

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
BEREA, KENTUCKY

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CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEARS ENDED
JUNE 30, 2021 and 2020

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Independent Auditor's Report

To the Board of Trustees
Federation of Appalachian Housing Enterprises, Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Federation of Appalachian Housing Enterprises, Inc. (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 consolidated 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 audit. We conducted our audit 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 of material misstatement. The financial statements of certain subsidiaries of Federation of Appalachian Housing Enterprises, Inc. were not audited in accordance with *Government Auditing Standards*.

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 consolidated financial position of Federation of Appalachian Housing Enterprises, Inc. as of June 30, 2021, and the changes in its consolidated net assets and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Period Financial Statements

The consolidated financial statements of Federation of Appalachian Housing Enterprises, Inc. as of and for the year ended June 30, 2020 were audited by other auditors whose report dated September 9, 2020, expressed an unmodified opinion on those statements.

Other 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, the Statements of Activities - NeighborWorks America Capital Fund, and the Computation of Adjusted Net Worth for Approval of Nonsupervised Mortgagees Other Than Loan Correspondents are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations 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 our report dated September 30, 2021, on our consideration of Federation of Appalachian Housing Enterprises, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of Federation of Appalachian Housing Enterprises, Inc.'s 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.



Bethesda, Maryland
September 30, 2021

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2021

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
<u>Assets</u>			
Current assets			
Cash and cash equivalents	\$ 9,285,826	\$ 5,508,142	\$ 14,793,968
Cash unavailable for operations	4,091,778	-	4,091,778
Accounts receivable	320,751	132,931	453,682
Current grants receivable	-	226,586	226,586
Accrued interest receivable	440,352	3,962	444,314
Deposits	1,670	-	1,670
Prepaid expenses	122,237	-	122,237
Current notes receivable	15,583,840	11,157	15,594,997
Current consumer loans receivable	-	17,976	17,976
Current mortgage notes receivable	1,211,990	822,797	2,034,787
Total current assets	31,058,444	6,723,551	37,781,995
Noncurrent assets			
Notes receivable, net	29,953,075	539,482	30,492,557
Bankruptcy arrearages	3,570	-	3,570
Mortgage notes receivable, net	16,357,245	7,273,614	23,630,859
Consumer loans receivable, net	-	101,916	101,916
Property held for resale, net	486,236	32,363	518,599
Grants receivable	30,952	62,878	93,830
Investments	214,532	-	214,532
Property and equipment, net	3,066,337	-	3,066,337
Intangible assets, net	201,037	-	201,037
Deferred compensation	405,205	-	405,205
Total noncurrent assets	50,718,189	8,010,253	58,728,442
Total assets	<u>\$ 81,776,633</u>	<u>\$ 14,733,804</u>	<u>\$ 96,510,437</u>
<u>Liabilities & Net Assets</u>			
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 164,542	\$ 1,386,686	\$ 1,551,228
Payroll taxes payable	20,521	-	20,521
Client advances and deposits	1,118,839	2,844	1,121,683
Accrued interest payable	157,948	-	157,948
Accrued expenses	462,126	-	462,126
Current portion of deferred revenue	-	581,609	581,609
Current portion of notes payable	5,761,603	-	5,761,603
Total current liabilities	7,685,579	1,971,139	9,656,718
Noncurrent liabilities			
Deferred revenue	688,489	-	688,489
Long-term portion of notes payable	49,381,549	-	49,381,549
Deferred compensation	405,205	-	405,205
Total noncurrent liabilities	50,475,243	-	50,475,243
Other liabilities			
Equity equivalent	4,000,000	-	4,000,000
Total liabilities	62,160,822	1,971,139	64,131,961
<u>Net assets</u>			
Net assets	19,015,811	12,762,665	31,778,476
Net assets, board designated	600,000	-	600,000
Total net assets	19,615,811	12,762,665	32,378,476
Total liabilities and net assets	<u>\$ 81,776,633</u>	<u>\$ 14,733,804</u>	<u>\$ 96,510,437</u>

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

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
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	26,953,792	5,102,827	32,056,619
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 resale, 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	35,594,848	9,706,592	45,301,440
Total assets	\$ 62,548,640	\$ 14,809,419	\$ 77,358,059
<u>Liabilities & Net Assets</u>			
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 233,594	\$ 28,928	\$ 262,522
Payroll taxes payable	-	-	-
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	4,583,293	28,978	4,612,271
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	37,660,876	-	37,660,876
Other liabilities			
Equity equivalent	4,000,000	-	4,000,000
Total liabilities	46,244,169	28,978	46,273,147
<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	16,304,471	14,780,441	31,084,912
Total liabilities and net assets	\$ 62,548,640	\$ 14,809,419	\$ 77,358,059

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

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
Revenue			
Mortgage and note interest	\$ 2,644,019	\$ 40,510	\$ 2,684,529
Contributions, grants	889,839	1,534,144	2,423,983
State grants	22,500	-	22,500
Pass-through grants	931,607	40,177	971,784
Federal grants	2,244,441	980,376	3,224,817
Realized gain (loss) on investments	69,925	(7,462)	62,463
Unrealized gain (loss) on investments	18,984	-	18,984
Interest income	7,221	1,115	8,336
Administration income	26,372	-	26,372
Gain on acquisition of assets	352,309	-	352,309
Gain on sale of loans	720,393	-	720,393
Fees and service charges	1,124,496	-	1,124,496
Miscellaneous income	131,209	-	131,209
Gain on extinguishment of debt	775,500	-	775,500
Net assets released from restrictions			
Satisfaction of program restrictions	4,606,636	(4,606,636)	-
Total Revenue	14,565,451	(2,017,776)	12,547,675
Expenses			
Program expenses	9,429,670	-	9,429,670
General and administrative	286,255	-	286,255
Fundraising	715,887	-	715,887
Membership	822,299	-	822,299
Total Expenses	11,254,111	-	11,254,111
Increase (decrease) in net assets	3,311,340	(2,017,776)	1,293,564
Net assets at beginning of period	16,304,471	14,780,441	31,084,912
Net assets at end of period	\$ 19,615,811	\$ 12,762,665	\$ 32,378,476

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

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
Revenue			
Mortgage and note interest	\$ 2,059,882	\$ 51,320	\$ 2,111,202
Contributions, grants	552,555	3,394,837	3,947,392
State grants	-	-	-
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
Gain on extinguishment of debt	-	-	-
Net assets released from restrictions	-	-	-
Satisfaction of program restrictions	3,997,663	(3,997,663)	-
Total Revenue	12,311,708	602,905	12,914,613
Expenses			
Program expenses	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	12,181,369	-	12,181,369
Increase (decrease) in net assets	130,339	602,905	733,244
Net assets at beginning of period	16,174,132	14,177,536	30,351,668
Net assets at end of period	\$ 16,304,471	\$ 14,780,441	\$ 31,084,912

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

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021

Expenses	Program Services									Total
	General & Administrative	Membership	Fundraising	Home Lending	Community Lending	Loan Servicing	Strategic Programs	Single Family Portfolio	Total Program Services	
Personnel Expenses	\$ 184,221	\$ 564,764	\$ 583,367	\$ 737,817	\$ 364,168	\$ 496,122	\$ 1,868,612	\$ 91,750	\$ 3,558,469	\$ 4,890,821
Travel Expenses	921	3,490	2,574	3,733	1,862	2,935	6,239	384	15,153	22,138
Board & Committee Meetings	-	11,245	-	-	-	-	-	-	-	11,245
Conferences & Workshops	215	1,342	576	884	176	353	5,915	64	7,392	9,525
Occupancy Expense	3,420	9,532	9,131	9,701	5,487	8,618	38,257	982	63,045	85,128
REO Expense	-	-	-	-	-	-	-	1,303	1,303	1,303
Supplies & Publications	802	1,546	1,996	2,036	1,376	2,025	5,382	486	11,305	15,649
Postage & Shipping	520	599	862	9,349	737	35,318	1,149	409	46,962	48,943
Communications	842	2,512	2,632	3,589	1,745	3,115	11,537	430	20,416	26,402
Equipment & Maintenance	2,849	7,641	9,179	12,007	5,863	10,429	293,669	1,432	323,400	343,069
Subscriptions	4,979	12,684	16,132	5,785	5,232	9,094	6,632	151	26,894	60,689
Licenses, Fees & Permits	2,481	2,985	3,113	21,156	11,882	5,673	2,515	292	41,518	50,097
Employee Education	244	179	504	1,718	467	745	1,465	185	4,580	5,507
Memberships	2,626	22,205	3,518	1,961	1,399	722	2,876	876	7,834	36,183
Marketing & Advertising	3,573	11,083	7,149	4,389	3,673	4,316	8,318	-	20,696	42,501
Liability & Property Insurance	8,745	583	2,915	4,081	12,826	11,659	9,199	8,745	46,510	58,753
Service Charges	1,847	195	676	12,292	87,422	11,936	2,041	563	114,254	116,972
Depreciation & Amortization	26,063	1,738	8,688	12,163	38,226	34,751	26,063	26,063	137,266	173,755
Organizational Expenses	702	448	1,559	287	528	48	917	477	2,257	4,966
Contributions	295	1,061	736	245	270	245	445	-	1,205	3,297
Software lease	3,640	678	1,918	8,757	9,077	17,923	7,987	3,539	47,283	53,519
Professional Fees	16,498	8,313	29,534	2,093	13,517	8,048	20,503	9,480	53,641	107,986
Contract Services	15,418	16,656	27,076	94,205	34,978	74,990	517,855	9,601	731,629	790,779
Loan Processing Expense	-	-	-	711	1,040	-	-	-	1,751	1,751
Loan Servicing Expense	-	-	-	-	-	4,348	-	-	4,348	4,348
Pass Thru Grants	-	140,198	-	5,000	-	-	1,084,865	-	1,089,865	1,230,063
Grant Expense	-	-	-	-	-	-	7,381	-	7,381	7,381
Administration	-	-	-	26,373	-	-	-	-	26,373	26,373
Bad Debt Expense	-	-	-	-	464,294	-	-	(22,229)	442,065	442,065
Interest Expense	3,642	243	1,214	1,700	1,087,698	4,857	3,642	80,258	1,178,155	1,183,254
KY HOME Program Recapture	-	-	-	-	-	-	-	1,386,686	1,386,686	1,386,686
Miscellaneous Expense	1,712	379	838	1,038	2,736	2,396	2,229	1,635	10,034	12,963
Total Expenses	\$ 286,255	\$ 822,299	\$ 715,887	\$ 983,070	\$ 2,156,679	\$ 750,666	\$ 3,935,693	\$ 1,603,562	\$ 9,429,670	\$ 11,254,111

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

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

Expenses	Program Services									Total
	General & Administrative	Membership	Fundraising	Home Lending	Community Lending	Loan Servicing	Strategic Programs	Single Family Portfolio	Total Program Services	
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	5	5,783	52,286	7,257	1,983	6,437	73,746	75,706
Depreciation & Amortization	15,091	3,162	2,611	11,695	36,507	39,033	19,673	30,181	137,089	157,953
Organizational Expenses	266	470	695	498	1,463	991	105	516	3,573	5,004
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
KY HOME Program Recapture	-	-	-	-	-	-	-	-	-	-
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 consolidated financial statements.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
CASH FLOW FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ 1,293,564	\$ 733,244
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	173,755	157,953
Loss (gain) on disposal of assets	3,345	(42,475)
Provision for loan losses	376,259	1,258,293
Additional provision for portfolio purchase	(14,370)	(34,723)
Gain on investments using equity method	(18,984)	(15,230)
Gain on purchase of loan portfolio	(371,272)	(653,286)
PPP loan forgiveness	(775,500)	-
Net charge offs on purchase	(29,207)	(45,100)
Decrease (increase) in operating assets		
Accounts receivable	292,732	(328,407)
Grants receivable	887,411	(562,333)
Accrued interest receivable	(154,725)	(87,630)
Prepaid expenses	15,538	12,978
Deferred compensation	(222,349)	(30,992)
Increase (decrease) in operating liabilities		
Accounts payable	1,288,706	113,300
Payroll taxes payable	20,522	-
Client advances and deposits	(46,788)	72,814
Accrued interest payable	29,206	(2,960)
Accrued expenses	(7,972)	52,668
Deferred revenue	529,887	(118,270)
Deferred compensation	222,349	30,992
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,492,107</u>	<u>510,836</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(16,121)	(77,877)
Proceeds from sale of property and equipment	117,229	203,645
Purchase of loan portfolio	(1,135,715)	(2,060,277)
Purchase of intangible assets	(21,983)	(109,745)
Payments received on notes receivable	31,855,353	23,387,616
Disbursement of loans receivable funds	<u>(46,520,710)</u>	<u>(26,534,826)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(15,721,947)</u>	<u>(5,191,464)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt borrowings	49,558,513	23,938,562
Payments on long-term debt	<u>(32,960,109)</u>	<u>(16,689,826)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>16,598,404</u>	<u>7,248,736</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS, CASH UNAVAILABLE FOR OPERATIONS AND RESTRICTED CASH	4,368,564	2,568,108
CASH AND CASH EQUIVALENTS AND CASH UNAVAILABLE FOR OPERATIONS AT BEGINNING OF YEAR	<u>14,517,182</u>	<u>11,949,074</u>
CASH AND CASH EQUIVALENTS AND CASH UNAVAILABLE FOR OPERATIONS AT END OF YEAR	<u>\$ 18,885,746</u>	<u>\$ 14,517,182</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 1,244,258</u>	<u>\$ 810,483</u>

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

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

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.

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 the year ended June 30, 2021, Fahe serviced 4,200 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 CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

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. 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 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. As of June 30, 2020 and 2021, the Organization had \$0 and \$492,020, respectively, of net assets with donor restrictions maintained in perpetuity.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

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, 2021 and June 30, 2020:

June 30, 2021

	Appalachia Outreach Programs	Partners for Rural Transformation	Lending Programs with stipulations to revolve
Salary Support	\$ 654,108	\$ 253,838	\$ -
Travel	15,140	-	-
Pass Thru Grants	917	62,500	-
Indirect Costs	-	54,375	-
Convenings	-	25,301	-
Equipment	2,500	-	-
Marketing	-	3,440	-
Consultant	-	376,307	-
Lending Guidelines	757,000	-	10,557,239
Total	\$ 1,429,665	\$ 775,761	\$ 10,557,239

Total Net Assets with Donor Restrictions at June 30, 2020 \$ 12,762,665

June 30, 2020

	Appalachia Outreach Programs	Partners for Rural Transformation	Lending Programs 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	-
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

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.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

Note 2 - Summary of Significant Accounting Policies (Continued)

Cash Unavailable for Operations

As of June 30, 2021, Fahe maintains an \$800,000 compensating balance arrangement with Commercial Bank against a \$6,000,000 line of credit, as well as \$173,998 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.

As of June 30, 2020, Fahe maintained an \$800,000 compensating balance arrangement with Commercial Bank against a \$6,000,000 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.

Cash received from grants and held with restrictions at June 30, 2021 and June 30, 2020 was \$5,508,142 and \$3,578,964, respectively. All restricted cash held at the end of the fiscal year of 2021 and 2020 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 \$1,121,683 and \$1,168,421 at June 30, 2021 and June 30, 2020, respectively, which is included in client advances and deposits on the consolidated statements of financial position.

A summary of cash unavailable for operations at June 30 is as follows:

	2021	2020
Compensating balance	\$ 974,063	\$ 962,875
Escrow cash and liability	1,313,269	1,301,994
Bond guarantee program	1,285,848	599,783
USDA community facilities	518,598	33,598
Total cash unavailable for operations	\$ 4,091,778	\$ 2,898,250

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 consolidated statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying consolidated statements 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.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

Note 2 - Summary of Significant Accounting Policies (Continued)

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, 2021 and June 30, 2020, depreciation expense was \$139,510 and \$132,865, respectively.

During the year ended June 30, 2016, the Organization amortized costs associated with the issuance of the CDFI Bond Guarantee Program, of which Fahe was allocated \$15,000,000. 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.

Fahe has capitalized the closing costs of other long-term investments as well, to be expensed during the life of each respective investment. Amortization expense for the years ended June 30, 2021 and 2020 was \$34,245 and \$25,089, respectively.

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

	2021	2020
Land	\$ 130,133	\$ 130,133
Building	3,393,604	3,393,604
Building improvements	34,600	34,600
Equipment and vehicles	1,043,747	1,024,549
Subtotal	4,602,084	4,582,886
Accumulated depreciation	(1,535,747)	(1,393,161)
Property and equipment, net	<u>\$ 3,066,337</u>	<u>\$ 3,189,725</u>
Intangible assets	\$ 276,168	\$ 254,185
Accumulated amortization	(75,131)	(40,886)
Intangible assets, net	<u>\$ 201,037</u>	<u>\$ 213,299</u>

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. No offices were utilized rent-free during the year ended June 30, 2021.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

Note 2 - Summary of Significant Accounting Policies (Continued)

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 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 2017.

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.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

Note 2 - Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and detailed in the consolidated statements 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 or headcount, some expense lines will have a mixture of specific use and headcount or time and effort. The expenses that are allocated include the following:

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

Note 3 - Change in Accounting Principle

During the year ended June 30, 2021, the Organization adopted the provisions of Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). This ASU provides new revenue recognition guidance that superseded DRAFT existing revenue recognition guidance. The update, as amended, requires the recognition of revenue related to the transfer of goods or services to customers which reflects the consideration to which WJP expects to be entitled in exchange for those goods or services. Adopting the new standard did not have a material effect on the timing of the Organization's revenue recognition for the year ended June 30, 2021.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

Note 4 - Investments and Fair Value Measurements

Investments held by the Organization consisted of the following as of June 30, 2021:

	Cost	Market Value	Unrealized Appreciation
KY NWA Alliance Investment	\$ 1,000	\$ 687	\$ (313)
Scenic States	-	101,445	101,445
FHLB stock	112,400	112,400	-
Balance June 30, 2021	<u>\$ 113,400</u>	<u>\$ 214,532</u>	101,132
Balance June 30, 2020	<u>\$ 113,400</u>	<u>\$ 195,548</u>	82,148
Unrealized gain (loss) on investments			<u>\$ 18,984</u>

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

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

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

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

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

The Organization's fair value of securities available for sale measured on a recurring basis at June 30, 2021 and June 30, 2020 is as follows:

		Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2021	Fair Value			
KY NWA Alliance investment	\$ 687	\$ -	\$ -	\$ 687
Scenic States investment	101,445	-	-	101,445
FHLB Stock	112,400	-	112,400	-
	<u>\$ 214,532</u>	<u>-</u>	<u>112,400</u>	<u>102,132</u>
June 30, 2020	Fair Value	(Level 1)	(Level 2)	(Level 3)
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>

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

Note 4 - Investments and Fair Value Measurements (Continued)

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

	KY NWA Alliance	Scenic States
July 1, 2019	\$ 687	\$ 77,431
Total gains and losses - unrealized, included in earnings	-	5,030
June 30, 2020	687	82,461
Total gains and losses - unrealized, included in earnings	-	18,984
June 30, 2021	<u>\$ 687</u>	<u>\$ 101,445</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 \$320,416 and \$1,207,827 as of June 30, 2021 and June 30, 2020, respectively. The balance of the unconditional promises to give in fiscal year 2021 will be received according to the following schedule:

Fiscal Year ending June 30,	Amount to be received
2022	\$ 226,586
2023	93,830

Note 6 - Property Held for Resale

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

Property held for resale also consists of property preservation advances. The Organization advances funds for expenses for property preservation to protect the value of their collateral related to mortgages receivable. These expenses are shown as receivables from the borrower unless the Organization takes the property back. At June 30, 2021 and June 30, 2020, the Organization held \$289,731 and \$413,350, respectively in REO property, \$80,565 and \$96,924, respectively in property preservation and \$212,837 and \$0, respectively in investment property. The related allowances recorded as of June 30, 2021 and June 30, 2020 were \$64,535 and \$254,724, respectively for REO property. There were no allowances recorded for property preservation advances.

During the year ended June 30, 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 accordance Fahe holds a receivable from the Member for the carrying value of the property, \$212,837. 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. As of June 30, 2021, the grant was completed, and the property transferred back to Fahe. This is shown as investment property in the disclosure above.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

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.

During the year ended June 30, 2019, Fahe was awarded the designation of Seller/Servicers with both Fannie Mae and Freddie Mac. This designation allows Fahe direct access to pricing and product through the GSE's, allowing us to serve as our investor and bypass other entities additional costs and overlays. This will allow Fahe to bring on additional Brokers, offer a broader spectrum of programs to our Broker network, as well as provide opportunity for us to begin working with Correspondent lenders as well. Along with these business opportunities, carrying this designation allows Fahe to present ourselves in this industry as an organization that meets the highest of standards in the work that we do for the mortgage industry.

The Organization has a programmatic loan balance of \$1,431,695 and \$1,513,493 as of June 30, 2021 and June 30, 2020, 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 Consolidated Statement of Financial Position.

Mortgage notes receivable as of June 30, 2021 and June 30, 2021 consist of the following balances in each fund:

	2021	2020
Kentucky Home Loan Fund	\$ 2,569,333	\$ 2,859,916
AHTF Fund	535,491	73,015
HOME Program of Kentucky	4,593,795	5,332,166
Virginia Home Loan Fund	2,329,295	2,644,126
NHPR Kentucky	32,785	37,175
HOME Program of Virginia	1,462,578	1,637,377
West Virginia Home Loan Fund	458,787	487,703
Tennessee Home Loan Fund	1,106,288	1,291,504
Project Reinvest	3,291,581	3,343,036
Chase/NHSA	238,924	246,972
Park Community	8,827,353	8,073,236
FAHE Other States	2,459,504	3,094,369
Total	27,905,714	29,120,595
Less: Bankruptcy arrearages	(3,570)	(15,566)
Less: Servicing cost of 0% purchased loans	(169,401)	(179,316)
Less: Allowance for loan losses	(2,067,097)	(2,486,266)
Mortgage notes receivable, net of allowance	<u>\$ 25,665,646</u>	<u>\$ 26,439,447</u>

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

Note 7 - Mortgage Notes Receivable (Continued)

The Organization had loan covenants with certain foundations that require the Organization to maintain certain levels of allowances to cover potential loan losses. In lieu of charging the full amount of the requirements to earnings, the Organization's Board of Directors chose to voluntarily designate a portion of its net assets for this purpose. The balance of the Board Designated Net Assets as of June 30, 2021 and June 30, 2020, 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 secured by residential real estate properties where formal foreclosure procedures are in process is \$375,179 and \$627,705 as of June 30, 2021 and June 30, 2020, 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.

Combined borrower balances of the Organization's community loan portfolio as of June 30, 2021 and June 30, 2020 are as follows:

	2021	2020
Aid to Distressed Families of Appalachian Counties	\$ 23,650	\$ 23,650
Almost Heaven Habitat for Humanity	173,876	178,098
Appalachia Habitat For Humanity	504,557	513,998
ATLAS	1,435,240	1,387,585
Beattyville Housing Development	369,515	355,253
Charleston Replacement Housing #9	872,945	884,664
COAP	225,744	195,399
Community Action Partnership of North Alabama	1,122,552	1,144,476
Community Ventures	2,153,484	-
Cumberland Horizon	257,706	-
East Tennessee Development Housing Corporation	-	32,497
Eastern Eight CDC	3,935,471	4,000,000
Elkhorn City School Apartments	306,142	-
Frontier Housing, Inc.	141,969	528,602
Giffin Senior Community	1,277,783	1,277,783
Riverplace Rehab (GMBS Holdings)	1,175,203	1,200,000
Hale County Habitat for Humanity	44,275	-
HERO	322,463	370,914
Helping Hands	148,309	-
Habitat for Humanity Virginia	123,609	-
HOMES, Inc.	149,495	206,940
Homesource	375,452	-
HOPE Inc.	-	199,594
MS Toughest Kids participation	1,316,576	-
Hope Federal Credit Union	-	1,290,529
Housing Development Alliance	502,164	549,289
Housing Development Foundation, Inc.	325,653	336,809
HPI	-	400,000

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

	2021	2020
Kentucky River Community Care	139,090	55,090
Kit Carson	4,146,278	759,515
Knox Housing Partners, Inc.		371,994
Leestown	2,541,011	-
Lil Britches Child Care Center	21,339	26,828
Long Run Apartments	1,205,774	1,255,575
M Fine	710,228	724,779
Midway School Apartments	229,164	233,294
Mingo	1,830,782	1,845,999
Mon Valley Habitat for Humanity	15,000	20,000
Mountain Top	-	25,000
Mt. Sterling - Main Cross, LLC	184,500	184,500
Mulberry Housing LLP	45,000	45,000
Northern Alabama Revolving Loan Fund	246,163	-
Neighborhood Housing Services of Birmingham	190,966	155,966
New Directions Housing Corporation	-	47,244
Nicol - Arlington Lofts	885,935	-
Ol Seminole	2,159,112	616,808
Open Hearts	77,943	79,500
Pikeville YMCA	2,338,983	-
Poynter-Mackey	179,039	189,170
Distinction LLC Participation	79,902	-
Randolph County Housing Authority	535,905	553,064
Redbud Financial Alternatives, Inc.	30,000	30,000
RUACH Holding LLC	1,550,000	-
Scott-Morgan CDC	41,185	45,696
Servolution Health Services	587,079	618,191
Shelton Robinson Properties	2,067,740	2,120,379
Small Town Housing, LLC	569,405	580,502
Southern Appalachian Labor School	49,284	55,315
Virginia Housing and Community Development Corp	129,250	-
Warrior Creek Development Holdings	212,924	216,727
Washington County VA Habitat for Humanity	-	123,699
Washington Facility and Loan Company	5,914,343	5,506,429
Winterwood	2,194,195	-
Woodlands Development Group	81,225	86,426
Total Notes Receivable	48,472,577	31,648,770
Less: Allowance for Loan Loss	(2,385,023)	(1,816,536)
Notes Receivable, Net of Allowance	\$ 46,087,554	\$ 29,832,234

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

Note 9 - Allowance for Loan Losses

Single Family (Mortgages Receivable) and Consumer Loans Allowance

It is the policy of Fahe to maintain a loan-loss reserve sufficient to cover potential loan losses. It is also the policy of Fahe to provide valuation allowances for estimated loan losses thereby representing management's best estimate of future bad debts. As set by the Finance Committee, the Treasurer shall review the financial condition of all loan pools on a regular basis and allocate necessary funds to loan loss reserves. If a loan is determined non-collectible, it will be written off the books and charged against the loan loss reserve. Any recoveries of such loans are applied back and replenish the loan loss reserve account.

In order to determine the appropriate amount of loan loss to reserve, loans are monitored on a regular basis by qualified staff and the Treasurer, or Treasurer designated Fahe employees, as necessary. An evaluation of loans will take the following matters into consideration:

- a) Whether or not the loan is current;
- b) The borrower's financial condition;
- c) The borrower's credit worthiness;
- d) Risk of loss due to no fault of the borrower;
- e) Collateral and Loan-To-Value (LTV);
- f) Lien position; and
- g) Other outstanding indebtedness to either Fahe or another lender

As loans are monitored, the Treasurer will establish a system to classify loans according to the degree of risk they appear to pose for the corporation. Fahe will allocate additional funds to the loan loss reserve account on a loan-by-loan basis, using the risk rating system outlined below. For loans with special circumstances, determinations which differ from the rating system may be approved.

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

Additions to the loan loss allowance are charged to earnings. Accounts written off are charged against the allowance and recoveries are credited to the allowance.

Deferred Loans

Deferred loans must be reserved against on a method other than delinquency as these loans are not delinquent until Fahe is notified of foreclosure by another entity. Management looked at the concentration of deferred loans and used a weighted foreclosure rate from the Great Recession (our most recent housing and foreclosure crisis) based on the state concentration. Management found that 2% was the weighted foreclosure percentage, and an adequate reserve. All deferred loans will be reserved at 2% to adequately reduce the value by risk of loss.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

Note 9 - Allowance for Loan Losses (Continued)

Community Loans Allowance

Management has identified the following risk factors for community loans and will assign a layered loan loss reserve multiplier based on which categories a loan falls into. The range of reserve will be from .7% to 36% depending on risk factors of the loan within each category.

	<u>Reserve Percentage</u>
Loan Type	.90 to 1.25%
Collateral	.20 to 10%
Risk Rating at Underwriting	0 to .90%
Delinquency	<u>0 to 24%</u>
Total Reserve Range	.70 to 36.15%

The activity in the allowance for loan loss accounts for the years ended June 30, 2021 and 2020 is as follows:

2021 Allowance for Loan Losses					
	Mortgage Lending		Consumer Loans Receivable	Community Lending	Total
Beg. Balance	\$ 2,486,266	\$	14,820	\$ 1,816,536	\$ 4,317,622
Charge-Offs	(84,849)		-	-	(84,849)
Recoveries	55,642		-	-	55,642
Provision	(389,962)		(1,498)	568,487	177,027
Ending Balance	<u>\$ 2,067,097</u>	\$	<u>13,322</u>	<u>\$ 2,385,023</u>	<u>\$ 4,465,442</u>

2020 Allowance for Loan Losses					
	Mortgage Lending		Consumer Loans Receivable	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)		14,820	1,371,889	1,273,113
Ending Balance	<u>\$ 2,486,266</u>	\$	<u>14,820</u>	<u>\$ 1,816,536</u>	<u>\$ 4,317,622</u>

Credit Quality Information

Fahe determines credit quality of its existing portfolio by examining delinquency and other factors monthly. The following tables present performing and nonperforming loans based on payment activity for the years ended June 30, 2021 and June 30, 2020. 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 60 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.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

Note 9 - Allowance for Loan Losses (Continued)

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. Fahe had no new troubled debt restructurings during the year ended June 30, 2021. There were two new restructurings classified as troubled debt in the year ended June 30, 2020. One was a \$1.28 UR 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.

2021 Performing vs. Nonperforming Loans				
	Mortgage Lending	Consumer Lending	Community Lending	Mortgage Conveyances
Performing	\$ 25,882,599	\$ 133,213	\$ 46,872,333	\$ -
TDR	184,919	-	1,277,783	-
Non-accrual	460,040	-	322,463	62,397
Nonperforming	1,215,703	-	-	100,055
Total	<u>\$ 27,743,261</u>	<u>\$ 133,213</u>	<u>\$ 48,472,579</u>	<u>\$ 162,452</u>

2020 Performing vs. Nonperforming Loans				
	Mortgage Lending	Consumer 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	<u>\$ 27,418,856</u>	<u>\$ -</u>	<u>\$ 32,926,553</u>	<u>\$ 423,956</u>

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, 2021 and June 30, 2020. 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
2021						
Mortgage Lending	\$ 18,343	\$ 908,836	\$ 612,107	\$ 1,539,286	\$ 26,203,975	\$ 27,743,261
Mortgage Conveyances	17,325	64,748	80,379	162,452	-	162,452
Consumer Lending	-	-	-	-	133,213	133,213
Community Lending	-	-	-	-	48,472,579	48,472,579
Total	<u>\$ 35,668</u>	<u>\$ 973,584</u>	<u>\$ 692,486</u>	<u>\$ 1,701,738</u>	<u>\$ 74,809,767</u>	<u>\$ 76,511,505</u>
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
Consumer Lending	-	-	-	-	-	-
Community Lending	-	-	-	-	31,648,770	31,648,770
Total	<u>\$ 156,027</u>	<u>\$ 535,579</u>	<u>\$ 735,875</u>	<u>\$ 1,427,481</u>	<u>\$ 59,341,884</u>	<u>\$ 60,769,365</u>

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

Note 9 - Allowance for Loan Losses (Continued)

Impaired Loans

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

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

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

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

Interest recognized on impaired loans during the years ended June 30, 2021 and June 30, 2020 was \$29,562 and \$19,347, respectively. The average investment in impaired loans as of June 30, 2021 and June 30, 2020 was \$1,812,128 and \$1,493,251, respectively. The Organization had \$25,116 and \$154,537 in troubled debt restructuring loans in default as of June 30, 2021 and 2020, respectively.

Impaired Loans			
	Unpaid Principal Balance	Related Allowance	Net Recorded Investment
2021			
Mortgage Lending	\$ 1,467,442	\$ (176,499)	\$ 1,290,943
Mortgage Conveyances	162,452	(37,522)	124,930
Community Lending	322,463	(3,225)	319,238
Total	<u>\$ 1,952,357</u>	<u>\$ (217,246)</u>	<u>\$ 1,735,111</u>
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	<u>\$ 1,902,309</u>	<u>\$ (230,409)</u>	<u>\$ 1,671,900</u>

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

Note 9 - Allowance for Loan Losses (Continued)

Nonaccrual loans

In the Community Lending fund, Fahe generally places a loan on nonaccrual status when the full and timely collection of interest or principal becomes uncertain, during which period staff work out a mitigation strategy with the borrower, and no restructuring has occurred. In the Mortgage Lending segment, loans at 0% interest are not considered nonaccrual if they were underwritten or designed with that intent and funded from a grant resource. Mortgage Loans and Consumer Loans are put on nonaccrual status once they reach delinquency over 120 days. As of June 30, 2021 and 2020, loans on nonaccrual status and their respective classes are as follows:

	Nonaccrual Loans	
	2021	2020
Mortgage Lending	\$ 460,040	\$ 611,442
Mortgage Conveyances	62,397	-
Community Lending - Non IRP	322,463	322,463
Total	<u>\$ 844,900</u>	<u>\$ 933,905</u>

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, 2021 and 2020 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	
				2021	2020
Andrew Schenker	1.75%	3 Years	April 25, 2022	\$ 25,000	\$ 25,000
Appalachian Community Fund	2.00%	1 Years	July 1, 2022	1,342,000	-
Anonymous	1.75%	5 Years	July 31, 2025	65,000	-
Anonymous	2.50%	3 Years	January 16, 2024	80,000	80,000
Anonymous	2.50%	5 Years	December 1, 2023	200,000	200,000
Banc Of America Cdc	2.68%	4 Years	December 4, 2022	3,000,000	3,000,000
Byron & Lee Stookey	2.50%	5 Years	September 30, 2025	50,000	50,000
Byron & Lee Stookey	3.00%	5 Years	November 30, 2021	25,000	25,000
Byron & Lee Stookey	2.50%	5 Years	July 15, 2025	26,000	-
Ceniarth Wales Interests, L.p.	2.00%	3 Years	August 8, 2022	2,000,000	2,000,000
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 15, 2024	50,000	50,000
Clients Of The Sustainability Group	2.50%	5 Years	September 30, 2025	100,000	100,000
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	July 1, 2023	25,000	25,000
Clients Of The Sustainability Group	2.50%	3 Years	July 1, 2025	100,000	100,000
Clients Of The Sustainability Group	2.50%	5 Years	December 20, 2025	25,000	25,000
Clients Of The Sustainability Group	2.50%	3 Years	December 20, 2025	50,000	50,000
Clients Of The Sustainability Group	3.00%	3 Years	February 1, 2023	40,000	40,000
Clients Of The Sustainability Group	3.00%	5 Years	February 1, 2023	16,667	16,667
Clients Of The Sustainability Group	3.00%	5 Years	February 1, 2023	16,667	16,667
Clients Of The Sustainability Group	3.00%	5 Years	February 1, 2023	16,667	16,667
Clients Of The Sustainability Group	3.00%	5 Years	May 1, 2023	50,000	50,000

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

Note 10 - Notes Payable (Continued)

	Rate	Term	Maturity	Balance	
				2021	2020
Clients Of The Sustainability Group	3.00%	5 Years	July 1, 2024	50,000	50,000
Clients Of The Sustainability Group	2.50%	5 Years	September 13, 2024	25,000	25,000
Clients Of The Sustainability Group	3.00%	5 Years	September 13, 2024	200,000	200,000
Clients Of The Sustainability Group	3.00%	5 Years	September 13, 2024	100,000	100,000
Clients Of The Sustainability Group	2.50%	5 Years	January 31, 2025	50,000	50,000
Clients Of The Sustainability Group	2.50%	5 Years	October 15, 2025	50,000	-
Clients Of The Sustainability Group	2.50%	5 Years	November 30, 2025	50,000	-
Commercial Bank - Ten Year Note - Fahe Tn, Llc	0.00%	10 Years	May 10, 2023	500,000	500,000
Commercial Bank - Two Year Note	2.75%	2 Years	November 15, 2021	697,318	4,000,000
Congregation Of The Sisters Of St. Joseph, Inc.	2.50%	5 Years	June 30, 2023	100,000	100,000
Congregation Of The Sisters Of Charity Of The Incarnat	2.00%	5 Years	March 7, 2023	250,000	250,000
Deutsche Bank	2.00%	5 Years	September 2, 2021	500,000	500,000
Domestic & Foreign Misionary Society Of The Pecusa	3.63%	5 Years	March 31, 2021	-	500,000
Elisa Breton And Matt Nathanson	2.00%	4 Years	March 1, 2025	40,000	-
Emma C Treavor	1.50%	5 Years	December 30, 2021	2,500	2,500
Flannery, Maureen	1.00%	8 Years	February 15, 2027	20,973	20,765
Glenmary Home Missioners	2.00%	4 Years	October 28, 2024	25,000	25,000
Head Corporation	2.50%	3 Years	January 15, 2024	300,000	300,000
Hogan, Timothy And Karen	2.00%	5 Years	May 31, 2026	25,000	-
Jones Family Farm	1.25%	1 Years	May 31, 2022	39,124	38,642
Jones Family Farm	1.25%	1 Years	May 31, 2022	28,162	27,816
Kentucky Housing Corporation	1.00%	20 Years	November 1, 2031	179,807	196,104
Kentucky Housing Corporation - Affordable Housing Ti	1.00%	30 Years	July 1, 2033	31,056	33,303
Kentucky Housing Corporation - Ky Home Loan Fund/a	3.00%	30 Years	October 1, 2035	303,227	319,224
Kentucky Housing Corporation - Nhpr 2000-2001	1.00%	20 Years	July 1, 2020	-	31,613
Kentucky Housing Corporation - Nhpr 2001-2002	1.00%	20 Years	July 1, 2022	26,738	53,475
Kentucky Housing Corporation - Nhpr 2002-2003	1.00%	20 Years	July 1, 2023	67,926	101,489
Kentucky Housing Corporation - Nhpr 2003-2004	1.00%	20 Years	July 1, 2024	91,013	121,350
Kentucky Housing Corporation - Nhpr 2004-2005	1.00%	20 Years	July 1, 2025	92,700	115,875
Kentucky Housing Corporation - Nhpr 2005-2006	1.00%	20 Years	July 1, 2026	117,120	136,640
Kentucky Housing Corporation - Nhpr 2006-2007	1.00%	20 Years	January 1, 2027	52,200	60,900
Kentucky Housing Corporation - Nhpr 2007-2008	1.00%	20 Years	September 1, 2028	86,512	98,871
Kentucky Housing Corporation - Nhpr 2009	1.00%	20 Years	January 1, 2029	105,109	118,416
Maced	3.00%	3 Years	October 22, 2022	500,000	500,000
Margo Miller	2.00%	1 Year	June 1, 2022	10,000	-
Mercy Investment Services	2.00%	5 Years	May 1, 2025	1,000,000	1,000,000
New Markets Investment 100, Llc	2.00%	7 Years	November 19, 2025	1,300,000	1,300,000
Opportunity Finance Network	3.00%	3 Years	December 31, 2022	1,875,000	1,875,000
Opportunity Finance Network	3.50%	3 Years	December 31, 2022	2,000,000	2,000,000
Paula And Larry Withers	2.00%	2 Years	July 31, 2023	150,000	150,000
Peoples Self-help Housing	2.75%	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
Religious Communities Investment Fund, Inc.	2.50%	5 Years	June 15, 2025	250,000	250,000
Republic Bank & Trust Company	3.18%	1 Years	November 28, 2021	-	219,064
Roswell, David	2.00%	5 Years	December 1, 2025	120,000	120,000
Sara & John Morgan	1.00%	3 Years	June 30, 2023	10,000	10,000
Sblf-ppp	1.00%	2 Years	April 13, 2022	-	775,500
Seton Enablement Fund, Inc.	3.00%	5 Years	April 1, 2025	40,586	50,000
Sisters Of Charity Of Nazareth	0.50%	5 Years	December 30, 2022	150,000	150,000
Sustainable Communities Fund	3.25%	4 Years	July 29, 2023	300,000	300,000
Sylvia Jones & Vickie Jones	1.25%	1 Years	March 31, 2022	2,326	2,050
The Annie E. Casey Foundation	2.00%	10 Years	April 15, 2030	2,000,000	2,000,000
Truist Bank	2.00%	10 Years	February 12, 2031	2,250,000	-
Us Department of Treasury - CDFI	1.37%	24 Years	March 15, 2045	963,763	-
Us Department of Treasury - CDFI	1.37%	24 Years	March 15, 2045	963,763	-
Us Department of Treasury - CDFI	1.37%	24 Years	March 15, 2045	963,763	-
Us Department of Treasury - CDFI	1.37%	24 Years	March 15, 2045	963,763	-
Us Department of Treasury - CDFI	1.37%	24 Years	March 15, 2045	963,763	-
Us Department of Treasury - CDFI	1.37%	24 Years	March 15, 2045	867,386	-
Us Department of Treasury - CDFI	1.59%	24 Years	March 15, 2045	1,033,500	-
Us Department of Treasury - CDFI	2.59%	28 Years	March 15, 2049	1,200,000	-
Us Department of Treasury - CDFI	2.59%	28 Years	March 15, 2049	1,200,000	-
Us Department of Treasury - CDFI	2.59%	28 Years	March 15, 2049	1,000,000	-
Us Department of Treasury - CDFI	2.59%	28 Years	March 15, 2049	1,000,000	-
Us Department of Treasury - CDFI	2.59%	28 Years	May 15, 2049	1,000,000	-
Us Department of Treasury - CDFI	2.59%	28 Years	March 15, 2049	1,000,000	-
Us Department of Treasury - CDFI	2.59%	28 Years	March 15, 2049	1,000,000	-
Us Department of Treasury - CDFI Bond Program	3.07%	20 Years	March 16, 2037	1,098,977	1,152,481
Us Department of Treasury - CDFI Bond Program	3.02%	27 Years	December 15, 2044	838,212	862,404

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

Note 10 - Notes Payable (Continued)

	Rate	Term	Maturity	Balance	
				2021	2020
Us Department of Treasury - CDFI Bond Program	3.53%	26 Years	March 15, 2045	847,315	869,782
Us Department of Treasury - CDFI Bond Program	3.41%	26 Years	March 15, 2045	1,006,645	1,033,761
Us Department of Treasury - CDFI Bond Program	3.28%	26 Years	March 15, 2045	1,398,648	1,437,037
Us Department of Treasury - CDFI Bond Program	2.74%	25 Years	March 15, 2045	1,840,942	1,895,332
Us Department of Treasury - CDFI Bond Program	2.45%	25 Years	March 15, 2045	349,179	359,903
Usda Rural Housing Service - Community Facilities Direct Program	2.38%	35 Years	December 22, 2056	158,273	161,022
Usda Rural Housing Service - Community Facilities Direct Program	2.38%	36 Years	December 22, 2056	2,329,976	-
Vcc Bank	3.25%	3 Years	August 5, 2022	-	-
Vhda - 2004 Line Of Credit	2.00%	30 Years	September 5, 2034	33,928	36,096
Vhda - 2004 Line Of Credit	2.00%	30 Years	March 5, 2035	35,535	37,698
Vhda - 2004 Line Of Credit	2.00%	30 Years	December 5, 2033	29,730	31,516
Vhda - 2004 Line Of Credit	2.00%	30 Years	June 5, 2035	51,046	54,071
Vhda - 2004 Line Of Credit	2.00%	30 Years	February 1, 2036	49,945	52,846
Vhda - 2004 Line Of Credit	2.00%	30 Years	February 1, 2036	51,674	54,676
Vhda - 2004 Line Of Credit	2.00%	30 Years	August 1, 2036	47,857	50,531
Vhda - 2004 Line Of Credit	2.00%	30 Years	August 1, 2036	22,128	23,365
Vhda - 2004 Line Of Credit	2.00%	30 Years	September 1, 2036	43,533	45,950
Vhda - 2005 Line Of Credit	2.00%	30 Years	December 1, 2036	52,161	55,004
Vhda - 2005 Line Of Credit	2.00%	30 Years	January 1, 2037	45,190	47,652
Vhda - 2005 Line Of Credit	2.00%	30 Years	January 1, 2037	59,367	62,602
Vhda - 2005 Line Of Credit	2.00%	30 Years	January 1, 2037	69,410	73,192
Vhda - 2005 Line Of Credit	2.00%	30 Years	February 1, 2037	60,197	63,437
Vhda - 2005 Line Of Credit	2.00%	30 Years	February 1, 2037	44,487	46,881
Vhda - 2007 Reach	3.00%	30 Years	September 1, 2037	32,501	34,031
Vhda - 2007 Reach	3.00%	30 Years	December 1, 2037	55,221	57,770
Vhda - 2007 Reach	3.00%	30 Years	April 1, 2038	65,932	68,899
Vhda - 2007 Reach	3.00%	30 Years	June 1, 2038	48,590	50,736
Vhda - 2009 Reach	3.00%	30 Years	December 1, 2038	59,248	61,786
Vhda - 2009 Reach	3.00%	30 Years	May 1, 2039	71,104	74,058
Vhda - 2010 Reach	3.00%	30 Years	September 1, 2039	64,148	66,735
Vhda - 2010 Reach	3.00%	30 Years	December 1, 2039	-	83,576
Vhda - 2010 Reach	3.00%	30 Years	July 1, 2040	77,846	80,825
Vhda - 2011 Reach	3.00%	30 Years	November 1, 2040	65,377	67,664
Vhda - 2011 Reach	3.00%	30 Years	May 1, 2042	53,247	55,060
Vhda - 2011 Reach	3.00%	30 Years	June 1, 2042	-	73,266
Vhda - 2011 Reach	3.00%	30 Years	September 1, 2042	91,338	94,366
Vhda - 2012 Reach	3.00%	30 Years	July 1, 2043	35,723	36,859
Vhda - Housing Fund #2	3.00%	30 Years	November 5, 2031	34,241	36,877
Vhda - Housing Fund #2	3.00%	30 Years	January 5, 2033	36,267	38,825
Vhda - Housing Fund #2	3.00%	30 Years	May 6, 2033	28,192	30,164
Vhda - Housing Fund #2	3.00%	30 Years	December 5, 2032	17,666	18,842
Vhda - Housing Fund #3	2.00%	30 Years	March 1, 2034	28,390	30,326
Vhda - Housing Fund #3	2.00%	30 Years	March 1, 2034	40,406	43,161
Vhda - Housing Fund #3	2.00%	30 Years	March 1, 2036	25,590	27,334
Vhda - Housing Fund #3	2.00%	30 Years	June 5, 2034	26,837	28,614
Vhda - Housing Fund #3	2.00%	30 Years	May 5, 2034	34,316	36,572
Vhda - Housing Fund #3	2.00%	30 Years	June 5, 2034	22,317	23,784
Vhda - Housing Fund #3	2.00%	30 Years	July 5, 2034	39,825	42,369
Vhda - Housing Fund #3	2.00%	30 Years	August 5, 2034	46,500	49,449
Vhda - Vhprf Phase I & II	3.00%	30 Years	October 5, 2027	8,740	9,907
Vhda - Vhprf Phase I & II	3.00%	30 Years	October 5, 2027	8,853	10,036
Vhda - Vhprf Phase I & II	3.00%	30 Years	May 5, 2028	8,838	9,972
Vhda - Vhprf Phase I & II	3.00%	30 Years	April 5, 2029	-	7,444
Vhda - Vhprf Phase I & II	3.00%	30 Years	October 5, 2029	1,518	1,672
Vhda - Vhprf Phase I & II	3.00%	30 Years	October 5, 2029	1,895	2,089
Vhda - Vhprf Phase I & II	3.00%	30 Years	October 5, 2029	3,032	3,342
Virginia Organizing	2.00%	5 Years	January 20, 2022	308,000	308,000
Wells Fargo Bank	2.00%	10 Years	October 1, 2023	2,000,000	2,000,000
Woodforest	2.75%	2 Years	July 16, 2023	2,000,000	-
Woodforest National Bank	4.35%	4 Years	August 16, 2022	-	950,000
Total Notes Payable				\$ 55,143,152	\$ 39,320,247

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

Note 10 - Notes Payable (Continued)

The principal repayment requirements at June 30, 2021, relating to the above notes payable are as follows:

2022	5,761,603
2023	12,757,798
2024	9,477,361
2025	2,793,369
2026	3,677,672
Later Years	20,675,349
	\$ 55,143,152

As of June 30, 2021 and 2020, \$29,828,078 and \$22,437,531 of notes payable, respectively, are unsecured and represent private investments by individuals and groups.

During the years ended June 30, 2021 and June 30, 2020, the Organization held a line of credit with Commercial Bank secured by pledged notes receivable. As of June 30, 2021 and 2020, the balance of the line was \$697,318 and \$4,000,000, respectively.

As of June 30, 2021 and 2020, the Organization had available balances on lines of credit with Commercial Bank of \$5,302,682 and \$2,000,000, respectively, Central Bank of \$500,000 for both years, and Virginia Community Capital of \$3,000,000 for both years.

As of June 30, 2021, the Organization has receivables totaling \$1,644,003 pledged as collateral against loans with VHDA, a \$800,000 compensating balance and \$2,432,697 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, \$634,217 receivables pledged as collateral with MACED, \$2,488,249 of receivables pledged to USDA, and \$25,475,757 receivables pledged as collateral with the CDFI.

During the year ended June 30, 2020, Fahe applied and qualified for a Payroll Protection Program loan through the CARES Act related to the COVID-19 response. As of June 30, 2020 the loan is listed with Central Bank for \$775,500. Fahe fully spent the funds according to the program guidelines and was awarded forgiveness during the year ended June 30, 2021, which was reported as gain on extinguishment of debt on the consolidated statement of activities.

As of June 30, 2020, the Organization had receivables totaling \$2,175,615 pledged as collateral against loans with VHDA, \$800,000 compensating balance and \$3,143,585 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 receivables pledged to USDA, \$153,203 receivables pledged to Republic Bank and \$8,682,716 receivables pledged as collateral with the CDFI.

Near the end of the fiscal year ended June 30, 2021, some of the notes assigned as collateral for the Commercial Bank loan had been paid down. Management assigned \$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.

The Organization has covenants relating to debt investments. As of June 30, 2021, 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 donor 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 donor restrictions through net income and capital grants.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

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 \$127,000,000 on behalf of the Organization and six other CDFIs. Fahe's portion of the issuance was \$15,000,000. 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 \$20,000,000. As of June 30, 2021 and 2020, Fahe had drawn down \$15,000,000 and \$8,027,363, respectively, of the 2015 allocation. As of June 30, 2021 and 2020, Fahe had drawn \$7,400,000 and \$0, respectively, of the 2019 allocation.

Note 12 - Other Liabilities

The Organization shows EQ2 notes under Other Liabilities on the Consolidated 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).

During the year ended June 30, 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 \$2,000,000 as of June 30, 2021 and 2020, respectively.

During the year ended June 30, 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 \$1,000,000 as of June 30, 2021 and 2020, respectively.

During the year ended June 30, 2019, Fahe received an EQ2 investment from Compass Bank for use in the state of Alabama. The equity equivalent had a balance of \$1,000,000 as of June 30, 2021 and 2020, respectively.

During the years ended June 30, 2021 and 2020, Fahe did not receive any additional EQ2 investments.

Fahe held notes payable to 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 Consolidated Statements of Financial Position. This note had balances of \$2,000,000 and \$2,000,000 as of June 30, 2021 and 2020, respectively.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

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's contribution amounts. During the years ended June 30, 2021 and 2020, \$116,817 and \$103,279, respectively, was expended.

The Organization provides a 457 plan to eligible employees based on Board designation. During the years ended June 30, 2021 and 2020, \$32,685 and \$30,992, respectively, was expended and is included as a component of personnel expenses on the accompanying consolidated statements of functional expenses.

Note 14 - Operating Leases

During the year ended June 30, 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 did not renew this lease during the year ended June 30, 2021.

Fahe also leases three vehicles and three copy machines on multi-year operating leases. The vehicles leases have terms of three 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, 2021 and June 30, 2020, total rental expenses under leases amounted to \$71,139 and \$39,820, respectively, and is reported as a component of occupancy expense on the accompanying statements of functional expenses.

As of June 30, 2021, Fahe was obligated under its operating lease arrangements as follows:

Fiscal year ending June 30,	Total
2022	\$ 50,625
2023	7,512
2024	6,886
	<u>\$ 65,023</u>

Note 15 - Commitments and Contingencies

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

The Organization has an agreement with the Tennessee Housing Development Agency (THDA) to guarantee New Start loans Fahe originated to finance only newly built homes. The loans are limited to an 80% LTV.

The Organization's management feels confident these loans will be repaid, but in the event of default they are fully secured by real estate due to the limitations on loan LTV and pose no additional liability to the Organization. As of June 30, 2021 and 2020, the Organization has a contingent liability of \$551,374 and \$582,620, respectively. The Organization no longer issues any new guarantees.

During the year ended June 30, 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.

As of June 30, 2021 and June 30, 2020, Fahe had committed, but undisbursed, credit lines totaling \$10,174,457 and \$12,682,961, respectively.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

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 (FDIC) 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 \$27,905,713 and \$29,120,595 at June 30, 2021 and 2020, respectively, are secured by the property purchased or improved except as noted below as unsecured. 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 \$48,472,579 and \$31,648,770 as of June 30, 2021 and 2020, respectively, are secured by the assets of the Organization with the exception of the unsecured amount as noted. As of June 30, 2021 and 2020, \$713,013 and \$450,558, respectively, were unsecured. The unsecured loans are spread between the mortgages, notes and consumer loans receivable.

Note 17 - Consolidated Statements of Cash Flows

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated statements of financial position that sum to the total of the same such amounts in the consolidated statements of cash flows.

	2021	2020
Cash and cash equivalents	\$ 14,793,968	\$ 11,618,932
Cash unavailable for operations	4,091,778	2,898,250
	<u>\$ 18,885,746</u>	<u>\$ 14,517,182</u>

Note 18 - Portfolios Purchased

Fahe purchased two portfolios from one organization during the year ended June 30, 2021 and one portfolio from an organization during the year ended June 30, 2020. FAHThe 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 purchases during the year ended June 30, 2021, the total purchase amount was \$1,139,913. The gain on purchase of the portfolios recognized was \$282,689 and the loan loss reserve was increased \$14,370 to avoid overstating income and expenses for delinquent loans, for a total portfolio purchase of \$1,436,972. The total gain on acquisition of assets was \$352,309, which was due to the recognition of gain related to past portfolios that had been held in deferred revenue from past portfolio purchases.

For the purchase during the year ended June 30, 2020, the total purchase amount was \$2,060,277 and the gain on purchase of the portfolios recognized was \$653,286, as 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, which was due to the recognition of gain related to past portfolios that had been held in deferred revenue from past portfolio purchases.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

Note 19 - 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 revolving lines of credit in the amount of \$11,000,000 in the event of unanticipated cash flow needs.

The following is the detail of the Organization's liquidity as of June 30:

	2021	2020
Cash and cash equivalents	\$ 14,793,968	\$ 11,618,932
Accounts receivable	453,682	746,414
Grants receivable	226,586	912,627
Accrued interest receivable	443,739	289,589
Notes receivable, net	15,594,997	13,338,652
Mortgages receivable, net	2,034,786	2,095,542
Consumer loans receivable, net	17,976	17,168
Less: Cash and cash equivalents with restrictions	(5,508,142)	(3,600,964)
Less: Lending programs with stipulations to revolve	(1,380,255)	(816,809)
Additional funds to be released from restrictions	1,385,009	970,043
Cash available for operations within one year	<u>\$ 28,062,346</u>	<u>\$ 25,571,194</u>

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 back to full capacity. Management will continue to monitor the changing landscape and is prepared to limit staff to those required for transactional capacity and maintaining internal controls and segregation of duties that cannot be performed from home, if conditions change negatively. 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 ended June 30, 2021, beyond the increase in the allowance for loan loss in anticipation of borrower default made at the end of fiscal year 2020, and still maintained as additional allowance.

Note 21 - Subsequent Events

Management of the Organization has considered subsequent events through September 30, 2021, the date this report became available for issuance.

SUPPLEMENTARY INFORMATION

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2021

Federal Agency/Pass-Through Agency/Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Provided to Subrecipients	Total Federal Expenditures
<u>United States Department of Agriculture</u>				
Community Facilities Loans and Grants Cluster	10.766		\$ -	\$ 2,511,022
Subtotal Community Facilities Loans and Grants Cluster			-	2,511,022
Pass-through from Local Initiatives Support Corporation Rural Community Development Initiative	10.446	45314-0014	-	10,000
Total United States Department of Agriculture			-	2,521,022
<u>United States Department of Housing and Urban Development</u>				
Pass-through from Kentucky Housing Corporation Home Investment Partnership Program (HOME)	14.239		-	565,407
Pass-through from Virginia Housing Home Investment Partnership Program (HOME)	14.239		-	138,571
Subtotal Home Investment Partnership Program (HOME)			-	703,978
Pass-through from Local Initiatives Support Corporation Section 4 Capacity Building for Community Development and Affordable Housing	14.252	45314-0015	-	20,000
Total United States Department of Housing and Urban Development			-	723,978
<u>United States Department of Treasury</u>				
Community Development Financial Institutions Program	21.020		-	487,500
Pass-through from NeighborWorks America	21.000		-	727,360
Pass-through from Opportunity Finance Network Community Development Financial Institutions Bond Guarantee Program	21.014	15-2-BG-012323	-	14,583,339
Community Development Financial Institutions Bond Guarantee Program	21.014	19-BGA-00002	-	7,400,000
Subtotal Community Development Financial Institutions Bond Guarantee Program			-	21,983,339
Pass-through from the State of Tennessee Coronavirus Relief Fund - COVID - 19	21.019		-	298,170
Total United States Department of Treasury			-	23,496,369
<u>Appalachian Regional Commission</u>				
Appalachian Area Development	23.002		-	572,479
Pass-through from Kentucky Housing Corporation Appalachian Regional Development	23.001		-	12,600
Pass-through Appalachian Community Capital Appalachian Research, Technical Assistance, and Demonstration Projects - COVID - 19	23.011		-	200,000
Total Appalachian Regional Commission			-	785,079
<u>United States Department of Health and Human Services</u>				
Department of Substance Abuse and Mental Health Services Administration Pass-through from the Commonwealth of Kentucky State Targeted Response to the Opioid Crisis	93.788		-	1,601,530
Mental Health Disaster Assistance and Emergency Mental Health	93.982		-	93,756
Total United States Department of Health and Human Services			-	1,695,286
Total Federal Awards			\$ -	\$ 29,221,734

The accompanying Notes to Schedule of Expenditures of Federal Awards are an integral part of this schedule.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2021

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Federation of Appalachian Housing Enterprises, Inc., under programs of the federal government for the year ended June 30, 2021. 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"). Because the Schedule presents only a selected portion of the operations of Federation of Appalachian Housing Enterprises, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Federation of Appalachian Housing Enterprises, Inc.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles contained in OMB Circular A-122 or the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited to reimbursement.

NOTE C - INDIRECT COST RATE

Fahe has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D - 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 E - COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS BOND GUARANTEE PROGRAM (CFDA 21.014)

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 U.S. Treasury to guarantee the full amount of bonds issued to support community development financial institutions (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, (detailed below) and the U.S. Treasury will guarantee repayment. The OFN 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 \$127,000,000 on behalf of the Organization and six other CDFIs. Fahe's portion of the issuance was \$15,000,000. During the year ended June 30, 2021, proceeds of \$6,972,637 were drawn by Fahe from this issuance and \$638,065 repaid. The outstanding balance as of June 30, 2021 was \$14,099,617.

In 2019, the CDFI Fund approved OFN to serve as Qualified Issuer and issue a bond totaling \$100,000,000 on behalf of Fahe and two other CDFIs. Fahe's portion of the issuance was \$20,000,000. During the year ended June 30, 2021, proceeds of \$7,400,000 were drawn by Fahe from this issuance and no amounts were repaid. The outstanding balance as of June 30, 2021 was \$7,400,000.

NOTE F - USDA COMMUNITY FACILITIES RELENDING PROGRAM (CFDA 10.766)

In 2016, Fahe was awarded an allocation of \$50,000,000 through USDA's Community Facilities Relending Program. During the year ended June 30, 2021 \$2,350,000 of proceeds were received by FAHE from its allocation and \$22,773 was repaid. As of June 30, 2021, \$2,488,249 was outstanding.

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 Trustees
Federation of Appalachian Housing Enterprises, Inc.

We have audited, 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, the consolidated financial statements of Federation of Appalachian Housing Enterprises, Inc., which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities, functional expenses 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 30, 2021. The financial statements of certain subsidiaries were not audited in accordance with *Government Auditing Standards* and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with those subsidiaries.

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 ("internal control") as a basis for designing 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 weakness 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 from 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 consolidated financial statements. 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of the 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 Federation of Appalachian Housing Enterprises, Inc.'s internal control or on compliance. This 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 and compliance. Accordingly, this communication is not suitable for any other purpose.



Bethesda, Maryland
September 30, 2021

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 Trustees
Federation of Appalachian Housing Enterprises, Inc.

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, 2021. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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, 2021.

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.



Bethesda, Maryland
September 30, 2021

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2021

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported

Noncompliance material to financial statements noted?

 Yes X No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

 Yes X No

Identification of major federal programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA No.</u>
Community Development Financial Institutions Bond Guarantee Program	21.014
Community Facilities Loans and Grants Cluster	10.766

Dollar threshold used to distinguish between type A and B programs: \$750,000

Auditee qualified as low-risk auditee? X Yes No

Section II - Financial Statement Findings

None reported.

Section III - Federal Award Findings and Questioned Costs

None reported.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
STATEMENTS OF FINANCIAL POSITION - NEIGHBORWORKS AMERICA CAPITAL FUND
JUNE 30, 2021 AND JUNE 30, 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ -	\$ 12,478
Mortgages receivable	-	479,542
Property held for sale	<u>-</u>	<u>-</u>
 TOTAL ASSETS	 <u><u>\$ -</u></u>	 <u><u>\$ 492,020</u></u>
NET ASSETS		
 Net assets with donor restrictions	 <u>\$ -</u>	 <u>\$ 492,020</u>
 TOTAL NET ASSETS	 <u><u>\$ -</u></u>	 <u><u>\$ 492,020</u></u>

See Independent Auditor's Report

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
STATEMENTS OF ACTIVITIES - NEIGHBORWORKS AMERICA CAPITAL FUND
YEARS ENDED JUNE 30, 2021 AND JUNE 30, 2020

	<u>2021</u>	<u>2020</u>
NET ASSETS WITH DONOR RESTRICTIONS		
Capital Grant-NeighborWorks America	\$ -	\$ -
Net assets released from restriction	<u>(492,020)</u>	<u>(210,865)</u>
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	(492,020)	(210,865)
CHANGE IN NET ASSETS	(492,020)	(210,865)
NET ASSETS AT BEGINNING OF YEAR	<u>492,020</u>	<u>702,885</u>
NET ASSETS AT END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ 492,020</u></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
 YEAR ENDED JUNE 30, 2021

Minimum net worth required		<u>\$ 1,000,000</u>
Net assets (net worth)		
Per statement of financial position	\$ 32,378,476	
Less unacceptable assets	<u>827,542</u>	
Adjusted net worth for HUD		
Requirement purposes		<u><u>\$ 31,550,934</u></u>
Adjusted net worth above amount		
Required		<u><u>\$ 30,550,934</u></u>
Adjusted net worth below amount		
Required		<u><u>\$ -</u></u>

See Independent Auditor's Report