Volunteers contribute significant amounts of time to our program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. We record donated professional services at the respective fair values of the services received (Note 10).

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

**Description of Programs**

**Household Assistance Program** - ADFAC Inc.'s Household Assistance Program provides aid to families in urgent need with basic survival necessities such as rent, mortgage, and utilities assistance and provides counseling that promotes self-sufficiency and responsibility. Assistance is provided by contributions and support from individuals and organizations in the local community, private foundations as well as local utility companies and government grants.

**Appalachian Housing Partners** - ADFAC Inc.'s Appalachian Housing Partners Program provides solutions to housing issues faced by local residents including home repairs, new home builds and rental housing opportunities. Assistance is provided by contributions and support from individuals and organizations in the local community, private foundations as well as federal and state grants.

**School Supply Program** - ADFAC Inc.'s School Supply Program provides school supplies for lower income K-12 students through a network of partnerships with local schools and volunteer groups. Assistance is provided by contributions and support from individuals and organizations in the local community, and private foundations.

**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.

All expenses are allocated by actual expense per function except for the following which were allocated as indicated:

Expense	Method of Allocation
In-Kind Rent	Square Footage
Utilities	Square Footage
Rent Expense	Square Footage

**Advertising** - Advertising costs are expensed as incurred. ADFAC incurred \$186 and \$197 of advertising expenses during the years ended December 31, 2020 and 2019, respectively.

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

**Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of 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, and those differences could be material.

**Subsequent Events** - Management has evaluated subsequent events through September 30, 2021, 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 – NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are restricted for the following purposes:

	2020	2019
Subject to expenditure for specified purpose:		
Appalachian Housing Partners	\$ 212,802	\$ 145,281
Household Assistance Program	122,537	69,074
School Supplies	2,119	14,724
	<u>337,458</u>	<u>229,079</u>
Total Net Assets with Donor Restrictions	\$ <u>337,458</u>	\$ <u>229,079</u>

**NOTE 3 – GOVERNING BOARD DESIGNATIONS**

The Board of ADFAC has designated, from net assets without donor restrictions, certain funds to be deemed an endowment fund in the amount of \$104,854 and \$80,616 for the years ended 2020 and 2019, respectively.

**NOTE 4 – AVAILABILITY OF FINANCIAL ASSETS**

The following reflects ADFAC’s financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Amounts not available include amounts set aside for long-term investing in the endowment that could be drawn upon if the governing board approves that action.

Financial Assets at Year-End:	2020	2019
Cash and Cash Equivalents	\$ 792,397	\$ 617,644
Grants Receivable	27,808	7,644
Mortgage Payments Receivable	323,271	402,369
Accrued Interest Receivable	3,041	2,531
Investments	104,854	80,616
Total Financial Assets	1,251,371	1,110,804
Less amounts not available to be used within one year:		
Cash and Cash Equivalents (with donor restrictions)	161,098	119,435
Grants Receivable (with donor restrictions)	24,845	6,377
Mortgage Payments Receivable (noncurrent)	266,156	338,190
Endowment established by the board	104,854	80,616
	556,953	544,618
Financial assets available to meet general expenditures over the next twelve months	\$ 694,418	\$ 566,186

As part of ADFAC’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. ADFAC’s management utilizes the annual budget to ensure that financial assets are available to meet all obligations within the budgeted time frame.

**NOTE 5 - 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 \$105,293 and \$72,631 for the years ended December 31, 2020 and 2019, respectively. Additionally, loans receivable are recorded at the present value of the amount expected to be received, using a discount rate of 3%.

Under its Appalachian Housing Partners 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 2020 and 2019 were as follows:

**NOTE 5 - MORTGAGE NOTES RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE LOANS (Continued)**

	<u>2020</u>	<u>2019</u>
Principal Balance, Beginning of the Year	\$ 489,691	\$ 594,508
Balances Charged-Off	(23,328)	(77,794)
Principal Collections of Mortgage Notes Receivable	<u>(24,544)</u>	<u>(27,023)</u>
	441,819	489,691
Less: Allowance for Uncollectible Accounts	(105,293)	(72,631)
Less: Discount	<u>(13,255)</u>	<u>(14,691)</u>
Mortgage Notes Receivable - Net, End of the Year	\$ <u><u>323,271</u></u>	\$ <u><u>402,369</u></u>
Amount Due Within One Year	\$ 57,115	\$ 64,179
Amount Due After One Year	<u>266,156</u>	<u>338,190</u>
Total	\$ <u><u>323,271</u></u>	\$ <u><u>402,369</u></u>

**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:

	<u>2020</u>	<u>2019</u>
Residential Mortgage Notes Receivable:		
Current	\$ 211,796	\$ 151,026
31-60 Days Past Due	23,392	24,692
61-90 Days Past Due	0	0
91-180 Days Past Due	2,782	102,637
More than 180 Days Past Due	<u>203,849</u>	<u>211,336</u>
Total	\$ <u><u>441,819</u></u>	\$ <u><u>489,691</u></u>

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 uncollectible mortgage notes receivable during 2020 and 2019 are presented below:

	<u>2020</u>	<u>2019</u>
Balance, Beginning of Year	\$ 72,631	\$ 131,826
Provision for Bad Debts	55,990	18,600
Loan Principal Charged-off	<u>(23,328)</u>	<u>(77,795)</u>
Balance, End of Year	\$ <u><u>105,293</u></u>	\$ <u><u>72,631</u></u>

**NOTE 5 - MORTGAGE NOTES RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE LOANS (Continued)**

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:

	<u>2020</u>	<u>2019</u>
Residential Mortgage Notes		
Evaluated for Allowance:		
Individually	\$ 203,849	\$ 211,336
Collectively	<u>237,970</u>	<u>278,355</u>
Total	<u>\$ 441,819</u>	<u>\$ 489,691</u>
Allowance Established		
for Loans Evaluated:		
Individually	\$ 77,293	\$ 36,353
Collectively	<u>28,000</u>	<u>36,278</u>
Total Allowance	<u>\$ 105,293</u>	<u>\$ 72,631</u>

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

	<u>2020</u>		<u>2019</u>	
	<u>Specific Allowance</u>	<u>No Specific Allowance</u>	<u>Specific Allowance</u>	<u>No Specific Allowance</u>
Impaired Loans - Mortgage				
Notes Receivable:				
Unpaid Principal Balance	\$ 125,775	\$ 126,556	\$ 36,353	\$ 174,983
Related Allowance	\$ 77,293	\$ 0	\$ 36,353	\$ 0

**NOTE 6 - 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, 2020 and 2019. 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, 2020 and 2019, the endowment fund had a value of \$104,854 and \$80,616, 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, 2020 and 2019, 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 7 - 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:

	2020			
	Level 1	Level 2	Level 3	Total
Beneficial Interest in Assets				
Held by Others	\$ <u>0</u>	\$ <u>0</u>	\$ <u>104,854</u>	\$ <u>104,854</u>
Total	\$ <u>0</u>	\$ <u>0</u>	\$ <u>104,854</u>	\$ <u>104,854</u>

  

	2019			
	Level 1	Level 2	Level 3	Total
Beneficial Interest in Assets				
Held by Others	\$ <u>0</u>	\$ <u>0</u>	\$ <u>80,616</u>	\$ <u>80,616</u>
Total	\$ <u>0</u>	\$ <u>0</u>	\$ <u>80,616</u>	\$ <u>80,616</u>

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	
	2020	2019
Fair Value, Beginning of Year	\$ 80,616	\$ 53,699
Transfers from ADFAC	13,000	18,425
Interest and Dividends	565	356
Administrative Fees	(1,078)	(787)
Net Realized and Unrealized Gains/(Losses) Included in Earnings	11,751	8,923
Fair Value, End of Year	\$ <u>104,854</u>	\$ <u>80,616</u>
Net Unrealized Gains (Losses) Included in Earnings	\$ <u>9,421</u>	\$ <u>8,288</u>



**NOTE 7 - FAIR VALUE MEASUREMENTS (Continued)**

**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:

	2020			
	Level 1	Level 2	Level 3	Total
Impaired Loans, Net of Valuation Allowance and Discount	\$ 0	\$ 0	\$ 126,556	\$ 126,556
Property Held for Sale	0	0	162,394	162,394
Total	\$ 0	\$ 0	\$ 288,950	\$ 288,950

  

	2019			
	Level 1	Level 2	Level 3	Total
Impaired Loans, Net of Valuation Allowance and Discount	\$ 0	\$ 0	\$ 174,983	\$ 174,983
Property Held for Sale	0	0	137,545	137,545
Total	\$ 0	\$ 0	\$ 312,528	\$ 312,528

**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, 2020 there were no transfers in or out of Levels 1, 2, or 3.

**NOTE 8 - PROPERTY AND EQUIPMENT**

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

	2020	2019
Office Equipment	\$ 19,983	\$ 19,983
Computer Equipment	16,271	16,271
Vehicles	16,470	16,470
Rental Property	169,314	169,314
Land	19,200	19,200
Leasehold Improvement	14,460	14,460
	<u>255,698</u>	<u>255,698</u>
Less: Accumulated Depreciation	<u>(77,913)</u>	<u>(70,339)</u>
Total Net Property and Equipment	<u>\$ 177,785</u>	<u>\$ 185,359</u>

Depreciation expense was \$7,574 and \$10,868 for the years ending December 31, 2020 and 2019, respectively.

**NOTE 9 - 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, 2020 and 2019 included the following:

	2020	2019
Donated Property Held for Sale	\$ 7,850	\$ 7,850
Land Held for Sale	0	24,890
Houses Available for Sale	<u>154,544</u>	<u>104,805</u>
Total Property Held for Sale	<u>\$ 162,394</u>	<u>\$ 137,545</u>

**NOTE 10 - 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:

	2020	2019
Program Services		
Professional Services	\$ 23,128	\$ 13,620
Rent	16,407	17,501
Donated Materials	<u>46,654</u>	<u>34,077</u>
Total Program Services	<u>86,189</u>	<u>65,198</u>
Support Services		
Rent	4,102	4,375
Professional Services	9,330	5,815
Donated Materials	<u>32,634</u>	<u>31,965</u>
Total Support Services	<u>46,066</u>	<u>42,155</u>
Total In-Kind Contributions	<u>\$ 132,255</u>	<u>\$ 107,353</u>

**NOTE 10 - DONATED SERVICES AND MATERIALS (Continued)**

**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 Household Assistance 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.

**NOTE 11 - RETIREMENT PLAN**

In September 2014, the Board of Directors approved a SIMPLE IRA plan that permits the deferral of employees' compensation with an employer matching contribution. The plan document 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 1% of employee's salary. The SIMPLE IRA accounts were created on January 1, 2015.

ADFAC incurred \$1,631 and \$1,634 of retirement expense for the years ended December 31, 2020 and 2019, respectively.

**NOTE 12 – PPP Loan**

The Company received a loan from the Bank of Putnam County in the amount of \$56,051 under the Paycheck Protection Program established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The loan is subject to a note dated 4/13/2020. The Company applied for and has been notified that \$56,051 in eligible expenditures for payroll and other expenses described in the CARES Act has been forgiven. Loan forgiveness is reflected as income on the accompanying statement of activities.

**NOTE 13 - ECONOMIC CONCENTRATIONS**

ADFAC receives a significant amount of funding from various United Way Chapters, the City of Oak Ridge and other local cities. Any reductions of support from these various funding sources could materially impact the amount and level of service provided by ADFAC.