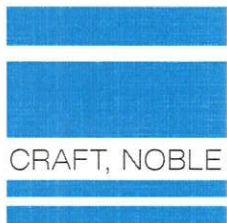


KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
MANCHESTER, KENTUCKY

* * * * *

AUDITED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED
JUNE 30, 2020



CRAFT, NOBLE & COMPANY
PLLC

Certified Public Accountants
Post Office Box 827
Richmond, KY 40476
www.craftnoble.com

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Kentucky Mountain Housing Development Corporation, Inc.
Manchester, Kentucky

We have audited the accompanying statement of financial position of Kentucky Mountain Housing Development Corporation, Inc. (a non-profit organization) which comprise the statement of financial position as of June 30, 2020, and the related statement of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kentucky Mountain Housing Development Corporation, Inc., as of June 30, 2020, 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.



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Change in Accounting Principle

As discussed in Note 2 to the financial statements, in the year ended June 30, 2020, the Organization adopted new accounting guidance, *ASU 2018-08- Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* and *ASU 2016-18- Statement of Cash Flows (Topic 230): Restricted Cash*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2020, on our consideration of Kentucky Mountain Housing Development Corporation, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and 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* in considering Kentucky Mountain Housing Development Corporation, Inc.'s internal control over financial reporting and compliance.

Craft, Noble & Company, PLLC

Craft, Noble & Company, PLLC
October 2, 2020

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020

ASSETS

| | |
|---|--------------------------|
| Cash and cash equivalents | \$ 3,048,549 |
| Interest receivable | 26,598 |
| Grants receivable | 65,575 |
| Notes receivable, net of allowance for doubtful accounts \$1,529,652 | 7,200,596 |
| Investments | 2,315,416 |
| Inventory | 152,660 |
| Prepaid expenses | 10,154 |
| Construction in progress | 58,130 |
| Property and equipment, net | <u>461,314</u> |
| TOTAL ASSETS | <u>\$ 13,338,992</u> |

LIABILITIES AND NET ASSETS

| | |
|--|--------------------------|
| Accounts payable | \$ 24,656 |
| Accrued expenses | 42,067 |
| Client escrow payable | 136,763 |
| Promissory notes payable | <u>405,121</u> |
| TOTAL LIABILITIES | <u>608,607</u> |
| NET ASSETS | |
| Net assets, not subject to donor restriction | 9,454,647 |
| Net assets, subject to donor restriction | <u>3,275,738</u> |
| Total Net Assets | <u>12,730,385</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 13,338,992</u> |

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

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

| | Without donor <u>restriction</u> | With donor <u>restriction</u> | <u>Total</u> |
|--|-------------------------------------|----------------------------------|----------------------|
| REVENUES, RECLASSIFICATIONS AND OTHER SUPPORT | | | |
| Contributions | | | |
| Individuals and churches | \$ 4,150 | \$ - | \$ 4,150 |
| Non-Federal Grants | | | |
| Other non federal grants | 65,054 | - | 65,054 |
| Federal Financial Assistance | - | 556,263 | 556,263 |
| Program service revenues | | | |
| Construction receipts | 593,378 | - | 593,378 |
| Rent receipts | 40,541 | - | 40,541 |
| Miscellaneous | 41,327 | - | 41,327 |
| Residential revenue | 4,492 | - | 4,492 |
| Investment return | | | |
| Interest income | 217,486 | - | 217,486 |
| Investment Income | 48,442 | - | 48,442 |
| Unrealized gain | 53,057 | - | 53,057 |
| Restrictions satisfied by expiration of time restrictions | <u>355,786</u> | <u>(355,786)</u> | <u>-</u> |
| TOTAL REVENUES, RECLASSIFICATIONS AND OTHER SUPPORT | <u>1,423,713</u> | <u>200,477</u> | <u>1,624,190</u> |
| EXPENSES | | | |
| Program Services | 1,052,559 | - | 1,052,559 |
| Supporting Services | <u>469,860</u> | <u>-</u> | <u>469,860</u> |
| TOTAL EXPENSES | <u>1,522,419</u> | <u>-</u> | <u>1,522,419</u> |
| CHANGE IN NET ASSETS | (98,706) | 200,477 | 101,771 |
| NET ASSETS BEGINNING OF YEAR | <u>9,553,353</u> | <u>3,075,261</u> | <u>12,628,614</u> |
| NET ASSETS END OF YEAR | <u>\$ 9,454,647</u> | <u>\$ 3,275,738</u> | <u>\$ 12,730,385</u> |

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

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDING JUNE 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|----------------|
| Increase in net assets | \$ 101,771 |
| Adjustment to reconcile change in net assets to net cash provided by operating activities | |
| Depreciation | 20,264 |
| Allowance for doubtful accounts | 45,923 |
| (Increase) decrease in operating assets | |
| Grants receivable | 112,592 |
| Marketable securities | (76,511) |
| Inventory | 80,445 |
| Construction in progress | 106,291 |
| Increase (decrease) in operating liabilities | |
| Accounts payable | (26,714) |
| Accrued expenses and other liabilities | <u>(1,779)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>362,282</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---|------------------|
| Principal reduction on notes receivable | 699,599 |
| Principal disbursements on notes receivable | <u>(683,200)</u> |
| NET CASH USED BY INVESTING ACTIVITIES | <u>16,399</u> |

CASH FLOWS FROM FINANCING ACTIVITIES

| | |
|---------------------------------------|-----------------|
| Payments on notes payable | <u>(21,441)</u> |
| NET CASH USED BY FINANCING ACTIVITIES | <u>(21,441)</u> |
| NET INCREASE IN CASH | 357,240 |

CASH, CASH EQUIVALENTS & RESTRICTED CASH AT BEGINNING OF YEAR 2,691,309

CASH, CASH EQUIVALENTS & RESTRICTED CASH AT END OF YEAR \$ 3,048,549

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

| | |
|--------------------------------|-----------------|
| Cash paid during the year for: | |
| Interest | <u>\$ 7,640</u> |

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

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

| | <u>Program Services</u> | <u>Supporting Services</u> | |
|--------------------------------------|-------------------------|----------------------------|---------------------|
| | Housing Services | Management & General | <u>Totals</u> |
| Personnel | \$ 133,561 | \$ 237,442 | \$ 371,003 |
| Employee benefits | | | |
| Medical | 32,829 | 58,362 | 91,191 |
| Retirement | 7,873 | 13,996 | 21,869 |
| Payroll taxes | 10,997 | 19,550 | 30,547 |
| Advertising | - | 712 | 712 |
| Construction | | | |
| Materials | 621,728 | - | 621,728 |
| Small tools | 2,250 | - | 2,250 |
| Subcontractors | 120,627 | - | 120,627 |
| Bad debt and forgivable loan expense | 45,923 | - | 45,923 |
| Dues and fees | 3,965 | - | 3,965 |
| Travel and training | - | 994 | 994 |
| Depreciation | 20,264 | - | 20,264 |
| Insurance | | | |
| General liability | 13,892 | 12,319 | 26,211 |
| Worker's compensation | 22,617 | - | 22,617 |
| Interest | 7,640 | - | 7,640 |
| Maintenance of equipment | - | 5,871 | 5,871 |
| Occupancy | | | |
| Building maintenance | - | 6,351 | 6,351 |
| Utilities | - | 11,435 | 11,435 |
| Postage | - | 2,835 | 2,835 |
| Professional services | - | 48,609 | 48,609 |
| Supplies | - | 4,261 | 4,261 |
| Telephone and internet | - | 10,786 | 10,786 |
| Transportation | | | |
| Gas and oil | 6,299 | - | 6,299 |
| Vehicle | 1,659 | - | 1,659 |
| Treatment and disposal | - | 800 | 800 |
| Rental expense | - | 11,237 | 11,237 |
| Service fees | - | 7,658 | 7,658 |
| Miscellaneous | 436 | 16,641 | 17,077 |
| TOTAL EXPENSES | <u>\$ 1,052,559</u> | <u>\$ 469,860</u> | <u>\$ 1,522,419</u> |

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

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Kentucky Mountain Housing Development Corporation, Inc. is a faith based non-profit corporation whose mission is to provide safe, decent and affordable housing for low and very low-income families in Southeastern Kentucky. The organization provides both construction and financing to eligible families.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of Presentation

Financial Statement Presentation

Under FASB ASU 2016-14, Kentucky Mountain Housing Development Corporation, Inc. is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restriction and net assets with donor restriction. In addition, Kentucky Mountain Housing Development Corporation, Inc. is required to present a statement of cash flows and statements of functional expenses.

Basis of Accounting

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

- Net assets without donor restriction – Net assets that are not subject to donor-imposed stipulations.
- Net assets with donor restriction – Net assets subject to donor-imposed stipulations on the original and/or revolving proceeds that may or will be met, either by actions of the Organization and/or the passage of time as well as assets that must be maintained permanently by the Organization. When a restriction expires, net assets with donor restriction are reclassified as net assets without donor restriction and reported in the Statement of Activities as net assets released from restriction.

Expense Allocation

Expenses are charged to programs and supporting services based on the use of expenditures. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Organization is not aware of any unrelated business income as of June 30, 2020. In Accounting Standards Codification (ASC) 740-10-50, *Income Taxes*, (formerly FIN 48, *Accounting for Uncertainty in Income Taxes*) the Financial Accounting Standards Board (FASB) requires entities to disclose known or anticipated positions of income tax uncertainty. The Organization is not aware of any uncertain tax positions that would require adjustment to the financial statements. The Organization files income tax returns in the U.S. federal jurisdiction. Generally, the Organization is no longer subject to income tax examination by the U.S. federal, state or local tax authorities for years before 2016.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue Recognition

Kentucky Mountain Housing Development Corporation, Inc. receives funding from federal, state and other non-profit organizations. The funding can be for a variety of housing programs including forgivable loans, low interest loans, counseling grants, or development programs. Revenue recognition depends on the contracts and grants. Construction management fees and interest income are recognized when earned.

Any of the funding sources may, at its discretion, request reimbursement for expenses or return of funds, or both, as a result of non-compliance by Kentucky Mountain Housing Development Corporation, Inc. with the terms of the grants/contracts.

The Organization recognizes revenues on the completed-contract method. That method is used because the typical contract is completed in two months or less, and financial position and results of operations do not vary significantly from those that would result using the percentage-of-completion method. A contract is considered complete when a customer accepts the work.

Contributions and Promises to Give

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence of any donor restrictions.

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Organization uses the allowance method to determine uncollectible, unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Cash and Cash Equivalents

Cash equivalents consist of all demand deposits and highly liquid investments not permanently restricted with an initial maturity date of one year or less. Accordingly, carrying amounts approximate fair value due to their short-term nature.

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The Organization has adopted ASC 958-320, Not-for-Profit Entities, Investments – Debt and Equity Securities. Under ASC 958-320, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values, which are established by quoted market prices at year-end. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities. Certificates of deposits are carried at cost, which approximates fair market value.

Inventory

Inventory generally consists of houses reacquired by the Organization and is carried at cost plus the cost of any improvements or repairs and is limited to the net realizable value and land that is to be used for future home sites. The balance as of June 30, 2020 amounted to \$152,660.

Allowance for Uncollectible Loans

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

Kentucky Mountain Housing Development Corporation, Inc. follows the practice of capitalizing all expenditures for property, furniture, fixtures and office equipment in excess of \$500. Depreciation has been calculated on each class of depreciable property using the straight-line method over the estimated useful lives of all assets as follows:

| | |
|------------------------|----------|
| Office Equipment | 5 years |
| Leasehold Improvements | 15 years |
| Buildings | 40 years |

Fixed assets are stated at cost. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for that period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

Contributed Services

Services contributed to the Organization are recorded at fair market value by the donor. The contributed services are recorded as income and expensed in the same period. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services.

Subsequent Events

Management of the Organization has considered subsequent events through October 2, 2020, the date this report becomes available for issue.

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE

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

NOTE 3 – CASH AND CASH EQUIVALENTS

As of June 30, 2020, the carrying amount of the Organization's cash and cash equivalents was \$3,048,549. The Organization maintains its cash balance with several financial institutions in Southeastern Kentucky. From time to time, the Organization's cash balances may exceed federally insured limits. The Organization considered the risk associated with excess cash balances to be minimal.

NOTE 4 – NOTES RECEIVABLE

A portion of the note's receivable represents balances which are forgiven that are set for a period of years that are stated in the loan agreement. These loans are considered to be forgiven when the agreed-upon number of years has expired. Forgivable loans as of June 30, 2020 were \$931,168.

The composition of the recorded investment in loans by segment is as follows:

Homeownership-Amortized:

These loans are used to assist customers in obtaining affordable housing. These loans have a 30 to 33-year maximum term. The interest rate varies upon affordability for each customer depending on the circumstances. The interest rate may vary from 1 to 3% depending on verified income of customers. At June 30, 2020, our maximum interest rate is 3%, but the minimum interest rate is 1%.

Homeownership-Forgivable:

There are circumstances where the housing cannot be affordable to the customer without some type of grant to the customer or some type of forgivable loan involved. Kentucky Mountain Housing Corporation, Inc. will always add subsidy to each house according to the affordability gap. Typically, up to 35% may be granted to each unit. Some organizations, such as Kentucky Housing Corporation or Rural Development provide funds and will allow those funds to be either granted or forgiven over a period of time (generally 5 to 110 years) in order to assist a customer with affordability.

Home Repair Loans-Amortized:

These loans are used to assist customers in making home repair improvements to their homes. These types of repair/improvements could take the form of heating, air conditioning, new roof, vinyl siding, room addition (in case of overcrowding in the unit), plumbing and wiring.

By making the improvements, the customers save money on their utility bills which in turn make their existing housing more affordable. The terms of these loans vary and are usually carry a 1 to 2% interest rate.

Home Repair Loans-Forgivable:

Some organizations provide funds that maybe in the form of a grant or may take the form of a forgivable loan. The loan may be forgiven over a period of time (generally 5-10 years) in order to allow the customer to make necessary improvements to their homes. Again, these types of repair/improvements could take the form of heating, air

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 4 – NOTES RECEIVABLE (CONTINUED)

conditioning, new roof, vinyl siding, room addition, plumbing and wiring. As with the Home Repair Loans which are amortized, the improvements made with the Home Repair Loan-Forgivable program allow the customers to save money on utility bills which in turn make the existing home more affordable.

The treatment of these loan segments is consistent with the By-laws and Policies and Procedures adopted by Kentucky Mountain Housing Corporation, Inc.

Notes receivable consisted of the following at June 30, 2020:

| | |
|------------------------------------|---------------------|
| Homeownership Amortized | \$ 7,475,230 |
| Homeownership Forgivable | 863,385 |
| Home Repairs Amortized | 323,850 |
| Home Repairs Forgivable | <u>67,783</u> |
| Total | \$ 8,730,248 |
| Less allowance for loan losses | <u>1,529,652</u> |
| Notes receivable, net of allowance | <u>\$ 7,200,596</u> |

ALLOWANCE FOR LOAN LOSSES

Kentucky Mountain Housing Corporation, Inc. has established a methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in their loan portfolio. For purposes of determining the allowance for loan losses, Kentucky Mountain Housing Corporation, Inc. segments the forgivable loans separate from all other loans in its loan portfolio. The loans are segmented into the following categories: forgivable and all other loans.

The allowance for forgivable loans is equal to 100% of all outstanding forgivable loans

The allowance for all other loans is based upon the percentage of all other loans overdue at the ending of any given period. The percentages have been determined based upon historical data (an average for the last four years) for Kentucky Mountain Housing Development Corporation, Inc.'s loan collections and delinquencies.

- Loans 60-89 days delinquent are reserved at 5.61%
- Loans 90-119 days delinquent are reserved at 7.56%
- Loans 120-180 days delinquent are reserved at 12.20%

Kentucky Mountain Housing Development Corporation, Inc. 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 the loan losses. The Organization's Loan Committee and Board of Directors reviews property listings, appraised values of properties, and the total value of investment that Kentucky Mountain Housing Development has, and makes additional reserves when necessary in order to account for losses on those properties.

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 4 – NOTES RECEIVABLE (CONTINUED)

LOANS BY SEGMENT

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. The Organization considers the allowance for loan losses of \$1,529,652 adequate to cover loan losses inherent the loan portfolio as of June 30, 2020. The follow table presents, by portfolio segment, the changes in allowance for loan losses.

Allowance for Loan Losses
For the Year Ended June 30, 2020

| | Homeownership- Amortized | Homeownership- Forgivable | Home Repairs- Amortized | Home Repairs- Forgivable | Totals |
|--------------|-----------------------------|------------------------------|----------------------------|-----------------------------|---------------------|
| Beg. Balance | \$ 474,542 | \$ 931,096 | \$ 34,937 | \$ 103,660 | \$ 1,544,235 |
| Charge-Offs | - | - | - | - | - |
| Forgiven | - | (140,411) | - | (35,877) | (176,288) |
| Recoveries | - | - | 8,405 | - | 8,405 |
| New Loans | - | 72,700 | - | - | 72,700 |
| Provision | 97,410 | - | - | - | 97,410 |
| End. Balance | <u>\$ 571,952</u> | <u>\$ 863,385</u> | <u>\$ 26,532</u> | <u>\$ 67,783</u> | <u>\$ 1,529,652</u> |

CREDIT QUALITY INFORMATION

The following table represents credit exposures by creditworthiness category. Kentucky Mountain Housing Development Corporation, Inc. uses FICO credit scores to determine an applicant's credit worthiness. After the loan is made, there is no further review of these scores. The following table represents management's estimate of the FICO scores of applicants as a percentage of the total portfolio.

| <u>FICO Score</u> | <u>Percentage</u> |
|-------------------|-------------------|
| 800+ | 5% |
| 750-799 | 5% |
| 650-749 | 5% |
| 600-649 | 75% |
| Below 599 | 10% |

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 4- NOTES RECEIVABLE (CONTINUED)

NONPERFORMING LOANS

Kentucky Mountain Housing Development Corporation, Inc. considers any loan as nonperforming when days delinquent exceeds 180 days or the loan has been modified in a Troubled Debt Restructuring.

AGE ANALYSIS OF PAST DUE FINANCING RECEIVABLE BY CLASS

The following table shows an aging analysis of the recorded investment of past due loans receivables as of June 30, 2020.

IMPAIRED LOANS

Kentucky Mountain Housing Development Corporation, Inc. considers a loan impaired when, based on current information and events, management determines that the organization will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination is the same across all classes of loans. When a loan is identified as impaired the measure of impairment is determined by calculating the present value of future cash flows, discounted at the loan's effective interest rate, except when the sole remaining source of the repayment of the loan is the operation of the collateral. In these cases, Kentucky Mountain Housing uses the fair value of the collateral, less selling costs when the foreclosure is probable, instead of discounted cash flows. If it is determined that the value of the impaired loan is less than the recorded investment in the loan, impairment is recognized through an increase to the allowance. Kentucky Mountain Housing Development Corporation, Inc. determines impairment based on a 180-day default period and all loans that are subject to Troubled Debt Restructuring.

The organization had 15 impaired loans as of June 30, 2020. These loans were over 180 days delinquent with a principal balance of \$438,942.

| | <u>60+ Days</u> | <u>90+ Days</u> | <u>120+ Days</u> | <u>Total Past Due</u> | <u>Current</u> | <u>Total Loans Receivable</u> |
|----------------------------|-------------------|-------------------|-------------------|-----------------------|---------------------|-------------------------------|
| Homeownership - Amortized | \$ 594,626 | \$ 489,847 | \$ 519,479 | \$ 1,603,952 | \$ 5,871,278 | \$ 7,475,230 |
| Home Repairs - Amortized | 19,690 | 3,834 | 25,498 | 49,022 | 274,828 | 323,850 |
| Homwownership - Forgivable | - | - | - | - | 863,385 | 863,385 |
| Home Repairs - Forgivable | - | - | - | - | 67,783 | 67,783 |
| Totals | <u>\$ 614,316</u> | <u>\$ 493,681</u> | <u>\$ 544,977</u> | <u>\$ 1,652,974</u> | <u>\$ 7,077,274</u> | <u>\$ 8,730,248</u> |

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 5 – PROMISSORY NOTES PAYABLE

Promissory notes payable as of June 30, 2020 consisted of the following:

| | |
|--|--------------------------|
| Note payable to an individual, non interest bearing, due January 21, 2023; unsecured | \$ 10,000 |
| Kentucky Housing Corporation - Affordable Housing Trust Fund, interest at 1%, payable monthly and quarterly, with annual principal payments between \$671 and \$6,020 due at various dates through July 1, 2043. | 245,121 |
| Notes payable to various charitable organizations, bearing interest up to 1% payable annually, with principal amounts due at various dates through August 2023. | <u>150,000</u> |
| Total | <u><u>\$ 405,121</u></u> |

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

| | |
|-------------|--------------------------|
| 2021 | \$ 38,237 |
| 2022 | 34,821 |
| 2023 | 194,257 |
| 2024 | 26,114 |
| 2025 | 28,741 |
| Later Years | <u>82,951</u> |
| Total | <u><u>\$ 405,121</u></u> |

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 6 – RETIREMENT PROGRAM

The Organization participates in a Tax Shelter Annuity Retirement Program (“Program”) covering all eligible employees. The Organization makes contributions of 4 percent of annual employee compensation, provided the employee contributes 50 percent of the employer portion. Contributions are deposited into an investment account in the names of participating employees. Contributions to the Program for the year ended June 30, 2020 amounted to \$21,869. The Organization has no further obligations beyond the annual contributions.

NOTE 7 – PROPERTY AND EQUIPMENT

Capital asset activity for the fiscal year ended June 30, 2020 was as follows:

| | <u>July 1, 2019</u> | <u>Additions</u> | <u>June 30, 2020</u> |
|--------------------------------|---------------------|--------------------|----------------------|
| Land | \$ 136,819 | - | \$ 136,819 |
| Buildings and improvements | 655,086 | - | 655,086 |
| Equipment | <u>363,137</u> | <u>-</u> | <u>363,137</u> |
| Total at historical cost | <u>1,155,042</u> | <u>-</u> | <u>1,155,042</u> |
| Less: Accumulated Depreciation | | | |
| Buildings and improvements | 317,666 | 16,702 | 334,368 |
| Equipment | <u>355,798</u> | <u>3,562</u> | <u>359,360</u> |
| Total accumulated depreciation | <u>673,464</u> | <u>20,264</u> | <u>693,728</u> |
| Capital assets-net | <u>\$ 481,578</u> | <u>\$ (20,264)</u> | <u>\$ 461,314</u> |

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 8-INVESTMENT AND FAIR VALUE MEASUREMENTS

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

| | |
|---|---------------------|
| The Brethern Foundation Balanced Fund | \$ 445,842 |
| The Brethern Foundation Domestic Stock Fund | 817,857 |
| The Brethern Foundation International Stock Core Fund | 75,910 |
| Certificates of Deposit | <u>975,807</u> |
| Total Investments | <u>\$ 2,315,416</u> |

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

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

Level 2- Financial assets and liabilities whose value 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 model whose inputs are observable for substantially the full term of the asset or liability; and
- Pricing model 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 other 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, 2020 was as follows:

| | | <u>Fair Value Measurements at Reporting Date Using</u> | | |
|--|---------------------|--|---|--|
| | | Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <u>June 30, 2020</u> | <u>Fair Value</u> | | | |
| Brethern Balanced Fund | \$ 445,842 | \$ - | \$ - | \$ 445,842 |
| Brethern Domestic Stock Fund | 817,857 | - | - | 817,857 |
| Brethern International Stock Core Fund | 75,910 | - | - | 75,910 |
| Certificates of Deposit | <u>975,807</u> | <u>-</u> | <u>975,807</u> | <u>-</u> |
| | <u>\$ 2,315,416</u> | <u>\$ -</u> | <u>\$ 975,807</u> | <u>\$ 1,339,609</u> |

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 8-INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

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

| | |
|---|---------------------|
| June 30, 2019 | \$ 1,270,610 |
| Investment earnings - less related fees | 15,942 |
| Total gains and losses - unrealized | |
| Included in earnings | <u>53,057</u> |
| June 30, 2020 | <u>\$ 1,339,609</u> |

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

Certificates of deposit are valued at their face value.

NOTE 9 - INVENTORY

Inventory consists of houses reacquired by the Organization and is carried at cost plus the cost of any improvements or repairs and land that is to be used for future home sites. Inventory is limited to the net realizable value.

Schedule of changes in inventory for the fiscal year ended June 30, 2020 was as follows:

| Balance <u>June 30, 2019</u> | <u>Additions</u> | <u>Sales or Write-downs</u> | Balance <u>June 30, 2020</u> |
|---------------------------------|------------------|---------------------------------|---------------------------------|
| \$ 233,105 | \$ 9,000 | (\$ 89,445) | \$ 152,660 |

NOTE 10 - LIQUIDITY

As part of the Organizations liquidity management, it pools cash in excess of daily requirements in other demand deposit accounts such as savings or money market accounts.

The Organizations financial assets available within one year of the balance sheet date for general expenditure are as follows:

| | <u>2020</u> |
|----------------------------------|--------------------|
| Cash and Cash Equivalent | \$ 3,048,549 |
| Interest receivable | 26,598 |
| Grants receivable | 65,575 |
| Mortgage receivable | 811,875 |
| Investments | 2,315,416 |
| Less restricted cash | <u>(1,167,647)</u> |
| Total available Financial Assets | \$ 4,863,005 |

None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date.

KENTUCKY MOUNTAIN HOUSING DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 11 – CORONAVIRUS (COVID-19) IMPACT

During the year ended June 30, 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak to be a pandemic. COVID-19 continues to spread across the globe and is impacting worldwide economic activity and financial markets. The continued spread of the disease represents a significant risk that operations could continue to be disrupted in the near future. At the current time staff are permitted to work in office time although the office remains closed to clients. The Organization is continuing to service clients through a non-contact environment. The extent to which COVID-19 may impact the Organization will depend on future developments and government regulations, which are highly uncertain and cannot be predicted. As a result, the Organization has not yet determined the impact this disruption may have on its financial statements for the year ending June 30, 2021.

SUPPLEMENTAL INFORMATION

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
Kentucky Mountain Housing Development Corporation, Inc.
Manchester, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits in contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Kentucky Mountain Housing Development Corporation, Inc. (a non-profit organization) which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 2, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kentucky Mountain Housing Development Corporation, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kentucky Mountain Housing Development Corporation, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kentucky Mountain Housing Development Corporation, 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 that are required to be reported under *Government Auditing Standards*.

CRAFT, NOBLE & COMPANY

PLLC

Certified Public Accountants
Post Office Box 827
Richmond, KY 40476
www.craftnoble.com

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of the testing, and not to provide an opinion on the effectiveness of the organization's internal control on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Craft, Noble & Company, PLLC

Craft, Noble & Company, PLLC
Richmond, Kentucky
October 2, 2020