FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
BEREA, KENTUCKY
* * * * *
AUDITED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEARS ENDED
JUNE 30, 2018 AND 2017

CRAFT, NOBLE & COMPANY
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Certified Public Accountants
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Federation of Appalachian Housing Enterprises, Inc.
Berea, Kentucky

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Federation of Appalachian Housing Enterprises, Inc. (a non-profit organization), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Federation of Appalachian Housing Enterprises, Inc., as of June 30, 2018 and 2017, 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.

Others Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedules of functional expenses on pages 35 and 36, the statements of financial position –

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NeighborWorks America Capital Fund on page 37, the statements of activities – NeighborWorks America Capital Fund on page 38 and the Computation of Adjusted Net Worth for Approval of Non-Supervised Mortgagees Other Than Loan Correspondents on page 39 are presented for purposes of additional analysis and are not a required part of the financial statements.

The accompanying schedule of expenditures of federal awards on page 28, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal* Awards, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated August 30, 2018 on our consideration of Federation of Appalachian Housing Enterprises, Inc. internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Federation of Appalachian Housing Enterprises, Inc.'s internal control over financial reporting and compliance.

Craft, Noble & Company, PLLC

Craft, Noble & Company, PLLC
Richmond, Kentucky
August 30, 2018

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets				
Current assets				
Cash and cash equivalents	$ 8,014,323	$ 3,308,200	$ 172,074	$ 11,494,597
Accounts receivable	631,452	-	-	631,452
Current grants receivable	31,614	2,410,529	-	2,442,143
Accrued interest receivable	136,872	9,266	-	146,138
Deposits	1,670	-	-	1,670
Prepaid expenses	151,058	-	-	151,058
Interfund balances	2,477	(2,477)	-	-
Current notes receivable	7,866,805	13,563	23,650	7,904,018
Current mortgage notes receivable	891,367	759,088	18,050	1,668,505
Total current assets	17,727,638	6,498,169	213,774	24,439,581
Noncurrent assets				
Notes receivable, net	11,046,329	579,163	44,313	11,669,805
Bankruptcy arrearages	7,796	6,740	-	14,536
Mortgage notes receivable, net	15,063,616	7,353,041	744,894	23,161,551
Property held for sale, net	276,927	124,439	1,141	402,507
Grants receivable	-	534,130	-	534,130
Investments	152,416	-	-	152,416
Property and equipment, net	3,362,074	-	-	3,362,074
Intangible assets, net	105,657	-	-	105,657
Deferred compensation	122,435	-	-	122,435
Total noncurrent assets	30,137,250	8,597,513	790,348	39,525,111
Total Assets	$ 47,864,888	$ 15,095,682	$ 1,004,122	$ 63,964,692
Liabilities & Net Assets				
Liabilities				
Current liabilities				
Accounts payable	$ 404,490	$ -	$ -	$ 404,490
Client advances and deposits	2,271,656	-	-	2,271,656
Accrued interest payable	80,629	-	-	80,629
Accrued expenses	366,536	-	-	366,536
Current portion of deferred revenue	10,000	-	-	10,000
Current portion of notes payable	5,660,643	-	-	5,660,643
Total current liabilities	8,793,954	-	-	8,793,954
Noncurrent liabilities				
Deferred revenue	915,819	-	-	915,819
Long-term portion of notes payable	19,840,482	-	-	19,840,482
Deferred compensation	122,435	-	-	122,435
Total noncurrent liabilities	20,878,736	-	-	20,878,736
Other Liabilities				
Equity equivalent	3,000,000	-	-	3,000,000
Total Liabilities	32,672,690	-	-	32,672,690
Net Assets				
Net assets	14,592,198	15,095,682	1,004,122	30,692,002
Net assets, board designated	600,000	-	-	600,000
Total Net Assets	15,192,198	15,095,682	1,004,122	31,292,002
Total Liabilities & Net Assets	$ 47,864,888	$ 15,095,682	$ 1,004,122	$ 63,964,692

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

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets				
Current assets				
Cash and cash equivalents	$ 7,282,111	$ 3,476,772	$ 153,922	$ 10,912,805
Accounts receivable	544,191	114,510	-	658,701
Current grants receivable	105,484	2,577,170	-	2,682,654
Accrued interest receivable	96,223	10,360	4,547	111,130
Deposits	2,335	-	-	2,335
Prepaid expenses	136,116	-	-	136,116
Interfund balances	(134,641)	95,029	39,612	-
Current notes receivable	4,928,584	13,563	23,650	4,965,797
Current mortgage notes receivable	903,594	1,152,198	23,539	2,079,331
Total current assets	13,863,997	7,439,602	245,270	21,548,869
Noncurrent assets				
Notes receivable, net	10,358,885	589,486	44,314	10,992,685
Bankruptcy arrearages	8,603	6,607	-	15,210
Mortgage notes receivable, net	15,669,212	6,093,805	1,143,859	22,906,876
Property held for sale, net	198,166	150,307	1,016	349,489
Grants receivable	-	1,025,753	-	1,025,753
Investments	138,600	-	-	138,600
Property and equipment, net	3,347,638	-	-	3,347,638
Intangible assets, net	109,992	-	-	109,992
Deferred compensation	106,016	-	-	106,016
Total noncurrent assets	29,937,112	7,865,958	1,189,189	38,992,259
Total Assets	$ 43,801,109	$ 15,305,560	$ 1,434,459	$ 60,541,128
Liabilities & Net Assets				
Liabilities				
Current liabilities				
Accounts payable	$ 299,397	$ 1,800	$ -	$ 301,197
Client advances and deposits	2,269,354	-	-	2,269,354
Accrued interest payable	69,848	-	-	69,848
Accrued expenses	318,610	-	-	318,610
Current portion of deferred revenue	7,500	-	-	7,500
Current portion of notes payable	2,747,993	-	-	2,747,993
Total current liabilities	5,712,702	1,800	-	5,714,502
Noncurrent liabilities				
Deferred revenue	960,931	-	-	960,931
Long-term portion of notes payable	19,590,546	-	-	19,590,546
Deferred compensation	106,016	-	-	106,016
Total noncurrent liabilities	20,657,493	-	-	20,657,493
Other Liabilities				
Equity equivalent	3,000,000	-	-	3,000,000
Total Liabilities	29,370,195	1,800	-	29,371,995
Net Assets				
Net assets	13,830,914	15,303,760	1,434,459	30,569,133
Net assets, board designated	600,000	-	-	600,000
Total Net Assets	14,430,914	15,303,760	1,434,459	31,169,133
Total Liabilities & Net Assets	$ 43,801,109	$ 15,305,560	$ 1,434,459	$ 60,541,128

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

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDING JUNE 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Mortgage and note interest	$ 1,582,564	$ 63,049	$ -	$ 1,645,613
Contributions, grants	412,483	270,000	-	682,483
State grants	-	-	-	-
Pass-through grants	712,924	22,138	-	735,062
Federal grants	648,000	1,415,106	-	2,063,106
Rental income	-	-	-	-
Realized gain (loss) on investments	45,490	2,083	-	47,573
Unrealized gain (loss) on investments	20,494	-	-	20,494
Interest income	22,283	11,428	-	33,711
Administration income	27,387	-	-	27,387
Gain on acquisition of assets	510,740	-	-	510,740
Fees and service charges	1,962,027	-	-	1,962,027
Miscellaneous income	742	-	-	742
Net assets released from restrictions				
Satisfaction of program restrictions	2,422,219	(1,991,882)	(430,337)	-
Total Revenue	8,367,353	(208,078)	(430,337)	7,728,938
Expenses				
Program services	4,855,088	-	-	4,855,088
General and administrative	227,608	-	-	227,608
Fundraising	431,286	-	-	431,286
Membership	2,092,087	-	-	2,092,087
Total Expenses	7,606,069	-	-	7,606,069
Increase (decrease) in net assets	761,284	(208,078)	(430,337)	122,869
Net Assets at Beginning of Period	14,430,914	15,303,760	1,434,459	31,169,133
Net Assets at End of Period	$ 15,192,198	$ 15,095,682	$ 1,004,122	$ 31,292,002

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

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDING JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Mortgage and note interest	$ 1,351,390	$ 71,100	$ -	$ 1,422,490
Contributions, grants	373,978	3,788,000	-	4,161,978
State grants	-	-	-	-
Pass-through grants	868,255	42,200	-	910,455
Federal grants	1,448,167	2,322,699	-	3,770,866
Rental income	-	-	-	-
Realized gain (loss) on investments	4,885	1,530	-	6,415
Unrealized gain (loss) on investments	8,407	-	-	8,407
Interest income	14,543	2,647	-	17,190
Administration income	29,168	-	-	29,168
Gain on acquisition of assets	264,981	-	-	264,981
Fees and service charges	2,186,890	-	-	2,186,890
Miscellaneous income	579	-	-	579
Net assets released from restrictions				
Satisfaction of program restrictions	1,080,455	(1,064,034)	(16,421)	-
Total Revenue	7,631,698	5,164,142	(16,421)	12,779,419
Expenses				
Program services	4,271,816	-	-	4,271,816
General and administrative	209,671	-	-	209,671
Fundraising	472,222	-	-	472,222
Membership	1,726,632	-	-	1,726,632
Total Expenses	6,680,341	-	-	6,680,341
Increase (decrease) in net assets	951,357	5,164,142	(16,421)	6,099,078
Net Assets at Beginning of Period	13,479,557	10,139,618	1,450,880	25,070,055
Net Assets at End of Period	$ 14,430,914	$ 15,303,760	$ 1,434,459	$ 31,169,133

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

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDING JUNE 30, 2018 AND 2017

CASH FLOWS FROM OPERATING ACTIVITIES	2018	2017
Changes in Net Assets	$ 122,869	$ 6,099,078
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	190,863	185,744
Loss on disposal of assets	182,861	198,744
Provision for loan losses	707,961	410,681
Additional provision for portfolio purchase	(493,360)	-
(Gain) Loss on investments using equity method	(13,816)	(8,407)
Gain on purchase of loan portfolio	(510,740)	(264,981)
Net charge offs on purchase	(319,746)	-
(Increase) decrease in operating assets		
Accounts receivable	27,249	(304,836)
Grants receivable	732,134	(3,451,907)
Accrued interest receivable	(35,008)	12,806
Prepaid expenses	(14,942)	(11,377)
Deferred compensation	(16,419)	(14,508)
Deposits	665	(2,000)
Increase (decrease) in operating liabilities		
Accounts payable	103,293	102,365
Client advances and deposits	2,302	180,733
Accrued interest payable	10,781	(5,397)
Accrued expenses	47,926	(2,282)
Deferred revenue	(42,612)	(1,500)
Deferred compensation	16,419	14,508
NET CASH PROVIDED BY OPERATING ACTIVITIES	698,680	3,137,464
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(200,965)	(90,652)
Proceeds from sale of property and equipment	349,360	284,748
Purchase of loan portfolio	(997,528)	(964,100)
Purchase of investment property	-	(153,480)
Payments received on notes receivable	24,754,971	28,816,236
Disbursement of loans receivable funds	(27,185,312)	(28,347,046)
NET CASH (USED) BY INVESTING ACTIVITIES	(3,279,474)	(454,294)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt borrowings	9,570,793	4,948,242
Payments on long-term debt	(6,408,207)	(5,119,679)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	3,162,586	(171,437)
NET INCREASE IN CASH	581,792	2,511,733
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	10,912,805	8,401,072
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 11,494,597	$ 10,912,805
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$ 650,343	$ 575,938

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

Note 1 – Organization

Federation of Appalachian Housing Enterprises, Inc. (Fahe or the Organization) is a nonprofit organization that was founded in 1980 to serve Appalachia via a Network of nonprofits. Fahe's mission is to eliminate persistent poverty in Appalachia. Our unique collaborative model connects a Network of local, regional, and national leaders, all working together to uplift our nation's rural places. Working with our 50+ nonprofits across the Appalachian portion of Kentucky, Tennessee, West Virginia, Virginia, Alabama, and Maryland, we use our expertise in finance, collaboration, innovation, advocacy, and communication to achieve a more prosperous Appalachian region.

For over three decades, Fahe has increased the scale and reach of our Network's interventions by:

- Identifying and supporting the development of local leaders who are committed to delivering interventions that result in safe, well-designed homes that are affordable; and
- Providing those leaders with access to the expertise, capital, subsidy, training, and other resources that support and catalyze positive opportunities for the communities and people they serve.

In this way, we positively change the lives of over 85,000 families annually. In our 38-year history, the Fahe Network has served more than 500,000 Appalachians with housing, made $784.8 million in direct investment, and achieved a total cumulative financial impact of $1.43 billion in Appalachia. We bring hope to our region at scale through collaboration across the nonprofit and profit worlds and across party lines.

Fahe is a designated Community Development Financial Institution (CDFI) by the US Treasury. As a CDFI, Fahe offers two clusters of loan products, one for nonprofit corporations who serve low-income populations and the other for low-income populations directly for home purchase.

Specifically, Fahe's principal services include Mortgage Lending, Community Lending Services (CLS), Consulting, Membership, and Loan Servicing, as described below:

- Mortgage Lending—JustChoice Lending (JCL) is a full-service mortgage lender that strengthens communities by creating successful homeowners. JustChoice is the only nonprofit third party originator for Freedom and has been instrumental in creating a national nonprofit packaging system for USDA RD 502 Direct loans.
- Loan Servicing—Fahe Loan Servicing emphasizes quality customer care and personalized account management on the mortgages we service for Fahe, our partners, and our borrowers. During FY18, Fahe serviced 6,039 loans.
  - Both JCL and Loan Servicing are licensed to conduct business in Kentucky, Tennessee, Indiana, Florida, Mississippi, Virginia, West Virginia, Maine, Michigan, and Alabama.
- Community Lending Services—Fahe couples a Community Loan Fund with outstanding lending expertise to facilitate the flow of impactful private and public investments into housing and community development projects across the region.
- Consulting—Fahe Consulting connects different organizations to specialized resources that will help to expand their projects and improve the quality of life in their communities.
- Membership—The Membership team strengthens our Network by connecting the Members to each other and to Fahe's expertise and services. Fahe's 50+ Members in the Appalachian portion of Kentucky, Tennessee, West Virginia, Virginia, Alabama, and Maryland get access to specialized training, information sharing, financial resources, and a stronger combined political voice that supports positive change in their communities.

Note 2 – Summary of Significant Accounting Policies

Principles of Consolidation

The financial statements include the consolidated statements of the Organization and its subsidiaries, Fahe Capital Corporation I, Fahe Consulting, LLC and Fahe TN, LLC. Accordingly, all significant inter-company balances and transactions have been eliminated.

Fahe Capital Corporation I, a wholly-owned subsidiary of Fahe, was formed in 2000 to syndicate private investments from corporations, generating a market rate return delivered through a federal tax credit. Investments raised through Low Income Housing Tax Credit Equity Funds managed by Fahe Capital Corporation I and a partner, Virginia Community Development Corporation, facilitated the creation/preservation of affordable rental housing.

Fahe Consulting, LLC, a wholly-owned subsidiary of Fahe, was formed in 2006 to help communities connect to opportunities by providing turn-key consulting services to nonprofits, municipalities, and others who wish to accomplish community development outcomes but who lack the technical expertise or personnel to achieve their desired outcomes. Fahe Consulting assists with filing applications for federal, state and local funding by overseeing the development process, securing construction and permanent financing, facilitating and tracking construction progress and preparing any and all required project reports.

In 2011, Fahe established Fahe TN, LLC. This entity is domiciled in Tennessee and was created to provide access to investments through Tennessee's Community Investment Tax Credit Program.

In 2015, Fahe established Park Community LLC. This entity was originally established to meet the requirements of a grant, but at the close out of the grant was utilized to allow Fahe to borrow from the Bond Guarantee Program by pledging single family mortgages as collateral.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations on the original and/or revolving proceeds that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restriction.

- Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

Note 2 – Summary of Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

Below is a breakdown of the temporarily restricted and permanently restricted net assets as of June 30, 2018 and 2017:

June 30, 2018

	Temporarily Restricted					Permanently Restriced
	Appalachia Outreach Programs	CDFI Program	Appalchaia Heat Squad	Uplift America Program	Lending Programs with stipulations to revolve	Lending Programs with stipulations to revolve
Salary Support	$ 133,991	$ -	$ 181,112	$ 259,999	$ -	$ -
Travel	53,644	-	48,430	27,935	-	-
Pass Thru Grants	123,250	731,750	553,184	351,344	-	-
Interns	-	-	-	-	-	-
Convenings	5,000	-	-	-	-	-
Equipment	-	-	9,551	-	-	-
Marketing	7,500	-	16,337	-	-	-
Consultant	75,000	-	-	-	-	-
Lending Guidelines	-	-	-	-	12,517,655	1,004,122
Total	$ 398,385	$ 731,750	$ 808,614	$ 639,278	$ 12,517,655	$ 1,004,122
Total Temporarily Restricted Net Assets at June 30, 2018					$ 15,095,682	
Total Permanently Restricted Net Assets at June 30, 2018						$ 1,004,122

June 30, 2017

	Temporarily Restricted					Permanently Restriced
	Appalachia Outreach Programs	502 Consortium Program	Appalchaia Heat Squad	Uplift America Program	Lending Programs with stipulations to revolve	Lending Programs with stipulations to revolve
Salary Support	$ 58,228	$ 50,000	$ 175,238	$ 433,333	$ -	$ -
Travel	-	10,000	57,500	30,000	-	-
Pass Thru Grants	72,250	-	662,738	450,000	-	-
Interns	14,400	-	-	-	-	-
Convenings	-	15,000	-	-	-	-
Equipment	-	-	15,000	-	-	-
Marketing	-	-	15,000	-	-	-
Consultant	-	-	-	-	-	-
Lending Guidelines	-	-	-	-	13,245,073	1,434,459
Total	$ 144,878	$ 75,000	$ 925,476	$ 913,333	$ 13,245,073	$ 1,434,459
Total Temporarily Restricted Net Assets at June 30, 2017					$ 15,303,760	
Total Permanently Restricted Net Assets at June 30, 2017						$ 1,434,459

Cash and Cash Equivalents

For purposes of the Statements of Financial Position and the Statements of Cash Flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents unless held by investment managers as part of the investment portfolio. As required by grant and servicing agreements Fahe does hold cash in separate bank accounts.

Fahe maintains an $800,000 compensating balance arrangement with Commercial Bank against a $6 million line of credit.

Note 2 – Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents (Continued)

Cash received from grants and held with temporary restrictions at June 30, 2018 and 2017 was $3,308,200 and $3,476,772, respectively. All temporarily restricted cash held at the end of the fiscal year of 2018 and 2017 was restricted to the lending program and required to be lent following the guidelines of each grant. Cash permanently restricted for loans to clients at June 30, 2018 and 2017 was $172,074 and $153,922, respectively.

The organization receives nonfinancial assets and recognizes the assets and the liability related to cash held for tax and insurance related to loan servicing and pre-close escrow for JustChoice Lending. The balances of those assets and offsetting liabilities were $2,500,385 and $2,446,684 at June 30, 2018 and 2017, respectively.

Investments

The organization carries investments in equity securities with readily determinable fair market values and all investments in debt securities at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities. The Organization holds two investments that are recorded using the equity method, due to no fair value or equivalent being readily determinable.

Mortgage Notes Receivable

Mortgage and Notes receivable are stated at the outstanding principal balance, less an allowance for loan losses. The allowance for loan losses is increased by charges to the change in net assets and decreased by charge-offs (net of recoveries).

Since the interest rate charged to the borrowers corresponds with the customary rates applicable to the low-income housing industry, the Organization considers these rates to be reasonable and has not made any adjustment for imputed interest that would be applicable to higher interest rate conventional housing loans.

Allowance for Loan Losses

It is the policy of the Organization to provide valuation allowances for estimated loan losses. The allowance for loan losses represents management's best estimate of future bad debts. Additions to the allowance are charged to earnings. Accounts written off are charged against the allowance. Recoveries are credited to the allowance reserve.

Fixed Assets and Intangible Assets

The Organization capitalizes all expenditures for fixed asset acquisitions in excess of $500. Fixed assets are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed on a straight-line basis over the useful lives of the assets generally as follows:

Building and improvements	39 years
Computers and data handling equipment	3 years
Vehicles and equipment	5 years

During the years ended June 30, 2018 and 2017, depreciation expense was $186,528 and $181,256, respectively.

Note 2 – Summary of Significant Accounting Policies (Continued)

Fixed Assets and Intangible Assets (Continued)

During the year ended June 30, 2016, the Organization amortized costs associated with the issuance of the CDFI Bond Guarantee Program, of which Fahe was allocated $15,000,000. These costs will be expensed during the life of the bond program. Amortization expense for the years ended June 30, 2018 and 2017 were $4,335 and $4,488, respectively.

A summary of property and equipment and intangible assets at June 30 is as follows:

	2018	2017
Land	$ 130,133	$ 130,133
Building	3,393,603	3,234,380
Building Improvements	34,600	33,700
Equipment and Vehicles	943,166	902,324
Subtotal	4,501,502	4,300,537
Accumulated Depreciation	(1,139,428)	(952,899)
Property and Equipment, net	$ 3,362,074	$ 3,347,638
Intangible Assets	116,956	116,956
Accumulated Amortization	(11,299)	(6,964)
Intangible Assets, net	$ 105,657	$ 109,992

Revenue Recognition

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor imposed restrictions. All donor-restricted contributions are reported as increases in temporarily 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 satisfied), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Income Tax Status

The organization is recognized as a tax-exempt organization under code Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal income tax has been made. In addition, the Organization has been classified as an Organization that is not a private foundation under Section 509(a).

The Organization is not aware of any unrelated business income as of June 30, 2018. In Accounting Standards Codification (ASC) 740-10-50, Income Taxes, (formerly FIN 48, Accounting for Uncertainty in Income Taxes) the Financial Accounting Standards Board (FASB) requires entities to disclose known or anticipated positions of income tax uncertainty. The Organization is not aware of any uncertain tax positions that would require adjustment to the financial statements. The Organization files income tax returns in the U.S. federal jurisdiction. Generally, the Organization is no longer subject to income tax examination by the U.S. federal, state or local tax authorities for years before 2015.

Note 2 – Summary of Significant Accounting Policies (Continued)

Compensated Absences

The Organization revised its personnel policies regarding employee vacation and sick time beginning calendar year 2010. Previously, upon separation of service, employees could be paid up to a maximum of 80 accrued sick hours and 160 accrued vacation hours. As of January 1, 2010, employees will not receive pay for accrued sick time upon separation of service with the exception of sick hours earned and not spent as of December 31, 2009. However, accrued vacation time can now be paid out up to a maximum of 352 hours. The employee earns accrued time based on job classification, length of service, and other factors. The liability accrued for compensated absences is limited to the actual amount that would be payable to the employee in the event of separation from employment. The amount is calculated based on multiplying the representative hourly wage by the number of accrued hours.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and detailed in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 3 – Investments and Fair Value Measurements

Investments held by the Organization consisted of the following as of June 30, 2018:

	Cost	Market Value	Unrealized Appreciation
KYNWA Alliance investment	$ 1,000	$ 687	$ (313)
Scenic States investment	-	63,229	63,229
FHLB stock	88,500	88,500	-
Balance, June 30, 2018	$ 89,500	$ 152,416	62,916
Balance, June 30, 2017	$ 89,500	$ 138,600	49,100
Unrealized gain (loss) on investments			$ 13,816

The Organization has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in an active market for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Financial assets and liabilities recorded on the statement of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Organization has the ability to access.

Note 3 – Investments and Fair Value Measurements (Continued)

Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable whether directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in non-active markets;
- Pricing models whose inputs are observable for substantially the full term of the asset or liability; and
- Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

The Organization's fair value of securities available for sale measured on a recurring basis at June 30, 2018 and 2017 is as follows:

		Fair Value Measurements at Reporting Date Using		
June 30, 2018	Fair Value	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
KY NWA Alliance investment	$ 687	$ -	$ -	$ 687
Scenic States investment	63,229	-	-	63,229
FHLB Stock	88,500	-	88,500	-
	$ 152,416	$ -	$ 88,500	$ 63,916
June 30, 2017				
KY NWA Alliance investment	$ 687	$ -	$ -	$ 687
Scenic States investment	49,413	-	-	49,413
FHLB Stock	88,500	-	88,500	-
	$ 138,600	$ -	$ 88,500	$ 50,100

Available-for-sale securities measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	KY NWA Alliance	Scenic States
July 1, 2016	$ 1,000	$ 40,693
Total gains and losses - unrealized		
Included in earnings	(313)	8,720
June 30, 2017	687	49,413
Total gains and losses - unrealized		
Included in earnings	-	13,816
June 30, 2018	$ 687	$ 63,229

Fair value for investments is determined by reference to quoted market prices and other relevant information generated by market transactions. There have been no changes in valuation techniques and related inputs.

Note 4 – Grant Funds Receivable

Unconditional promises to give amounted to $2,976,273 and $3,708,407 as of June 30, 2018 and 2017, respectively. The balance of the unconditional promises to give in fiscal year 2018 will be received according to the following schedule:

Fiscal Year ending June 30,	Amount to be received
2019	$ 2,442,143
2020	534,130

Note 5 – Property Held for Resale

Property held for resale consists of foreclosure properties (REO). REO property is recorded at the lower of cost or market when recovered from the foreclosure proceedings or by a deed-in-lieu of foreclosure. The properties are recorded at book value less an adjustment of 25% to create an allowance for loan loss. FAHE has adopted a conservative approach to the valuation of foreclosures lacking an appraisal. Gains or losses from the sale of properties are recorded in the statement of activities as either gains or losses on disposal of property.

Property held for resale also consists of property preservation advances. The Organization advances funds for expenses for property preservation to protect the value of their collateral related to mortgages receivable. These expenses are shown as receivables from the borrower unless the Organization takes the property back. At June 30, 2018 and 2017, the organization held $461,221 and $424,252, respectively in REO property and $127,233 and $81,379, respectively in property preservation. The related allowances recorded as of June 30, 2018 and 2017 were $185,947 and $156,142, respectively for REO property. There were no allowances recorded for property preservation advances.

During fiscal year 2017, through the partnership with a Fahe member, the Organization developed and sold a house on the land purchased in fiscal year 2016. The second property held, related to the land where the Organization's new office building was built, was transferred to a membership organization in order to qualify for a federal environmental remediation grant. The Member Organization holds a payable to Fahe and in accord Fahe holds a receivable from the Member for the carrying value of the property, $232,837. Fahe is currently leasing the property from the Member Organization. At the completion of the environmental remediation, Fahe and the Member Organization will begin work to either sell or repurpose the building. Likely, the property will transfer back to Fahe at that time.

Note 6 – Mortgage Notes Receivable

Fahe makes loans to individual borrowers for home purchase and rehabilitation of existing homes. Fahe is an approved FHA and USDA lender offering a combination of loans held on balance sheet, loans sold off balance sheet, and loans packaged to USDA Rural Development and brokered to State Housing Finance Agencies. In addition to traditional mortgage products, Fahe provides subordinated loans to low-income homebuyers to ensure affordability. The subordinated finance can be in the form of an amortized loan or as a soft second for down payment assistance. Mortgage lending funds are made available from several different sources. These sources include federal and state grants awarded to the Organization, borrowings of lower interest funds made available by state housing agencies, grants from foundations, and revolved funds in the Organization's various lending portfolios. Loans are made in accordance with the restrictions imposed by the various funding sources.

The Organization has a programmatic loan balance of $1,950,530 and $1,969,054 as of June 30, 2018 and 2017, respectively. The Organization has determined these loans do not meet the definition of a security and therefore does not elect to report them using the "Fair Value Option." These loans are considered conditional promises to give and are reported at amortized cost. The expense of forgiving a portion of a loan is recorded as a programmatic expense as the conditions are met. The Organization changed its loan loss reserve policy during fiscal year 2015 to fully reserve the entirety of the programmatic loan balance due to their intent to never collect these loans. The balance of the programmatic loans nets to zero in the Mortgage Receivables line of the Statement of Financial Position.

Note 6 – Mortgage Notes Receivable (Continued)

Mortgage notes receivable as of June 30, 2018 and 2017 consist of the following balances in each fund:

	2018	2017
Kentucky Home Loan Fund	$ 3,700,397	$ 3,869,363
AHTF Fund	14,073	11,000
HOME Program of Kentucky	6,365,060	6,878,490
Virginia Home Loan Fund	3,122,197	3,448,713
NHPR Kentucky	64,506	68,363
HOME Program of Virginia	1,940,724	2,048,218
West Virginia Home Loan Fund	684,299	769,299
Tennessee Home Loan Fund	2,070,734	1,963,628
Project Reinvest	1,501,500	31,500
Chase/NHSA	344,039	363,271
Park Community	1,981,706	-
Consumer Loans	18,433	-
FAHE Other States	6,306,320	8,466,641
Total	28,113,988	27,918,486
Less: Allowance for Loan Losses	(3,283,932)	(2,932,279)
Mortgage Notes Receivable, Net of Allowance	$ 24,830,056	$ 24,986,207

The Organization has loan covenants with certain foundations that require the Organization to maintain certain levels of allowances to cover potential loan losses. In lieu of charging the full amount of the requirements to earnings, the Organization's Board of Directors has chosen to voluntarily designate a portion of its net assets for this purpose. The balance of the Board Designated Net Assets as of June 30, 2018 and 2017, is $600,000. This provides aggregate loan loss coverage of no less than 4.0% on the Fahe loan portfolio. Based on actual, historical delinquency trends, the Organization's management does not expect to incur any charges against this designation.

The recorded investment of mortgage notes receivable is secured by residential real estate properties where formal foreclosure procedures are in process is $448,502 and $517,865 as of June 30, 2018 and 2017, respectively.

Note 7 – Notes Receivable

The Organization makes loans to Corporations. Financial products provided to members and partner Community Development Corporations (CDCs) include: 1) affordable housing development loans for single-family construction, 2) affordable housing development loans for multi-family construction, and 3) working capital loans or business loans. The target market end user of these loans is the low-income targeted population or low-income communities. Combined borrower balances of the Organization's community loan portfolio as of June 30, 2018 and 2017 are presented on the following page(s):

Note 7 – Notes Receivable (Continued)

	2018	2017
Aid to Distressed Families of Appalachian Countries	$ 23,650	$ 23,650
Almost Heaven Habitat for Humanity	186,352	190,016
Appalachia Habitat For Humanity	531,000	405,811
Beattyville Housing Development	234,976	250,484
Charleston Replacement Housing #3	905,914	-
Coalfield Development Corporation	37,974	-
COAP	75,257	107,014
Community Action Partnership of North Alabama	1,184,612	1,463,852
East Tennessee Development Housing Corporation	63,896	66,473
Eastern Eight CDC	890,341	985,114
Eastern Scholar House	306,138	1,981,148
Elkhorn City School Apartments	2,192,557	772,593
Frontier Housing, Inc.	694,617	843,599
Giffin Senior Community	1,250,000	1,193,878
Hale County Habitat for Humanity	55,888	59,724
HERO	346,073	339,934
HOMES, Inc.	432,603	295,185
HOPE Inc.	962,829	408,508
Hope Federal Credit Union	72,290	-
Hope of Kentucky	2,120,864	-
Housing Authority of Mingo County	217,222	230,721
Housing Development Alliance	334,680	333,066
Housing Development Foundation, Inc.	359,123	369,550
Kentucky Mountain Housing Corporation	73,024	155,892
Kentucky River Community Care	55,090	55,090
Kentucky River Foothills Development Corporation	330,951	10,651
Knox Housing Partners, Inc.	394,325	405,279
Lil Britches Child Care Center	36,815	41,421
Long Run Apartments	1,348,021	1,390,898
M Fine	699,748	313,401
Mackey	208,544	217,804
Midway School Apartments	240,786	244,177
Mt. Sterling- Main Cross, LLC	184,500	184,500
Mulberry Housing LLP	45,000	45,000
Neighborhood Housing Services of Birmingham	249,263	245,263
New Directions Housing Corporation	633,500	36,692
People Inc. Financial Services	-	278,234
Randolph County Housing Authority	75,113	81,956
Redbud Financial Alternatives, Inc.	43,353	-
Scott-Morgan CDC	55,109	59,468
Servolution Health Services	562,766	-
Small Town Housing, LLC	600,000	-

Note 7 – Notes Receivable (Continued)

	2018	2017
Southern Appalachian Labor School	57,953	63,076
Sterling Housing, Inc.	-	950,515
Sutton School Apartments	-	539,719
The Housing Partnership, Inc.	-	70,067
Warrior Creek Development Holdings	223,633	226,000
Washington County VA Habitat for Humanity	79,199	84,199
Woodlands Development Group	95,976	100,000
Total Notes Receivable	19,771,525	16,119,622
Less: Allowance for Loan Loss	(197,702)	(161,140)
Notes Receivable, Net of Allowance	$ 19,573,823	$ 15,958,482

Note 8 – Allowance for Loan Losses

Fahe has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in Fahe's portfolio. For purposes of determining the allowance for loan losses, Fahe segments certain loans in its portfolio by product type. Fahe's loans are segmented as follows: Community Loans or notes to corporations and Mortgages for single-family purchase and rehabilitation. These segments are then broken down into classes determined by length of delinquency. The percentages have been determined based upon historical data for the Organization's loan collections and delinquencies, and also to remain in compliance with related debt covenants. The loan loss set up for each length of delinquency is as follows:

Days Delinquent	Reserve Percentage
0-29 days	1%
30-59 days	2%
60-89 days	3%
90-179 days	5%
180+ days	25%

In addition, based on Fahe's analysis of lending trends, Fahe has applied additional loss multipliers to the loan balances. Currently, Fahe has applied additional loss estimations to ensure that purchased loan portfolios are performing and that gains shown on those purchases are conservative. As the portfolio is cured, reserve is released either through writing off nonperforming loans or due to good performance of loans.

The Organization considers the Allowance for Loan Losses to be a significant estimate that is reasonably possible to change within one year of the date of the financial statements due to an accounting standard that will apply to future fiscal years. The effect of the change is unknown at this time but may be material once further analysis is completed.

Fahe has also taken into account any properties conveyed back to the Organization via foreclosure or deed in lieu as an additional component of the allowance for loan losses. It is the Organization's policy to immediately reserve 25% of the value of the note until a better estimate of property value can be acquired and the property can be written down to fair market value.

Note 8 – Allowance for Loan Losses (Continued)

2018 Allowance for Loan Losses

	Mortgage Lending	Community Lending – Non-IRP	Total
Beg. Balance	$ 2,932,279	$ 161,140	$ 3,093,419
Charge-Offs	(325,030)	-	(325,030)
Recoveries	5,284	-	5,284
Provision	671,399	36,562	707,961
Ending Balance	$ 3,283,932	$ 197,702	$ 3,481,634

2017 Allowance for Loan Losses

	Mortgage Lending	Community Lending – Non-IRP	Total
Beg. Balance	$ 2,541,581	$ 154,893	$ 2,696,474
Charge-Offs	(13,736)	(19,497)	(33,233)
Recoveries	-	19,497	19,497
Provision	404,434	6,247	410,681
Ending Balance	$ 2,932,279	$ 161,140	$ 3,093,419

Credit Quality Information

Fahe determines credit quality of its existing portfolio by examining delinquency monthly. The following tables present performing and nonperforming real estate loans based on payment activity for the years ended June 30, 2018 and 2017. Payment activity is reviewed by management on a monthly basis to determine credit quality of the loans. Loans are considered to be nonperforming when days delinquent is greater than 30 days in the previous month. The Organization has found that it is in its best interest to consider loans past this date nonperforming instead of the traditional single-family mortgage standard of 90 days. Fahe's Loan Servicing Department has found it has the best chances of collection if contact is made with the borrower during the first month of delinquency.

Nonperforming loans also include certain loans that have been modified in troubled debt restructurings where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from Fahe's loss mitigation activities and could include loan modification by way of reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. In fiscal year 2018, the Organization made a change to track troubled debt restructuring with a separate troubled debt restructure designation, which it would keep until the loan was paid off. Therefore, once a loan is designated as a troubled debt restructure it will never return to performing status. Management believes the likelihood of loss for nonperforming loans is increased in this current period due to the persisting weak economy and the growth of performing loans transferred to nonperforming status upon modification in a troubled debt restructuring. The Organization also classifies its non-accrual loans as nonperforming.

Note 8 - Allowance for Loan Losses (Continued)

2018 Performing vs. Nonperforming Loans

	Mortgage Lending	Community Lending	Mortgage Conveyances
Performing	$ 25,988,507	$ 19,425,452	$ -
TDR	315,665	-	-
Non-accrual	-	346,073	-
Nonperforming	1,626,525	-	183,291
Total	$ 27,930,697	$ 19,771,525	$ 183,291

2017 Performing vs. Nonperforming Loans

	Mortgage Lending	Community Lending	Mortgage Conveyances
Performing	$ 26,004,558	$ 15,779,688	$ -
TDR	276,087	-	-
Non-accrual	-	339,934	-
Nonperforming	1,477,601	-	160,240
Total	$ 27,758,246	$ 16,119,622	$ 160,240

Age Analysis of Past Due Financing Receivables by Class

The table below includes an aging analysis of the recorded investment of past due financing receivables as of June 30, 2018 and 2017. Also included are loans that are 90 days or more past due as to interest and principal and still accruing, because they are (a) well-secured and in the process of collection or (b) real estate loans or loans exempt under regulatory rules from being classified as nonaccrual.

Age Analysis of Past Due Financing Receivables by Class

	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Financing Receivables
2018						
Mortgage Lending	$ 430,274	$ 35,346	$ 1,160,905	$ 1,626,525	$ 26,304,172	$ 27,930,697
Mortgage Conveyances	-	132,123	51,168	183,291	-	183,291
Community - Non-IRP	-	-	-	-	19,771,525	19,771,525
Total	$ 430,274	$ 167,469	$ 1,212,073	$ 1,809,816	$ 46,075,697	$ 47,885,513
2017						
Mortgage Lending	$ 161,254	$ 483,144	$ 833,203	$ 1,477,601	$ 26,280,645	$ 27,758,246
Mortgage Conveyances	-	54,650	105,590	160,240	-	160,240
Community - Non-IRP	-	-	-	-	16,119,622	16,119,622
Total	$ 161,254	$ 537,794	$ 938,793	$ 1,637,841	$ 42,400,267	$ 44,038,108

Note 8 - Allowance for Loan Losses (Continued)

Impaired Loans

Fahe considers a loan to be impaired when, based on current information and events, Fahe determines that it will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is treated the same across all classes of the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases, Fahe uses the current fair value of the collateral, less selling costs when foreclosure is probable, instead of the discounted cash flows. If Fahe determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), Fahe recognizes impairment through an allowance estimate or a charge-off to the allowance. Fahe determines impairment based on a 60-day default period for mortgages and makes a credit decision for community loans. Loans classified as troubled debt restructurings are also considered impaired

When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to the principal, under the cost recovery method. When the ultimate collectability of the total principal of any impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

The table below includes the recorded investment and unpaid principal balances for impaired financing receivables with the associated allowance amount, if applicable. Fahe determined the specific allowance based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the remaining source of repayment for the loan is the operation or liquidation of the collateral. In those cases, the current fair value of the collateral, less selling costs was used to determine the specific allowance recorded.

The Organization uses the grouping Mortgage Conveyances to pull out loans for which title is being actively sought as collection is no longer effective. These are homes which have either been determined to be vacant or the borrower is deceased.

Interest recognized on impaired loans during fiscal years 2018 and 2017 were $59,351 and $59,621, respectively. The average investment in impaired loans at the end of fiscal years ended June 30, 2018 and 2017 were $1,731,566 and $1,830,185, respectively. There organization did not have any troubled debt restricting loans in default in the fiscal year ended June 30, 2018.The organization had two troubled debt restructuring loans in default in the fiscal year ended June 30, 2017 with a total investment of $178,162. These were single family mortgages and the Organization now holds the real estate as other real estate owned.

Impaired Loans

	Unpaid Principal Balance	Related Allowance	Net Recorded Investment
2018			
Mortgage Lending	$ 1,196,252	$ (189,436)	$ 1,006,816
Mortgage Conveyances	183,291	(15,570)	167,721
Community – Non IRP	346,073	(3,461)	342,612
Total	$ 1,725,616	$ (208,467)	$ 1,517,149
2017			
Mortgage Lending	$ 1,592,434	$ (115,189)	$ 1,477,245
Mortgage Conveyances	160,240	(28,037)	132,203
Community – Non IRP	339,934	(3,399)	336,535
Total	$ 2,092,608	$ (146,625)	$ 1,945,983

Note 8 - Allowance for Loan Losses (Continued)

Nonaccrual loans

In the Community Lending fund, Fahe generally places a loan on nonaccrual status when the full and timely collection of interest or principal becomes uncertain, during which period staff work out a mitigation strategy with the borrower, and no restructuring has occurred. In the Mortgage Lending segment, loans at 0% interest are not considered nonaccrual because they were underwritten or designed with that intent and funded from a grant resource. Loans on nonaccrual status and their respective classes are as follows:

Nonaccrual Loans	2018	2017
Mortgage Lending	$ -	$ -
Mortgage Conveyances	-	-
Community Lending - Non IRP	346,073	339,934
Total	$ 346,073	$ 339,934

When Fahe places a loan on nonaccrual status, Fahe reverses the accrued unpaid interest receivable against interest income and accounts for the loan on the cash or cost recovery method, until it qualifies to return to accrual status. Generally, Fahe returns a loan to accrual status when (a) all delinquent interest and principal become current under the terms of the loan agreement or (b) the loan is both well-secured and in the process of collection and collectability is no longer doubtful.

Fahe has determined that the entire balance of a loan is contractually delinquent for all classes if the minimum payment is not received by the specified due date on the member's statement. Interest and fees continue to accrue on past due loans until the date the loan goes into nonaccrual status, if applicable.

Note 9 – Notes Payable

Notes payable at June 30, 2018 and 2017 consist of notes payable to governmental agencies, banks, non-profit organizations and individuals as detailed below and on the following page(s):

	Rate	Term	Maturity	Balance 2018	Balance 2017
Kentucky Housing Corporation					
Kentucky Home Loan Fund/AHTF					
Special Contract #8	3.00%	20 Years	October 1, 2035	$ 349,870	$ 364,547
Affordable Housing Trust Fund	1.00%	30 Years	July 1, 2033	37,644	39,791
NHPL, NHRL, NHPR					
NHPL 1999-2000	1.00%	20 Years	July 1, 2019	37,776	67,140
NHPR 2000-2001	1.00%	20 Years	July 1, 2020	94,837	126,450
NHPR 2001-2002	1.00%	20 Years	July 1, 2022	106,950	133,688
NHPR 2002-2003	1.00%	20 Years	July 1, 2023	168,614	202,176
NHPR 2003-2004	1.00%	20 Years	July 1, 2024	182,025	212,363
NHPR 2004-2005	1.00%	20 Years	July 1, 2025	162,225	185,400
NHPR 2005-2006	1.00%	20 Years	July 1, 2026	175,680	195,200
NHPR 2006-2007	1.00%	20 Years	January 1, 2027	78,300	87,000
NHPR 2007-2008	1.00%	20 Years	September 1, 2028	123,588	135,947
NHPR 2009	1.00%	20 Years	February 1, 2030	144,635	157,549

Note 9 – Notes Payable (Continued)

	Rate	Term	Maturity	Balance 2018	2017
Virginia Housing Development Authority					
VHPRF Phase I & II	3.00%	20 Years	October 5, 2029	$ 66,028	$ 71,427
Housing Fund #2	3.00%	30 Years	May 6, 2033	140,663	148,288
Housing Fund #3	2.00%	30 Years	March 1, 2036	372,794	392,097
2004 Line of Credit	2.00%	30 Years	September 1, 2026	428,235	448,364
2005 Line of Credit	2.00%	30 Years	February 1, 2037	383,623	481,860
2007 Reach	3.00%	30 Years	June 1, 2038	229,013	237,415
2009 Reach	3.00%	30 Years	May 1, 2039	146,344	151,364
2010 Reach	3.00%	30 Years	July 1, 2040	247,904	255,918
2011 Reach	3.00%	30 Years	September 1, 2042	308,557	317,256
2012 Reach	3.00%	30 Years	June 1, 2043	39,030	40,069
Commercial Bank					
Ten Year Note - FAHE TN, LLC	0.75%	10 Years	May 10, 2023	500,000	500,000
Two Year Note	4.25%	2 Years	June 30, 2019	4,969,580	1,750,000
Various Lenders					
Wells Fargo Bank	2.00%	3 Years	October 1, 2023	2,000,000	2,000,000
Central Bank	3.48%	5 Years	November 15, 2020	1,300,000	1,400,000
Linda Miller & Robert Adelberg	2.50%	3 Years	December 20, 2020	50,000	50,000
Richard S. Chapel	2.50%	3 Years	December 20, 2020	25,000	25,000
Glenmary Home Missioners	2.00%	3 Years	October 28, 2020	25,000	25,000
Kentucky Housing Corporation	1.00%	20 Years	November 1, 2031	228,213	244,028
Peoples Self Help Housing	2.50%	2 Years	January 5, 2020	500,000	500,000
CDFI Fund	1.25%	20 Years	September 10, 2019	930,000	930,000
Domestic & Foreign Missionary Society	3.63%	5 Years	March 31, 2021	500,000	500,000
Opportunity Finance Network	3.00%	10 Years	November 30, 2019	2,500,000	2,500,000
US Dept. of Treasury- CDFI Bond Program	3.07%	20 Years	March 16, 2037	1,254,591	1,279,240
US Dept. of Treasury- CDFI Bond Program	3.02%	27 Years	December 15, 2044	908,584	-
Seton Enablement Fund	3.00%	5 Years	April 1, 2020	72,068	86,242
Mercy Investment Services	2.00%	5 Years	July 15, 2020	500,000	500,000
Episcopal, Diocese of Iowa	2.50%	5 Years	March 31, 2023	25,000	25,000
Byron Stookey	3.00%	5 Years	September 30, 2020	50,000	50,000
Byron & Lee Stookey	3.00%	5 Years	November 30, 2021	25,000	25,000
US Department of Treasury – SBLF	2.00%	8 Years	September 15, 2019	2,063,000	2,063,000
Mary Reynolds Babcock Foundation	2.50%	6 Years	August 1, 2017	-	300,000
Emma C. Trevor	1.50%	3 Years	December 30, 2018	2,500	2,500
Eric Haralson	1.75%	3 Years	March 31, 2020	20,000	20,000
Jones Family Farm	1.25%	1 Year	May 31, 2019	36,779	36,325
Jones Family Farm	1.25%	1 Year	May 31, 2019	26,474	26,145
Perls Foundation	2.50%	3 Years	July 1, 2020	100,000	100,000
Phyllis J. Hatfield	2.50%	3 Years	July 1, 2020	25,000	50,000
Nazareth Literary & Benevolent Institution	0.50%	3 Years	December 30, 2022	150,000	100,000
Deutsche Bank	2.00%	5 Years	August 2, 2019	500,000	500,000
HEAD Corporation	2.50%	3 Years	January 15, 2021	300,000	300,000
Thomas Benningson	2.50%	3 Years	January 16, 2021	80,000	80,000
Virginia Organizing	2.00%	5 Years	March 20, 2022	308,000	308,000
Slyvia Jones	1.25%	1 Year	March 31, 2019	2,000	1,750
Donna Wardenaar	2.50%	5 Years	May 15, 2019	50,000	50,000
RCIF	2.50%	5 Years	June 15, 2020	250,000	250,000

Note 9 – Notes Payable (Continued)

	Rate	Term	Maturity	Balance 2018	Balance 2017
Various Lenders (Continued)					
Edith Allen	3.00%	5 Years	September 30, 2020	$ 100,000	$ 100,000
James DeWolf Perry V	2.50%	4 Years	December 30, 2019	25,000	25,000
John and Sara Morgan	1.00%	3 Years	June 30, 2019	10,000	10,000
Larry Withers	2.00%	2 Years	July 31, 2019	150,000	150,000
Andrew Schenk	1.75%	3 Years	April 25, 2020	25,000	25,000
MACED	3.00%	3 Years	July 22, 2019	500,000	500,000
Woodforest	2.50%	3 Years	June 5, 2018	-	500,000
Perls Foundation	3.00%	5 Years	February 1, 2023	40,000	-
Alexander Jobin-Leeds	3.00%	5 Years	February 1, 2023	16,667	-
Caledonia Jobin-Leeds	3.00%	5 Years	February 1, 2023	16,667	-
Caset Jobin-Leeds	3.00%	5 Years	February 1, 2023	16,667	-
Greg & Maria Jobin-Leeds	3.00%	5 Years	May 31, 2023	50,000	-
Congr. of the Sisters of the Incarnate Word	2.00%	5 Years	May 31, 2023	250,000	-
Total Notes Payable				$ 25,501,125	$ 22,338,539

The principal repayment requirements at June 30, 2018 and 2017, relating to the above notes payable are as follows:

	2018	2017
2018	$ -	$ 2,747,993
2019	5,660,643	2,356,662
2020	8,042,033	7,372,062
2021	3,273,674	2,673,140
2022	725,922	704,724
2023	1,437,186	-
Later Years	6,361,667	6,483,958
	$ 25,501,125	$ 22,338,539

At June 30, 2018 and 2017, $16,369,354 and $16,144,481 notes payable, respectively, are unsecured and represent private investments by individuals and groups.

During fiscal year 2018 and 2017 the Organization held a line of credit with Commercial Bank secured by pledged notes receivable. At June 30, 2018 and 2017 the balance of the line was $4,969,580 and $1,750,000, respectively. The Organization also had a $500,000, undrawn line of credit with Central Bank at both June 30, 2018 and 2017, secured by real estate. The Organization has a loan with Central Bank secured by the new building at Oak Street. The balance of this note was $1,300,000 and $1,400,000 at June 30, 2018 and 2017, respectively.

At June 30, 2018 and 2017 the organization had available balances on lines of credit with Commercial Bank of $1,030,420 and $2,350,000 million and Central Bank of $500,000 and $500,000, respectively. At June 30, 2018, the Organization had an available balance on a line of credit with Virginia Community Capital of $3,000,000.

At June 30, 2018, the Organization has receivables totaling $3,122,197 pledged as collateral against loans with VHDA, $800,000 compensating balance and $4,969,580 receivables pledged as collateral to Commercial Bank, $625,000 receivables pledged to Peoples Self Help Housing, $1,300,000 of their office building pledged as collateral with Central Bank, and $2,348,266 receivables pledged as collateral with the CDFI. At June 30, 2017, the Organization has receivables totaling $3,448,713 pledged as collateral against loans with VHDA, $800,000 compensating balance and $1,750,000 receivables pledged as collateral to Commercial Bank, $625,000 receivables pledged to Peoples Self Help Housing, $1,400,000 of their office building pledged as collateral with Central Bank, and $1,390,898 receivables pledged as collateral with the CDFI.

Note 10 – Community Development Financial Institutions (CDFI) Bond Guarantee Program

The CDFI Bond Guarantee Program (BGP or Bond Program) was enacted through the Small Business Jobs Act of 2010 (Public Law 111-240) on September 27, 2010. The legislation directs the Treasury Department to guarantee the full amount of bonds issued to support CDFIs that make investments for patient capital to CDFIs. The Federal Financing Bank, a financing arm of the U.S. Treasury, will purchase all of the bonds issued under the BGP, including the Opportunity Finance Network (OFN) Bonds, and the U.S. Treasury will guarantee repayment. The bonds will not be remarketed or sold to any other investors.

In 2015, the CDFI Fund approved OFN to serve as a Qualified Issuer and issue a bond totaling $127 million on behalf of the Organization and 6 other CDFIs. Fahe's portion of the issuance was $15 million. As of June 30, 2018, and 2017, Fahe had drawn down $2,199,000 and $1,279,240, respectively. Fahe committed the balance of the funds by September 30, 2017 and has until September 30, 2020 years to fully fund all projects. At the end of the 5-year period, Fahe will lose access to any portion of the issuance that has not been drawn.

Note 11 - Other Liabilities

The Organization shows EQ2 notes under Other Liabilities on the statements of financial position in order to represent more clearly the nature of the payable and to adhere to industry practices. The EQ2 is defined by having six attributes as follows (1) the EQ2 investment is carried as an investment on the investor's balance sheet in accordance with GAAP. (2) the EQ2 investment is a general obligation of Fahe that is not secured by any of Fahe's assets; (3) the EQ2 investment is fully subordinated to the right of repayment of all Fahe's other creditors; (4) the EQ2 investment does not give the investor the right to accelerate payment unless Fahe ceases its normal operations; (5) the EQ2 investment carries an interest rate that is not tied to any income received by Fahe; and (6) the EQ2 investment has a rolling term, and therefore, an indeterminate maturity (also known as an evergreen provision).

In fiscal year 2013, the Organization received an EQ2 investment from Pinnacle Bank. This is a ten-year note, that beginning on the seventh anniversary of the maturity date and on each anniversary thereafter, unless the Organization ceases to be financially sound or ceases to carry out a community development mission, the maturity date is automatically extended by one year. This investment is to be used for single-family housing in Knoxville, Tennessee, allowing Pinnacle Bank to qualify for a CITC tax credit. This note had an outstanding balance of $2.00 million as of June 30, 2018 and 2017, respectively.

In fiscal year 2017, the Organization received another EQ2 investment from Pinnacle Bank. The terms were modeled after the investment received in 2013. The investment is to be used for single-family housing in Blount County, Tennessee, allowing Pinnacle Bank to qualify for a CITC tax credit. This note had an outstanding balance of $1.00 million as of June 30, 2018 and 2017, respectively.

Fahe also holds notes payable to the U.S. Department of Treasury ($2,063,000) and Wells Fargo ($2,000,000) which use verbiage consistent with EQ2 funding, but does not meet requirement 6, having an evergreen provision. Fahe decided to take the conservative stance and report these notes as noncurrent notes payable on the statements of financial position.

Note 12 – Retirement Plan

The Organization participates in a 401(k) defined contribution plan established by Nationwide. Employees are eligible to contribute to the plan after 90 days of employment. The Organization matches on a sliding scale up to 4% depending on employee contribution amount. The amount expended was $90,438 and $83,826 in 2018 and 2017, respectively.

The Organization provides a 457 plan to eligible employees based on Board designation. The Organization expended $16,420 and $14,508 in 2018 and 2017, respectively.

Note 13 – Operating Leases

During fiscal year 2017, Fahe entered into a lease for office space in Berea, KY. The office in Berea is a rolling 1-year lease which was renewed through May 31, 2019 and does not contain a purchase option at the end of the lease.

Fahe also leases 3 vehicles and 3 copy machines on multi-year operating leases. The vehicles leases are 3 years. Which include the servicing and support in the monthly lease amount. The purchase option at the end of these leases is for the fair market value of the vehicles at that time.

For the years ended June 30, 2018 and 2017, total rental expenses under leases amounted to $33,599 and $12,212, respectively.

At June 30, 2018, Fahe was obligated under its operating lease arrangements as follows:

Fiscal year ending June 30,	Total
2019	$ 21,508
2020	7,246
2021	3,905
	$ 32,659

Note 14 – Commitments and Contingencies

The Organization receives federal and state grant funds that are subject to review by the granting agencies. If an agency finds that the funds are considered not to have been used in accordance with the purposes of the grant, the grantor may request a refund of such funds. The amount of future potential refunds, if any, is not expected to be significant.

The Organization has an agreement with the Tennessee Housing Development Agency (THDA) to guarantee and service New Start loans to individuals, as well as guaranteeing and servicing member loan agreements with THDA. The Organization entered into the agreements to facilitate THDA working with the Organization's members located in Tennessee. The New Start program is set up to finance only newly built homes. The loans are limited to 80% LTV. The Organization's management feels confident these loans will be repaid, but in the event of default are fully secured by real estate due to the limitations on loan LTV and pose no additional liability the Organization would need to show in its financial position. The Organization has a contingent liability of $14,661,190 and $16,447,909 as of June 30, 2018 and 2017, respectively. To further clarify, Fahe is the first guarantor on $702,929 and $733,819 and takes the position of second guarantor on the remaining member loan agreements as of June 30, 2018 and 2017, respectively. Historically, there has not been a significant loss on these loans since inception in 2003. The Organization no longer issues any new guarantees.

During fiscal year 2011, the Organization entered into an agreement with the Department of Local Governments of the Commonwealth of Kentucky to implement a Neighborhood Stabilization Program (NSP) in the amount of $632,000. Five notes were written on Fahe paper, using NSP grant funding.

At June 30, 2018 and 2017, Fahe had committed, but undisbursed credit lines totaling $10,343,073 and $10,710,659, respectively.

Note 15 – Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to a concentration of credit risk consist principally of cash and cash equivalents and notes receivable. The Organization maintains cash balances in various financial institutions. The cash accounts are insured by the Federal Deposit Insurance Corporation up to $250,000 per depositor, per insured bank, for each ownership category. The Organization manages the cash position to mitigate and or eliminate any associated risk. The Organization maintains a sweep account agreement to ensure that all balances above the FDIC limits are insured, in addition to holding a letter of credit from the FHLB to cover all accounts not eligible to earn interest.

The Organization provides mortgage loans primarily to low- and moderate-income individuals. Mortgage notes totaling $28,113,988 and $27,918,486 at June 30, 2018 and 2017, respectively, are secured by the property purchased or improved except as noted. These mortgage receivables are a concentration of credit risk. The Organization provides loans to groups to support the growth of low-income housing opportunities in its service area. Notes receivable totaling $19,771,525 and $16,119,622 at June 30, 2018 and 2017, respectively, are secured by the assets of the Organization with the exception of the unsecured amount as noted. At June 30, 2018 and 2017, $10,788 and $10,198, respectively, were unsecured.

Note 16 – Portfolios Purchased

Fahe purchased one portfolio from organizations during fiscal years 2018 and 2017. The portfolios were recorded at the outstanding principal balance. The gain on sale is recorded through Gain on Acquisition of Assets on the statement of activities. Interest income on these portfolios is recognized when earned. No future revenue has been recorded. For the 2018 purchase, the total purchase amount was $997,528 and the gain on purchase of the portfolios recognized was $510,740, the loan loss reserve was increased $493,360 to avoid overstating income and expenses for severely delinquent loans, for a total portfolio purchase of $2,001,628. For the 2017 purchase, the total purchase amount was $964,100 and the gain on purchase of the portfolios recognized was $264,981, the loan loss reserve was increased $343,186 to avoid overstating income and expenses for severely delinquent loans, for a total portfolio purchase of $1,549,040. The Organization sets aside six months to cure newly purchased portfolios. Due to this, Organization does not include the delinquency of the purchased portfolio with the delinquency disclosure in Note 8, but did increase the allowance for loan loss by 23% of the portfolio purchased to conservatively represent the purchased portfolio. The portfolio performance data will be included next fiscal year.

Note 17 – Related Party Transactions

At June 30, 2018 and 2017 three employees of Fahe were on the Board of Directors of Sterling Housing, Inc. This organization is a non-profit organization that provides single-family residential rental property to low income individuals in Berea, KY. Sterling Housing, Inc. pays a management fee to Fahe in the amount of 20% of the rent collected. This fee is paid to cover the cost of maintaining the accounting records of Sterling Housing, Inc. and provide oversight of the operations of the properties. In addition, Sterling Housing, Inc. is a borrower of Fahe. At June 30, 2017 Fahe had two notes receivable from Sterling Housing, Inc. totaling $950,515, there was no receivable as of June 30, 2018.

Note 18 – Subsequent Events

Management of the Organization has considered subsequent events through August 30, 2018, the date this report became available for issuance.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program Title	Federal CDFA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Treasury			
NeighborWorks America	21.000		$ 652,000
Community Development Financial Institutions Program	21.020		365,155
Community Development Financial Institutions Bond Guarantee Program	21.014*		2,163,174
Total U.S. Department of Treasury			3,180,329
Department of Housing & Urban Development			
Passed through Kentucky Housing Corporation (KHC)			
Home Investment Partnership Program (HOME)	14.239	HB16-0201-01	107,839
Home Investment Partnership Program (HOME)	14.239	HB17-0201-01	129,300
Subtotal passed through KHC			237,139
Passed through Local Initiatives Support Corporation			
HUD Section 4	14.252	45314-0008	19,700
HUD Section 4	14.252	45314-0009	41,876
HUD Section 4	14.252	45314-0010	9,250
HUD Section 4	14.252	45314-0011	24,866
Subtotal passed through Local Initiatives Support Corporation			95,692
Total Department of Housing & Urban Development			332,831
Appalachian Regional Commission			
Appalachian Regional Development	23.001*		390,918
Passed through Kentucky Housing Corporation			
Appalachian Regional Development	23.001*	AR17-0201-01	242,640
Subtotal passed through Kentucky Housing Corporation			242,640
Total Appalachian Regional Commission			633,558
TOTAL FEDERAL AWARDS			$ 4,146,718

* Major Program OMB Circular

See accompanying notes to Schedule of Expenditures of Federal Awards.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Federation of Appalachian Housing Enterprises, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the financial statements.

Fahe has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE B – INSURANCE

The Organization carried insurance coverage during the entire year in amounts sufficient to or in excess of required levels, including coverage for general and professional liability, real and personal property, workers' compensation and fidelity bonding of employees who have access to funds.

NOTE C – COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS BOND GUARANTEE PROGRAM

The CDFI Bond Guarantee Program (BGP or Bond Program) was enacted through the Small Business Jobs Act of 2010 (Public Law 111-240) on September 27, 2010. The legislation directs the Treasury Department to guarantee the full amount of bonds issued to support CDFIs that make investments for patient capital to CDFIs. The Federal Financing Bank, a financing arm of the U.S. Treasury, will purchase all of the bonds issued under the BGP, including the OFN Bonds, (detailed below) and the U.S. Treasury will guarantee repayment. The bonds will not be remarketed or sold to any their investors.

In 2015, the CDFI Fund approved OFN to serve as a Qualified Issuer and issue a bond totaling $127 million on behalf of the Organization and 6 other CDFIs. Fahe's portion of the issuance was $15 million. As of June 30, 2018, Fahe had drawn down $2,199,000, but had repaid $35,826. The outstanding balance as of June 30, 2018 was $2,163,174 which is shown as expended on the Schedule of Expenditures of Federal Awards.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Federation of Appalachian Housing Enterprises, Inc.
Berea, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Federation of Appalachian Housing Enterprises, Inc. (a non-profit organization), which comprise the consolidated statements of financial position as of June 30, 2018, and the related statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated August 30, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Federation of Appalachian Housing Enterprises, Inc.'s internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Federation of Appalachian Housing Enterprises, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Federation of Appalachian Housing Enterprises, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Federation of Appalachian Housing Enterprises, Inc.'s consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Craft, Noble & Company, PLLC

Craft, Noble & Company, PLLC
Richmond, Kentucky
August 30, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Federation of Appalachian Housing Enterprises, Inc.
Berea, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Federation of Appalachian Housing Enterprises, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Federation of Appalachian Housing Enterprises, Inc.'s major federal programs for the year ended June 30, 2018. Federation of Appalachian Housing Enterprises, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Federation of Appalachian Housing Enterprises, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Federation of Appalachian Housing Enterprises, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Federation of Appalachian Housing Enterprises, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Federation of Appalachian Housing Enterprises, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of Federation of Appalachian Housing Enterprises, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Federation of Appalachian Housing Enterprises, Inc.'s internal control over compliance with the types of requirements that could have a direct

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and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Federation of Appalachian Housing Enterprises, Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Craft, Noble & Company, PLLC

Craft, Noble & Company, PLLC
Richmond, Kentucky
August 30, 2018

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of Federation of Appalachian Housing Enterprises, Inc.

2. Our report on the financial statements disclosed no significant deficiencies in the internal control structure.

3. No instances of noncompliance material to the financial statements of Federation of Appalachian Housing Enterprises, Inc. were disclosed during our audit.

4. The auditor's report on compliance for the major federal awards programs for Federation of Appalachian Housing Enterprises, Inc. expresses an unmodified opinion on all major federal programs.

5. Our audit report disclosed no audit finding required to be reported in accordance with 2 CFR 200.516(a).

6. The programs tested as major programs included:

   Community Development Financial Institutions Bond Guarantee Program, CFDA #21.014 Type A
   Appalachian Regional Commission Appalachian Regional Development Program, CFDA #23.001 Type B

7. The threshold to determine Type A: $750,000.

8. Federation of Appalachian Housing Enterprises, Inc. was determined to be a low-risk auditee.

9. In connection with tests of internal control and compliance with laws and regulations, no material weaknesses were noted in internal control, and the Organization was in substantial compliance with laws and regulations.

10. There were no questioned costs with respect to major programs selected for compliance tests.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

				Program Services							
Expenses	General & Administrative	Membership	Fundraising	Home Lending	Community Development	Loan Servicing	FAHE Consulting	FAHE Capital	Loan Porfolios	Total Program Services	Total
Personnel Expenses	$ 141,391	$ 485,062	$ 328,311	$ 632,104	$ 319,280	$ 730,600	$ 457,206	$ 1,772	$ 455,216	$ 2,596,178	$ 3,550,942
Travel Expenses	6,347	64,201	12,918	14,522	14,266	14,969	17,868	20	6,419	68,064	151,530
Board & Committee Meetings	-	4	-	1	1	1	5	-	-	8	12
Conferences & Workshops	701	5,197	1,025	1,197	1,467	3,550	1,624	2	1,189	9,029	15,952
Occupancy Expense	7,870	10,436	11,753	8,381	7,870	8,381	8,978	11	11,026	44,647	74,706
REO Expense	-	-	-	-	-	-	-	-	48,524	48,524	48,524
Supplies & Publications	2,231	2,835	2,431	2,423	2,240	2,619	2,455	1	4,330	14,068	21,565
Postage & Shipping	119	128	120	4,496	137	58,099	267	3	11,735	74,737	75,104
Communications	2,843	7,342	5,718	5,618	4,511	3,662	4,376	6	4,772	22,945	38,848
Equipment & Maintenance	3,921	4,296	4,390	4,249	3,904	4,249	3,938	-	6,931	23,271	35,878
Subscriptions	208	394	1,578	114	114	114	114	-	189	645	2,825
Licenses, Fees & Permits	195	631	325	29,484	500	3,252	236	176	137	33,785	34,936
Employee Education	3,927	2,986	3,133	4,244	2,246	2,350	2,227	-	3,721	14,788	24,834
Memberships	2,846	22,088	128	1,149	505	613	303	-	942	3,512	28,574
Marketing & Advertising	2,849	5,307	5,005	3,775	2,784	2,821	4,203	3	2,782	16,368	29,529
Liability & Property Insurance	4,874	667	220	3,453	3,439	9,457	2,515	-	23,477	42,341	48,102
Service Charges	567	814	3	1,392	397	11,857	284	-	24,730	38,660	40,044
Depreciation & Amortization	19,086	1,909	-	13,360	13,360	38,173	9,543	-	95,432	169,868	190,863
Organizational Expenses	211	101	-	439	615	686	149	-	789	2,678	2,990
Contributions	122	1,442	43	2,287	169	169	3,321	27	-	5,973	7,580
Software Lease	2,227	1,966	311	5,198	2,040	16,923	3,037	1	16,846	44,045	48,549
Legal Fees	3,820	3,820	-	15,282	36,055	20,661	3,820	-	16,688	92,506	100,146
Audit & Review Fees	2,594	259	-	1,815	1,815	5,187	1,297	-	12,968	23,082	25,935
Contract Services	16,058	67,060	53,797	45,712	12,811	78,903	28,855	7,574	41,705	215,560	352,475
Loan Processing Expense	188	188	-	3,196	4,617	937	187	-	391	9,328	9,704
Loan Servicing Expense	-	-	-	-	-	(12,409)	-	-	263	(12,146)	(12,146)
Pass Thru Grants	-	1,400,492	-	-	-	-	-	-	-	-	1,400,492
Administration	-	-	-	27,387	-	-	-	-	-	27,387	27,387
Bad Debt Expense	-	-	-	-	-	-	-	-	428,124	428,124	428,124
Interest Expense	2,357	2,357	-	9,427	14,140	11,784	2,357	-	618,701	656,409	661,123
Loans Forgiven	-	-	-	-	-	-	-	-	140,170	140,170	140,170
Miscellaneous Expense	56	105	77	103	61	92	131	-	147	534	772
Total Expenses	$ 227,608	$ 2,092,087	$ 431,286	$ 840,808	$ 449,344	$1,017,700	$ 559,296	$ 9,596	$ 1,978,344	$ 4,855,088	$ 7,606,069

See Independent Auditor’s Report.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

				Program Services							
Expenses	General & Administrative	Membership	Fundraising	Home Lending	Community Development	Loan Servicing	FAHE Consulting	FAHE Capital	Loan Porfolios	Total Program Services	Total
Personnel Expenses	$ 126,439	$ 470,575	$ 294,623	$496,345	$ 359,572	$582,392	$377,885	$ 63,704	$ 361,078	$ 2,240,976	$ 3,132,613
Travel Expenses	7,624	52,289	13,393	14,865	16,725	11,151	11,311	3,119	6,740	63,911	137,217
Board & Committee Meetings	-	-	-	-	-	-	-	-	-	-	-
Conferences & Workshops	627	8,966	743	2,077	1,596	1,892	1,364	271	919	8,119	18,455
Occupancy Expense	4,495	5,599	5,296	4,495	4,495	4,495	4,495	4,357	7,920	30,257	45,647
REO Expense	-	-	-	-	-	-	-	-	20,712	20,712	20,712
Supplies & Publications	2,118	2,957	2,272	2,080	2,319	2,597	2,047	1,929	4,832	15,804	23,151
Postage & Shipping	133	117	94	7,182	(490)	67,802	370	123	14,550	89,537	89,881
Communications	3,740	8,586	4,883	6,059	5,844	4,103	3,912	3,365	6,816	30,099	47,308
Equipment & Maintenance	4,960	5,248	5,254	4,960	4,960	4,960	4,960	4,771	9,529	34,140	49,602
Subscriptions	237	487	1,659	237	237	237	237	206	412	1,566	3,949
Licenses, Fees & Permits	15	7	5	24,562	17	28	9	182	54	24,852	24,879
Employee Education	2,066	3,096	3,191	4,046	2,039	2,514	2,141	1,237	2,942	14,919	23,272
Memberships	2,757	23,506	151	729	140	288	157	54	655	2,023	28,437
Marketing & Advertising	2,918	4,546	6,216	3,586	2,994	3,159	3,041	2,864	1,437	17,081	30,761
Liability & Property Insurance	4,432	4,570	4,432	4,478	4,478	4,478	4,617	4,432	8,864	31,347	44,781
Service Charges	1,804	785	2,437	2,386	1,203	15,830	721	180	24,349	44,669	49,695
Depreciation & Amortization	18,575	1,857	-	13,002	13,002	37,149	7,430	1,857	92,872	165,312	185,744
Organizational Expenses	102	104	4	404	504	504	102	101	202	1,817	2,027
Contributions	130	575	325	85,315	180	180	330	-	-	86,005	87,035
Software Lease	1,617	1,040	1,399	4,536	1,487	14,333	1,191	965	9,891	32,403	36,459
Legal Fees	5,310	6,960	2,750	18,022	26,012	22,707	5,310	4,210	8,418	84,679	99,699
Audit & Review Fees	1,968	197	-	1,377	1,377	3,935	787	197	9,839	17,512	19,677
Contract Services	14,803	53,643	122,471	49,660	28,869	66,493	35,402	14,852	21,363	216,639	407,556
Loan Processing Expense	39	39	-	4,988	(121)	12,399	39	39	777	18,121	18,199
Loan Servicing Expense	-	-	-	-	-	(2,291)	-	-	445	(1,846)	(1,846)
Pass Thru Grants	-	1,006,747	-	-	-	-	-	-	-	-	1,006,747
Administration	-	-	-	-	-	-	-	-	29,169	29,169	29,169
Bad Debt Expense	-	60,910	-	-	-	-	-	-	220,326	220,326	281,236
Interest Expense	2,537	2,537	-	10,149	12,686	12,686	2,537	2,537	519,534	560,129	565,203
Loans Forgiven	-	-	-	-	-	-	-	-	170,408	170,408	170,408
Miscellaneous Expense	225	689	624	349	227	227	327	-	-	1,130	2,668
Total Expenses	$ 209,671	$1,726,632	$ 472,222	$765,889	$ 490,352	$874,248	$470,722	$115,552	$1,555,053	$ 4,271,816	$ 6,680,341

See Independent Auditor’s Report.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
STATEMENTS OF FINANCIAL POSITION - NEIGHBORWORKS AMERICA CAPITAL FUND
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 172,074	$ 193,534
Mortgages receivable	830,907	1,239,909
Property held for sale	1,141	1,016
TOTAL ASSETS	$ 1,004,122	$ 1,434,459
NET ASSETS		
Temporarily restricted	$ -	$ -
Permanently restricted	1,004,122	1,434,459
TOTAL NET ASSETS	$ 1,004,122	$ 1,434,459

See Independent Auditor's Report.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
STATEMENTS OF ACTIVITIES - NEIGHBORWORKS AMERICA CAPITAL FUND
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
TEMPORARILY RESTRICTED NET ASSETS		
Restrictions released from temporarily restricted net assets	$ -	$ -
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	-	-
PERMANENTLY RESTRICTED NET ASSETS		
Capital Grant-NeighborWorks America	-	-
Net assets released from restriction	(430,337)	(16,421)
INCREASE (DECREASE) IN PERMANENTLY RESTRICTED NET ASSETS	(430,337)	(16,421)
CHANGE IN NET ASSETS	(430,337)	(16,421)
NET ASSETS AT BEGINNING OF YEAR	1,434,459	1,450,880
NET ASSETS AT END OF YEAR	$ 1,004,122	$ 1,434,459

See Independent Auditor’s Report.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
COMPUTATION OF ADJUSTED NET WORTH FOR APPROVAL OF NONSUPERVISED
MORTGAGEES OTHER THAN LOAN CORRESPONDENTS
FOR THE YEAR ENDING JUNE 30, 2018

Minimum net worth required		$ 1,000,000
Stockholders equity (net worth) Per balance sheet	$ 31,292,002	
Less unacceptable assets	$ 13,270,700	
Adjusted net worth for HUD Requirement purposes		$ 18,021,302
Adjusted net worth above amount Required		$ 17,021,302
Adjusted net worth below amount Required		$ -

See Independent Auditor's Report.