FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
BEREA, KENTUCKY
* * * * *
AUDITED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED
JUNE 30, 2012 AND 2011

CRAFT, NOBLE & COMPANY
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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, 2012 and 2011, and the related statements of activities 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 audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 audits provide 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years 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 October 1, 2012 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 31 and 32, the statements of financial position – NeighborWorks America Capital Fund on page 33, the statements of activities – NeighborWorks America Capital Fund on page 34 and the Computation of Adjusted Net Worth for Approval of Non-Supervised Mortgagees Other Than Loan Correspondents on page 35 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 25 is presented for purposes of additional analysis as required by the 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standard generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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Craft, Noble & Company, PLLC

Craft, Noble & Company, PLLC
October 1, 2012

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets				
Cash and cash equivalents	$ 7,454,337	$ 1,744,734	$ 437,152	$ 9,636,223
Accounts receivable	238,870	54,500	-	293,370
Grants receivable	-	1,159,501	-	1,159,501
Accrued interest receivable	234,551	4,525	-	239,076
Investments	75,700	-	-	75,700
Deposits	2,035	-	-	2,035
Prepaid expenses	109,124	-	-	109,124
Property and equipment, net	738,054	-	-	738,054
Interfund balances	50,555	(51,866)	1,311	-
Mortgage notes receivable, net	14,190,322	9,645,566	140,371	23,976,259
Bankruptcy arrearages	1,624	1,226	-	2,850
Notes receivable, net	12,594,266	718,552	-	13,312,818
Property held for sale, net	713,254	300,016	-	1,013,270
Deferred compensation	37,980	-	-	37,980
Total Assets	$ 36,440,672	$ 13,576,754	$ 578,834	$ 50,596,260
Liabilities & Net Assets				
Liabilities				
Accounts payable	$ 76,768	$ 8,000	$ -	$ 84,768
Payroll taxes payable	-	-	-	-
Client advances and deposits	847,038	2,967	-	850,005
Accrued interest payable	69,455	4,196	-	73,651
Accrued expenses	269,394	-	-	269,394
Deferred revenue	1,228,127	656,058	-	1,884,185
Current portion of notes payable	1,947,317	-	-	1,947,317
Long-term portion of notes payable	19,704,408	558,951	-	20,263,359
Deferred compensation	37,980	-	-	37,980
Total Liabilities	24,180,487	1,230,172	-	25,410,659
Other Liabilities				
Equity equivalent	4,000,000	-	-	4,000,000
Total Liabilities	28,180,487	1,230,172	-	29,410,659
Net Assets				
Net assets	7,660,185	12,346,582	578,834	20,585,601
Net assets, board designated	600,000	-	-	600,000
Total Net Assets	8,260,185	12,346,582	578,834	21,185,601
Total Liabilities & Net Assets	$ 36,440,672	$ 13,576,754	$ 578,834	$ 50,596,260

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

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets				
Cash and cash equivalents	$ 4,026,274	$ 1,570,545	$ 256,213	$ 5,853,032
Accounts receivable	161,219	-	-	161,219
Grants receivable	-	42,213	-	42,213
Accrued interest receivable	289,961	4,484	-	294,445
Investments	71,300	-	-	71,300
Deposits	2,820	-	-	2,820
Prepaid expenses	105,819	-	-	105,819
Property and equipment, net	800,908	-	-	800,908
Interfund balances	4,258	(4,258)	-	-
Mortgage notes receivable, net	12,530,499	9,239,107	67,421	21,837,027
Notes receivable, net	13,688,728	668,450	37,500	14,394,678
Property held for sale, net	1,100,508	446,609	-	1,547,117
Deferred compensation	21,002	-	-	21,002
Total Assets	$ 32,803,296	$ 11,967,150	$ 361,134	$ 45,131,580
Liabilities and Net Assets				
Liabilities				
Accounts payable	$ 100,133	$ -	$ -	$ 100,133
Payroll taxes payable	22,768	-	-	22,768
Client advances and deposits	539,892	-	-	539,892
Accrued interest payable	49,597	4,375	-	53,972
Accrued expenses	257,509	-	-	257,509
Deferred revenue	64,510	486,407	-	550,917
Current portion of notes payable	5,944,500	-	-	5,944,500
Notes payable	15,553,010	584,892	-	16,137,902
Deferred compensation	21,002	-	-	21,002
Total Liabilities	22,552,921	1,075,674	-	23,628,595
Other Liabilities				
Equity equivalent	2,000,000	-	-	2,000,000
Total Liabilities	24,552,921	1,075,674	-	25,628,595
Net Assets				
Net assets	7,650,375	10,891,476	361,134	18,902,985
Net assets, board restricted	600,000	-	-	600,000
Total Net Assets	8,250,375	10,891,476	361,134	19,502,985
Total Liabilities and Net Assets	$ 32,803,296	$ 11,967,150	$ 361,134	$ 45,131,580

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

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.

STATEMENT OF ACTIVITIES

YEAR ENDING JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Mortgage and note interest	$ 1,076,765	$ 67,501	$ -	$ 1,144,266
Contributions, grants	357,476	1,911,929	-	2,269,405
State grants	178,094	375,313	-	553,407
Pass-through grants	538,616	227,500	-	766,116
Federal grants	535,385	100,740	282,000	918,125
Rental income	12,950	-	-	12,950
Investment income	1,083,039	2,452	-	1,085,491
Administration income	27,416	-	-	27,416
Gain on acquisition of assets	39,142	6,899	-	46,041
Fees and service charges	866,481	4,058	-	870,539
Miscellaneous income	1,707	-	-	1,707
Net assets released from restrictions				
Satisfaction of program restrictions	1,305,586	(1,241,286)	(64,300)	-
Total Revenue	6,022,657	1,455,106	217,700	7,695,463
Expenses				
Program services	1,464,532	-	-	1,464,532
General and administrative	3,977,237	-	-	3,977,237
Fundraising	163,804	-	-	163,804
Membership	407,274	-	-	407,274
Total Expenses	6,012,847	-	-	6,012,847
Increase (decrease) in net assets	9,810	1,455,106	217,700	1,682,616
Net Assets at Beginning of Period	8,250,375	10,891,476	361,134	19,502,985
Net Assets at End of Period	$ 8,260,185	$ 12,346,582	$ 578,834	$ 21,185,601

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

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.

STATEMENT OF ACTIVITIES

YEAR ENDING JUNE 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Mortgage and note interest	$ 970,913	$ 55,103	$ -	$ 1,026,016
Contributions, grants	15,660	135,000	-	150,660
State grants	14,000	91,000	-	105,000
Pass-through grants	1,184,323	24,000	-	1,208,323
Federal grants	985,000	276,000	130,000	1,391,000
Rental income	23,550	-	-	23,550
Investment income	142,244	6,540	-	148,784
Administration income	27,800	(8,160)	-	19,640
Gain on acquisition of assets	1,060,802	14,394	-	1,075,196
Fees and service charges	917,683	1,658	-	919,341
Miscellaneous income	4,820	-	-	4,820
Net assets released from restrictions				
Satisfaction of program restrictions	910,164	(910,164)	-	-
Total Revenue	6,256,959	(314,629)	130,000	6,072,330
Expenses				
Program services	1,720,467	-	-	1,720,467
General and administrative	3,457,108	-	-	3,457,108
Fundraising	242,541	-	-	242,541
Membership	292,656	-	-	292,656
Total Expenses	5,712,772	-	-	5,712,772
Increase (decrease) in net assets	544,187	(314,629)	130,000	359,558
Net Assets at Beginning of Period	$ 7,706,188	$ 11,206,105	$ 231,134	$ 19,143,427
Net Assets at End of Period	$ 8,250,375	$ 10,891,476	$ 361,134	$ 19,502,985

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, 2012 AND 2011

CASH FLOWS FROM OPERATING ACTIVITIES	2012	2011
Changes in Net Assets	$ 1,682,616	$ 359,558
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	87,028	86,212
(Gain) Loss on disposal of assets	352,972	70,870
(Increase) decrease in operating assets		
Accounts receivable	(132,151)	774,640
Grants receivable	(1,117,288)	495,287
Accrued interest receivable	55,370	(28,820)
Prepaid expenses	(3,305)	(7,349)
Deferred compensation	(16,978)	(5,489)
Deposits	785	300
Increase (decrease) in operating liabilities		
Accounts payable	(15,366)	(249,952)
Payroll taxes payable	(22,768)	(3,588)
Client advances and deposits	310,113	(34,277)
Accrued interest payable	19,679	6,328
Accrued expenses	11,885	17,929
Deferred revenue	222,621	117,886
Deferred compensation	16,978	5,487
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,452,191	1,605,022
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(31,024)	(702,881)
Proceeds from sale of property and equipment	329,594	355,554
Federal Home Loan Bank Stock reclassification	-	(71,300)
Purchase of investments	(4,400)	-
Payments received on notes receivable	13,897,704	14,269,031
Disbursement of loans receivable funds	(13,989,147)	(18,156,180)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	202,727	(4,305,776)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt borrowings	5,598,774	5,053,741
Payments on long-term debt	(3,470,501)	(3,173,943)
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,128,273	1,879,798
NET INCREASE (DECREASE) IN CASH	3,783,191	(820,956)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	5,853,032	6,673,988
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 9,636,223	$ 5,853,032
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$ 529,104	$ 530,191

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

Note 1 – Organization

Federation of Appalachian Housing Enterprises, Inc. (FAHE or the Organization) is a 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 48 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 Knoxville, 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 four 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 is a wholly-owned subsidiary, limited liability company, FAHE Consulting, LLC, founded in fiscal year 2006 that 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 Community Development Block Grants and other funding or development approval, securing construction and permanent financing, facilitating and tracking construction progress and preparing any and all required project reports.

Third, FAHE developed a direct origination mortgage program in 2007. The program, JustChoice Lending, provides access directly for customers at the Berea and Knoxville 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.

In fiscal year 2010, FAHE was able to achieve a $25 million set aside of USDA 502 funds, which also resulted in a national demonstration between USDA and nonprofits. In addition, a pipeline of $15 million exists in NSP funds, $15 million in TCAP and Exchange, and $5 million in other ARRA projects.

Note 1 – Organization (Continued)

Additionally, in fiscal year 2011 FAHE established FAHE TN, LLC. This entity, domiciled in Tennessee, provides for greater access to funds that would normally be provided under the current organizational structure. Also, in fiscal year 2011, FAHE became a member of the Federal Home Loan Bank Cincinnati Division. This allows access to additional resources for FAHE's membership.

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, FAHE Consulting, LLC and FAHE TN, 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 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.

FAHE maintains a $500,000 compensating balance arrangement with Wells Fargo Bank against a $6 million line of credit.

Cash received from grants and held with temporary restrictions at June 30, 2012 and 2011 was $1,744,734 and $1,570,545, respectively. Cash permanently restricted for loans to clients at June 30, 2012 and 2011 was $437,152 and $256,213, respectively.

Investments

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

Note 2 – Summary of Significant Accounting Policies (Continued)

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.

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, 2012 and 2011, depreciation expense was $82,007 and $81,190, respectively.

The Organization amortizes leasehold improvements over the shorter of the term of the lease or the economic life of the asset purchased. FAHE moved the Capital and Consulting operations from the Abney building to the Peoples Bank Building in June 2010. These improvements are being amortized over the shorter of the term of the lease of two years.

Amortization expense for the year ended June 30, 2012 and 2011 was $5,022 and $5,021, respectively.

Note 2 – Summary of Significant Accounting Policies (Continued)

Fixed Assets (Continued)

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

	2012	2011
Land	$ 35,000	$ 35,000
Building	655,083	655,083
Building Improvements	28,556	28,556
Equipment and Vehicles	442,496	461,411
Subtotal	1,161,135	1,180,050
Accumulated Depreciation	(423,081)	(384,162)
Net Land and Depreciable Assets	738,054	795,888
Leasehold Improvements	28,295	28,295
Accumulated Amortization	(28,295)	(23,275)
Net Amortizable Assets	-	5,020
Total Net Property and Equipment	$ 738,054	$ 800,908

Revenue Recognition

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

Income Tax Status

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

The Organization is not aware of any unrelated business income as of June 30, 2012. In Accounting Standards Codification (ASC) 740-10-50, *Income Taxes*, (formerly FIN 48, *Accounting for Uncertainty in Income Taxes)* the Financial Accounting Standards Board (FASB) requires entities to disclose known or anticipated positions of income tax uncertainty. The Organization is not aware of any uncertain tax positions that would require adjustment to the financial statements. The Organization files income tax returns in the U.S. federal jurisdiction. Generally, the Organization is no longer subject to income tax examination by the U.S. federal, state or local tax authorities for years before 2009.

Note 2 – Summary of Significant Accounting Policies (Continued)

Compensated Absences

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

Estimates

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

Functional Allocation of Expenses

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

Note 3 – Investments and Fair Value Measurements

Investments held by the Organization consisted of the following as of June 30, 2012:

	Cost	Market Value	Unrealized Appreciation
FHLB stock	$ 75,700	$ 75,700	$ -
Balance, June 30, 2012	$ 75,700	$ 75,700	-
Balance, June 30, 2011	$ 71,300	$ 71,300	-
Unrealized loss on investments			$ -

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

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

Note 3 – Investments and Fair Value Measurements (Continued)

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

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

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

The Organization's fair value of securities available for sale measured on a recurring basis at June 30, 2012 and 2011 is as follows:

		Fair Value Measurements at Reporting Date Using		
June 30, 2012	Fair Value	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
FHLB Stock	$ 75,700	$ -	$ 75,700	$ -
June 30, 2011				
FHLB Stock	$ 71,300	$ -	$ 71,300	$ -

Investments are included in the following items in the statement of financial position at June 30, 2012 and 2011:

	2012	2011
Investments	$ 75,700	$ 71,300

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

Note 4 – Grant Funds Receivable

Unconditional promises to give amounted to $1,159,501 and $42,213 as of June 30, 2012 and 2011, respectively. These funds will be received in fiscal year 2013 and were received in fiscal year 2012, respectively.

Note 5 – Property Held for Resale

Property held for resale consists of foreclosure properties (REO), properties owned by default, death or abandonment for which title has not yet passed (Conveyances) 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.

Conveyances 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 Conveyances 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. At June 30, 2012 and 2011, the organization held $737,525 and $940,159, respectively in REO property, $263,500 and $472,863 in conveyances, and $170,094 in both fiscal years 2012 and 2011, in investment property.

Note 6 – 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 Organizations' various lending portfolios. Loans are made in accordance with the restrictions imposed by the various funding sources.

Mortgage notes receivable as of June 30, 2012 consist of the following balances in each fund:

Kentucky Home Loan Fund	$	5,178,704
AHTF Fund		544,470
HOME Program of Kentucky		7,429,628
Virginia Home Loan Fund		5,374,281
NHPR Kentucky		89,973
HOME Program of Virginia		2,329,457
West Virginia Home Loan Fund		1,129,635
Tennessee Home Loan Fund		887,263
Chase/NHSA		771,870
FAHE Other States		798,726
Total		24,534,007
Less: Allowance for Loan Losses		(557,748)
Mortgage Notes Receivable, Net of Allowance	$	23,976,259

Note 6 – Mortgage Notes Receivable (Continued)

Mortgage notes receivable as of June 30, 2011 consist of the following balances in each fund:

Kentucky Home Loan Fund	$	3,745,053
AHTF Fund		401,374
HOME Program of Kentucky		7,122,471
Virginia Home Loan Fund		5,310,938
NHPR Kentucky		166,606
HOME Program of Virginia		2,210,661
West Virginia Home Loan Fund		1,266,622
Tennessee Home Loan Fund		1,054,437
Chase/NHSA		962,823
Total		22,240,985
Less: Allowance for Loan Losses		(403,958)
Mortgage Notes Receivable, Net of Allowance	$	21,837,027

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, 2012, 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.

Note 7 – 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 community loan portfolio as of June 30, 2012 and 2011 are presented below:

Note 7 – Notes Receivable (Continued)

	2012	2011
Appalachia Habitat For Humanity	$ 318,295	$ 328,764
Appalachia Service Project	-	42,261
Beattyville Housing Development	295,761	306,843
Beattyville School	-	4,716
Blueberry Hill Estates	-	75,000
Burchwood Homes of Berea Ltd	43,200	-
Cambria House	-	39,449
Clinch Valley Community	62,735	77,937
COAP	96,774	143,951
Community Housing Partners	1,764,022	1,999,034
Eastern Eight CDC	1,241,404	988,019
Frontier Housing, Inc.	796,391	1,371,079
Green Acres Dev	57,681	60,783
Hazard/Perry County Community Ministries	25,200	27,525
Highland Community Builders, Inc.	125,000	36,346
Homeownership Center	12,432	44,935
HOMES, Inc.	755,212	1,009,241
HOPE Inc.	11,713	392,294
Housing Authority of Mingo County	287,993	200,640
Housing Development Alliance	302,405	308,367
Housing Equity Fund of KY I	970,327	999,820
Housing Equity Fund of KY II	2,399,712	1,758,245
Housing Equity Fund of VA XII	989,238	776,837
Irvine Renaissance, LLP	308,618	270,418
KDVA Homes 07, LLP	265,134	1,309,322
Knox Housing Partners, Inc.	92,259	254,594
Kentucky Highlands Investment Corp	69,857	-
Kentucky Mountain Health Alliance	-	323,905
Kentucky Mountain Housing Corporation	367,924	487,513
Lil Britches Child Care Center	61,081	64,275
Mountain Cap, Inc.	227,630	229,866
Mulberry Housing LLP	45,000	-
People Inc. Financial Services	99,885	99,896
Randolph County Housing Authority	489,369	436,996
Safe Housing & Economic Development	199,667	210,520
Southern Appalachian Labor School	87,289	90,988
St. Bartholomew Senior Apts	364,868	-
Sterling Housing, Inc.	42,422	42,422
The Housing Partnership, Inc.	185,000	82,350
Virginia Community Development Fund	315,552	5,836
Woodlands Development Group	30,152	-
Total Notes Receivable	13,807,202	14,900,987
Less: Allowance for Loan Loss	(494,384)	(506,309)
Notes Receivable, Net of Allowance	$ 13,312,818	$ 14,394,678

Note 8 – Allowance for Loan Losses

FAHE has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in FAHE's portfolio. For purposes of determining the allowance for loan losses, FAHE segments certain loans in its portfolio by product type. FAHE's loans are segmented into the following segments: Community Development notes to corporations and Mortgages for single-family purchase and rehabilitation. These segments are then broken down into classes determined by length of delinquency. The Community Development lending segment is also broken down into IRP and non-IRP classes because in order to be compliant, FAHE must maintain a loan loss reserve of at least 6% of the IRP fund, resulting in an additional loan loss calculation for that fund. The percentages have been determined based upon historical data for the Organization's loan collections and delinquencies, and also to remain in compliance with related debt covenants. The loan loss set up for each length of delinquency is as follows:

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

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

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

Allowance for Loan Losses

	Mortgage Lending	Community Lending – IRP	Community Lending – Non-IRP	Total
Beg. Balance	$ 403,958	$ 42,667	$ 463,642	$ 910,267
Charge-Offs	(329,855)	-	(142,349)	(472,204)
Recoveries	3,747	-	-	3,747
Provision	479,898	(5,930)	136,354	610,322
Ending Balance	$ 557,748	$ 36,737	$ 457,647	$ 1,052,132

Credit Quality Information

FAHE determines credit quality of its existing portfolio by examining delinquency monthly. The following tables present performing and nonperforming real estate loans based on payment activity for the year ended June 30, 2012. Payment activity is reviewed by management on a monthly basis to determine credit quality of the loans. Loans are considered to be nonperforming when days delinquent is greater than 30 days in the previous month. The Organization has found that it is in its best interest to consider loans past this date nonperforming instead of the traditional single-family mortgage standard of 90 days. FAHE's Loan Servicing Department has found it has the best chances of collection if contact is made with the borrower during the first month of delinquency.

Note 8 – 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. Certain troubled debt restructurings are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months. 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.

Performing vs. Nonperforming Loans

	Mortgage Lending		Community Lending IRP		Community Lending	
	2012	2011	2012	2011	2012	2011
Performing	$ 24,033,673	$ 21,348,934	$ 612,273	$ 711,117	$ 12,716,983	$ 14,072,448
TDR	39,293	215,506	-	-	-	42,422
Nonperforming	461,041	676,545	-	-	477,946	75,000
Total	$ 24,534,007	$ 22,240,985	$ 612,273	$ 711,117	$ 13,194,929	$ 14,189,870

Age Analysis of Past Due Financing Receivables by Class

Following is a table which includes an aging analysis of the recorded investment of past due financing receivables as of June 30, 2012. 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
2012						
Mortgage Lending	$ 167,818	$ 157,847	$ 135,376	$ 461,041	$ 24,072,966	$ 24,534,007
Community - IRP	-	-	-	-	612,273	612,273
Community - Non-IRP	414,134	-	63,812	477,946	12,716,983	13,194,929
Total	$ 581,952	$ 157,847	$ 199,188	$ 938,987	$ 37,402,222	$ 38,341,209
2011						
Mortgage Lending	$ 315,272	$ 228,047	$ 133,226	$ 676,545	$ 21,564,440	$ 22,240,985
Community - IRP	-	-	-	-	711,117	711,117
Community - Non-IRP	-	-	75,000	75,000	14,114,870	14,189,870
Total	$ 315,272	$ 228,047	$ 208,226	$ 751,545	$ 36,390,427	$ 37,141,972

Note 8 - Allowance for Loan Losses (Continued)

Impaired Loans

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

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 following table 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.

Impaired Loans

	Unpaid Principal Balance	Related Allowance	Net Recorded Investment
2012			
Mortgage Lending	$ 293,223	$ (38,473)	$ 254,750
Community – IRP	-	-	-
Community – Non IRP	530,470	(20,721)	509,749
Total	$ 823,693	$ (59,194)	$ 764,499
2011			
Mortgage Lending	$ 361,273	$ (33,836)	$ 327,437
Community – IRP	-	-	-
Community – Non IRP	75,000	(3,750)	71,250
Total	$ 436,273	$ (37,586)	$ 398,687

Note 8 - Allowance for Loan Losses (Continued)

Nonaccrual loans

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

Nonaccrual Loans

	2012	2011
Mortgage Lending	$ -	$ -
Community Lending - IRP	-	-
Community Lending - Non IRP	498,047	42,422
Total	$ 498,047	$ 42,422

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

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

Note 9 – Notes Payable

Notes payable at June 30, 2012 and 2011 consists of notes payable to governmental agencies, banks, non-profit organizations and individuals as detailed below:

	Rate	Term	Maturity	Balance 2012	Balance 2011
Kentucky Housing Corporation:					
Kentucky Home Loan Fund/AHTF					
Special Contract #2	1.00%	20 Years	January 1, 2012	$ -	$ 9,500
Special Contract #3	1.00%	20 Years	February 1, 2013	13,900	27,800
Special Contract #4	1.00%	20 Years	July 1, 2013	41,000	61,500
Special Contract #5	1.00%	20 Years	July 1, 2014	61,500	82,000
Special Contract #6	1.00%	20 Years	July 1, 2015	83,000	103,750
Special Contract #7	1.00%	20 Years	July 1, 2016	105,016	126,019
Special Contract #8	3.00%	20 Years	October 1, 2035	431,591	443,851
Affordable Housing Trust Fund	1.00%	30 Years	July 1, 2033	50,279	52,313
Affordable Housing Trust Fund	1.00%	30 Years	September 1, 2035	2,178	3,973

Note 9 – Notes Payable (Continued)

	Rate	Term	Maturity	Balance 2012	Balance 2011
NHPL, NHRL, NHPR					
NHPL 1999-2000	1.00%	20 Years	July 1, 2019	213,960	243,324
NHPR 2000-2001	1.00%	20 Years	July 1, 2020	284,513	316,125
NHPR 2001-2002	1.00%	20 Years	July 1, 2022	267,375	294,113
NHPR 2002-2003	1.00%	20 Years	July 1, 2023	369,989	403,551
NHPR 2003-2004	1.00%	20 Years	July 1, 2024	364,050	394,388
NHPR 2004-2005	1.00%	20 Years	July 1, 2025	301,275	324,450
NHPR 2005-2006	1.00%	20 Years	July 1, 2026	292,800	305,000
NHPR 2006-2007	1.00%	20 Years	November 1, 2027	130,500	139,200
NHPR 2007-2008	1.00%	20 Years	September 1, 2028	197,742	210,100
NHPR 2009	1.00%	20 Years	February 1, 2030	220,249	232,381
Virginia Housing Development Authority:					
Housing Fund #1	3.00%	30 Years	July 5, 2028	35,867	74,430
VHPRF Phase I & II	3.00%	20 Years	November 5, 2026	137,095	149,779
Housing Fund #2	3.00%	30 Years	December 5, 2018	230,679	238,625
Housing Fund #3	2.00%	30 Years	March 1, 2014	483,033	537,707
2004 Line of Credit	2.00%	30 Years	September 1, 2026	724,470	748,298
2005 Line of Credit	2.00%	30 Years	February 1, 2037	756,166	779,828
2007 Reach	3.00%	30 Years	April 1, 2038	592,608	663,048
2009 Reach	3.00%	30 Years	May 1, 2039	276,923	283,604
2010 Reach	3.00%	30 Years	July 1, 2040	515,835	527,589
2011 Reach	3.00%	30 Years	June 1, 2042	331,152	-
Wells Fargo Bank					
Three Year Note	2.85%	3 Years	April 1, 2015	3,550,000	3,550,000
Various Lenders					
Sisters of Loretto	3.00%	3 Years	June 30, 2012	50,000	50,000
Richard Hettrick	3.00%	3 Years	January 31, 2013	5,500	5,500
Opportunity Finance Network	4.00%	5 Years	October 31, 2012	500,000	500,000
Andrew Schenker	3.00%	5 Years	June 1, 2013	25,000	25,000
Carter Garber	4.00%	5 Years	September 30, 2011	-	35,000
Franciscan Sisters of Mary	2.00%	5 Years	November 1, 2014	50,000	50,000
F. B. Heron Foundation	3.00%	6 Years	September 30, 2016	500,000	500,000
Tides Foundation	0.00%	5 Years	July 13, 2012	75,000	75,000
Woodlands Investment Management	3.00%	4 Years	September 30, 2015	100,000	100,000
St. Paul's Church in Buffalo	3.00%	3 Years	August 31, 2012	5,000	5,000
Trust U/AGR D3/1/84, Fay Chandler	3.00%	3 Years	December 31, 2012	25,000	25,000
Trust U/AGR D3/1/84, Fay Chandler	3.00%	3 Years	March 31, 2013	50,000	50,000
Glenmary Home Missioners	2.00%	3 Years	September 30, 2013	25,000	25,000
Seton Enablement Fund	3.00%	5 Years	June 1, 2013	21,208	41,795
The Ford Foundation	1.00%	10 Years	June 2, 2014	666,667	1,000,000
U.S. Department of Agriculture	1.00%	30 Years	October 16, 2031	558,951	584,892
Cg of the Sisters of the Incarnate Word	2.00%	5 Years	November 17, 2016	250,000	200,000

Note 9 – Notes Payable (Continued)

	Rate	Term	Maturity	Balance 2012	Balance 2011
Various Lenders (Continued)					
Fannie Mae	1.13%	5 Years	May 7, 2012	-	2,000,000
Kentucky Housing Corporation	3.00%	23 Years	July 1, 2016	227,970	240,889
Peoples Self Help Housing	2.50%	2 Years	January 5, 2013	500,000	500,000
Dominican Sisters of Peace	3.00%	3 Years	July 1, 2012	20,000	20,000
CDFI Fund	1.25%	20 Years	September 10, 2019	930,000	930,000
Domestic & Foreign Missionary Society	3.50%	5 Years	September 30, 2014	350,000	350,000
Calvert Social Investment Foundation	4.50%	3 Years	June 30, 2013	200,000	200,000
Opportunity Finance Network	3.00%	10 Years	November 30, 2019	2,500,000	2,500,000
Seton Enablement Fund	3.00%	5 Years	October 1, 2014	51,860	71,547
Mercy Investment Services	2.00%	5 Years	July 15, 2015	300,000	300,000
Episcopal, Diocese of Iowa	2.50%	3 Years	March 31, 2014	25,000	25,000
Byron Stookey	3.00%	5 Years	September 30, 2015	25,000	25,000
Lee Stookey	3.00%	5 Years	November 15, 2015	25,000	25,000
NHPR CLF Fund	1.00%	20 Years	December 1, 2030	320,775	296,533
US Department of Treasury – SBLF	2.00%	8 Years	September 15, 2019	2,063,000	-
Mary Reynolds Babcock Foundation	2.50%	6 Years	August 1, 2017	500,000	-
Sisters of Charity of the Blessed Virgin	1.00%	3 Years	November 18, 2014	150,000	-
Nazareth Literary & Benevolent Institution	1.00%	3 Years	December 30, 2014	50,000	-
Total Notes Payable				$ 22,210,676	$ 22,082,402

The principal repayment requirements at June 30, 2012 and 2011, relating to the above notes payable are as follows:

	2012	2011
2012	$ -	$ 5,944,500
2013	1,947,317	1,433,300
2014	993,772	1,691,002
2015	4,634,602	553,547
2016	1,091,050	453,750
2017	1,373,817	-
Later Years	12,170,118	12,006,303
	$ 22,210,676	$ 22,082,402

At June 30, 2012 and 2011 approximately $22 million and $12 million notes payable, respectively, are unsecured and represent private investments by individuals and groups. The increase of unsecured notes payable is due to new unsecured lending relationships.

Note 9 – Notes Payable (Continued)

At June 30, 2012 and 2011, respectively the Organization had a $6.00 million and $4.50 million line of credit with Wells Fargo Bank (formerly Wachovia Bank) unsecured in 2012 and secured by $4.80 million in commercial loan assets in 2011. The Organization had a $2.00 million line of credit with Fannie Mae backed by an unsecured letter of credit with Peoples Bank for $450,000 which expired in fiscal year 2012. This source of credit was replaced by a $3.00 million unsecured, undrawn line of credit with PNC Bank in fiscal year 2012. The Organization had a $1.00 million line of credit with VHDA at fiscal year end 2011, which was used to table fund loans and then immediately reimbursed. This line of credit expired at June 30, 2012, but was renewed August 9, 2012 for the same amount and term as the previous line of credit. The Organization also had a $500,000 unsecured line of credit with Central Bank at both June 30, 2012 and 2011.

At June 30, 2012 the organization had available balances on lines of credit with Wells Fargo Bank of $2.45 million, PNC Bank of $3.00 million and Central Bank of $500,000.

Note 10 - Other Liabilities

The Organization carries a $2.00 million, 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 (also known as an evergreen provision). This note had an outstanding balance of $2.00 million as of June 30, 2012 and 2011, respectively.

In fiscal year 2012, the Organization received an EQ2 investment from Pinnacle Bank of Tennessee. This is a revolver note on which interest only is due quarterly for the first seven years. If the note is called on the seventh anniversary, it revolves to a ten-year amortized note. If not called, the call option is automatically extended one year at a time. The note can be called only if the Organization ceases to be financially sound or ceases to carry out a community development mission. This investment is restricted for use for only single-family housing in Knoxville, Tennessee. The interest rate is set at 4 under prime with a floor of 0% and a ceiling of 2%. The structure of the note and the restrictions allow Pinnacle Bank of Tennessee to qualify for a Community Investment Tax Credit. This note had an outstanding balance of $2.00 million as of June 30, 2012.

FAHE also holds notes payable to US Department of Treasury ($2.06 million) which uses verbiage consistent with EQ2 funding, but does not meet requirement 6, having an evergreen provision. FAHE decided to take the conservative stance and report this note as a noncurrent note payable on the balance sheet.

As of June 30, 2012, FAHE's unrestricted net assets to total assets ratio was 16.3%. When EQ2 funds are included as unrestricted net assets, then the modified ratio of unrestricted net assets to total assets is 24.2%.

Note 11 – 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 $17,625,231 and $16,503,802 as of June 30, 2012 and 2011, respectively. To further clarify, of the $17,625,231 balance, FAHE is the first guarantor on the original $1,170,702 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.

Note 12 – 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 primarily non-interest bearing and thus are fully insured by the Federal Deposit Insurance Corporation. Interest bearing accounts are insured up to $250,000. The Organization manages the cash position to mitigate and or eliminate any associated risk. The Organization provides mortgage loans primarily to low- and moderate-income individuals. Mortgage notes totaling $24,534,007 and $22,240,985 at June 30, 2012 and 2011, respectively, are secured by the property purchased or improved except as noted. At June 30, 2012 and 2011 notes totaling $83,600 and $219,450 respectively, were deed restricted only. 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 $13,807,202 and $14,900,987 at June 30, 2012 and 2011, respectively, are secured by the assets of the Organization with the exception of the unsecured amount as noted. At June 30, 2012 and 2011, $357,974 and $5,836 respectively, were unsecured.

Finally, the Organization receives a substantial percentage of its funding from government grants and other contributions. The Organization's management anticipates a reduction in such funding in coming years, and has taken measures to compensate for this decline.

Note 13 – Consolidation

The Organization has elected not to consolidate their financial statements with those of their for profit subsidiary, Scenic States, LLC, as required by FASB ASC 958-810-15-4. FAHE, Inc. owns 50% of Scenic States, LLC. If consolidated, the Organization's increase in net assets for the year ended June 30, 2012 would be increased by $8,290.

Note 14 – Reclassification

Subsequent to the date of the original report for the years ended June 30, 2011 and 2010, dated September 15, 2011, management discovered errors in the restriction classifications of Kentucky HOME Program revenue of $91,000. The 2011 financial statements included herein have been restated to correct these errors. Management also changed the way expenses were allocated among profit centers in fiscal year 2012. In order to allow fiscal year 2011 to be comparative, the allocation method was applied to the Statement of Functional Expenses in the supplementary information for this year as well. In addition, the investment in Federal Home Loan Bank stock was reclassified to be excluded from cash and cash equivalents. The change in net assets was not affected by these errors or reclassifications either in the restricted columns nor the total net assets.

Note 15 – Restatement of Net Assets

The Organization has restated its net asset balances as of June 30, 2011 to reflect the addition of previously unrecorded grant revenue activity. The following is the effect on fund balances at June 30, 2011:

	Fund balances as Previously Reported	Increase (Decrease)	Fund Balance as Restated
Unrestricted Net Assets	$ 8,250,375	$ -	$ 8,250,375
Temporarily Restricted Net Assets	10,846,386	45,090	10,891,476
Permanently Restricted Net Assets	361,134	-	361,134
Total Net Assets	$ 19,457,895	$ 45,090	$ 19,502,985

Note 16 – Subsequent Events

Management of the Organization has considered subsequent events through October 1, 2012, 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, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
Department of the Treasury			
NeighborWorks America	21.000		$ 695,309
Department of Housing & Urban Development			
Passed through Kentucky Housing Corporation			
Home Investment Partnership Program (HOME)	14.239	HB09-0201-01	150,000
Home Investment Partnership Program (HOME)	14.239	HB10-0201-01	243,000
Home Investment Partnership Program (HOME)	14.239	HB11-0201-01	40,000
Department of Housing & Urban Development			
Passed through Virginia Department of Housing & Community Development			
Home Investment Partnership Program (HOME)	14.239	04-HA-43	180,464
Department of Housing & Urban Development			
Passed through Local Initiatives Support Corporation			
HUD Section 4	14.252	B-09-CB-NY-0001	24,234
Department of Housing & Urban Development			
Passed through Department for Local Government			
Neighborhood Stabilization Program	14.228	09N-045	40,844
Appalachian Regional Commission			
FAHE Energy Savings Thru Job Training	23.001*		45,090
Appalachian Regional Commission			
Passed through Kentucky Housing Corporation			
Appalachian Regional Development	23.001*	KY-16444-09-03	237,798
Appalachian Regional Development	23.001*	KY-16138-302-09	191,436
TOTAL FEDERAL AWARDS			$ 1,848,175

* 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, 2012

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Federation of Appalachian Housing Enterprises, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of 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 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.

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

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

We have audited the financial statements of Federation of Appalachian Housing Enterprises, Inc. (a non-profit organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 1, 2012. 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.

<u>Internal Control Over Financial Reporting</u>

Management of Federation of Appalachian Housing Enterprises, Inc. is responsible for establishing and maintaining effective 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 *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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, 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.

<u>Compliance and Other Matters</u>

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*.

This report is intended solely for the information and use 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.

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Craft, Noble & Company, PLLC
October 1, 2012

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 Federation of Appalachian Housing Enterprises, Inc.'s (a non-profit organization) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the organization's major federal programs for the year ended June 30, 2012. 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. 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 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, 2012.

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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 the organization'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.

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Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, 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
October 1, 2012

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Federation of Appalachian Housing Enterprises, Inc.

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

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

4. The 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 Development CFDA #23.001 Type A.
   FAHE Energy Savings Thru Job Training 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 HOUSING ENTERPRISES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

				Program Services						
Expenses	General & Administrative	Membership	Fundraising	Home Lending	Community Development	Loan Servicing	FAHE Consulting	FAHE Capital	Total Program Services	Total
Personnel Expenses	$ 898,654	$ 147,741	$ 69,839	$ 289,096	$ 117,466	$ 174,414	$ 226,192	$ 205,197	$ 1,012,365	$ 2,128,599
Travel Expenses	96,432	14,303	15,944	5,278	11,038	3,061	11,315	7,619	38,311	164,990
Board & Committee Meetings	16,227	149	-	-	-	-	-	-	-	16,376
Conference & Workshops	11,181	3,664	990	288	368	349	893	2,193	4,091	19,926
Occupancy Expense	39,367	3,551	1,774	7,102	1,806	7,070	6,078	4,303	26,359	71,051
REO Expense	190,957	-	-	-	-	-	-	-	-	190,957
Supplies & Publications	10,352	963	444	2,309	1,115	5,246	1,529	929	11,128	22,887
Postage & Shipping	2,252	55	101	2,004	398	14,270	517	440	17,629	20,037
Communications	24,479	2,257	1,177	4,172	1,066	4,172	3,470	2,431	15,311	43,224
Equipment & Maintenance	30,920	5,419	2,551	9,707	2,425	9,707	7,448	5,259	34,546	73,436
Subscriptions	4,971	272	1,350	-	-	-	-	27	27	6,620
Licenses, Fees & Permits	337	2	29	14,916	30	4	703	296	15,949	16,317
Employee Education	34,928	115	48	1,254	430	-	-	511	2,195	37,286
Memberships	4,149	12,709	8	934	33	34	65	3,353	4,419	21,285
Marketing & Advertising	61,290	-	39	-	-	-	-	7,625	7,625	68,954
Liability & Property Insurance	22,597	4,232	2,116	8,471	2,116	8,471	6,355	4,232	29,645	58,590
Service Charges	4,241	32	-	-	-	11,601	-	17	11,618	15,891
Depreciation & Amortization	33,998	6,180	3,090	12,368	3,090	12,368	9,516	6,419	43,761	87,029
Organizational Expenses	413	-	-	-	-	-	-	2,764	2,764	3,177
Contributions	5,300	2,000	-	-	-	-	-	500	500	7,800
Software Lease	21,740	999	471	2,715	495	19,924	1,952	1,479	26,565	49,775
Professional Fees	37,395	6,797	3,399	13,604	3,921	19,032	10,206	18,327	65,090	112,681
Contract Services	218,433	15,504	60,350	4,934	2,369	5,734	4,489	5,658	23,184	317,471
Loan Processing Expense	21,147	-	-	3,732	-	-	-	-	3,732	24,879
Loan Servicing Expense	7,337	-	-	-	-	4,793	-	-	4,793	12,130
Pass Thru Grants	686,020	180,330	-	-	-	-	35,160	-	35,160	901,510
Over/Short	-	-	-	-	-	-	-	-	-	-
Administration	-	-	-	27,416	-	-	-	-	27,416	27,416
Bad Debt Expense	887,940	-	-	-	-	-	-	-	-	887,940
Interest Expense	529,104	-	-	-	-	-	-	-	-	529,104
Loans Forgiven	72,699	-	-	-	37	-	-	-	37	72,736
Miscellaneous Expense	2,377	-	84	-	-	192	59	61	312	2,773
Total Expenses	$ 3,977,237	$ 407,274	$ 163,804	$ 410,300	$ 148,203	$ 300,442	$ 325,947	$ 279,640	$ 1,464,532	$ 6,012,847

See Independent Auditors’ Report.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011

Expenses	General & Administrative	Membership	Fundraising	Program Services: Home Lending	Program Services: Community Development	Program Services: Grant Administration	Program Services: Loan Servicing	Program Services: FAHE Consulting	Program Services: FAHE Capital	Total Program Services	Total
Personnel Expenses	$ 621,690	$ 166,955	$ 152,268	$ 300,346	$ 131,152	$ 62,340	$ 194,764	$ 219,051	$ 250,875	$ 1,158,528	$ 2,099,441
Travel Expenses	42,324	12,209	3,577	5,594	4,868	2,645	2,898	8,063	8,646	32,714	90,824
Board & Committee Meetings	18,165	298	-	-	-	-	-	-	-	-	18,463
Conference & Workshops	10,629	4,764	20	175	588	460	349	651	2,561	4,784	20,197
Occupancy Expense	62,303	3,933	3,418	7,265	2,439	1,698	7,265	6,861	5,126	30,654	100,308
Supplies & Publications	5,781	1,125	780	1,670	809	485	3,886	1,592	1,112	9,554	17,240
Postage & Shipping	7,908	99	379	1,621	453	3	12,242	364	403	15,086	23,472
Communications	11,764	3,180	2,567	5,952	2,460	2,572	3,513	4,504	3,664	22,665	40,176
Equipment & Maintenance	19,570	4,613	3,796	8,342	2,394	22	8,131	7,680	5,737	32,306	60,285
Subscriptions	4,390	93	1,162	-	-	-	-	-	-	-	5,645
Licenses, Fees & Permits	178	3	3	3,951	102	2	6	-	4	4,065	4,249
Employee Education	2,340	65	1	1,456	515	-	-	-	415	2,386	4,792
Memberships	1,340	11,501	193	1,509	31	4	21	20	3,681	5,266	18,300
Marketing & Advertising	34,890	-	63	-	150	-	-	1,154	-	1,304	36,257
Liability & Property Insurance	27,983	4,306	3,648	7,953	2,342	1,687	7,953	7,517	5,611	33,063	69,000
Service Charges	1,412	221	-	453	70	16	4,819	-	81	5,439	7,072
Depreciation & Amortization	25,841	6,372	5,501	11,696	3,568	2,658	11,356	10,842	8,377	48,497	86,211
Organizational Expenses	333	-	-	-	-	-	-	-	595	595	928
Contributions	-	100	-	11,182	-	-	-	-	20,000	31,182	31,282
Software Lease	10,636	1,373	1,147	3,079	747	515	15,269	2,398	1,789	23,797	36,953
Professional Fees	46,251	4,410	3,893	8,172	11,807	1,878	33,040	7,973	6,614	69,484	124,038
Contract Services	74,130	4,092	60,091	51,498	270	308	1,166	926	20,647	74,815	213,128
Loan Processing Expense	-	-	-	2,389	(108)	-	-	-	-	2,281	2,281
Loan Servicing Expense	-	-	-	-	-	-	1,490	-	-	1,490	1,490
Pass Thru Grants	1,174,183	62,930	-	-	-	45,840	-	-	15,000	60,840	1,297,953
Over/Short	5,530	-	33	-	-	-	-	(4)	23	19	5,582
Administration	-	-	-	27,800	-	-	-	-	-	27,800	27,800
Bad Debt Expense	704,590	-	-	-	-	-	-	-	-	-	704,590
Interest Expense	536,518	-	-	-	-	-	-	-	-	-	536,518
Loans Forgiven	-	-	-	-	-	-	21,744	-	-	21,744	21,744
Miscellaneous Expense	6,429	14	1	5	-	-	2	41	61	109	6,553
Total Expenses	$ 3,457,108	$ 292,656	$ 242,541	$ 462,108	$ 164,657	$ 123,133	$ 329,914	$ 279,633	$ 361,022	$ 1,720,467	$ 5,712,772

See Independent Auditors’ Report.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
STATEMENTS OF FINANCIAL POSITION - NEIGHBORWORKS AMERICA CAPITAL FUND
JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
Cash and cash equivalents	$ 482,190	$ 301,251
Mortgages receivable	141,682	104,921
TOTAL ASSETS	$ 623,872	$ 406,172
NET ASSETS		
Temporarily restricted	$ 45,038	$ 45,038
Permanently restricted	578,834	361,134
TOTAL NET ASSETS	$ 623,872	$ 406,172

See Independent Auditors' Report.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
STATEMENTS OF ACTIVITIES - NEIGHBORWORKS AMERICA CAPITAL FUND
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
TEMPORARILY RESTRICTED NET ASSETS		
Restrictions released from permanently restricted net assets	$ -	$ -
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	-	-
Revenues and Other Support		
Capital Grant-NeighborWorks America	282,000	130,000
Net assets released from restriction	(64,300)	-
INCREASE (DECREASE) IN PERMANENTLY RESTRICTED NET ASSETS	217,700	130,000
CHANGE IN NET ASSETS	217,700	130,000
NET ASSETS AT BEGINNING OF YEAR	406,172	276,172
NET ASSETS AT END OF YEAR	$ 623,872	$ 406,172

See Independent Auditors’ Report.

FEDERATION OF APPALACHIAN HOUSING ENTERPRISES, INC.
COMPUTATION OF ADJUSTED NET WORTH FOR APPROVAL OF NONSUPERVISED
MORTGAGEES OTHER THAN LOAN CORRESPONDENTS
FOR THE YEAR ENDING JUNE 30, 2012

Minimum net worth required		$ 250,000
Stockholders equity (net worth)		
Per balance sheet	$ 21,185,601	
Less unacceptable assets	$ -	
Adjusted net worth for HUD		
Requirement purposes		$ 21,185,601
Adjusted net worth above amount		
Required		$ 20,935,601
Adjusted net worth below amount		$ -
Required		

See Independent Auditors' Report.