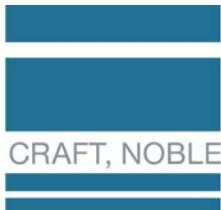


FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.  
BEREA, KENTUCKY

\* \* \* \* \*

AUDITED FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT  
FOR THE YEARS ENDED  
JUNE 30, 2019 AND 2018



CRAFT, NOBLE & COMPANY  
PLLC

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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, 2019 and 2018, and the related consolidated statements of activities, functional expenses, 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.

### ***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, 2019 and 2018, 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.

### ***Change in Accounting Principle***

As discussed in Note 3 to the financial statements, in the year ended June 30, 2019, the Organization adopted new accounting guidance, *ASU 2016-14- Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. Our opinion is not modified with respect to this matter.



## ***Others Matters***

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The statements of financial position – NeighborWorks America Capital Fund on page 39, the statements of activities – NeighborWorks America Capital Fund on page 40 and the Computation of Adjusted Net Worth for Approval of Non-Supervised Mortgagees Other Than Loan Correspondents on page 41 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 32, 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 29, 2019 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 29, 2019

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2019

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
<u>Assets</u>			
Current assets			
Cash and cash equivalents	\$ 9,247,566	\$ 2,701,508	\$ 11,949,074
Accounts receivable	403,307	14,700	418,007
Current grants receivable	25,000	916,369	941,369
Accrued interest receivable	195,288	6,671	201,959
Deposits	1,670	-	1,670
Prepaid expenses	150,753	-	150,753
Interfund balances	(4,465)	4,465	-
Current notes receivable	12,593,956	39,620	12,633,576
Current consumer loans receivable	7,281	-	7,281
Current mortgage notes receivable	1,200,744	777,189	1,977,933
Total current assets	<u>23,821,100</u>	<u>4,460,522</u>	<u>28,281,622</u>
Noncurrent assets			
Notes receivable, net	12,069,241	503,070	12,572,311
Bankruptcy arrearages	13,795	6,011	19,806
Mortgage notes receivable, net	15,131,980	9,406,151	24,538,131
Consumer loans receivable, net	54,580	-	54,580
Property held for sale, net	270,999	80,422	351,421
Grants receivable	-	665,500	665,500
Investments	180,318	-	180,318
Property and equipment, net	3,244,715	-	3,244,715
Intangible assets, net	128,642	-	128,642
Deferred compensation	151,864	-	151,864
Total noncurrent assets	<u>31,246,134</u>	<u>10,661,154</u>	<u>41,907,288</u>
Total Assets	<u>\$ 55,067,234</u>	<u>\$ 15,121,676</u>	<u>\$ 70,188,910</u>
<u>Liabilities &amp; Net Assets</u>			
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 149,222	\$ -	\$ 149,222
Client advances and deposits	1,095,657	-	1,095,657
Accrued interest payable	131,702	-	131,702
Accrued expenses	417,430	-	417,430
Current portion of deferred revenue	28,500	-	28,500
Current portion of notes payable	7,262,111	-	7,262,111
Total current liabilities	<u>9,084,622</u>	<u>-</u>	<u>9,084,622</u>
Noncurrent liabilities			
Deferred revenue	829,981	-	829,981
Long-term portion of notes payable	24,809,400	-	24,809,400
Deferred compensation	151,864	-	151,864
Total noncurrent liabilities	<u>25,791,245</u>	<u>-</u>	<u>25,791,245</u>
Other Liabilities			
Equity equivalent	<u>4,000,000</u>	<u>-</u>	<u>4,000,000</u>
Total Liabilities	<u>38,875,867</u>	<u>-</u>	<u>38,875,867</u>
<u>Net Assets</u>			
Net assets	15,591,367	15,121,676	30,713,043
Net assets, board designated	<u>600,000</u>	<u>-</u>	<u>600,000</u>
Total Net Assets	<u>16,191,367</u>	<u>15,121,676</u>	<u>31,313,043</u>
Total Liabilities & Net Assets	<u>\$ 55,067,234</u>	<u>\$ 15,121,676</u>	<u>\$ 70,188,910</u>

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

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

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
<u>Assets</u>			
Current assets			
Cash and cash equivalents	\$ 8,014,323	\$ 3,480,274	\$ 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	37,213	7,904,018
Current mortgage notes receivable	891,367	777,138	1,668,505
Total current assets	<u>17,727,638</u>	<u>6,711,943</u>	<u>24,439,581</u>
Noncurrent assets			
Notes receivable, net	11,046,329	623,476	11,669,805
Bankruptcy arrearages	7,796	6,740	14,536
Mortgage notes receivable, net	15,063,616	8,097,935	23,161,551
Property held for sale, net	276,927	125,580	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	<u>30,137,250</u>	<u>9,387,861</u>	<u>39,525,111</u>
Total Assets	<u>\$ 47,864,888</u>	<u>\$ 16,099,804</u>	<u>\$ 63,964,692</u>
<u>Liabilities &amp; Net Assets</u>			
<u>Liabilities</u>			
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	<u>8,793,954</u>	<u>-</u>	<u>8,793,954</u>
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	<u>20,878,736</u>	<u>-</u>	<u>20,878,736</u>
Other Liabilities			
Equity equivalent	<u>3,000,000</u>	<u>-</u>	<u>3,000,000</u>
Total Liabilities	<u>32,672,690</u>	<u>-</u>	<u>32,672,690</u>
<u>Net Assets</u>			
Net assets	14,592,198	16,099,804	30,692,002
Net assets, board designated	<u>600,000</u>	<u>-</u>	<u>600,000</u>
Total Net Assets	15,192,198	16,099,804	31,292,002
Total Liabilities & Net Assets	<u>\$ 47,864,888</u>	<u>\$ 16,099,804</u>	<u>\$ 63,964,692</u>

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, 2019

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
<u>Revenue</u>			
Mortgage and note interest	\$ 1,820,562	\$ 48,441	\$ 1,869,003
Contributions, grants	335,655	1,066,500	1,402,155
State grants	-	-	-
Pass-through grants	193,176	16,200	209,376
Federal grants	829,092	1,159,077	1,988,169
Rental income	-	-	-
Realized gain (loss) on investments	54,028	6,748	60,776
Unrealized gain (loss) on investments	14,202	-	14,202
Interest income	55,207	2,201	57,408
Administration income	25,613	-	25,613
Gain on acquisition of assets	598,136	28,907	627,043
Fees and service charges	1,643,816	-	1,643,816
Miscellaneous income	636	-	636
Net assets released from restrictions			
Satisfaction of program restrictions	3,306,202	(3,306,202)	-
<b>Total Revenue</b>	<b>8,876,325</b>	<b>(978,128)</b>	<b>7,898,197</b>
<u>Expenses</u>			
Program services	5,222,547	-	5,222,547
General and administrative	195,943	-	195,943
Fundraising	555,026	-	555,026
Membership	1,903,640	-	1,903,640
<b>Total Expenses</b>	<b>7,877,156</b>	<b>-</b>	<b>7,877,156</b>
Increase (decrease) in net assets	999,169	(978,128)	21,041
Net Assets at Beginning of Period	15,192,198	16,099,804	31,292,002
Net Assets at End of Period	<u>\$ 16,191,367</u>	<u>\$ 15,121,676</u>	<u>\$ 31,313,043</u>

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

	<u>Net Assets without Donor Restrictions</u>	<u>Net Assets with Donor Restrictions</u>	<u>Total</u>
<u>Revenue</u>			
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	(2,422,219)	-
<b>Total Revenue</b>	<b>8,367,353</b>	<b>(638,415)</b>	<b>7,728,938</b>
<u>Expenses</u>			
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
<b>Total Expenses</b>	<b>7,606,069</b>	<b>-</b>	<b>7,606,069</b>
Increase (decrease) in net assets	761,284	(638,415)	122,869
Net Assets at Beginning of Period	14,430,914	16,738,219	31,169,133
Net Assets at End of Period	<b>\$ 15,192,198</b>	<b>\$ 16,099,804</b>	<b>\$ 31,292,002</b>

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

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2019

Expenses	Program Services										
	General & Administrative	Membership	Fundraising	Home Lending	Community Lending	Loan Servicing	FAHE Consulting	FAHE Capital	Single Family Portfolio	Total Program Services	Total
Personnel Expenses	\$ 129,874	\$ 577,883	\$ 453,625	\$ 747,688	\$ 573,093	\$ 621,836	\$ 662,333	\$ 4,073	\$ 100,438	\$ 2,709,461	\$ 3,870,843
Travel Expenses	4,369	70,638	19,046	21,723	24,030	18,355	25,285	69	2,488	91,950	186,003
Board & Committee Meetings	723	21,598	14	14	14	14	43	-	-	85	22,420
Conferences & Workshops	411	6,822	2,433	4,531	4,318	8,676	2,884	10	310	20,729	30,395
Occupancy Expense	4,170	12,243	9,033	13,034	9,877	8,532	13,982	80	1,570	47,075	72,521
REO Expense	-	-	-	-	-	-	-	-	62,697	62,697	62,697
Supplies & Publications	668	2,325	1,681	3,055	2,389	2,232	3,752	20	569	12,017	16,691
Postage & Shipping	98	199	127	3,692	533	47,535	538	3	12,121	64,422	64,846
Communications	1,458	8,363	6,683	8,732	5,465	3,741	7,980	55	796	26,769	43,273
Equipment & Maintenance	2,035	7,124	5,263	10,293	7,411	6,775	16,537	72	1,338	42,426	56,848
Subscriptions	196	900	2,904	895	739	645	920	5	148	3,352	7,352
Licenses, Fees & Permits	232	565	555	35,359	616	3,751	575	3	26	40,330	41,682
Employee Education	160	108	379	1,971	398	273	313	1	172	3,128	3,775
Memberships	268	24,031	468	2,175	1,331	1,297	1,119	5	393	6,320	31,087
Marketing & Advertising	2,335	9,253	3,931	3,398	3,091	1,994	9,215	34	197	17,929	33,448
Liability & Property Insurance	5,524	2,762	5,524	5,524	13,811	8,287	8,613	-	5,524	41,759	55,569
Service Charges	(120)	622	2	839	31,425	7,516	(181)	-	4,549	44,148	44,652
Depreciation & Amortization	18,816	1,882	-	13,172	41,396	47,041	29,884	-	37,633	169,126	189,824
Organizational Expenses	165	10	165	597	916	607	319	-	309	2,748	3,088
Contributions	231	1,478	878	831	531	531	1,131	-	-	3,024	5,611
Software Lease	1,966	510	748	5,511	8,178	17,337	10,823	3	6,972	48,824	52,048
Professional Fees	6,783	1,539	6,783	17,897	31,172	20,634	12,027	-	16,353	98,083	113,188
Contract Services	11,522	48,110	22,419	60,392	44,823	141,228	34,656	98	15,874	297,071	379,122
Loan Processing Expense	566	-	566	16,828	3,603	2,266	1,133	-	1,133	24,963	26,095
Loan Servicing Expense	-	-	-	-	-	7,311	-	-	26	7,337	7,337
Pass Thru Grants	-	1,075,609	-	-	-	-	-	-	-	-	1,075,609
Administration	-	-	-	25,613	-	-	-	-	-	25,613	25,613
Bad Debt Expense	-	24,600	8,200	8,200	173,145	8,200	24,600	-	301,514	515,659	548,459
Interest Expense	3,404	1,702	3,404	3,404	664,543	5,106	5,106	-	114,298	792,457	800,967
Loans Forgiven	-	-	-	-	2,407	-	-	-	-	2,407	2,407
Miscellaneous Expense	89	2,764	195	199	150	120	142	-	27	638	3,686
<b>Total Expenses</b>	<b>\$ 195,943</b>	<b>\$ 1,903,640</b>	<b>\$ 555,026</b>	<b>\$ 1,015,567</b>	<b>\$ 1,649,405</b>	<b>\$ 991,840</b>	<b>\$ 873,729</b>	<b>\$ 4,531</b>	<b>\$ 687,475</b>	<b>\$ 5,222,547</b>	<b>\$ 7,877,156</b>

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

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

Expenses	General &			Program Services						Total Program	
	Administrative	Membership	Fundraising	Home Lending	Community Development	Loan Servicing	FAHE Consulting	FAHE Capital	Loan Porfolios	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
<b>Total Expenses</b>	<b>\$ 227,608</b>	<b>\$ 2,092,087</b>	<b>\$ 431,286</b>	<b>\$ 840,808</b>	<b>\$ 449,344</b>	<b>\$1,017,700</b>	<b>\$ 559,296</b>	<b>\$ 9,596</b>	<b>\$ 1,978,344</b>	<b>\$ 4,855,088</b>	<b>\$ 7,606,069</b>

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, 2019 AND 2018

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2019</u>	<u>2018</u>
Changes in Net Assets	\$ 21,041	\$ 122,869
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	189,824	190,863
Loss on disposal of assets	4,731	182,861
Provision for loan losses	54,287	707,961
Additional provision for portfolio purchase	(63,781)	(493,360)
(Gain) Loss on investments using equity method	(27,902)	(13,816)
Gain on purchase of loan portfolio	(598,136)	(510,740)
Net charge offs on purchase	(439,440)	(319,746)
(Increase) decrease in operating assets		
Accounts receivable	213,445	27,249
Grants receivable	1,369,404	732,134
Accrued interest receivable	(55,821)	(35,008)
Prepaid expenses	305	(14,942)
Deferred compensation	(29,429)	(16,419)
Deposits	-	665
Increase (decrease) in operating liabilities		
Accounts payable	(255,268)	103,293
Client advances and deposits	(1,175,999)	2,302
Accrued interest payable	51,073	10,781
Accrued expenses	50,894	47,926
Deferred revenue	(67,338)	(42,612)
Deferred compensation	29,429	16,419
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	<u>(728,681)</u>	<u>698,680</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(96,814)	(200,965)
Proceeds from sale of property and equipment	356,247	349,360
Purchase of loan portfolio	(994,592)	(997,528)
Payments received on notes receivable	23,479,849	24,754,971
Disbursement of loans receivable funds	(29,131,918)	(27,185,312)
NET CASH (USED) BY INVESTING ACTIVITIES	<u>(6,387,228)</u>	<u>(3,279,474)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt borrowings	16,750,200	9,570,793
Payments on long-term debt	(9,179,814)	(6,408,207)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>7,570,386</u>	<u>3,162,586</u>
NET INCREASE IN CASH	454,477	581,792
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>11,494,597</u>	<u>10,912,805</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 11,949,074</u>	<u>\$ 11,494,597</u>
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	<u>\$ 830,600</u>	<u>\$ 650,343</u>

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

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

**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 is on a mission 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+ Members 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 80,000 individuals annually. In our 39-year history, the Fahe Network has served more than 580,000 Appalachians with housing, made \$908.2 million in direct investment, and achieved a total cumulative financial impact of \$1.5 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 and others 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 FY19, Fahe serviced 4,500 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.
- Strategic Programs—Strategic Programs, what once had been known as 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.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

**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 Fahe TN, LLC, and Fahe Holding Company, 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.

In 2018, Fahe established Fahe Holding Company LLC to hold the Oak Street Office and qualify for refinancing with New Markets Tax Credits.

**Basis of Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) “Audit and Accounting Guide for Not-for-Profit Entities. ASC 958-205 was effective January 1, 2018. 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:

- Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization’s board may designate assets without restrictions for specific operational purposes from time to time.
- Net Assets with donor restrictions – Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Non-Profit Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

**Note 2 – Summary of Significant Accounting Policies (Continued)**

**Basis of Accounting (Continued)**

Below is a breakdown of the net assets with donor restrictions as of June 30, 2019 and 2018:

	<b>June 30, 2019</b>					
	Appalachia Outreach Programs	CDFI Program	Appalchaia Heat Squad	Uplift America Program	2nd Chance Employment	Lending Programs with stipulations to revolve
Salary Support	\$ 314,890	\$ -	\$ 42,639	\$ 86,664	\$ 341,861	\$ -
Travel	54,579	-	22,051	28,347	6,031	-
Pass Thru Grants	146,249	117,570	372,115	203,000	44,000	-
Interns	20,500	-	-	-	534,000	-
Convenings	-	-	-	-	13,500	-
Equipment	-	-	12,609	-	4,748	-
Marketing	2,500	-	8,417	-	-	-
Consultant	35,741	-	-	-	-	-
Lending Guidelines	-	-	-	-	-	12,709,665
Total	<u>\$ 574,459</u>	<u>\$ 117,570</u>	<u>\$ 457,831</u>	<u>\$ 318,011</u>	<u>\$ 944,140</u>	<u>\$ 12,709,665</u>

Total Net Assets with Donor Restrictions at June 30, 2019      \$      15,121,676

	<b>June 30, 2018</b>					
	Appalachia Outreach Programs	CDFI Program	Appalchaia Heat Squad	Uplift America Program	2nd Chance Employment	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	-	-	-	-	-	13,521,777
Total	<u>\$ 398,385</u>	<u>\$ 731,750</u>	<u>\$ 808,614</u>	<u>\$ 639,278</u>	<u>\$ -</u>	<u>\$ 13,521,777</u>

Total Net Assets with Donor Restrictions at June 30, 2018      \$      16,099,804

**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.

Cash received from grants and held with restrictions at June 30, 2019 and 2018 was \$2,701,508 and \$3,480,274, respectively. All restricted cash held at the end of the fiscal year of 2019 and 2018 was restricted to the lending program or operations and required to be lent following the guidelines of each donor.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

**Note 2 – Summary of Significant Accounting Policies (Continued)**

**Cash and Cash Equivalents (Continued)**

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 \$1,311,448 and \$2,500,385 at June 30, 2019 and 2018, 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, 2019 and 2018, depreciation expense was \$183,539 and \$186,528, respectively.

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, 2019 and 2018 were \$6,285 and \$4,335, respectively.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

**Note 2 – Summary of Significant Accounting Policies (Continued)**

**Fixed Assets and Intangible Assets (Continued)**

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

	<u>2019</u>	<u>2018</u>
Land	\$ 130,133	\$ 130,133
Building	3,393,604	3,393,603
Building Improvements	34,600	34,600
Equipment and Vehicles	<u>960,583</u>	<u>943,166</u>
Subtotal	4,518,920	4,501,502
Accumulated Depreciation	<u>(1,274,205)</u>	<u>(1,139,428)</u>
Property and Equipment, net	<u>\$ 3,244,715</u>	<u>\$ 3,362,074</u>
Intangible Assets	144,440	116,956
Accumulated Amortization	<u>(15,798)</u>	<u>(11,299)</u>
Intangible Assets, net	<u>\$ 128,642</u>	<u>\$ 105,657</u>

**Revenue Recognition**

Contributions received are recorded as increases in net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor imposed restrictions. All donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is satisfied), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

**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, 2019. 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 2016.

**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.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

**Note 2 – Summary of Significant Accounting Policies (Continued)**

**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. Cost center expenses are charged directly to the cost center and then allocated across the various programs based on time and effort, some expense lines will have a mixture of specific use and time and effort. The expenses that are allocated include the following:

<u>Expenses</u>	<u>Method of Allocation</u>
Personnel Expenses	Time and Effort
Travel Expenses	Time and Cost
Board & Committee Meetings	Direct
Conference & Workshops	Time and Cost
Occupancy Expenses	Headcount/Time and Effort
Supplies & Publications	Specific Use/Time and Effort
Postage & Shipping	Specific Use/Time and Effort
Communications	Headcount/Time and Effort
Equipment & Maintenance	Headcount/Time and Effort
Subscriptions	Specific Use/Time and Effort
License, Fees & Permits	Specific Use/Time and Effort
Employee Education	Time and Effort
Memberships	Time and Effort
Marketing & Advertising	Time and Effort
Liability & Property Insurance	Headcount
Depreciation & Amortization	Headcount
Organizational Expenses	Time and Effort
Software Lease	Specific Use/Time and Effort
Legal Fees	Time and Effort
Audit & Review Fees	Time and Effort
Contract Services	Specific Use/Time and Effort
Loan Processing Expense	Specific Use
Loan Servicing Expense	Specific Use
Interest Expense	Headcount/Specific Use
Miscellaneous Expense	Specific Use/Time and Effort

**Note 3 – Change in Accounting Principle**

The Organization adopted *ASU 2016-14- Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*, for the year ended June 30, 2019. This guidance changes how not-for-profit entities present and disclose their financial statements. It is designed to improve the information provided by not-for-profit entities for better understanding of their operations.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

**Note 4 – Investments and Fair Value Measurements**

Investments held by the Organization consisted of the following as of June 30, 2019:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Appreciation</u>
KYNWA Alliance investment	\$ 1,000	\$ 687	\$ (313)
Scenic States investment	-	77,431	77,431
FHLB stock	102,200	102,200	-
Balance, June 30, 2019	<u>\$ 103,200</u>	<u>\$ 180,318</u>	77,118
Balance, June 30, 2018	<u>\$ 89,500</u>	<u>\$ 152,416</u>	62,916
Unrealized gain (loss) on investments			<u>\$ 14,202</u>

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.

*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, 2019 and 2018 is as follows:

		<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>June 30, 2019</u>	<u>Fair Value</u>			
KY NWA Alliance investment	\$ 687	\$ -	\$ -	\$ 687
Scenic States investment	77,431	-	-	77,431
FHLB Stock	102,200	-	102,200	-
	<u>\$ 180,318</u>	<u>\$ -</u>	<u>\$ 102,200</u>	<u>\$ 78,118</u>
<u>June 30, 2018</u>	<u>Fair Value</u>			
KY NWA Alliance investment	\$ 687	\$ -	\$ -	\$ 687
Scenic States investment	63,229	-	-	63,229
FHLB Stock	88,500	-	88,500	-
	<u>\$ 152,416</u>	<u>\$ -</u>	<u>\$ 88,500</u>	<u>\$ 63,916</u>

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

**Note 4 – Investments and Fair Value Measurements (Continued)**

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

	<u>KYNWA Alliance</u>	<u>Scenic States</u>
July 1, 2017	\$ 687	\$ 49,413
Total gains and losses - unrealized, included in earnings	-	13,816
June 30, 2018	<u>687</u>	<u>63,229</u>
Total gains and losses - unrealized, included in earnings	-	14,202
June 30, 2019	<u>\$ 687</u>	<u>\$ 77,431</u>

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 5 – Grant Funds Receivable**

Unconditional promises to give amounted to \$1,606,869 and \$2,976,273 as of June 30, 2019 and 2018, respectively. The balance of the unconditional promises to give in fiscal year 2019 will be received according to the following schedule:

Fiscal Year ending June 30,	Amount to be received
2020	\$ 941,369
2021	334,500
2022	331,000

**Note 6 – 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, 2019 and 2018 and 2017, the organization held \$511,992 and \$461,221, respectively in REO property and \$88,395 and \$127,233, respectively in property preservation. The related allowances recorded as of June 30, 2019 and 2018 were \$248,966 and \$185,947, 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. As of June 30, 2019, Fahe was still under a leasing agreement with the Member Organization with the corresponding receivable.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

**Note 7 – 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.

In FY 19, Fahe was awarded the designation of Seller/Servicers with both Fannie Mae and Freddie Mac. This designation allows Fahe direct access to pricing and product through the GSE’s, allowing us to serve as our investor and bypass other entities additional costs and overlays. This will allow Fahe to bring on additional Brokers, offer a broader spectrum of programs to our Broker network, as well as provide opportunity for us to begin working with Correspondent lenders as well. Along with these business opportunities, carrying this designation allows Fahe to present ourselves in this industry as an organization that meets the highest of standards in the work that we do for the mortgage industry.

The Organization has a programmatic loan balance of \$1,986,913 and \$1,950,530 as of June 30, 2019 and 2018, 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.

Mortgage notes receivable as of June 30, 2019 and 2018 consist of the following balances in each fund:

	<u>2019</u>	<u>2018</u>
Kentucky Home Loan Fund	\$ 3,335,934	\$ 3,700,397
AHTF Fund	81,092	14,073
HOME Program of Kentucky	5,881,572	6,365,060
Virginia Home Loan Fund	2,924,750	3,122,197
NHPR Kentucky	41,099	64,506
HOME Program of Virginia	1,843,069	1,940,724
West Virginia Home Loan Fund	576,665	684,299
Tennessee Home Loan Fund	1,937,057	2,070,734
Project Reinvest	3,402,000	1,501,500
Chase/NHSA	336,431	344,039
Park Community	2,968,299	1,981,706
Fahe Other States	5,852,864	6,339,189
Total	<u>29,180,832</u>	<u>28,128,424</u>
Less: Bankruptcy Arrearages	(19,806)	(14,436)
Less: Allowance for Loan Losses	<u>(2,644,962)</u>	<u>(3,283,932)</u>
Mortgage Notes Receivable, Net of Allowance	<u>\$ 26,516,064</u>	<u>\$ 24,830,056</u>

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.  
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**Note 7 – Mortgage Notes Receivable (Continued)**

The Organization had 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 chose to voluntarily designate a portion of its net assets for this purpose. The balance of the Board Designated Net Assets as of June 30, 2019 and 2018, 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. Now that those certain foundations’ investments have matured, Fahe’s Board of Directors will be assessing the need to continue this designation, and may release the set-aside in the coming year.

The recorded investment of mortgage notes receivable is secured by residential real estate properties where formal foreclosure procedures are in process is \$401,547 and \$448,502 as of June 30, 2019 and 2018, respectively.

**Note 8 – 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, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Aid to Distressed Families of Appalachian Counties	\$ 23,650	\$ 23,650
Almost Heaven Habitat for Humanity	182,045	186,352
Appalachia Habitat For Humanity	522,732	531,000
Beattyville Housing Development	388,744	234,976
Charleston Replacement Housing #3	895,638	905,914
Coalfield Development Corporation	-	37,974
COAP	93,099	75,257
Community Action Partnership of North Alabama	1,165,053	1,184,612
East Tennessee Development Housing Corporation	59,567	63,896
Eastern Eight CDC	761,130	890,341
Eastern Scholar House	-	306,138
Elkhorn City School Apartments	1,255,622	2,192,557
Frontier Housing, Inc.	508,514	694,617
Giffin Senior Community	1,250,000	1,250,000
Hale County Habitat for Humanity	51,896	55,888
HERO	346,073	346,073
HOMES, Inc.	334,280	432,603
HOPE Inc.	354,346	962,829
Hope Federal Credit Union	500,432	72,290
Hope of Kentucky	3,618,330	2,120,864
Housing Authority of Mingo County	1,811,922	217,222
Housing Development Alliance	472,483	334,680
Housing Development Foundation, Inc.	347,966	359,123
Kentucky Mountain Housing Corporation	-	73,024

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.  
NOTES TO FINANCIAL STATEMENTS  
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**Note 8 – Notes Receivable (Continued)**

	<u>2019</u>	<u>2018</u>
Kentucky River Community Care	\$ 55,090	\$ 55,090
Kentucky River Foothills Development Corporation	-	330,951
Knox Housing Partners, Inc.	383,937	394,325
Lil Britches Child Care Center	31,963	36,815
Long Run Apartments	1,302,951	1,348,021
M Fine	794,697	699,748
Mackey	199,002	208,544
Midway School Apartments	237,130	240,786
Mt. Sterling- Main Cross, LLC	184,500	184,500
Mulberry Housing LLP	45,000	45,000
Neighborhood Housing Services of Birmingham	-	249,263
New Directions Housing Corporation	47,244	633,500
Randolph County Housing Authority	92,955	75,113
Redbud Financial Alternatives, Inc.	68,353	43,353
Scott-Morgan CDC	49,978	55,109
Servolution Health Services	560,491	562,766
Shelton Robinson Properties	2,170,354	-
Small Town Housing, LLC	590,954	600,000
Southern Application Labor School	52,065	57,953
Warrior Creek Development Holdings	220,292	223,633
Washington County VA Habitat for Humanity	117,699	79,199
Washington Facility and Loan Company	3,411,019	-
Woodlands Development Group	91,338	95,976
	<u>25,650,534</u>	<u>19,771,525</u>
Total Notes Receivable		
Less: Allowance for Loan Loss	(444,647)	(197,702)
Notes Receivable, Net of Allowance	<u>\$ 25,205,887</u>	<u>\$ 19,573,823</u>

**Note 9 – 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%

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.  
NOTES TO FINANCIAL STATEMENTS  
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**Note 9 - Allowance for Loan Losses (Continued)**

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.

2019 Allowance for Loan Losses

	Mortgage Lending	Community Lending	Total
Beg. Balance	\$ 3,283,932	\$ 197,702	\$ 3,481,634
Charge-Offs	(446,464)	-	(446,464)
Recoveries	7,024	-	7,024
Provision	(199,530)	246,945	47,415
Ending Balance	<u>\$ 2,644,962</u>	<u>\$ 444,647</u>	<u>\$ 3,089,609</u>

2018 Allowance for Loan Losses

	Mortgage Lending	Community Lending	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	<u>\$ 3,283,932</u>	<u>\$ 197,702</u>	<u>\$ 3,481,634</u>

***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, 2019 and 2018. 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

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.  
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**Note 9 - Allowance for Loan Losses (Continued)**

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.

2019 Performing vs. Nonperforming Loans			
	Mortgage Lending	Community Lending	Mortgage Conveyances
Performing	\$ 26,995,022	\$ 24,743,970	\$ 135,042
TDR	352,900	560,491	-
Non-accrual	356,074	346,073	-
Nonperforming	1,168,444	-	173,350
Total	\$ 28,872,440	\$ 25,650,534	\$ 308,392

2018 Performing vs. Nonperforming Loans			
	Mortgage Lending	Community Lending	Mortgage Conveyances
Performing	\$ 26,002,943	\$ 19,425,452	\$ -
TDR	315,665	-	-
Non-accrual	-	346,073	-
Nonperforming	1,626,525	-	183,291
Total	\$ 27,945,133	\$ 19,771,525	\$ 183,291

*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, 2019 and 2018. 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
<b>2019</b>						
Mortgage Lending	\$ 744,142	\$ 124,050	\$ 454,790	\$ 1,322,982	\$ 27,549,458	\$ 28,872,440
Mortgage Conveyances	-	-	308,392	308,392	-	308,392
Community Lending	-	-	-	-	25,650,534	25,650,534
Total	\$ 744,142	\$ 124,050	\$ 763,182	\$ 1,631,374	\$ 53,199,992	\$ 54,831,366
<b>2018</b>						
Mortgage Lending	\$ 430,274	\$ 35,346	\$ 1,160,905	\$ 1,626,525	\$ 26,318,608	\$ 27,945,133
Mortgage Conveyances	-	132,123	51,168	183,291	-	183,291
Community Lending	-	-	-	-	19,771,525	19,771,525
Total	\$ 430,274	\$ 167,469	\$ 1,212,073	\$ 1,809,816	\$ 46,090,133	\$ 47,899,949

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JUNE 30, 2019 AND 2018

**Note 9 - 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 2019 and 2018 were \$44,258 and \$59,351, respectively. The average investment in impaired loans at the end of fiscal years ended June 30, 2019 and 2018 were \$1,566,136 and \$1,731,566, respectively. There organization had \$154,537 in troubled debt restructuring loans in default as of June 30, 2019. They did not have any troubled debt restructuring loans in default in the fiscal year ended June 30, 2018.

Impaired Loans			
	Unpaid Principal Balance	Related Allowance	Net Recorded Investment
2019			
Mortgage Lending	\$ 887,232	\$ (132,814)	\$ 754,418
Mortgage Conveyances	173,350	(77,098)	96,252
Community Lending	346,073	(3,461)	342,612
Total	<u>\$ 1,406,655</u>	<u>\$ (213,373)</u>	<u>\$ 1,193,282</u>
2018			
Mortgage Lending	\$ 1,196,252	\$ (189,436)	\$ 1,006,816
Mortgage Conveyances	183,291	(15,570)	167,721
Community Lending	346,073	(3,461)	342,612
Total	<u>\$ 1,725,616</u>	<u>\$ (208,467)</u>	<u>\$ 1,517,149</u>

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.  
NOTES TO FINANCIAL STATEMENTS  
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**Note 9 - 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		
	<u>2019</u>	<u>2018</u>
Mortgage Lending	\$ -	\$ -
Mortgage Conveyances	-	-
Community Lending	346,073	346,073
Total	\$ 346,073	\$ 346,073

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 10 – Notes Payable**

Notes payable at June 30, 2019 and 2018 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	
				<u>2019</u>	<u>2018</u>
Kentucky Housing Corporation					
Kentucky Home Loan Fund/AHTF					
Special Contract #8	3.00%	20 Years	October 1, 2035	\$ 334,617	\$ 349,870
Affordable Housing Trust Fund	1.00%	30 Years	July 1, 2033	35,473	37,644
NHPL, NHRL, NHPR					
NHPL 1999-2000	1.00%	20 Years	July 1, 2019	8,412	37,776
NHPR 2000-2001	1.00%	20 Years	July 1, 2020	63,225	94,837
NHPR 2001-2002	1.00%	20 Years	July 1, 2022	80,212	106,950
NHPR 2002-2003	1.00%	20 Years	July 1, 2023	135,051	168,614
NHPR 2003-2004	1.00%	20 Years	July 1, 2024	151,687	182,025
NHPR 2004-2005	1.00%	20 Years	July 1, 2025	139,050	162,225
NHPR 2005-2006	1.00%	20 Years	July 1, 2026	156,160	175,680
NHPR 2006-2007	1.00%	20 Years	January 1, 2027	69,600	78,300
NHPR 2007-2008	1.00%	20 Years	September 1, 2028	111,229	123,588
NHPR 2009	1.00%	20 Years	February 1, 2030	131,591	144,635

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.  
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**Note 10 – Notes Payable (Continued)**

	Rate	Term	Maturity	Balance	
				<u>2019</u>	<u>2018</u>
Virginia Housing Development Authority					
VHPRF Phase I & II	3.00%	20 Years	October 5, 2029	\$ 60,464	\$ 66,028
Housing Fund #2	3.00%	30 Years	May 6, 2033	132,805	140,663
Housing Fund #3	2.00%	30 Years	March 1, 2036	298,698	372,794
2004 Line of Credit	2.00%	30 Years	September 1, 2026	407,699	428,235
2005 Line of Credit	2.00%	30 Years	February 1, 2037	366,370	383,623
2007 Reach	3.00%	30 Years	June 1, 2038	220,356	229,013
2009 Reach	3.00%	30 Years	May 1, 2039	141,173	146,344
2010 Reach	3.00%	30 Years	July 1, 2040	239,645	247,904
2011 Reach	3.00%	30 Years	September 1, 2042	299,593	308,557
2012 Reach	3.00%	30 Years	July 1, 2043	37,961	39,030
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	September 30, 2019	1,085,000	4,969,580
Various Lenders					
Andrew Schenk	1.75%	3 Years	April 25, 2020	25,000	25,000
Anonymous	2.50%	3 Years	January 16, 2021	80,000	80,000
Anonymous	2.50%	5 Years	December 1, 2023	200,000	-
Banc of America CDC	3.00%	4 Years	December 4, 2022	3,000,000	-
Byron & Lee Stookey	3.00%	5 Years	November 30, 2021	25,000	25,000
Byron & Lee Stookey	3.00%	5 Years	September 30, 2020	50,000	50,000
CDFI Fund	1.25%	20 Years	September 10, 2019	930,000	930,000
Central Bank	3.48%	5 Years	November 15, 2020	-	1,300,000
Clients of the Sustainability Group	3.00%	5 Years	February 1, 2023	16,667	16,667
Clients of the Sustainability Group	3.00%	5 Years	February 1, 2023	16,667	16,667
Clients of the Sustainability Group	3.00%	5 Years	February 1, 2023	16,667	16,667
Clients of the Sustainability Group	3.00%	5 Years	May 15, 2024	50,000	50,000
Clients of the Sustainability Group	3.00%	5 Years	September 30, 2020	100,000	100,000
Clients of the Sustainability Group	3.00%	5 Years	March 31, 2023	25,000	25,000
Clients of the Sustainability Group	3.00%	5 Years	May 1, 2023	50,000	50,000
Clients of the Sustainability Group	3.00%	4 Years	December 30, 2019	25,000	25,000
Clients of the Sustainability Group	3.00%	3 Years	December 20, 2020	50,000	50,000
Clients of the Sustainability Group	3.00%	3 Years	July 1, 2020	100,000	100,000
Clients of the Sustainability Group	3.00%	5 Years	February 1, 2023	40,000	40,000
Clients of the Sustainability Group	3.00%	3 Years	July 1, 2020	25,000	25,000
Clients of the Sustainability Group	3.00%	3 Years	December 20, 2020	25,000	25,000
Congr. of the Sisters of St. Joseph, Inc.	2.50%	5 Years	June 30, 2023	100,000	-
Congr. of the Sisters of the Incarnate Word	2.00%	5 Years	March 7, 2023	250,000	250,000
David Roswell	1.50%	2 Years	December 1, 2020	120,000	-
Deutsche Bank	2.00%	5 Years	August 2, 2020	500,000	500,000
Domestic & Foreign Missionary Society	3.63%	5 Years	March 31, 2021	500,000	500,000
Emma C. Trevor	1.50%	3 Years	December 30, 2021	2,500	2,500
Eric Haralson	1.75%	3 Years	March 31, 2020	-	20,000
Glenmary Home Missioners	2.00%	3 Years	October 28, 2020	25,000	25,000
HEAD Corporation	2.50%	3 Years	January 15, 2021	300,000	300,000
John and Sara Morgan	1.00%	3 Years	June 30, 2021	10,000	10,000
Jones Family Farm	1.25%	1 Year	May 31, 2020	37,700	36,779
Jones Family Farm	1.25%	1 Year	May 31, 2020	27,137	26,474
Kentucky Housing Corporation	1.00%	20 Years	November 1, 2031	212,239	228,213

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.  
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**Note 10 – Notes Payable (Continued)**

	Rate	Term	Maturity	Balance	
				<u>2019</u>	<u>2018</u>
Larry and Paula Withers	2.00%	2 Years	July 31, 2019	\$ 150,000	\$ 150,000
MACED	3.00%	3 Years	July 22, 2019	500,000	500,000
Maureen Flannery	3.00%	9 Years	February 15, 2027	20,230	-
Mercy Investment Services	2.00%	5 Years	July 15, 2020	500,000	500,000
Sisters of Charity of Nazareth	0.50%	3 Years	December 30, 2022	150,000	150,000
New Markets Investment 100, LLC	2.00%	7 Years	November 19, 2025	1,300,000	-
Opportunity Finance Network	3.00%	10 Years	November 30, 2019	2,500,000	2,500,000
Peoples Self Help Housing	2.50%	2 Years	January 5, 2020	500,000	500,000
PNC Bank National Association	4.56%	5 Years	January 4, 2024	1,000,000	-
RCIF	2.50%	5 Years	June 15, 2020	250,000	250,000
Seton Enablement Fund	3.00%	5 Years	April 1, 2020	57,466	72,068
Slyvia Jones	1.25%	1 Year	March 31, 2020	2,025	2,000
US Department of Treasury – SBLF	2.00%	8 Years	September 15, 2019	2,063,000	2,063,000
US Dept. of Treasury- CDFI Bond Program	3.07%	20 Years	March 16, 2037	1,204,471	1,254,591
US Dept. of Treasury- CDFI Bond Program	3.02%	27 Years	December 15, 2044	885,952	908,584
US Dept. of Treasury- CDFI Bond Program	3.41%	27 Years	March 15, 2045	1,060,069	-
US Dept. of Treasury- CDFI Bond Program	3.53%	27 Years	March 15, 2045	891,559	-
US Dept. of Treasury- CDFI Bond Program	3.28%	27 Years	March 15, 2045	1,474,323	-
US Dept. of Treasury- CDFI Bond Program	2.74%	27 Years	March 15, 2045	1,950,000	-
USDA Rural Development	2.38%	38 Years	December 22, 2056	163,768	-
Virginia Organizing	2.00%	5 Years	January 20, 2022	308,000	308,000
Wells Fargo Bank	2.00%	3 Years	October 1, 2023	2,000,000	2,000,000
Woodforest	4.35%	4 Years	August 16, 2022	1,000,000	-
<b>Total Notes Payable</b>				<u>\$ 32,071,511</u>	<u>\$ 25,501,125</u>

The principal repayment requirements at June 30, 2019 and 2018, relating to the above notes payable are as follows:

	<u>2019</u>	<u>2018</u>
2019	\$ -	\$ 5,660,643
2020	7,262,111	8,042,033
2021	3,346,854	3,273,674
2022	335,500	725,922
2023	5,245,213	1,437,186
2024	3,385,051	-
Later Years	12,496,782	6,361,667
	<u>\$ 32,071,511</u>	<u>\$ 25,501,125</u>

At June 30, 2019 and 2018, \$18,851,606 and \$15,244,687 of notes payable, respectively, are unsecured and represent private investments by individuals and groups.

During fiscal year 2019 and 2018 the Organization held a line of credit with Commercial Bank secured by pledged notes receivable. At June 30, 2019 and 2018 the balance of the line was \$1,085,000 and \$4,969,580, respectively.

At June 30, 2019 and 2018 the organization had available balances on lines of credit with Commercial Bank of \$4,915,000 and \$1,030,420, Central Bank of \$500,000 and \$500,000, and Virginia Community Capital of \$3,000,000 for both years, respectively.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

**Note 10 – Notes Payable (Continued)**

At June 30, 2019, the Organization has receivables totaling \$2,204,763 pledged as collateral against loans with VHDA, \$800,000 compensating balance and \$5,973,968 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 New Markets, \$539,035 receivables pledged as collateral with MACED and \$7,466,375 receivables pledged as collateral with the CDFI.

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.

**Note 11 – 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, 2019 and 2018, Fahe had drawn down \$7,658,363 and \$2,199,000, 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 12 - 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, 2019 and 2018, 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, 2019 and 2018, respectively.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

**Note 12 - Other Liabilities (Continued)**

In fiscal year 2019, Fahe received an EQ2 investment from Compass Bank for use in the state of Alabama. The equity equivalent had a balance of \$1.0 million as of June 30, 2019.

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 13 – 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 \$102,783 and \$90,438 in 2019 and 2018, respectively.

The Organization provides a 457 plan to eligible employees based on Board designation. The Organization expended \$29,429 and \$16,420 in 2019 and 2018, respectively.

**Note 14 – 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 4 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, 2019 and 2018, total rental expenses under leases amounted to \$34,092 and \$33,599, respectively.

At June 30, 2019, Fahe was obligated under its operating lease arrangements as follows:

Fiscal year ending June 30,	<u>Total</u>
2020	\$ 38,805
2021	19,499
2022	14,950
2023	7,512
2024	6,886
	<u>\$ 87,652</u>

**Note 15 – 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.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

**Note 15 – Commitments and Contingencies (Continued)**

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 \$12,938,059 and \$14,661,190 as of June 30, 2019 and 2018, respectively. To further clarify, Fahe is the first guarantor on \$607,215 and \$702,929 and takes the position of second guarantor on the remaining member loan agreements as of June 30, 2019 and 2018, 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, 2019 and 2018, Fahe had committed, but undisbursed credit lines totaling \$9,200,298 and \$10,343,073, respectively.

**Note 16 – 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 \$29,180,832 and \$28,128,424 at June 30, 2019 and 2018, 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 \$25,650,534 and \$19,771,525 at June 30, 2019 and 2018, respectively, are secured by the assets of the Organization with the exception of the unsecured amount as noted. At June 30, 2019 and 2018, \$382,122 and \$10,788, respectively, were unsecured.

**Note 17 – Portfolios Purchased**

Fahe purchased one portfolio from organizations during fiscal years 2019 and 2018. 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 2019 purchase, the total purchase amount was \$994,592 and the gain on purchase of the portfolios recognized was \$573,709, the loan loss reserve was increased \$54,287 to avoid overstating income and expenses for severely delinquent loans, for a total portfolio purchase of \$1,622,588. Total gain on acquisition of assets was \$627,043 – this was due to the recognition of gain related to past portfolios that had been held in deferred revenue from past portfolio purchases.

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. 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.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

**Note 18 – Schedule of Liquidity**

The following table shows the Organization’s financial assets, reduced by amounts not available within one year. Certain financial assets are designated as illiquid when they are unavailable as cash within a year, have donor restrictions, or held in reserves for others.

The Organization’s goal is to maintain liquid financial assets for 90 days of operating expenses and obligations. As part of its liquidity plan, any excess cash is held in a reserve account. As of June 30, 2019, in addition to funds held in operating account, the reserve account held \$1,472,231 for general cash flow needs. The Organization has access to lines of credit in the amounts of \$6,000,000 and \$500,000 in the event of unanticipated cash flow needs.

The following is the detail of the Organization’s liquidity:

	<u>June 30, 2019</u>
Cash and cash equivalents	\$ 11,949,075
Accounts receivable	418,007
Grants receivable	1,606,870
Accrued interest receivable	201,959
Notes receivable, net	25,205,888
Mortgages receivable, net	26,528,589
Investments	180,318
Consumer loans receivable, net	61,861
Less: Cash and cash equivalents with restrictions	(6,549,871)
Non-current notes receivable, net	(12,572,312)
Non-current mortgages receivable, net	(24,550,656)
Non-current grants receivable	(665,500)
Non-current consumer loans receivable, net	(61,861)
Additional funds released from restriction	412,000
Cash available for operations within one year	\$ 22,164,367

As of June 30, 2019, Fahe’s average monthly expenses and average monthly debt obligations are \$656,430 and \$983,124, respectively. Fahe held on their balance sheet liquid financial assets worth approximately 12 months of operations.

**Note 19 – Financial Statement Reclassifications**

Certain amounts presented in the June 30, 2018 financial statements have been reclassified to conform to the current year presentation of the financial statements in accordance with ASU 2016-14. These reclassifications did not affect the change in net assets or alter the beginning or ending net assets of the Organization.

In addition on the statement of functional expenses, Fahe separated the Single Family and Community Lending portfolio expenses and combined the Community Lending Portfolio with the Community Lending Division expenses. This change in classification does not affect previously reported expenses in the statement of functional expenses.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

**Note 20 – Subsequent Events**

In 2015, Fahe was issued \$15 million through the CDFI's Bond Guarantee Program. As of June 30, 2019, the Organization had drawn \$7,658,363. By September 30, 2020, management anticipates the full \$15 million will have been drawn. In May 2019, Fahe joined a new application through OFN for an additional \$20 million. This Bond issuance has not received formal approval, but management feels strongly that it will close in FY 2020.

In 2016, Fahe was awarded an allocation of \$50 million through USDA's Community Facilities Relending Program. As of June 30, 2019, \$163,768 had been drawn. The Organization has the ability to draw funds through December 2021, any unused allocation is no longer available at that time. A requirement of the program is that in addition to pledging the note made using Community Facilities funding as collateral, a cash account pledged to USDA must hold the first five years' principal and interest payments, the hold on the balance is released by 1/5th annually. Fahe has the option to self-fund the account or utilize a line of credit established through Bank of America, which has an undrawn balance of \$7.4 million. Bank of America has covenants in place, the main being receipt and retention of unrestricted net assets that reduce the availability to draw to \$5.2 million until the required balance of unrestricted assets has been met. The \$5.2 million will allow Fahe to draw \$25 million before the growth in unrestricted net assets is required.

Management of the Organization has considered subsequent events through August 29, 2019, 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, 2019

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CDFA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Treasury</u>			
NeighborWorks America	21.000		\$ 757,200
Community Development Financial Institutions Program	21.020		614,180
Community Development Financial Institutions Bond Guarantee Program	21.014*		7,622,537
Total U.S. Department of Treasury			<u>8,993,917</u>
<u>Department of Housing &amp; Urban Development</u>			
Passed through Kentucky Housing Corporation (KHC)			
Home Investment Partnership Program (HOME)	14.239	HB17-0201-01	121,657
Subtotal passed through KHC			<u>121,657</u>
Passed through Local Initiatives Support Corporation			
HUD Section 4	14.252	45314-0009	13,411
HUD Section 4	14.252	45314-0011	25,134
HUD Section 4	14.252	45314-0012	11,900
Subtotal passed through Local Initiatives Support Corporation			<u>50,445</u>
Total Department of Housing & Urban Development			<u>172,102</u>
<u>Appalachian Regional Commission</u>			
Appalachian Regional Development	23.001		770,675
Total Appalachian Regional Commission			<u>770,675</u>
<u>Substance Abuse and Mental Health Services Administration</u>			
State Targeted Response to the Opioid Crisis	93.788*		143,922
Total Substance Abuse and Mental Health Services Administration			<u>143,922</u>
 TOTAL FEDERAL AWARDS			 <u>\$ 10,080,616</u>

\* 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, 2019

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. The outstanding balance as of June 30, 2019 was \$8,245,040.

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, 2019, 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 29, 2019.

### 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



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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*.

## **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 29, 2019

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, 2019. 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***



CRAFT, NOBLE & COMPANY  
PLLC

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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, 2019.

***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

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 29, 2019

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2019

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  
Substance Abuse and Mental Health Services Administration State Targeted Response to the Opioid Crisis, CFDA #93.788 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.  
 STATEMENTS OF FINANCIAL POSITION - NEIGHBORWORKS AMERICA CAPITAL FUND  
 JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 3,001	\$ 172,074
Mortgages receivable	699,884	830,907
Property held for sale	<u>-</u>	<u>1,141</u>
 TOTAL ASSETS	 <u>\$ 702,885</u>	 <u>\$ 1,004,122</u>
NET ASSETS		
 Net assets with donor restrictions	 <u>\$ 702,885</u>	 <u>\$ 1,004,122</u>
 TOTAL NET ASSETS	 <u>\$ 702,885</u>	 <u>\$ 1,004,122</u>

See Independent Auditor's Report.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.  
 STATEMENTS OF ACTIVITIES - NEIGHBORWORKS AMERICA CAPITAL FUND  
 FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
NET ASSETS WITH DONOR RESTRICTIONS		
Capital Grant-NeighborWorks America	-	-
Net assets released from restriction	<u>(301,237)</u>	<u>(430,337)</u>
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	(301,237)	(430,337)
CHANGE IN NET ASSETS	(301,237)	(430,337)
NET ASSETS AT BEGINNING OF YEAR	<u>1,004,122</u>	<u>1,434,459</u>
NET ASSETS AT END OF YEAR	<u>\$ 702,885</u>	<u>\$ 1,004,122</u>

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, 2019

Minimum net worth required		<u>\$ 1,000,000</u>
Stockholders equity (net worth)		
Per balance sheet	\$ 31,313,043	
Less unacceptable assets	<u>\$ 13,673,916</u>	
Adjusted net worth for HUD		
Requirement purposes		<u>\$ 17,639,127</u>
Adjusted net worth above amount		
Required		<u>\$ 16,639,127</u>
Adjusted net worth below amount		
Required		<u>\$ -</u>

See Independent Auditor's Report.