

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
BEREA, KENTUCKY

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AUDITED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED
JUNE 30, 2009 AND 2008



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Federation of Appalachian Housing Enterprises, Inc. (a non-profit organization) as of June 30, 2009 and 2008, and the related statements of activities, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Federation of Appalachian Housing Enterprises, Inc., as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2009, on our consideration of Federation of Appalachian Housing Enterprises, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Federation of Appalachian Housing Enterprises, Inc. taken as a whole. The schedules of functional expenses on pages 22 and 23, the statement of financial position – Neighborworks America Capital Fund on page 24, and the statement of activities – Neighborworks America Capital Fund on page 25, the computation of Adjusted Net Worth for Approval of Other than Loan Correspondents on page 26, the Computation of Adjusted Net Worth for Approval and Recertification of Non-Supervised Mortgagees Other than Loan Correspondents on pages 27 and 28, and the Report on Compliance with Specific Requirements Applicable to Non-Major HUD Program Transactions are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards on page 14 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Craft, Noble & Company, PLLC

Craft, Noble & Company, PLLC
September 15, 2009

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FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2009 AND 2008

	2009			2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets							
Cash and cash equivalents	\$ 2,986,814	\$ 1,419,477	\$ -	\$ 1,293,823	\$ 1,185,063	\$ -	2,478,886
Accounts receivable	217,531	40,300	-	859,377	-	-	859,377
Grants receivable	2,100,000	-	-	225,000	-	-	225,000
Accrued interest receivable	231,044	5,122	-	225,759	7,320	-	233,079
Deposits	153,120	-	-	2,735	-	-	2,735
Prepaid expenses	61,466	-	-	41,981	-	-	41,981
Property and equipment, net	285,724	-	-	320,139	-	-	320,139
Interfund balances	(219,945)	38,823	181,122	(228,070)	(18,250)	246,320	-
Mortgage notes receivable, net	12,500,888	9,424,578	-	13,616,678	9,533,702	-	23,150,380
Notes receivable, net	10,343,032	646,791	-	10,448,297	418,213	-	10,866,510
Property held for sale	743,686	111,255	-	670,592	184,033	-	854,625
Deferred compensation	4,750	-	-	-	-	-	-
Total Assets	<u>\$ 29,408,110</u>	<u>\$ 11,686,346</u>	<u>\$ 181,122</u>	<u>\$ 27,476,311</u>	<u>\$ 11,310,081</u>	<u>\$ 246,320</u>	<u>\$ 39,032,712</u>
Liabilities and Net Assets							
Liabilities							
Accounts payable	\$ 37,262	\$ -	\$ -	\$ 45,062	\$ -	\$ -	\$ 45,062
Payroll taxes payable	22,254	-	-	-	-	-	-
Client advances and deposits	245,959	314,957	-	165,891	138,674	-	304,565
Accrued interest payable	64,320	4,521	-	48,425	5,300	-	53,725
Compensated absences payable	143,185	500	-	68,012	-	-	68,012
Deferred revenue	321,794	-	-	145,512	-	-	145,512
Notes payable	18,865,858	639,593	-	18,814,393	646,939	-	19,461,332
Deferred compensation	4,750	-	-	-	-	-	-
Total Liabilities	<u>19,705,382</u>	<u>959,571</u>	<u>-</u>	<u>19,287,295</u>	<u>790,913</u>	<u>-</u>	<u>20,078,208</u>
Other Liabilities							
Equity equivalent	2,000,000	-	-	2,000,000	-	-	2,000,000
Total Liabilities	<u>21,705,382</u>	<u>959,571</u>	<u>-</u>	<u>21,287,295</u>	<u>790,913</u>	<u>-</u>	<u>22,078,208</u>
Net Assets							
Net assets	7,102,728	10,726,775	181,122	5,589,016	10,519,168	246,320	16,354,504
Net assets, board restricted	600,000	-	-	600,000	-	-	600,000
Total Net Assets	<u>7,702,728</u>	<u>10,726,775</u>	<u>181,122</u>	<u>6,189,016</u>	<u>10,519,168</u>	<u>246,320</u>	<u>16,954,504</u>
Total Liabilities and Net Assets	<u>\$ 29,408,110</u>	<u>\$ 11,686,346</u>	<u>\$ 181,122</u>	<u>\$ 27,476,311</u>	<u>\$ 11,310,081</u>	<u>\$ 246,320</u>	<u>\$ 39,032,712</u>

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

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDING JUNE 30, 2009 AND 2008

	2009			2008				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue								
Mortgage and note interest	\$ 1,005,159	\$ 59,708	\$ -	1,064,867	\$ 920,858	\$ 69,699	\$ -	990,557
Contributions, grants	240,500	-	-	240,500	540,500	-	-	540,500
State grants	328,784	-	-	328,784	114,917	97,870	-	212,787
Pass-through grants	648,328	-	-	648,328	923,556	-	-	923,556
Federal grants	2,125,500	192,000	-	2,317,500	155,700	-	246,320	402,020
Rental income	200	1,000	-	1,200	3,905	5,550	-	9,455
Investment income	27,219	13,154	-	40,373	85,498	33,042	-	118,540
Administration income	43,154	-	-	43,154	91,300	-	-	91,300
Gain on Acquisition of Assets	246,878	-	-	246,878	-	-	-	-
Gain/(Loss) on Sale of Property	5,422	5,664	-	11,086	2,200	(16,816)	-	(14,616)
Fees and service charges	608,888	1,207	-	610,095	1,013,126	1,846	-	1,014,972
Miscellaneous income	99	-	-	99	4,043	-	-	4,043
Net assets released from restrictions								
Satisfaction of program restrictions	130,324	(65,126)	(65,198)	-	99,558	(99,558)	-	-
Total Revenue	5,410,455	207,607	(65,198)	5,552,864	3,955,161	91,633	246,320	4,293,114
Expenses								
Program services	2,240,627	-	-	2,240,627	2,189,705	-	-	2,189,705
General and administrative	1,266,441	-	-	1,266,441	1,237,660	-	-	1,237,660
Fundraising	251,665	-	-	251,665	134,873	-	-	134,873
Membership	138,010	-	-	138,010	245,945	-	-	245,945
Total Expenses	3,896,743	-	-	3,896,743	3,808,183	-	-	3,808,183
Excess of Revenue Over Expenses	1,513,712	207,607	(65,198)	1,656,121	146,978	91,633	246,320	484,931
Increase in Net Assets				1,656,121				484,931
Net Assets at Beginning of Period				16,954,504				16,469,573
Net Assets End of Period				<u>\$ 18,610,625</u>				<u>\$ 16,954,504</u>

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

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDING JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ 1,656,121	\$ 484,931
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	58,482	44,565
(Gain)/Loss on disposal of assets	(26,743)	(18,788)
(Increase) decrease in operating assets		
Accounts receivable	601,546	(806,831)
Grants receivable	(1,875,000)	(125,000)
Accrued interest receivable	(3,087)	(130,754)
Prepaid expenses	(19,485)	(8,908)
Deferred Compensation	(4,750)	-
Deposits	(150,385)	(2,035)
Increase (decrease) in operating liabilities		
Accounts payable	(7,800)	(10,416)
Payroll taxes payable	22,254	(9,233)
Client advances and deposits	256,350	45,051
Accrued interest payable	15,116	16,479
Compensated absences payable	75,674	29,223
Deferred Revenue	176,282	145,512
Deferred Compensation	4,750	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>779,325</u>	<u>(346,204)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(623,324)	(581,207)
Proceeds from sale of property and equipment	598,942	599,077
Payments received on notes receivable	8,334,001	6,826,825
Disbursement of loans receivable funds	(7,205,668)	(10,866,678)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>1,103,951</u>	<u>(4,021,983)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt borrowings	1,290,494	3,397,365
Payments on long-term debt	(1,246,375)	(1,557,093)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>44,119</u>	<u>1,840,272</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,927,395	(2,527,915)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,478,886</u>	<u>5,006,801</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,406,281</u>	<u>\$ 2,478,886</u>
Supplemental Information		
Interest paid	<u>\$ 558,957</u>	<u>\$ 559,657</u>

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

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Note 1 – Organization

Federation of Appalachian Housing Enterprises, Inc. (FAHE or the Organization) is a non-profit, membership organization formed by a collaborative of non-profits in Central Appalachia in 1981. FAHE was created to provide a unified voice for the cause of eliminating sub-standard housing conditions that are so prevalent in the Central Appalachian region. FAHE currently has 46 members located throughout its service region of Kentucky, West Virginia, Virginia and Tennessee. Members include housing authorities, community housing developers, and community action agencies with a commitment to improving their local community by providing safe, decent and affordable housing options. FAHE's main office is located at 106 Pasco Street in Berea, Kentucky. In addition, FAHE has branch offices located in Elkins, West Virginia, Maryville, Tennessee and Morehead, Kentucky.

FAHE achieves its mission by leveraging State and Federal monies with private resources to provide creative financing products to its members to promote community development; administering Federal and State housing programs to provide low-interest mortgages to individuals through its member network; maintaining revolving loan portfolios from both private and public sources to provide sustainable, affordable mortgage and commercial financing; creating innovative mortgage servicing standards to encourage and promote long-term homeowner success; providing access to pass-through grant and loan resources for members to assist them in achieving their individual missions; providing specialized services to members, such as mortgage servicing or mortgage loan processing and underwriting, to allow them to focus their resources on mission critical programs; working directly with local governments and private organizations to promote community economic development and increased capacity and availability of public infrastructure; and by providing networking opportunities through various state caucuses and semi-annual membership meetings to create a public forum for advocacy on behalf of its members and their causes in both the private and public sectors.

FAHE works through three significant venues to assist achieving its mission. The first of these is FAHE Capital Corporation I, which was formed in fiscal year 2000. FAHE Capital, a wholly owned, subsidiary, limited liability company, was established to create, in partnership with other organizations, an equity fund to finance, develop and operate low-income housing tax credit (LIHTC) eligible development properties. Through the efforts of FAHE Capital and its partners, enough equity capital has been raised to develop several multi-million dollar LIHTC development projects throughout the state of Kentucky.

The second venue a wholly owned, subsidiary, limited liability company, FAHE Consulting, LLC, founded in fiscal year 2006 provides consulting services to municipalities and others through all stages of special projects development. In conjunction with FAHE and its members, FAHE Consulting assists with finding new projects, filing applications for funding or development approval, securing construction and permanent financing, facilitating and tracking construction progress and preparing any and all required project reports.

Last, FAHE developed a direct origination mortgage program in 2007. The program, JustChoice Lending, provides access directly for customers at the Berea, Elkins and Maryville locations, and through FAHE members for the individuals and families they serve, to conventional lending mortgage products. By offering traditional conventional mortgage products with lower overall closing costs, and combining them with subsidies and homeowner counseling not normally available through traditional mortgage brokers, FAHE is able to provide a more divergent population with affordable, sustainable, quality mortgage financing.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Note 2 – Summary of Significant Accounting Policies

Principles of Combination

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

Basis of Accounting

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

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restriction.
- Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

Cash and Cash Equivalents

For purposes of the Statement 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.

FAHE maintains an \$800,000 compensating balance arrangement with Wachovia Bank against a \$4.5 million line of credit.

Investments

The organization carries investments in equity securities with readily determinable fair values and all investments in debt securities at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities.

Mortgage Notes Receivable

Mortgage 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). Interest income on the notes is recognized at the stated rate in the promissory note net of an interest allowance given to the borrower by the Organization based upon the need of the individual.

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 FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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

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
• Furniture and fixtures	5	Years

During the year ended June 30, 2009 and 2008, depreciation expense was \$49,263 and \$42,855, respectively.

The Organization amortizes leasehold improvements over the shorter of the term of the lease or the economic life of the asset purchased. Improvements for the loan origination offices, beginning in May 08 were amortized over a period of 12 months, the term of the lease agreement. FAHE entered a lease for office space for FAHE Capital and FAHE Consulting in June 2009. These improvements are being amortized over the shorter of the term of the lease of one year.

Amortization expense for the year ended June 30, 2009 and 2008 was \$9,219 and \$1,710, respectively.

Revenue Recognition

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor imposed restrictions. All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is satisfied), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Income Tax Status

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

The Organization has elected to defer implementation of FIN 48, Accounting for Uncertainty in Income Taxes, under guidance issued in FASB Staff Position FIN48-3. Additionally, the Organization is not aware of any uncertain tax positions that may affect the financial statements.

Compensated Absences

The Organization's employees earn vacation and sick time throughout the year based on job classification, length of service and other factors. The liability accrued for compensated absences is limited to the actual amount that would be payable to the employee in the event of separation from employment. The amount is calculated based on multiplying the representative hourly wage by the number of accrued hours.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Note 2-Summary of Significant Accounting Policies (Continued)

Estimates

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

Functional Allocation of Expenses

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

Note 3 – Grant Funds Receivable

Unconditional promises to give are expected to be realized in one year or less. Unconditional promises to give amounted to \$2,100,000 and \$225,000 at June 30, 2009 and 2008, respectively. The \$2,000,000 grant was received within forty-five days of year-end.

Note 4 – Property Held for Resale

Property held for resale consists of foreclosure properties (REO) and land held for sale for future development by various members (Investment Property). Investment property is recorded at actual cost with an allowance made to reflect the lower of cost or market. 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. Gains or losses from the sale of properties are recorded in the statement of activities as either gains or losses on disposal of property. At June 30, 2009 and 2008, the organization held \$348,104 and \$479,483, respectively in REO property and \$506,837 and \$375,142 respectively, in investment property.

Note 5 – Mortgage Notes Receivable

Loans are granted to low- and moderate-income residents of Central Appalachia for the purchase of new homes and the rehabilitation of existing homes. 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.

Mortgage loans are secured by real estate. Interest rates vary from 0% to prevailing market rates. Terms range from five to 40 years, with some containing deferred and/or forgivable features.

At June 30, 2009 delinquencies were as follows: \$470,814 or 1.40% for 30-59 days; \$629,045 or 1.87% for 60-89 days; \$179,339 or 0.53% for loans 90+ days; \$352,787 or 1.05% for loans in foreclosure. Overall, loan delinquencies were \$1,279,197 or 3.80% on total loans of \$33,660,824 at June 30, 2009.

At June 30, 2008 delinquencies were as follows: \$202,327 or 0.59% for 30-59 days; \$22,504 or 0.07% for 60-89 days; \$352,965 or 1.03% for loans 90+ days; \$248,888 or 0.73% for loans in foreclosure; and \$182,898 or 0.54% for loans in bankruptcy. Overall, loan delinquencies were \$577,797 or 1.68% on total loans of \$34,397,371 at June 30, 2008.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Note 5 – Mortgage Notes Receivable (Continued)

Mortgage notes receivable as of June 30, 2009 consist of the following balances in each fund:

Kentucky Home Loan Fund	\$	3,712,280
AHTF Fund		254,025
HOME Program of Kentucky		7,331,796
Virginia Home Loan Fund		5,364,312
NHPR Kentucky		240,062
HOME Program of Virginia		2,194,903
West Virginia Home Loan Fund		1,900,337
Tennessee Home Loan Fund		<u>1,300,784</u>
Total		\$ 22,298,499
Less: Allowance for Loan Losses		<u>(373,033)</u>
Mortgage Notes Receivable, Net of Allowance	\$	<u><u>21,925,466</u></u>

Mortgage notes receivable as of June 30, 2008 consist of the following balances in each fund:

Kentucky Home Loan Fund	\$	4,295,847
AHTF Fund		260,766
HOME Program of Kentucky		7,605,198
Virginia Home Loan Fund		5,469,039
NHPR Kentucky		248,449
HOME Program of Virginia		2,071,302
West Virginia Home Loan Fund		2,609,690
Tennessee Home Loan Fund		<u>1,113,619</u>
Total		\$ 23,673,910
Less: Allowance for Loan Losses		<u>(523,530)</u>
Mortgage Notes Receivable, Net of Allowance	\$	<u><u>23,150,380</u></u>

The Organization has loan covenants with certain foundations that require the Organization to maintain certain levels of allowances to cover potential loan losses. In lieu of charging the full amount of the requirements to earnings, the Organization’s Board of Directors has chosen to voluntarily designate a portion of its net assets for this purpose. The balance of the Board Designated Net Assets as of June 30, 2009, is \$600,000. This provides aggregate loan loss coverage of 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.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Note 6 – Notes Receivable

The Organization makes loans to promote community development, to provide additional resources for operations, and to facilitate housing construction and financing to other non-profits and local housing authorities throughout Central Appalachia. Combined borrower balances of the Organization’s commercial loan portfolio as of June 30, 2009 and 2008 are presented below:

	<u>2009</u>	<u>2008</u>
Appalachia Habitat For Humanity	\$ 170,412	\$ 176,025
Appalachia Service Project	51,219	57,891
Beattyville Housing Development	136,847	100,894
Beattyville School	371,900	-
Blueberry Hill Estates	75,000	75,000
Boodry Place, LLC	138,945	1,329,613
Cambria House	41,492	-
Clinch Valley Community	106,575	-
COAP	461,947	488,140
Community Housing Partners	2,525,837	2,795,377
Community Housing, Inc.	605,383	444,609
Cumberland Plateau	-	1,010
Eastern Eight CDC	846,631	478,595
Frontier Housing, Inc.	944,855	1,048,780
Giles County Housing & Development Corporation	-	62,017
Hazard/Perry County Community Ministries	31,791	34,098
Hazard/Perry County Housing Development Alliance	-	373,544
Homeownership Center	112,250	112,250
HOMES, Inc.	947,865	726,313
HOPE Inc.	293,524	-
Housing Development	391,755	-
Housing Equity Fund	800,000	-
Irvine Renaissance, LLP	299,948	310,712
KDVA Homes 07, LLP	116,027	114,017
Kentucky Mountain Housing Corporation	529,448	536,563
Lil' Britches Child Care Center	70,119	72,794
LINKS, Inc.	57,200	12,348
Mountain Cap, Inc.	236,306	116,874
Mountain Shelter, Inc.	-	436,996
Pearisburg Community Development Corporation	-	57,387
People Inc. Financial Services	99,900	99,900
Randolph County Housing Authority	457,650	215,198
Safe Housing & Economic Development	229,786	237,710
Sterling Housing, Inc.	42,422	42,422
Southern Appalachian	98,477	-
Virginia Community Development Fund	5,000	559,079
Woodlands Development	66,712	-
Total Notes Receivable	<u>11,363,223</u>	<u>11,116,156</u>
Less: Allowance for Loan Loss	(373,400)	(249,646)
Notes Receivable, Net of Allowance	<u>\$ 10,989,823</u>	<u>\$ 10,866,510</u>

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Note 7 – Notes Payable

Notes payable at June 30, 2009 and 2008 consists of notes payable to governmental agencies, banks, non-profit organizations and individuals as detailed below:

	Rate	Term	Maturity		Balance		Balance
					2009		2008
Kentucky Housing Corporation:							
Kentucky Home Loan Fund/AHTF							
Special Contract #1	1.00%	20 Years	November 1, 2010	\$	12,500	\$	22,500
Special Contract #2	1.00%	20 Years	January 01, 2012		28,500		38,000
Special Contract #3	1.00%	20 Years	February 01, 2013		55,600		69,500
Special Contract #4	1.00%	20 Years	July 1, 2013		102,500		123,000
Special Contract #5	1.00%	20 Years	July 1, 2014		123,000		143,500
Special Contract #6	1.00%	20 Years	July 1, 2015		145,250		166,000
Special Contract #7	1.00%	20 Years	July 1, 2016		168,025		189,028
Special Contract #8	3.00%	20 Years	October 1, 2035		467,311		478,531
Affordable Housing Trust Fund	1.00%	30 Years	July 1, 2033		56,321		58,296
Affordable Housing Trust Fund	1.00%	30 Years	September 1, 2035		45,694		47,144
NHPL, NHRL, NHPR							
NHPL 1997-1998	1.00%	20 Years	July 1, 2017		244,350		271,500
NHPL 1998-1999	1.00%	20 Years	July 1, 2018		332,572		365,831
NHPL 1999-2000	1.00%	20 Years	July 1, 2019		323,004		352,368
NHRL 1999-2000	1.00%	10 Years	July 1, 2009		8,772		17,544
NHPR 2000-2001	1.00%	20 Years	July 1, 2020		379,350		410,962
NHPR 2001-2002	1.00%	20 Years	July 1, 2022		347,588		374,325
NHPR 2002-2003	1.00%	20 Years	July 1, 2023		470,676		504,038
NHPR 2003-2004	1.00%	20 Years	July 1, 2024		455,063		485,400
NHPR 2004-2005	1.00%	20 Years	July 1, 2025		370,800		393,975
NHPR 2005-2006	1.00%	20 Years	July 1, 2026		329,400		341,600
NHPR 2006-2007	1.00%	20 Years	September 1, 2027		156,600		165,300
NHPR 2007-2008	1.00%	20 Years	September 1, 2028		234,818		-
NHPR 2009	1.00%	20 Years	November 1, 2028		130,742		-
Virginia Housing Development Authority:							
Housing Fund #1	3.00%	30 Years	July 5, 2028		221,097		350,415
VHPRF Phase I & II	3.00%	20 Years	November 5, 2026		203,708		220,308
Regional Loan Demo	3.00%	20 Years	May 20, 2010		10,448		114,322
Housing Fund #2	3.00%	30 Years	December 5, 2018		297,818		377,301
Housing Fund #3	2.00%	30 Years	March 1, 2014		573,497		590,863
2004 Line of Credit	2.00%	30 Years	September 1, 2026		857,933		882,148
2005 Line of Credit	2.00%	30 Years	February 1, 2037		937,274		962,607
2007 Reach	3.00%	30 Years	April 1, 2038		990,986		566,052
Wachovia Bank							
Fifteen Year Note	4.50%	15 Years	February 5, 2009				18,936
Fifteen Year Note	4.50%	15 Years	February 15, 2009				19,725
Five Year Note	.81%	5 Years	November 30, 2011		750,000		1,250,000
Various Lenders							
Sisters of Loretto	3.00%	3 Years	June 30, 2012		50,000		50,000
Literary Society of St. Catherine	3.00%	3 Years	June 30, 2009		-		20,000
Calvert Social Investment Foundation	4.50%	3 Years	June 30, 2010		1,000,000		1,000,000
Richard Hettrick	3.00%	3 Years	January 31, 2010		5,500		5,500
Opportunity Finance Network	4.00%	5 Years	October 31, 2012		500,000		500,000
Opportunity Finance Network	6.00%	10 Years	April 28, 2015		918,260		939,775
Andrew Schenker	3.00%	5 Years	May 31, 2011		25,000		25,000
Carter Garber	4.00%	5 Years	September 30, 2011		35,000		35,000
Franciscan Sisters of Mary	2.00%	5 Years	October 31, 2009		50,000		50,000
F. B. Heron Foundation	3.00%	6 Years	June 30, 2010		400,000		500,000
Allison Conant	0.00%	5 Years	July 13, 2009		9,000		9,000
Tides Foundation	0.00%	5 Years	July 13, 2012		75,000		75,000
Funding Exchange Endowment	0.00%	5 Years	July 13, 2009		20,000		20,000
Funding Exchange Pooled Investment	0.00%	5 Years	July 13, 2009		6,000		6,000
Ethel Ackley	3.00%	3 Years	July 13, 2010		5,000		5,000
E & H Stowell	3.00%	3 Years	July 13, 2008		-		7,000

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Note 7 – Notes Payable (Continued)

Woodlands Investment Management	3.00%	4 Years	September 30, 2011	100,000	100,000
St. Paul's Church in Buffalo	3.00%	3 Years	August 29, 2009	5,000	5,000
Trust U/AGR D3/1/84, Fay Chandler	3.00%	3 Years	December 31, 2009	25,000	25,000
Trust U/AGR D3/1/84, Fay Chandler	3.00%	3 Years	March 21, 2010	50,000	50,000
Glenmary Home Missioners	3.00%	3 Years	September 30, 2010	25,000	25,000
Seton Enablement Fund	3.00%	5 Years	June 1, 2013	81,173	100,000
The Ford Foundation	1.00%	10 Years	June 2, 2014	1,000,000	1,000,000
Florida Community Loan Fund	6.00%	10 Years	April 28, 2015	459,130	469,888
Stookey Trust	3.00%	5 Years	September 30, 2010	25,000	25,000
U.S. Department of Agriculture	1.00%	30 Years	October 16, 2031	639,593	664,818
Cg of the Sisters of the Incarnate Word	2.00%	5 Years	August 24, 2011	200,000	200,000
Fannie Mae	1.13%	5 Years	May 7, 2012	2,000,000	1,500,000
Kentucky Housing Corporation	3.00%	23 Years	July 1, 2016	265,598	274,490
Peoples Self Help Housing	4.00%	2 Years	Jan 5, 2011	500,000	
Fannie Mae	5.00%	10 Years	August 30, 2014	250,000	250,000
Dominican Sisters of Peace	3.00%	1 Day	June 30, 2009	20,000	
Kentucky Housing Corporation	1.00%	20 Years	September 1, 2028	-	222,459
Central Bank	5.00%	1 Year	May 13, 2009	-	1,383
CDFI Fund	1.25%	20 Years	September 10, 2019	930,000	930,000
				930,000	930,000
Total Notes Payable				\$ 19,505,451	\$ 19,461,332

The principal repayment requirements at June 30, 2009 relating to the above notes payable are as follows:

2009	\$	-	\$	217,044
2010		1,609,720		1,802,366
2011		592,500		102,500
2012		3,163,500		3,023,000
2013		711,773		244,500
2014		1,675,997		-
Later Years		11,751,961		14,071,922
Totals	\$	19,505,451	\$	19,461,332

At June 30, 2009 and 2008 approximately \$3.212 million and \$3.343 million notes payable, respectively, are unsecured and represent private investments by individuals and groups.

At June 30, 2009 and 2008, respectively the Organization has a \$4.5 million line of credit with Wachovia secured by \$7.7 million commercial loan assets in 2009; a \$3.0 million line of credit with Fannie Mae backed by an unsecured letter of credit with Peoples Bank for \$450,000; a \$1.5 million line of credit with VHDA which is used to table fund loans and is immediately reimbursed; and a \$500,000 line of credit with Central Bank secured by real estate.

At June 30, 2009 the organization had available balances on lines of credit with Wachovia Bank of \$3.75 million, Fannie Mae of \$1.0 million and Central Bank of \$500,000.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Note 8-Other Liabilities

The Organization carries a \$2,000,000, ten-year note with Wachovia Bank classified as EQ2 funds. This note is shown under Other Liabilities on the balance sheet in order to represent more clearly the nature of the payable and to adhere to industry practice. 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. This note had an outstanding balance of \$2,000,000 as of June 30, 2009 and 2008, respectively.

Note 9 – Commitments and Contingencies

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

The Organization has an agreement with the Tennessee Housing Development Agency (THDA) to guarantee and service New Start loans to individuals, as well as guaranteeing and servicing member loan agreements with THDA. The Organization entered into the agreements to facilitate THDA working with the Organization's members located in Tennessee. Although management of the Organization feels these loans will be repaid and are fully secured by real estate, the Organization has a contingent liability of \$9,566,781 and \$5,141,279 as of June 30, 2009 and 2008, respectively. To further clarify, of the \$9,566,781 balance, FAHE is the first guarantor on \$1,481,598 and takes the position of second guarantor on the remaining member loan agreements. Historically, there has not been a loss on these loans since inception in 2003.

The Organization has a contractual agreement with NHSA to sell mortgage notes, off the balance sheet, while retaining the servicing rights. The notes, with a balance of \$10,616,830 and \$1,470,523 at June 30, 2009 and 2008, respectively, were sold with recourse. The Organization has posted letters of credit totaling \$1.5million with Peoples Bank to stand against potential delinquent notes required to be repurchased. Ultimately, all the notes are fully secured by real estate and the Organization feels even in the event of repurchase the loans will be repaid.

Note 10 – 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 FDIC insured accounts up to \$250,000 per account with excess values invested in sweep accounts collateralized with mortgages. The Organization provides mortgage loans primarily to low- and moderate-income individuals. Mortgage notes totaling \$22,297,600 and \$23,356,215 at June 30, 2009 and 2008, respectively, are secured by the property purchased or improved. 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 \$11,363,223 and \$11,437,674 at June 30, 2009 and 2008, respectively, are secured by the assets of the Organization. Additionally, at June 30, 2009 and 2008, \$1,180,858 and \$1,362,126 respectively, were unsecured. Finally, the Organization receives a substantial percentage of its funding from government grants and other contributions. The Organization's management does not anticipate a reduction in such funding.

The Organization maintains a 4% loan loss reserve on the aggregate balance of the loan portfolio.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Note 11–Prior Period Corrections

The Organization corrected prior period accounting errors for loans that had not been previously recorded when originated in 1991-1995. An increase of \$316,900 was made to beginning net assets to reflect non-interest bearing notes receivable made to Shelbyville/Martinsville residents. The notes are to be repaid by the mortgagee upon the transfer of property either at sale or death. Additionally, beginning net assets were increased by \$75,000 and \$52,425 to record principal and cumulative interest, respectively, on an interest-bearing note originating in 1995 for the Blueberry Hill development project. The total prior period adjustments represent an increase of \$444,325 to the July 1, 2007 beginning net assets.

Note 12–Deposits

As of June 30, 2009 the Organization entered into a contract for the purchase of the Parker-Hannifin property located in Berea. The property consists of a building and nine acres of land. FAHE plans to move the Berea headquarters to this location after clean up and renovation. The \$150,000 increase in deposits represents the funds wired to secure the transaction. The closing took place July 1, 2009.

Note 13–Subsequent Events

Management of the Organization has considered subsequent events through September 15, 2009, the date this report becomes available for issue.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>Department of Treasury</u>			
NeighborWorks America	21.000		317,500
<u>Appalachian Regional Commission</u>			
<u>Passed through Kentucky Housing Corporation</u>			
Appalachian Regional Development	23.001	* KY-16138-302-09	354,150
<u>Department of Housing & Urban Development</u>			
<u>Passed through Kentucky Housing Corporation</u>			
Home Investment Partnership Program (HOME)	14.239	HB08-0201-01	192,000
 TOTAL FEDERAL AWARDS			\$ 863,650

* Major Program Circular A-133

See accompanying notes to Schedule of Expenditures of Federal Awards.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Federation of Appalachian Housing Enterprises, Inc. and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the financial statements.

NOTE B – INSURANCE

The Organization carried insurance coverage during the entire year in amounts sufficient 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.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of Federation of Appalachian Housing Enterprises, Inc. (a non-profit organization) as of and for the year ended June 30, 2009, and have issued our report thereon dated September 15, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Federation of Appalachian Housing Enterprises, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Federation of Appalachian Housing Enterprises, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statement that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance

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



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This report is intended for the information of the Board of Directors, management, federal and state awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Craft, Noble & Company, PLLC

Craft, Noble & Company, PLLC
September 15, 2009

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of Federation of Appalachian Housing Enterprises, Inc. (a non-profit organization) with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended June 30, 2009. Federation of Appalachian Housing Enterprises, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Federation of Appalachian Housing Enterprises, Inc.'s management. Our responsibility is to express an opinion on Federation of Appalachian Housing Enterprises, Inc.'s compliance based on our audit.

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 OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations". Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination of Federation of Appalachian Housing Enterprises, Inc.'s compliance with those requirements.

In our opinion, Federation of Appalachian Housing Enterprises, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Federation of Appalachian Housing Enterprises, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Federation of Appalachian Housing Enterprises, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control over compliance.



CRAFT, NOBLE & COMPANY
PLLC

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A control deficiency in an organization's internal control over compliance 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the organization's internal control.

Our consideration of the internal control over compliance was for the limited purpose of described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that we consider to be material weaknesses, as described above.

This report is intended for the information of the Board of Directors, management, and federal and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Craft, Noble & Company, PLLC

Craft, Noble & Company, PLLC
September 15, 2009

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financials statements of Federation of Appalachian Housing Enterprises, Inc.
2. Our report on the financial statements disclosed no significant deficiencies in the internal control structure.
3. No instances of noncompliance material to the financial statements of Federation of Appalachian Housing Enterprises, Inc. were disclosed during our audit.
4. The auditors' report on compliance for the major federal awards program for Federation of Appalachian Housing Enterprises, Inc. expresses an unqualified opinion on all major federal programs.
5. Our audit report disclosed no audit finding required to be reported under Section 510(a) of OMB Circular A-133.
6. The programs tested as major programs included:
Appalachian Regional Commission CFDA #23.001 Type A.
7. The threshold to determine Type A: \$300,000.
8. Federation of Appalachian Housing Enterprises, Inc. was determined to be a low-risk auditee.
9. In connection with tests of internal control and compliance with laws and regulations, no material weaknesses were noted in internal control, and the Organization was in substantial compliance with laws and regulations.
10. There were no questioned costs with respect to major programs selected for compliance tests.

FEDERATION OF APPALACHIAN ENTERPRISES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2009

Expenses	Program Services										Total										
	General & Administrative		Membership		Fundraising		Home Lending		Community			Grant		Program Services		Total					
	\$		\$		\$		\$		\$		\$		\$		\$			\$			
Personnel Expenses	533,175		105,952		58,102		300,766		157,218		20,507		246,081		102,534		116,205		943,311		1,640,540
Travel Expenses	25,986		5,164		2,832		14,658		7,662		999		11,993		4,997		5,664		45,973		79,955
Board & Committee Meetings	11,101		2,206		1,210		6,262		3,274		427		5,124		2,135		2,420		19,642		34,159
Conference & Workshops	8,642		1,717		942		4,875		2,548		332		3,989		1,662		1,884		15,290		26,591
Occupancy Expense	16,991		3,376		1,852		9,585		5,010		654		7,842		3,268		3,703		30,062		52,281
Supplies & Publications	5,955		1,183		649		3,359		1,756		229		2,748		1,145		1,298		10,535		18,322
Postage & Shipping	6,192		1,230		675		3,493		1,826		238		2,858		1,191		1,350		10,956		19,053
Communications	12,900		2,563		1,406		7,277		3,804		496		5,954		2,481		2,811		22,823		39,692
Equipment & Maintenance	16,646		3,308		1,814		9,390		4,909		640		7,683		3,201		3,628		29,451		51,219
Subscriptions	667		133		73		376		197		26		308		128		145		1,180		2,053
Licenses, Fees & Permits	1,446		287		158		816		426		56		667		278		315		2,558		4,449
Employee Education	1,039		206		113		586		306		40		479		200		226		1,837		3,195
Memberships	4,886		971		532		2,756		1,441		188		2,255		940		1,065		8,645		15,034
Marketing & Advertising	13,150		2,613		1,433		7,418		3,878		506		6,069		2,529		2,866		23,266		40,462
Liability & Property Insurance	9,999		1,987		1,090		5,640		2,948		385		4,615		1,923		2,179		17,690		30,766
Service Charges	3,008		598		328		1,697		887		116		1,388		578		656		9,256		9,256
Depreciation & Amortization	19,007		3,777		2,071		10,722		5,605		731		8,772		3,655		4,142		33,627		58,482
Organizational Expenses	153		30		17		86		45		6		70		29		33		269		469
Contributions	2,688		534		293		1,516		793		103		1,240		517		586		4,755		8,270
Software Lease	7,924		1,575		864		4,470		2,337		305		3,657		1,524		1,727		14,020		24,383
Professional Fees	28,550		5,673		3,111		16,105		8,419		1,098		13,177		5,490		6,222		50,511		87,845
Contract Services	41,266		8,200		4,497		23,278		12,168		1,587		19,046		7,936		8,994		73,009		126,972
Loan Processing Expense	1,399		278		152		789		413		54		646		269		305		2,476		4,305
Loan Servicing Expense	2,710		539		295		1,529		799		104		1,251		521		591		4,795		8,339
Pass Thru Grants	217,859		43,292		23,741		122,895		64,240		8,379		100,550		41,896		47,482		385,442		670,334
Over/Short	67		13		7		38		20		3		31		13		15		120		207
Administration	9,787		1,945		1,067		5,521		2,886		376		4,517		1,882		2,133		17,315		30,114
Bad Debt Expense	73,578		14,621		8,018		41,505		21,696		2,830		33,959		14,150		16,036		130,176		226,393
Interest Expense	186,574		37,076		20,332		105,247		55,015		7,176		86,111		35,880		40,664		330,093		574,075
Loans Forgiving	2,588		514		282		1,460		763		100		1,194		498		564		4,579		7,963
Miscellaneous Expense	508		104		54		288		151		20		236		98		112		905		1,571
State Income Tax	-		-		-		-		-		-		-		-		-		-		-
Total Expenses	<u>1,266,441</u>		<u>251,665</u>		<u>138,010</u>		<u>714,403</u>		<u>373,440</u>		<u>48,711</u>		<u>584,510</u>		<u>243,548</u>		<u>276,021</u>		<u>2,240,633</u>		<u>3,896,749</u>

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

FEDERATION OF APPALACHIAN ENTERPRISES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2008

Program Services

Expenses	Program Services										Total
	General & Administrative	Membership	Fundraising	Home Lending	Community Development	Grant Administration	Loan Servicing	FAHE Consulting	FAHE Capital	Total Program Services	
Personnel Expenses	\$ 424,704	\$ 84,396	\$ 46,282	\$ 239,577	\$ 125,233	\$ 16,335	\$ 196,017	\$ 81,674	\$ 92,564	\$ 751,400	\$ 1,306,782
Travel Expenses	21,627	4,298	2,357	12,200	6,377	832	9,982	4,159	4,714	38,264	66,546
Board & Committee Meetings	9,662	1,920	1,053	5,450	2,849	372	4,459	1,858	2,106	17,094	29,729
Conference & Workshops	4,846	963	528	2,734	1,429	186	2,237	932	1,056	8,574	14,911
Occupancy Expense	8,667	1,722	944	4,889	2,556	333	4,000	1,667	1,889	15,334	26,667
Supplies & Publications	7,960	1,582	867	4,490	2,347	306	3,674	1,531	1,735	14,083	24,492
Postage & Shipping	4,618	918	503	2,605	1,362	178	2,131	888	1,006	8,170	14,209
Communications	10,273	2,041	1,119	5,795	3,029	395	4,741	1,975	2,239	18,174	31,607
Equipment & Maintenance	14,718	2,925	1,604	8,303	4,340	566	6,793	2,830	3,208	26,040	45,287
Subscriptions	1,311	261	143	740	387	50	605	252	286	2,320	4,035
Licenses, Fees, & Permits	1,951	388	213	1,101	575	75	901	375	425	3,452	6,004
Employee education	2,831	563	309	1,597	835	109	1,307	544	617	5,009	8,712
Memberships	3,803	756	414	2,145	1,122	146	1,755	731	829	6,728	11,701
Marketing & Advertising	30,536	6,068	3,328	17,225	9,004	1,174	14,093	5,872	6,655	54,023	93,955
Liability/Property Insurance	5,920	1,176	645	3,339	1,746	228	2,732	1,138	1,290	10,473	18,214
Service Charges	1,890	376	206	1,066	557	73	872	363	412	3,343	5,815
Depreciation/Amortization	14,484	2,878	1,578	8,170	4,271	557	6,685	2,785	3,157	25,625	44,565
Organizational Expense	135	27	15	76	40	5	62	26	29	238	415
Contributions	1,853	368	202	1,045	546	71	855	356	404	3,277	5,700
Software Lease	7,015	1,394	764	3,957	2,069	270	3,238	1,349	1,529	12,412	21,585
Professional Fees	21,538	4,280	2,347	12,150	6,351	828	9,941	4,142	4,694	38,106	66,271
Contract Services	88,435	17,574	9,637	49,887	26,077	3,401	40,816	17,007	19,274	156,462	272,108
Loan Processing Expense	552	110	60	311	163	21	255	106	120	976	1,698
Loan Servicing Expense	814	162	89	459	240	31	376	157	177	1,440	2,505
Pass thru Grants	274,471	54,542	29,910	154,830	80,934	10,557	126,679	52,783	59,820	485,603	844,526
Loss On Disposal Of Property	9,549	1,898	1,041	5,387	2,816	367	4,407	1,836	2,081	16,894	29,382
Administration	17,908	3,559	1,951	10,102	5,280	689	8,265	3,444	3,903	31,683	55,101
Bad Debt Expense	41,466	8,240	4,519	23,391	12,227	1,595	19,138	7,974	9,038	73,363	127,588
Interest Expense	187,244	37,209	20,405	105,625	55,213	7,202	86,420	36,009	40,810	331,279	576,137
Loans Forgiven	15,945	3,169	1,738	8,995	4,702	613	7,359	3,066	3,475	28,210	49,062
Miscellaneous Expense	618	119	68	347	182	24	284	118	142	1,097	1,902
State Income tax	316	63	34	178	93	12	146	61	69	559	972
Total Expenses	\$ 1,237,660	\$ 245,945	\$ 134,873	\$ 698,166	\$ 364,952	\$ 47,601	\$ 571,225	\$ 238,008	\$ 269,753	\$ 2,189,705	\$ 3,808,183

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

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
 STATEMENTS OF FINANCIAL POSITION - NEIGHBORWORKS AMERICA CAPITAL FUND
 JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and cash equivalents	\$ 206,034	\$ 246,320
TOTAL ASSETS	<u>\$ 206,034</u>	<u>\$ 246,320</u>
NET ASSETS		
Temporarily Rstricted	\$ 24,912	\$ -
Permanently restricted	<u>181,122</u>	<u>\$ 246,320</u>
TOTAL NET ASSETS	<u>\$ 206,034</u>	<u>\$ 246,320</u>

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC
STATEMENTS OF ACTIVITIES - NEIGHBORWORKS AMERICA CAPITAL FUND
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
TEMPORARILY RESTRICTED NET ASSETS		
Restrictions released from permanently restricted net asset	\$ 24,912	\$ -
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>24,912</u>	<u>-</u>
PERMANENTLY RESTRICTED NET ASSETS		
Revenues and Other Support		
Capital Grant - NeighborWorks America	\$ 195,000	\$ 246,320
Net assets released from restriction	(260,198)	-
INCREASE/(DECREASE) IN PERMANENTLY RESTRICTED NET ASSETS	<u>(65,198)</u>	<u>246,320</u>
CHANGE IN NET ASSETS	<u>(40,286)</u>	<u>246,320</u>
NET ASSETS AT BEGINNING OF YEAR	<u>246,320</u>	<u>-</u>
NET ASSETS AT END OF YEAR	<u>\$ 206,034</u>	<u>\$ 246,320</u>

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
 COMPUTATION OF ADJUSTED NET WORTH FOR APPROVAL OF NONSUPERVISED
 MORTGAGEES OTHER THAN LOAN CORRESPONDENTS
 FOR THE YEAR ENDING JUNE 30, 2009

Minimum net worth required		<u>\$ 250,000</u>
Stockholders equity(net worth) Per balance sheet	\$ 18,610,625	
Less unacceptable assets	<u>\$ -</u>	
Adjusted net worth for HUD Requirement purposes		<u><u>\$ 18,610,625</u></u>
Adjusted net worth above amount Required		<u>\$ 18,360,625</u>
Adjusted net worth below amount Required		<u>\$ -</u>

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
 COMPUTATION OF ADJUSTED NET WORTH FOR APPROVAL AND RECERTIFICATION OF
 NONSUPERVISED MORTGAGEES OTHER THAN LOAN CORRESPONDENTS
 FOR THE YEAR ENDING JUNE 30, 2009

Home office		\$ <u>63,000</u>
Add:		
Branch office	\$ 25,000	
x Number of branch offices	<u>3</u>	
Subtotal		\$ <u>75,000</u>
Total		<u><u>\$ 138,000</u></u>
Net worth required (lesser of \$250,000 or Line 3)		<u><u>\$ 250,000</u></u>
Owner's equity (net worth) per Balance sheet	\$ 18,610,625	
Less unacceptable assets	<u>\$ -</u>	
Adjusted net worth for HUD Requirement purposes		<u><u>\$18,610,625</u></u>
Adjusted net worth above amount Required		<u>\$18,360,625</u>
Adjusted net worth below amount Required		<u>\$ -</u>

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
 COMPUTATION OF ADJUSTED NET WORTH FOR APPROVAL AND RECERTIFICATION OF
 NONSUPERVISED MORTGAGEES OTHER THAN LOAN CORRESPONDENTS
 FOR THE YEAR ENDING JUNE 30, 2009

Servicing portfolio at June 30,2009		\$ <u> -</u>
Add:		
Originated during fiscal year	<u> -</u>	
Purchased from loan correspondent during fiscal year	<u> -</u>	
Subtotal		<u> -</u>
Less:		
Amounts included in Line 2	<u> -</u>	
Servicing retained	<u> -</u>	
Loan correspondent purchases retained	<u> -</u>	
Subtotal		<u> -</u>
Total		
1% of line 4		
Minimum net worth required (Greater of \$250,000 or Line 5)		\$ <u> 250,000</u>
Net worth required (lesser of \$1,000,000 or line 6)		\$ <u> 250,000</u>
Stockholders equity (net worth) Per balance sheet	<u> 18,610,625</u>	
Less unacceptable assets	<u> -</u>	
Adjusted net worth		<u> 18,610,625</u>
Adjusted net worth above amount required		<u> 18,360,625</u>
Adjusted net worth below amount Required		<u> -</u>

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH SPECIFIC
REQUIREMENTS APPLICABLE TO NON-MAJOR HUD PROGRAM TRANSACTIONS

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

We have audited the financial statements of Federation of Appalachian Housing Enterprises, Inc. as of and for the year ended June 30, 2009, and have issued our report thereon dated September 15, 2009.

In connection with that audit and with our consideration of Federation of Appalachian Housing Enterprises, Inc.'s internal control used to administer HUD programs, as required by the *Consolidated Audit Guide for Audits of HUD Programs* (the "Guide") issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General, we selected certain transactions applicable to certain non-major HUD-assisted programs for the year ended June 30, 2009.

As required by the Guide, we performed auditing procedures to test compliance with the requirements governing HUD Approved Title II Non-supervised Mortgages and Loan Correspondents that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on Federation of Appalachian Housing Enterprises, Inc.'s compliance with these requirements. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under the Guide.

This report is intended solely for the information of the audit committee, management, and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Craft, Noble & Company, PLLC

Craft, Noble & Company, PLLC
September 15, 2009



CRAFT, NOBLE & COMPANY
PLLC

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