

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
BEREA, KENTUCKY

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AUDITED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEARS ENDED
JUNE 30, 2020 AND 2019



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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, 2020 and 2019, 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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 3 to the financial statements, in the year ended June 30, 2020, the Organization adopted new accounting guidance, *ASU 2018-08- Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* and *ASU 2016-18- Statement of Cash Flows (Topic 230): Restricted Cash*. 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 40, the statements of activities – NeighborWorks America Capital Fund on page 41 and the Computation of Adjusted Net Worth for Approval of Non-Supervised Mortgagees Other Than Loan Correspondents on page 42 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 33, 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 September 9, 2020 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, Waninger, Noble & Company, PLLC

Craft, Waninger, Noble & Company, PLLC
Richmond, Kentucky
September 9, 2020

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
<u>Assets</u>			
Current assets			
Cash and cash equivalents	\$ 8,039,968	\$ 3,578,964	\$ 11,618,932
Cash unavailable for operations	2,898,250	-	2,898,250
Accounts receivable	746,414	-	746,414
Current grants receivable	117,437	795,190	912,627
Accrued interest receivable	284,094	5,495	289,589
Deposits	1,670	-	1,670
Prepaid expenses	137,775	-	137,775
Interfund balances	-	-	-
Current notes receivable	13,304,575	34,077	13,338,652
Current consumer loans receivable	-	17,168	17,168
Current mortgage notes receivable	1,423,609	671,933	2,095,542
Total current assets	<u>26,953,792</u>	<u>5,102,827</u>	<u>32,056,619</u>
Noncurrent assets			
Notes receivable, net	15,888,916	604,666	16,493,582
Bankruptcy arrearages	11,359	4,207	15,566
Mortgage notes receivable, net	15,767,746	8,576,159	24,343,905
Consumer loans receivable, net	-	116,209	116,209
Property held for sale, net	145,399	110,151	255,550
Grants receivable	-	295,200	295,200
Investments	195,548	-	195,548
Property and equipment, net	3,189,725	-	3,189,725
Intangible assets, net	213,299	-	213,299
Deferred compensation	182,856	-	182,856
Total noncurrent assets	<u>35,594,848</u>	<u>9,706,592</u>	<u>45,301,440</u>
Total Assets	<u>\$ 62,548,640</u>	<u>\$ 14,809,419</u>	<u>\$ 77,358,059</u>
<u>Liabilities & Net Assets</u>			
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 233,594	\$ 28,928	\$ 262,522
Client advances and deposits	1,168,421	50	1,168,471
Accrued interest payable	128,742	-	128,742
Accrued expenses	470,098	-	470,098
Current portion of deferred revenue	-	-	-
Current portion of notes payable	2,582,438	-	2,582,438
Total current liabilities	<u>4,583,293</u>	<u>28,978</u>	<u>4,612,271</u>
Noncurrent liabilities			
Deferred revenue	740,211	-	740,211
Long-term portion of notes payable	36,737,809	-	36,737,809
Deferred compensation	182,856	-	182,856
Total noncurrent liabilities	<u>37,660,876</u>	<u>-</u>	<u>37,660,876</u>
Other Liabilities			
Equity equivalent	4,000,000	-	4,000,000
Total Liabilities	<u>46,244,169</u>	<u>28,978</u>	<u>46,273,147</u>
<u>Net Assets</u>			
Net assets	15,704,471	14,780,441	30,484,912
Net assets, board designated	600,000	-	600,000
Total Net Assets	<u>16,304,471</u>	<u>14,780,441</u>	<u>31,084,912</u>
Total Liabilities & Net Assets	<u>\$ 62,548,640</u>	<u>\$ 14,809,419</u>	<u>\$ 77,358,059</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, 2019

<u>Assets</u>	<u>Net Assets without Donor Restrictions</u>	<u>Net Assets with Donor Restrictions</u>	<u>Total</u>
<u>Current assets</u>			
Cash and cash equivalents	\$ 6,631,541	\$ 2,701,508	\$ 9,333,049
Cash unavailable for operations	2,616,025	-	2,616,025
Accounts receivable	403,307	14,700	418,007
Current grants receivable	25,000	620,494	645,494
Accrued interest receivable	195,288	6,671	201,959
Deposits	1,670	-	1,670
Prepaid expenses	150,753	-	150,753
Interfund balances	(21,700)	21,700	-
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>23,803,865</u>	<u>4,181,882</u>	<u>27,985,747</u>
<u>Noncurrent assets</u>			
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	-	-	-
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>9,995,654</u>	<u>41,241,788</u>
Total Assets	<u>\$ 55,049,999</u>	<u>\$ 14,177,536</u>	<u>\$ 69,227,535</u>
<u>Liabilities & Net Assets</u>			
<u>Liabilities</u>			
<u>Current liabilities</u>			
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>
<u>Noncurrent liabilities</u>			
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>
<u>Other Liabilities</u>			
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	15,574,132	14,177,536	29,751,668
Net assets, board designated	<u>600,000</u>	<u>-</u>	<u>600,000</u>
Total Net Assets	<u>16,174,132</u>	<u>14,177,536</u>	<u>30,351,668</u>
Total Liabilities & Net Assets	<u>\$ 55,049,999</u>	<u>\$ 14,177,536</u>	<u>\$ 69,227,535</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, 2020

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
<u>Revenue</u>			
Mortgage and note interest	\$ 2,059,882	\$ 51,320	\$ 2,111,202
Contributions, grants	552,555	3,394,837	3,947,392
Pass-through grants	1,477,774	26,715	1,504,489
Federal grants	1,553,954	1,123,362	2,677,316
Realized gain (loss) on investments	-	-	-
Unrealized gain (loss) on investments	5,030	-	5,030
Interest income	22,930	4,335	27,265
Administration income	25,758	-	25,758
Gain on acquisition of assets	768,969	(1)	768,968
Gain on sale of loans	359,488	-	359,488
Fees and service charges	1,486,964	-	1,486,964
Miscellaneous income	741	-	741
Net assets released from restrictions			
Satisfaction of program restrictions	3,997,663	(3,997,663)	-
Total Revenue	<u>12,311,708</u>	<u>602,905</u>	<u>12,914,613</u>
<u>Expenses</u>			
Program services	9,979,066	-	9,979,066
General and administrative	235,117	-	235,117
Fundraising	902,277	-	902,277
Membership	1,064,909	-	1,064,909
Total Expenses	<u>12,181,369</u>	<u>-</u>	<u>12,181,369</u>
Increase in net assets	130,339	602,905	733,244
Net Assets at Beginning of Period	<u>16,174,132</u>	<u>14,177,536</u>	<u>30,351,668</u>
Net Assets at End of Period	<u>\$ 16,304,471</u>	<u>\$ 14,780,441</u>	<u>\$ 31,084,912</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
Pass-through grants	193,176	16,200	209,376
Federal grants	829,092	197,702	1,026,794
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
Gain on sale of loans	73,319	-	73,319
Fees and service charges	1,570,497	-	1,570,497
Miscellaneous income	636	-	636
Net assets released from restrictions			
Satisfaction of program restrictions	3,288,967	(3,288,967)	-
Total Revenue	8,859,090	(1,922,268)	6,936,822
<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
Total Expenses	7,877,156	-	7,877,156
Increase (decrease) in net assets	981,934	(1,922,268)	(940,334)
Net Assets at Beginning of Period	15,192,198	16,099,804	31,292,002
Net Assets at End of Period	\$ 16,174,132	\$ 14,177,536	\$ 30,351,668

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, 2020

Expenses	Program Services									
	General & Administrative	Membership	Fundraising	Home Lending	Community Lending	Loan Servicing	Strategic Programs	Single Family Portfolio	Total Program Services	Total
Personnel Expenses	\$ 167,246	\$ 737,299	\$ 552,402	\$ 708,093	\$ 521,985	\$ 580,255	\$ 1,295,322	\$ 112,942	\$ 3,218,597	\$ 4,675,544
Travel Expenses	3,276	26,608	13,826	8,274	9,338	7,104	39,725	1,531	65,972	109,682
Board & Committee Meetings	-	112,186	-	-	-	-	7,136	-	7,136	119,322
Conferences & Workshops	174	4,313	1,083	1,309	1,780	1,470	3,599	262	8,420	13,990
Occupancy Expense	3,814	11,005	7,827	9,840	6,021	7,901	33,498	1,211	58,471	81,117
REO Expense	-	-	-	-	-	-	-	24,574	24,574	24,574
Supplies & Publications	745	2,821	1,667	2,528	1,827	2,407	8,779	661	16,202	21,435
Postage & Shipping	189	256	176	5,877	528	29,122	796	11,149	47,472	48,093
Communications	630	2,961	1,830	3,358	1,801	2,839	9,663	494	18,155	23,576
Equipment & Maintenance	1,945	7,869	5,609	9,822	5,310	8,289	22,548	1,430	47,399	62,822
Subscriptions	509	1,887	4,699	1,167	877	4,998	1,952	139	9,133	16,228
Licenses, Fees & Permits	6,126	4,764	2,741	12,018	13,799	4,482	820	276	31,395	45,026
Employee Education	547	567	533	4,854	1,351	1,599	4,171	414	12,389	14,036
Memberships	808	20,501	2,640	4,414	4,227	4,971	988	1,379	15,979	39,928
Marketing & Advertising	2,957	9,280	4,118	3,133	2,274	1,550	12,609	72	19,638	35,993
Liability & Property Insurance	5,524	2,762	5,524	5,524	13,811	8,287	8,331	5,524	41,477	55,287
Service Charges	1,145	810	6	5,783	52,286	7,257	1,983	6,437	73,746	75,707
Depreciation & Amortization	15,091	3,162	2,610	11,695	36,507	39,033	19,673	30,182	137,090	157,953
Organizational Expenses	266	470	695	498	1,463	991	105	515	3,572	5,003
Contributions	317	1,484	894	362	477	284	922	3	2,048	4,743
Software Lease	2,115	458	303	6,711	8,385	17,409	34,662	8,255	75,422	78,298
Professional Fees	6,664	9,615	15,041	10,852	31,919	21,250	8,713	11,998	84,732	116,052
Contract Services	8,106	36,554	21,020	54,850	57,355	35,538	157,939	16,999	322,681	388,361
Loan Processing Expense	45	90	135	6,195	3,667	180	-	90	10,132	10,402
Loan Servicing Expense	-	-	-	-	167	551	-	65	783	783
Pass Thru Grants	4,028	65,399	254,108	2,820	8,862	10,071	2,954,879	8,057	2,984,689	3,308,224
Administration	-	-	-	25,758	-	-	-	-	25,758	25,758
Bad Debt Expense	-	-	-	-	1,390,801	-	-	292,183	1,682,984	1,682,984
Interest Expense	2,772	1,319	2,604	2,721	820,589	4,326	4,158	99,661	931,455	938,150
Loans Forgiven	-	-	-	-	-	-	-	-	-	-
Miscellaneous Expense	78	469	186	260	176	312	757	60	1,565	2,298
Total Expenses	\$ 235,117	\$ 1,064,909	\$ 902,277	\$ 908,716	\$ 2,997,583	\$ 802,476	\$ 4,633,728	\$ 636,563	\$ 9,979,066	\$12,181,369

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										Total
	General & Administrative	Membership	Fundraising	Home Lending	Community Lending	Loan Servicing	FAHE Consulting	FAHE Capital	Single Family Portfolio	Total Program Services	
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
Total Expenses	\$ 195,943	\$ 1,903,640	\$ 555,026	\$ 1,015,567	\$ 1,649,405	\$ 991,840	\$ 873,729	\$ 4,531	\$ 687,475	\$ 5,222,547	\$ 7,877,156

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, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ 733,244	\$ (940,334)
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	157,953	189,824
Loss on disposal of assets	(42,475)	4,731
Provision for loan losses	1,258,293	54,287
Additional provision for portfolio purchase	(34,723)	(63,781)
(Gain) Loss on investments using equity method	(15,230)	(27,902)
Gain on purchase of loan portfolio	(653,286)	(598,136)
Net charge offs on purchase	(45,100)	(439,440)
(Increase) decrease in operating assets		
Accounts receivable	(328,407)	213,445
Grants receivable	(562,333)	2,330,779
Accrued interest receivable	(87,630)	(55,821)
Prepaid expenses	12,978	305
Deferred compensation	(30,992)	(29,429)
Increase (decrease) in operating liabilities		
Accounts payable	113,300	(255,268)
Client advances and deposits	72,814	(1,175,999)
Accrued interest payable	(2,960)	51,073
Accrued expenses	52,668	50,894
Deferred revenue	(118,270)	(67,338)
Deferred compensation	30,992	29,429
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>510,836</u>	<u>(728,681)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(77,877)	(96,814)
Proceeds from sale of property and equipment	203,645	356,247
Purchase of loan portfolio	(2,060,277)	(994,592)
Purchase of intangible assets	(109,745)	-
Payments received on notes receivable	23,387,616	23,479,849
Disbursement of loans receivable funds	(26,534,826)	(29,131,918)
NET CASH (USED) BY INVESTING ACTIVITIES	<u>(5,191,464)</u>	<u>(6,387,228)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt borrowings	23,938,562	16,750,200
Payments on long-term debt	(16,689,826)	(9,179,814)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>7,248,736</u>	<u>7,570,386</u>
NET INCREASE IN CASH	2,568,108	454,477
CASH AND CASH EQUIVALENTS, CASH UNAVAILABLE FOR OPERATIONS, AND RESTRICTED CASH AT BEGINNING OF YEAR	<u>11,949,074</u>	<u>11,494,597</u>
CASH AND CASH EQUIVALENTS, CASH UNAVAILABLE FOR OPERATIONS, AND RESTRICTED CASH AT END OF YEAR	<u>\$ 14,517,182</u>	<u>\$ 11,949,074</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	<u>\$ 810,483</u>	<u>\$ 830,600</u>

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

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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 building the American Dream. Our unique collaborative model connects a Network of local, regional, and national leaders, all working together to ensure that no community is left behind. 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.

During FY2020, Fahe made total direct investments of \$145.6M. Total capital under management including investments managed and loans serviced for other organizations topped \$268M. Since 1980 Fahe has invested over \$1.05B generating \$1.61B in finance. This investment was channeled through our members and community partners, directly changing the lives of 687,183 people.

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 or areas directly for home purchase or rehabilitation/energy retrofit.

Specifically, Fahe's principal services include Mortgage Lending, Community Lending Services (CLS), Strategic Programs, 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 was the first nonprofit third party originator for Freedom and has been instrumental in creating a national nonprofit packaging system for USDA Rural Development 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 FY20, Fahe serviced 4,300 loans.
 - Following is a list of states where either JCL or Loan Servicing (in some states both) are licensed to conduct business; Kentucky, Tennessee, Indiana, Florida, Mississippi, Virginia, West Virginia, Maine, Michigan, Hawaii, Minnesota, South Carolina, Illinois, 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, 2020 AND 2019

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, Park Community 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, 2020 AND 2019

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, 2020 and 2019:

	June 30, 2020		
	Appalachia Outreach	Partners for Rural	Lending Programs
	Programs	Transformation	with stipulations to revolve
Salary Support	\$ 538,309	\$ 508,822	\$ -
Travel	2,000	-	-
Pass Thru Grants	174,720	62,500	-
Indirect Costs	2,920	207,162	-
Interns	-	-	-
Convenings	-	47,222	-
Equipment	-	630	-
Marketing	-	7,565	-
Consultant	55,000	500,582	-
Lending Guidelines	-	-	12,673,009
Total	\$ 772,949	\$ 1,334,483	\$ 12,673,009
Total Net Assets with Donor Restrictions at June 30, 2020			\$ 14,780,441

	June 30, 2019				
	Appalachia		Appalachaia	Uplift	Lending Programs
	Outreach	CDFI	Heat Squad	America	with stipulations to revolve
	Programs	Program		Program	
Salary Support	\$ 314,890	\$ -	\$ 42,639	\$ 86,664	\$ -
Travel	54,579	-	22,051	28,347	-
Pass Thru Grants	146,249	117,570	372,115	203,000	-
Indirect costs	-	-	-	-	-
Interns	20,500	-	-	-	-
Convenings	-	-	-	-	-
Equipment	-	-	12,609	-	-
Marketing	2,500	-	8,417	-	-
Consultant	35,741	-	-	-	-
Lending Guidelines	-	-	-	-	12,709,665
Total	\$ 574,459	\$ 117,570	\$ 457,831	\$ 318,011	\$ 12,709,665
Total Net Assets with Donor Restrictions at June 30, 2019					\$ 14,177,536

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.

Cash Unavailable for Operations

Fahe maintains an \$800,000 compensating balance arrangement with Commercial Bank against a \$6 million line of credit, as well as \$160,705 of revolving cash collateral related to the \$500,000 note Fahe TN, LLC holds with Commercial Bank. The total balance of the assigned mortgages receivable plus revolving cash collateral account balance must equal \$500,000 at each month end reconciliation.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2020 AND 2019

Note 2 – Summary of Significant Accounting Policies (Continued)

Cash Unavailable for Operations (Continued)

Cash received from grants and held with restrictions at June 30, 2020 and 2019 was \$3,578,964 and \$2,701,508, respectively. All restricted cash held at the end of the fiscal year of 2020 and 2019 was restricted to the lending program or operations and required to be lent following the guidelines of each donor.

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 \$1,301,994 and \$1,311,448 at June 30, 2020 and 2019, respectively.

	<u>2020</u>	<u>2019</u>
Compensating Balance	\$ 962,875	\$ 800,478
Escrow Cash and Liability	1,301,994	1,311,148
Bond Guarantee Program	599,783	470,806
USDA Community Facilities	<u>33,598</u>	<u>33,593</u>
Total Cash Unavailable for Operations	<u>\$ 2,898,250</u>	<u>\$ 2,616,025</u>

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, 2020 and 2019, depreciation expense was \$132,865 and \$183,539, respectively.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 2 – Summary of Significant Accounting Policies (Continued)

Fixed Assets and Intangible Assets (Continued)

During the year ended June 30, 2016, the Organization amortized costs associated with the issuance of the CDFI Bond Guarantee Program, of which Fahe was allocated \$15,000,000. During the year ended June 30, 2020, The Organization amortized costs associated with the issuance of a second CDFI Bond Guarantee Program, of which Fahe was allocated \$20,000,000. These costs will be expensed during the life of each respective bond program. Amortization expense for the years ended June 30, 2020 and 2019 were \$25,088 and \$6,285, respectively.

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

	<u>2020</u>	<u>2019</u>
Land	\$ 130,133	\$ 130,133
Building	3,393,604	3,393,604
Building Improvements	34,600	34,600
Equipment and Vehicles	1,024,549	960,583
Subtotal	4,582,886	4,518,920
Accumulated Depreciation	(1,393,161)	(1,274,205)
Property and Equipment, net	\$ 3,189,725	\$ 3,244,715
Intangible Assets	254,185	144,440
Accumulated Amortization	(40,886)	(15,798)
Intangible Assets, net	\$ 213,299	\$ 128,642

During the year ended June 30, 2020, the Organization utilized an office rent-free from Seven Counties Services, Inc. at 620 South 3rd Street, Suite 102 in Louisville, Kentucky.

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, once all donor conditions have been met and the contribution is deemed unconditional. 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, 2020. 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.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2020 AND 2019

Note 2 – Summary of Significant Accounting Policies (Continued)

Compensated Absences

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

Estimates

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

Functional Allocation of Expenses

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

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2020 AND 2019

Note 3 – Change in Accounting Principle

The Organization adopted *ASU 2018-08- Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* and *ASU 2016-18- Statement of Cash Flows (Topic 230): Restricted Cash*, for the year ended June 30, 2020. This guidance changes how not-for-profit entities recognize their contributions received and made. It is designed to improve the information provided by not-for-profit entities for better comparison across entities relating to contribution activity. *ASU 2016-18- Statement of Cash Flows* changes how restricted cash is presented and disclosed to provide a better understanding of operations.

Note 4 – Investments and Fair Value Measurements

Investments held by the Organization consisted of the following as of June 30, 2020:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Appreciation</u>
KYNWA Alliance investment	\$ 1,000	\$ 687	\$ (313)
Scenic States investment	-	82,461	82,461
FHLB stock	112,400	112,400	-
Balance, June 30, 2020	<u>\$ 113,400</u>	<u>\$ 195,548</u>	82,148
Balance, June 30, 2019	<u>\$ 103,200</u>	<u>\$ 180,318</u>	77,118
Unrealized gain (loss) on investments			<u>\$ 5,030</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.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 4 – Investments and Fair Value Measurements (Continued)

The Organization’s fair value of securities available for sale measured on a recurring basis at June 30, 2020 and 2019 is as follows:

		<u>Fair Value Measurements at Reporting Date Using</u>		
		Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2020</u>	<u>Fair Value</u>			
KY NWA Alliance investment	\$ 687	\$ -	\$ -	\$ 687
Scenic States investment	82,461	-	-	82,461
FHLB Stock	112,400	-	112,400	-
	<u>\$ 195,548</u>	<u>\$ -</u>	<u>\$ 112,400</u>	<u>\$ 83,148</u>
<u>June 30, 2019</u>	<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</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>

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, 2018	\$ 687	\$ 63,229
Total gains and losses - unrealized, included in earnings	-	14,202
June 30, 2019	<u>687</u>	<u>77,431</u>
Total gains and losses - unrealized, included in earnings	-	5,030
June 30, 2020	<u>\$ 687</u>	<u>\$ 82,461</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 \$1,207,868 and \$646,494 as of June 30, 2020 and 2019, respectively. The balance of the unconditional promises to give in fiscal year 2020 will be received according to the following schedule:

Fiscal Year ending June 30,	Amount to be received
2021	\$ 912,667
2022	295,200

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. Fae 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.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 6 – Property Held for Resale (Continued)

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, 2020 and 2019, the organization held \$413,351 and \$511,992, respectively in REO property and \$96,923 and \$88,395, respectively in property preservation. The related allowances recorded as of June 30, 2020 and 2019 were \$254,724 and \$248,966, respectively for REO property. There were no allowances recorded for property preservation advances.

During fiscal year 2017, an old factory building, 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, 2020, Fahe was still under a leasing agreement with the Member Organization with the corresponding receivable.

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 subordinate lien 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/Service 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 \$1,513,493 and \$1,986,913 as of June 30, 2020 and 2019, 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.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 7 – Mortgage Notes Receivable (Continued)

Mortgage notes receivable as of June 30, 2020 and 2019 consist of the following balances in each fund:

	<u>2020</u>	<u>2019</u>
Kentucky Home Loan Fund	\$ 2,859,916	\$ 3,335,934
AHTF Fund	73,015	81,092
HOME Program of Kentucky	5,332,166	5,881,572
Virginia Home Loan Fund	2,644,126	2,924,750
NHPR Kentucky	37,175	41,099
HOME Program of Virginia	1,637,377	1,843,069
West Virginia Home Loan Fund	487,703	576,665
Tennessee Home Loan Fund	1,291,504	1,937,057
Project Reinvest	3,343,036	3,402,000
Chase/NHSA	246,972	336,431
Park Community	8,073,236	2,968,299
Fahe Other States	<u>3,094,369</u>	<u>5,852,864</u>
Total	29,120,595	29,180,832
Less: Bankruptcy Arrearages	(15,566)	(19,806)
Less: Servicing Cost of 0% Purchased Loans	(179,316)	-
Less: Allowance for Loan Losses	<u>(2,486,266)</u>	<u>(2,644,962)</u>
Mortgage Notes Receivable, Net of Allowance	<u>\$ 26,439,447</u>	<u>\$ 26,516,064</u>

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, 2020 and 2019, 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 \$627,705 and \$401,547 as of June 30, 2020 and 2019, 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, 3) working capital loans or business loans, and 4) community facility loans. The target market end user of these loans is the low-income targeted population or low-income communities.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 8 – Notes Receivable (Continued)

Combined borrower balances of the Organization’s community loan portfolio as of June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Aid to Distressed Families of Appalachian Counties	\$ 23,650	\$ 23,650
Almost Heaven Habitat for Humanity	178,098	182,045
Appalachia Habitat For Humanity	513,998	522,732
ATLAS	1,387,585	-
Beattyville Housing Development	355,253	388,744
Charleston Replacement Housing #3	884,664	895,638
COAP	195,399	93,099
Community Action Partnership of North Alabama	1,144,476	1,165,053
East Tennessee Development Housing Corporation	32,497	59,567
Eastern Eight CDC	4,000,000	761,130
Elkhorn City School Apartments	-	1,255,622
Frontier Housing, Inc.	528,602	508,514
Giffin Senior Community	1,277,783	1,250,000
GMBS	1,200,000	
Hale County Habitat for Humanity	-	51,896
HERO	370,914	346,073
HOMES, Inc.	206,940	334,280
HOPE Inc.	199,594	354,346
Hope Federal Credit Union	1,290,529	500,432
Hope of Kentucky	-	3,618,330
Housing Authority of Mingo County	-	1,811,922
Housing Development Alliance	549,289	472,483
Housing Development Foundation, Inc.	336,809	347,966
HPI	400,000	-
Kentucky River Community Care	55,090	55,090
Kit Carson	759,515	-
Knox Housing Partners, Inc.	371,994	383,937
Lil Britches Child Care Center	26,828	31,963
Long Run Apartments	1,255,575	1,302,951
M Fine	724,779	794,697
Mackey	-	199,002
Midway School Apartments	233,294	237,130
Mingo	1,845,999	-
Mon Valley	20,000	-
Mountain Top	25,000	-
Mt. Sterling- Main Cross, LLC	184,500	184,500
Mulberry Housing LLP	45,000	45,000
Neighborhood Housing Services Birmingham	155,966	-
New Directions Housing Corporation	47,244	47,244
Ol Seminole	616,808	-
Open Hearts	79,500	-
Poynter-Macke	189,170	-
Randolph County Housing Authority	553,064	92,955
Redbud Financial Alternatives, Inc.	30,000	68,353
Scott-Morgan CDC	45,696	49,978

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 8 – Notes Receivable (Continued)

	<u>2020</u>	<u>2019</u>
Servolution Health Services	\$ 618,191	\$ 560,491
Shelton Robinson Properties	2,120,379	2,170,354
Small Town Housing, LLC	580,502	590,954
Southern Appalachia Labor School	55,315	52,065
Warrior Creek Development Holdings	216,727	220,292
Washington County VA Habitat for Humanity	123,699	117,699
Washington Facility and Loan Company	5,506,429	3,411,019
Woodlands Development Group	<u>86,426</u>	<u>91,338</u>
Total Notes Receivable	31,648,770	25,650,534
Less: Allowance for Loan Loss	<u>(1,816,536)</u>	<u>(444,647)</u>
Notes Receivable, Net of Allowance	<u>\$ 29,832,234</u>	<u>\$ 25,205,887</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%

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 has also increased the allowance to account for possible losses related to the COVID-19 pandemic and related economic downturn. At the time of the audit, the impact had not manifested in terms of delinquency. The delinquency rate actually improved during fiscal year 2020. Management believes this was due to stimulus funds, but it is the Organization’s belief that once those funds have been exhausted, delinquency and potential for loss will increase. The Organization reserved an additional \$1,371,889 in the Community Lending pool. Management deemed the reserve in Mortgage lending was adequate due to overly conservative reserves in prior periods covering the perceived impact to the portfolio.

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, this is especially true for the potential impact of COVID-19.

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.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 9 – Allowance for Loan Losses (Continued)

2020 Allowance for Loan Losses			
	Mortgage Lending	Community Lending	Total
Beg. Balance	\$ 2,644,961	\$ 444,647	\$ 3,089,608
Charge-Offs	(60,611)	-	(60,611)
Recoveries	15,512	-	15,512
Provision	(113,596)	1,371,889	1,258,293
Ending Balance	\$ 2,486,266	\$ 1,816,536	\$ 4,302,802

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	\$ 2,644,962	\$ 444,647	\$ 3,089,609

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, 2020 and 2019. Payment activity is reviewed by management on a monthly basis to determine credit quality of the loans. Loans are considered to be nonperforming when days delinquent is greater than 30 days in the previous month. The Organization has found that it is in its best interest to consider loans past this date nonperforming instead of the traditional single-family mortgage standard of 90 days. Fahe’s Loan Servicing Department has found it has the best chances of collection if contact is made with the borrower during the first month of delinquency.

Nonperforming loans also include certain loans that have been modified in troubled debt restructurings where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from Fahe’s loss mitigation activities and could include loan modification by way of reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. In fiscal year 2018, the Organization made a change to track troubled debt restructuring with a separate troubled debt restructure designation, which it would keep until the loan was paid off. Therefore, once a loan is designated as a troubled debt restructure it will never return to performing status. Management believes the likelihood of loss for nonperforming loans is increased in this current period due to the persisting weak economy and the growth of performing loans transferred to nonperforming status upon modification in a troubled debt restructuring. The Organization also classifies its non-accrual loans as nonperforming. There were two new restructurings classified as troubled debt in fiscal year 2020. One was a \$1.28 million construction loan in our Community Lending portfolio that requested modification related to a snag with tax credit allocations. The other was a small single-family loan in the Mortgages Receivable portfolio.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 9 – Allowance for Loan Losses (Continued)

2020 Performing vs. Nonperforming Loans			
	Mortgage Lending	Community Lending	Mortgage Conveyances
Performing	\$ 26,254,176	\$ 31,326,307	\$ -
TDR	294,551	1,277,783	-
Non-accrual	611,442	322,463	-
Nonperforming	258,687	-	423,956
Total	\$ 27,418,856	\$ 32,926,553	\$ 423,956

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

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, 2020 and 2019. 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
2020						
Mortgage Lending	\$ 156,027	\$ 535,579	\$ 311,919	\$ 1,003,525	\$ 27,693,114	\$ 28,696,639
Mortgage Conveyances	-	-	423,956	423,956	-	423,956
Community Lending	-	-	-	-	31,648,770	31,648,770
Total	\$ 156,027	\$ 535,579	\$ 735,875	\$ 1,427,481	\$ 59,341,884	\$ 60,769,365
2019						
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

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

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 9 – Allowance for Loan Losses (Continued)

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 2020 and 2019 were \$19,347 and \$44,258, respectively. The average investment in impaired loans at the end of fiscal years ended June 30, 2020 and 2019 were \$1,493,251 and \$1,566,136, respectively. There organization had \$154,537 in troubled debt restructuring loans in default as of June 30, 2020. They did not have any troubled debt restructuring loans in default in the fiscal year ended June 30, 2019.

	Impaired Loans		
	Unpaid Principal Balance	Related Allowance	Net Recorded Investment
2020			
Mortgage Lending	\$ 1,271,454	\$ (165,435)	\$ 1,106,019
Mortgage Conveyances	308,392	(61,749)	246,643
Community Lending	322,463	(3,225)	319,238
Total	\$ 1,902,309	\$ (230,409)	\$ 1,671,900
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	\$ 1,406,655	\$ (213,373)	\$ 1,193,282

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 if they were underwritten or designed with that intent and funded from a grant resource. Mortgage Loans are put on nonaccrual status once they reach delinquency over 120 days. Loans on nonaccrual status and their respective classes are as follows:

	Nonaccrual Loans	
	2020	2019
Mortgage Lending	\$ 611,442	\$ 604,860
Mortgage Conveyances	-	-
Community Lending	322,463	346,073
Total	\$ 933,905	\$ 950,933

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 9 – Allowance for Loan Losses (Continued)

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, 2020 and 2019 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>2020</u>	<u>2019</u>
Kentucky Housing Corporation					
Kentucky Home Loan Fund/AHTF					
Special Contract #8	3.00%	20 Years	October 1, 2035	\$ 319,224	\$ 334,617
Affordable Housing Trust Fund	1.00%	30 Years	July 1, 2033	33,303	35,473
NHPL, NHRL, NHPR					
NHPL 1999-2000	1.00%	20 Years	July 1, 2019	-	8,412
NHPR 2000-2001	1.00%	20 Years	July 1, 2020	31,613	63,225
NHPR 2001-2002	1.00%	20 Years	July 1, 2022	53,475	80,212
NHPR 2002-2003	1.00%	20 Years	July 1, 2023	101,489	135,051
NHPR 2003-2004	1.00%	20 Years	July 1, 2024	121,350	151,687
NHPR 2004-2005	1.00%	20 Years	July 1, 2025	115,875	139,050
NHPR 2005-2006	1.00%	20 Years	July 1, 2026	136,640	156,160
NHPR 2006-2007	1.00%	20 Years	January 1, 2027	60,900	69,600
NHPR 2007-2008	1.00%	20 Years	September 1, 2028	98,871	111,229
NHPR 2009	1.00%	20 Years	January 1, 2029	118,416	131,591
Virginia Housing Development Authority					
VHPRF Phase I & II	3.00%	20 Years	October 5, 2029	44,460	60,464
Housing Fund #2	3.00%	30 Years	May 6, 2033	124,709	132,805
Housing Fund #3	2.00%	30 Years	March 1, 2036	281,611	298,698
2004 Line of Credit	2.00%	30 Years	September 1, 2026	386,749	407,699
2005 Line of Credit	2.00%	30 Years	February 1, 2037	348,769	366,370
2007 Reach	3.00%	30 Years	June 1, 2038	211,435	220,356
2009 Reach	3.00%	30 Years	May 1, 2039	135,844	141,173
2010 Reach	3.00%	30 Years	July 1, 2040	231,135	239,645
2011 Reach	3.00%	30 Years	September 1, 2042	290,356	299,593
2012 Reach	3.00%	30 Years	July 1, 2043	36,859	37,961
Commercial Bank					
Ten Year Note - FAHE TN, LLC	0.75%	10 Years	May 10, 2023	500,000	500,000
Two Year Note	2.75%	2 Years	November 15, 2021	4,000,000	1,085,000
Various Lenders					
Andrew Schenk	1.75%	3 Years	April 25, 2022	25,000	25,000
Annie E Casey Foundation	2.00%	10 Years	April 15, 2030	2,000,000	-

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 10 – Notes Payable (Continued)

	Rate	Term	Maturity	Balance	
				<u>2020</u>	<u>2019</u>
Anonymous	2.50%	3 Years	January 16, 2021	\$ 80,000	\$ 80,000
Anonymous	2.50%	5 Years	December 1, 2023	200,000	200,000
Banc of America CDC	3.00%	4 Years	December 4, 2022	3,000,000	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
Ceniarth Wales Interest, L.P.	2.00%	2 Years	August 8, 2022	2,000,000	-
Central Bank	1.00%	2 Years	April 13, 2022	775,500	-
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	2.50%	5 Years	July 1, 2025	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	2.50%	4 Years	December 30, 2023	25,000	25,000
Clients of the Sustainability Group	2.50%	3 Years	December 20, 2020	50,000	50,000
Clients of the Sustainability Group	3.00%	3 Years	September 30, 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	2.50%	3 Years	July 1, 2023	25,000	25,000
Clients of the Sustainability Group	3.00%	3 Years	December 20, 2020	25,000	25,000
Clients of the Sustainability Group	3.00%	3 Years	July 1, 2024	50,000	-
Clients of the Sustainability Group	2.50%	3 Years	September 13, 2024	25,000	-
Clients of the Sustainability Group	3.00%	3 Years	September 13, 2024	200,000	-
Clients of the Sustainability Group	3.00%	3 Years	September 13, 2014	100,000	-
Clients of the Sustainability Group	2.50%	3 Years	January 1, 3125	50,000	-
Congr. of the Sisters of St. Joseph, Inc.	2.50%	5 Years	June 30, 2023	100,000	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	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
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, 2021	38,642	37,700
Jones Family Farm	1.25%	1 Year	May 31, 2021	27,816	27,137
Kentucky Housing Corporation	1.00%	20 Years	November 1, 1931	196,104	212,239
Larry and Paula Withers	2.00%	2 Years	July 31, 2021	150,000	150,000
MACED	3.00%	3 Years	October 22, 2022	500,000	500,000
Maureen Flannery	1.00%	9 Years	February 15, 2027	20,765	20,230
Mercy Investment Services	2.00%	5 Years	May 1, 2025	1,000,000	500,000
New Markets Investment 100, LLC	2.00%	7 Years	November 19, 2025	1,300,000	1,300,000
Opportunity Finance Network	3.00%	10 Years	December 31, 2022	1,875,000	2,500,000
Opportunity Finance Network	3.50%	10 Years	December 31, 2022	2,000,000	-
Peoples Self Help Housing	2.50%	2 Years	January 31, 2022	500,000	500,000
PNC Bank National Association	4.56%	5 Years	January 4, 2024	1,000,000	1,000,000
RCIF	2.50%	5 Years	June 15, 2025	250,000	250,000
Republic Bank and Trust	5.06%	1 Year	November 29, 2020	219,064	-
Seton Enablement Fund	3.00%	5 Years	April 1, 2025	50,000	57,466
Sisters of Charity of Nazareth	0.50%	3 Years	December 30, 2022	150,000	150,000
Sustainable Communities Fund	3.25%	4 Years	July 29, 2023	300,000	-

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2020 AND 2019

Note 10 – Notes Payable (Continued)

	Rate	Term	Maturity	Balance	
				2020	2019
Sylvia Jones	1.25%	1 Year	March 31, 2020	\$ 2,050	\$ 2,025
US Department of Treasury – SBLF	2.00%	8 Years	September 15, 2019	-	2,063,000
US Dept. of Treasury- CDFI Bond Program	3.07%	20 Years	March 16, 2037	1,152,481	1,204,471
US Dept. of Treasury- CDFI Bond Program	3.02%	27 Years	December 15, 2044	862,404	885,952
US Dept. of Treasury- CDFI Bond Program	3.41%	27 Years	March 15, 2045	1,033,761	1,060,069
US Dept. of Treasury- CDFI Bond Program	3.53%	27 Years	March 15, 2045	869,782	891,559
US Dept. of Treasury- CDFI Bond Program	3.28%	27 Years	March 15, 2045	1,437,037	1,474,323
US Dept. of Treasury- CDFI Bond Program	2.74%	27 Years	March 15, 2045	1,895,332	1,950,000
US Dept. of Treasury- CDFI Bond Program	2.45%	27 Years	March 15, 2045	359,903	-
USDA Rural Development	2.38%	38 Years	December 22, 2056	161,022	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	950,000	1,000,000
				\$ 39,320,247	\$ 32,071,511
Total Notes Payable					

The principal repayment requirements at June 30, 2020 and 2019, relating to the above notes payable are as follows:

	2020	2019
2020	\$ -	\$ 7,262,111
2021	2,582,438	3,346,854
2022	5,636,008	335,500
2023	12,136,975	5,245,213
2024	3,666,489	3,385,051
2025	1,546,350	-
Later Years	13,751,987	12,496,782
	\$ 39,320,247	\$ 32,071,511

At June 30, 2020 and 2019, \$22,437,531 and \$18,351,6067 of notes payable, respectively, are unsecured and represent private investments by individuals and groups.

During fiscal year 2020 and 2019 the Organization held a line of credit with Commercial Bank secured by pledged notes receivable. At June 30, 2020 and 2019 the balance of the line was \$4,000,000 and \$1,085,000, respectively.

At June 30, 2020 and 2019 the organization had available balances on lines of credit with Commercial Bank of \$2,000,000 and \$4,915,000, Central Bank of \$500,000 and \$500,000, and Virginia Community Capital of \$3,000,000 for both years, respectively.

At June 30, 2020, the Organization has receivables totaling \$2,175,615 pledged as collateral against loans with VHDA, \$800,000 compensating balance and \$2,682,836 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, \$756,545 receivables pledged as collateral with MACED, \$161,517 of receivables pledged to USDA, and \$8,682,716 receivables pledged as collateral with the CDFI.

Near the end of the fiscal year ending June 30, 2020 some of the notes assigned as collateral for the Commercial Bank loan had been paid down. Management is in process of assigning \$3,261,179 in construction notes to Commercial Bank as collateral for the undercollateralized line of credit. The balance of these notes will increase with additional construction draws, in effect, overcollateralizing the note.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 10 – Notes Payable (Continued)

During fiscal year 2020, Fahe applied and qualified for a Payroll Protection Program loan through the CARES Act related to the COVID response. This loan is listed as Central Bank \$775,500 on the second page of loans listed. Fahe fully spent the funds according to the program guidelines and will apply for loan forgiveness in fiscal year 2021. Management anticipates the full balance to be forgiven, but this is not guaranteed until the forgiveness application is processed and approved by SBA.

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.

The Organization has covenants relating to debt investments. At the end of fiscal year 2020, Fahe's activity was not constrained by these covenants. The covenants with the highest potential to become restrictive are related to growth requirements of the Organization's Net Assets without Restrictions and related ratios. Management is cognizant that as Fahe continues to expand the Bond Guarantee Program and bring on other debt, it is imperative to continue to increase Net Assets without Restrictions through net income and capital grants.

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. In 2019, the CDFI Fund approved OFN to serve as a Qualified Issuer and issue a new bond. Fahe's portion of this issuance was \$20 million. As of June 30, 2020 and 2019, Fahe had drawn down \$8,027,363 and \$7,658,363, respectively of the 2015 allocation. As of June 30, 2020, Fahe had not drawn any of the 2019 allocation. Fahe will have fully drawn the 2015 allocation in the beginning of fiscal year 2021. The 2019 allocation of bond will require Fahe to commit the balance of the funds and then provide until 2024 to fully fund all projects, or Fahe will lose access to any portion of the 2019 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).

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 12 - Other Liabilities (Continued)

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, 2020 and 2019, 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, 2020 and 2019, respectively.

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 \$1.00 million as of June 30, 2020 and 2019, respectively.

In fiscal year 2020, Fahe did not receive any additional EQ2 investments.

Fahe held notes payable to the U.S. Department of Treasury (\$2,063,000—matured and paid off during fiscal year 2020) 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. These notes had balances of \$2,000,000 and \$4,063,000 as of June 30, 2020 and 2019, respectively.

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 \$103,279 and \$102,783 in 2020 and 2019, respectively.

The Organization provides a 457 plan to eligible employees based on Board designation. The Organization expended \$30,992 and \$29,429 in 2020 and 2019, 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, 2021 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, 2020 and 2019, total rental expenses under leases amounted to \$39,820 and \$34,092, respectively.

At June 30, 2020, Fahe was obligated under its operating lease arrangements as follows:

Fiscal year ending June 30,	<u>Total</u>
2021	\$ 19,499
2022	14,950
2023	7,512
2024	6,886
	<u>\$ 48,847</u>

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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 New Start loans Fahe Originated to finance only newly built homes. The loans are limited to 80% LTV.

The Organization's management feels confident these loans will be repaid, but in the event of default are fully secured by real estate due to the limitations on loan LTV and pose no additional liability the Organization would need to show in its financial position. The Organization has a contingent liability of \$582,620 as of June 30, 2020. The balance is considerably higher in fiscal year 2019 due to an agreement related to the servicing of loans for THDA and providing a second guarantee behind the Fahe Members who had made the loans. Fahe stopped servicing the loans for THDA near the end of fiscal year 2019. The contingent liability was \$12,938,059 as of June 30, 2019. To further clarify, Fahe was first guarantor on \$607,215 and takes the position of second guarantor on the remaining member loan agreements as of June 30, 2019. 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, 2020 and 2019, Fahe had committed, but undisbursed credit lines totaling \$12,682,961 and \$9,200,298, 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 \$29,120,595 and \$29,180,832 at June 30, 2020 and 2019, 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 \$31,648,770 and \$25,650,534 at June 30, 2020 and 2019, respectively, are secured by the assets of the Organization with the exception of the unsecured amount as noted. At June 30, 2020 and 2019, \$450,558 and \$382,122, respectively, were unsecured.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2020 AND 2019

Note 17 – Portfolios Purchased

Fahe purchased one portfolio from organizations during fiscal years 2020 and 2019. 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 2020 purchase, the total purchase amount was \$2,060,277 and the gain on purchase of the portfolios recognized was \$653,286, the loan loss reserve was increased \$34,723 to avoid overstating income and expenses for severely delinquent loans, a reserve for servicing costs of \$180,000 was also booked due to Fahe not being licensed in the state of Ohio and the interest rate being 0%, unable to offset future cost of servicing, for a total portfolio purchase of \$2,928,286. Total gain on acquisition of assets was \$768,968 – this was due to the recognition of gain related to past portfolios that had been held in deferred revenue from past portfolio purchases.

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.

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. 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, 2020</u>
Cash and cash equivalents	\$ 11,618,932
Accounts receivable	746,414
Grants receivable	912,627
Accrued interest receivable	289,589
Notes receivable, net	13,338,652
Mortgages receivable, net	2,095,542
Consumer loans receivable, net	17,168
Less: Cash and cash equivalents with restrictions	(3,600,964)
Additional funds released from restriction	970,043
Cash available for operations within one year	\$ 26,388,003

As of June 30, 2020, Fahe’s average monthly expenses and average monthly debt obligations are \$602,878 and \$282,743, respectively. Fahe held on their balance sheet liquid financial assets worth approximately 30 months of operations.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2020 AND 2019

Note 19 – Restatement of Beginning Net Assets and Financial Statement Reclassifications

Due to the adoption of ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* the Organization has adjusted the beginning net position of the June 30, 2019 Statement of Activities.

Ending Net Assets per June 30, 2019 Audit Report	\$	31,313,043
Adjustment due to Implementation of ASU 2018-08		(961,375)
Restated Beginning Net Assets for June 30, 2019		30,351,668
Statement of Activities	\$	30,351,668

The Organization has also reclassified some items presented in the June 30, 2019 Statement of Financial Position to conform to the adopted and retroactive application of ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Accounts impacted include grants receivable and interfund transfers on the Statement of Financial Position, and federal grants on the Statement of Activities.

Note 20 – Coronavirus (COVID-19) Impact

Prior to June 30, 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak to be a pandemic. COVID-19 continues to spread across the globe and is impacting worldwide economic activity and financial markets. The continued spread of the disease represents a significant risk that operations could be disrupted in the near future. The Organization was shut down to clients without appointment from March 17, 2020 through June 30, 2020. The Organization dropped down to a skeleton crew in the main office and allowed staff to telework while receiving full pay and benefits. At the current time the in-office staff is still limited to 50% capacity due to government regulations. Management will continue to monitor this and limit staff to those required for transactional capacity and maintaining internal controls and segregation of duties that cannot be performed from home. The organization continues to work through systems and technology advancements to allow more of the transactional work to be done remotely. The extent to which COVID-19 may impact the Organization will depend on future developments and government regulations, which are highly uncertain and cannot be predicted. As a result, the Organization has not yet determined the impact this disruption may have on its financial statements for the year ending June 30, 2021, beyond an increase in the allowance for loan loss in anticipation of borrower default.

Note 21 – Subsequent Events

In 2015, Fahe was issued \$15 million through the CDFI’s Bond Guarantee Program. As of June 30, 2020, the Organization had drawn \$7,658,363. By September 2020, the full \$15 million will has been drawn.

In 2016, Fahe was awarded an allocation of \$50 million through USDA’s Community Facilities Relending Program. As of June 30, 2020, \$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 September 9, 2020, 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, 2020

<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*		\$ 868,000
Community Development Financial Institutions Program	21.020*		831,570
Community Development Financial Institutions Bond Guarantee Program	21.014*		<u>7,610,702</u>
Total U.S. Department of Treasury			<u>9,310,272</u>
<u>Department of Housing & Urban Development</u>			
Passed through Kentucky Housing Corporation (KHC)			
Home Investment Partnership Program (HOME)	14.239	HB17-0201-01	49,043
Home Investment Partnership Program (HOME)	14.239	HB18-0201-01	<u>98,552</u>
Subtotal passed through KHC			147,595
Passed through Local Initiatives Support Corporation			
HUD Section 4	14.252	45314-0012	<u>1,721</u>
Subtotal passed through Local Initiatives Support Corporation			1,721
Total Department of Housing & Urban Development			<u>149,316</u>
<u>Appalachian Regional Commission</u>			
Appalachian Regional Development	23.001*		<u>698,221</u>
Total Appalachian Regional Commission			<u>698,221</u>
<u>Substance Abuse and Mental Health Services Administration</u>			
State Targeted Response to the Opioid Crisis	93.788		<u>1,982,615</u>
Total Substance Abuse and Mental Health Services Administration			<u>1,982,615</u>
TOTAL FEDERAL AWARDS			<u>\$ 12,140,424</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, 2020

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, 2020 was \$7,610,702.

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, 2020, 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 September 9, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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



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, Wanager, Noble & Company, PLLC

Craft, Wanager, Noble & Company, PLLC
Richmond, Kentucky
September 9, 2020

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, 2020. Federation of Appalachian Housing Enterprises, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Federation of Appalachian Housing Enterprises, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

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, Waninger, Noble & Company, PLLC

Craft, Waninger, Noble & Company, PLLC
Richmond, Kentucky
September 9, 2020

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020

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:

NeighborWorks America, CFDA #21.000, Type A
Community Development Financial Institutions Bond Guarantee Program, CFDA #21.014 Type A
Community Development Financial Institutions Program, CFDA #21.020 Type A
Appalachian Regional Commission, CFDA #23.001 Type B
7. The threshold to determine Type A: \$750,000.
8. Federation of Appalachian Housing Enterprises, Inc. was determined to be a low-risk auditee.
9. In connection with tests of internal control and compliance with laws and regulations, no material weaknesses were noted in internal control, and the Organization was in substantial compliance with laws and regulations.
10. There were no questioned costs with respect to major programs selected for compliance tests.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
 STATEMENTS OF FINANCIAL POSITION - NEIGHBORWORKS AMERICA CAPITAL FUND
 JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 12,478	\$ 3,001
Mortgages receivable	479,542	699,884
Property held for sale	<u>-</u>	<u>-</u>
 TOTAL ASSETS	 <u>\$ 492,020</u>	 <u>\$ 702,885</u>
NET ASSETS		
 Net assets with donor restrictions	 <u>\$ 492,020</u>	 <u>\$ 702,885</u>
 TOTAL NET ASSETS	 <u>\$ 492,020</u>	 <u>\$ 702,885</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, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
NET ASSETS WITH DONOR RESTRICTIONS		
Capital Grant-NeighborWorks America	-	-
Net assets released from restriction	<u>(210,865)</u>	<u>(301,237)</u>
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	(210,865)	(301,237)
CHANGE IN NET ASSETS	(210,865)	(301,237)
NET ASSETS AT BEGINNING OF YEAR	<u>702,885</u>	<u>1,004,122</u>
NET ASSETS AT END OF YEAR	<u>\$ 492,020</u>	<u>\$ 702,885</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, 2020

Minimum net worth required		<u>\$ 1,000,000</u>
Net assets (net worth)		
Per statement of financial position	\$ 31,084,912	
Less unacceptable assets	<u>\$ 795,919</u>	
Adjusted net worth for HUD Requirement purposes		<u><u>\$ 30,288,993</u></u>
Adjusted net worth above amount Required		<u>\$ 29,288,993</u>
Adjusted net worth below amount Required		<u>\$ -</u>

See Independent Auditor's Report.