

**Federation of Appalachian Housing Enterprises, Inc.  
and Subsidiaries Berea, Kentucky**

**Consolidated Financial Statements  
(With Supplementary Information)  
and Independent Auditor's Report**

**June 30, 2025 and 2024**

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**Federation of Appalachian Housing Enterprises, Inc. and  
Subsidiaries**

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Independent Auditor's Report

To the Board of Directors  
Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries

Report on the Audit of the Consolidated Financial Statements

*Opinion*

We have audited the consolidated financial statements of Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2025 and 2024, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries, as of June 30, 2025 and 2024, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The financial statements of the subsidiaries were not audited in accordance with *Government Auditing Standards*.

*Responsibilities of Management for the Consolidated Financial Statements*

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries' ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

*Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud

may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The computation of adjusted net worth for approval of nonsupervised mortgagees other than loan correspondents is presented for purposes of additional analysis as required by the Department of Housing and Urban Development and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2025, on our consideration of Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries' internal control over financial reporting and compliance.



Bethesda, Maryland  
September 25, 2025

Lead Auditor: Christopher A. Griffin, CPA

# Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries

## Consolidated Statement of Financial Position June 30, 2025

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
<u>Assets</u>			
Current assets			
Cash and cash equivalents	\$ 14,072,942	\$ 13,633,162	\$ 27,706,104
Cash unavailable for operations	4,491,649	-	4,491,649
Accounts receivable	288,018	2,500	290,518
Servicing receivable	88,099	44,022	132,121
Current grants receivable	448,976	1,453,275	1,902,251
Accrued interest receivable, net of allowance of \$9,799	510,577	48,832	559,409
Deposits	333	-	333
Prepaid expenses	182,055	-	182,055
Current notes receivable	31,405,546	13,562	31,419,108
Current consumer loans receivable	-	18,366	18,366
Current mortgage notes receivable	1,489,521	564,294	2,053,815
Total current assets	52,977,716	15,778,013	68,755,729
Noncurrent assets			
Notes receivable, net of allowance of \$1,367,818	63,580,169	1,094,843	64,675,012
Bankruptcy arrearages	21,415	-	21,415
Mortgage notes receivable, net of allowance of \$1,657,125	15,533,085	5,804,911	21,337,996
Consumer loans receivable, net of allowance of \$5,418	-	30,397	30,397
Property held for resale, net	253,682	24,666	278,348
Grants receivable	-	104,165	104,165
Investments	292,511	-	292,511
Property and equipment, net	2,716,229	-	2,716,229
Intangible assets, net	107,785	-	107,785
Right-of-Use Assets	42,258	-	42,258
Mortgage Servicing Assets	78,488	-	78,488
Deferred compensation	697,673	-	697,673
Total noncurrent assets	83,323,295	7,058,982	90,382,277
Total assets	\$ 136,301,011	\$ 22,836,995	\$ 159,138,006
<u>Liabilities &amp; Net Assets</u>			
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 565,306	\$ -	\$ 565,306
Payroll taxes payable	20,813	-	20,813
Client advances and deposits	1,546,842	-	1,546,842
Accrued interest payable	229,473	-	229,473
Accrued expenses	992,567	-	992,567
Current portion of deferred revenue	719,780	-	719,780
Current Lease Liability	14,228	-	14,228
Current portion of notes payable	9,770,695	-	9,770,695
Total current liabilities	13,859,704	-	13,859,704
Noncurrent liabilities			
Lease Liability	28,030	-	28,030
Long-term portion of notes payable	81,079,418	-	81,079,418
Deferred compensation	697,673	-	697,673
Total noncurrent liabilities	81,805,121	-	81,805,121
Other liabilities			
Equity equivalent	4,000,000	-	4,000,000
Unfunded commitments liability	135,912	-	135,912
Total other liabilities	4,135,912	-	4,135,912
Total liabilities	99,800,737	-	99,800,737
<u>Net assets</u>			
Net assets	31,988,834	22,836,995	54,825,829
Net assets, board designated	4,511,440	-	4,511,440
Total net assets	36,500,274	22,836,995	59,337,269
Total liabilities and net assets	\$ 136,301,011	\$ 22,836,995	\$ 159,138,006

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

# Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries

## Consolidated Statement of Financial Position June 30, 2024

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 11,269,390	\$ 3,504,272	\$ 14,773,662
Cash unavailable for operations	4,239,366	-	4,239,366
Accounts receivable	464,490	-	464,490
Servicing receivable	57,362	43,906	101,268
Current grants receivable	948,055	4,079,375	5,027,430
Accrued interest receivable, net of allowance of \$22,993	384,083	33,716	417,799
Deposits	336	-	336
Prepaid expenses	166,257	-	166,257
Current notes receivable	17,630,234	11,157	17,641,391
Current consumer loans receivable	-	14,338	14,338
Current mortgage notes receivable	1,221,443	608,847	1,830,290
Total current assets	36,381,016	8,295,611	44,676,627
<b>Noncurrent assets</b>			
Notes receivable, net of allowance of \$1,183,442	48,858,801	1,105,886	49,964,687
Bankruptcy arrearages	28,359	-	28,359
Mortgage notes receivable, net of allowance of \$2,016,466	15,723,127	5,946,489	21,669,616
Consumer loans receivable, net of allowance of \$7,050	-	49,114	49,114
Property held for resale, net	328,635	-	328,635
Grants receivable	-	278,125	278,125
Investments	267,913	-	267,913
Property and equipment, net	2,865,175	-	2,865,175
Intangible assets, net	101,889	-	101,889
Right-of-Use Assets	32,981	-	32,981
Mortgage Servicing Assets	57,385	-	57,385
Deferred compensation	569,884	-	569,884
Total noncurrent assets	68,834,149	7,379,614	76,213,763
Total assets	\$ 105,215,165	\$ 15,675,225	\$ 120,890,390
<b>Liabilities &amp; Net Assets</b>			
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable	\$ 331,418	\$ -	\$ 331,418
Payroll taxes payable	15,549	-	15,549
Client advances and deposits	979,975	-	979,975
Accrued interest payable	218,938	-	218,938
Accrued expenses	662,983	-	662,983
Current portion of deferred revenue	5,000	-	5,000
Current Lease Liability	9,147	-	9,147
Current portion of notes payable	4,657,616	-	4,657,616
Total current liabilities	6,880,626	-	6,880,626
<b>Noncurrent liabilities</b>			
Lease Liability	23,834	-	23,834
Long-term portion of notes payable	65,402,004	-	65,402,004
Deferred compensation	569,884	-	569,884
Total noncurrent liabilities	65,995,722	-	65,995,722
<b>Other liabilities</b>			
Equity equivalent	4,000,000	-	4,000,000
Unfunded commitments liability	233,869	-	233,869
Total other liabilities	4,233,869	-	4,233,869
Total liabilities	77,110,217	-	77,110,217
<b>Net assets</b>			
Net assets	27,048,471	15,675,225	42,723,696
Net assets, board designated	1,056,477	-	1,056,477
Total net assets	28,104,948	15,675,225	43,780,173
Total liabilities and net assets	\$ 105,215,165	\$ 15,675,225	\$ 120,890,390

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

**Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries**

**Consolidated Statement of Activities  
Year Ended June 30, 2025**

	<u>Net Assets without Donor Restrictions</u>	<u>Net Assets with Donor Restrictions</u>	<u>Total</u>
Revenue			
Mortgage and note interest	\$ 5,513,412	\$ 46,499	\$ 5,559,911
Contributions, grants	12,313,971	11,595,160	23,909,131
State grants	30,000	-	30,000
Pass-through grants	3,380,243	290,000	3,670,243
Federal grants	2,637,138	-	2,637,138
Realized gain on sale of property	43,989	-	43,989
Unrealized gain on investments	13,098	-	13,098
Unrealized gain on MSRs	21,103	-	21,103
Interest income	697,341	28,814	726,155
Administration income	79,535	-	79,535
Gain on acquisition of assets	-	-	-
Gain on sale of loans	157,388	-	157,388
Fees and service charges	2,220,370	-	2,220,370
Miscellaneous income	4,884	-	4,884
Net assets released from restrictions			
Satisfaction of program restrictions	4,798,703	(4,798,703)	-
	<u>31,911,175</u>	<u>7,161,770</u>	<u>39,072,945</u>
Total revenue			
Expenses			
Program expenses	16,058,960	-	16,058,960
General and administrative	721,495	-	721,495
Fundraising	1,194,331	-	1,194,331
Membership	5,541,063	-	5,541,063
	<u>23,515,849</u>	<u>-</u>	<u>23,515,849</u>
Total expenses			
Change in net assets	8,395,326	7,161,770	15,557,096
Net assets at beginning of period	<u>28,104,948</u>	<u>15,675,225</u>	<u>43,780,173</u>
Net assets at end of period	<u>\$ 36,500,274</u>	<u>\$ 22,836,995</u>	<u>\$ 59,337,269</u>

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

**Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries**

**Consolidated Statement of Activities  
Year Ended June 30, 2024**

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
Revenue			
Mortgage and note interest	\$ 3,746,620	\$ 49,482	\$ 3,796,102
Contributions, grants	485,840	7,522,357	8,008,197
State grants	180,000	-	180,000
Pass-through grants	2,792,956	20,000	2,812,956
Federal grants	2,639,507	2,478,839	5,118,346
Realized gain on sale of property	1,485	-	1,485
Unrealized gain on investments	7,546	-	7,546
Unrealized gain on MSRs	11,201	-	11,201
Interest income	578,441	21,723	600,164
Administration income	24,456	-	24,456
Gain on acquisition of assets	1,261	-	1,261
Gain on sale of loans	55,391	-	55,391
Fees and service charges	1,801,667	-	1,801,667
Miscellaneous income	18,709	-	18,709
Net assets released from restrictions			
Satisfaction of program restrictions	7,063,296	(7,063,296)	-
	<u>19,408,376</u>	<u>3,029,105</u>	<u>22,437,481</u>
Total Revenue			
Expenses			
Program expenses	18,667,511	-	18,667,511
General and administrative	587,049	-	587,049
Fundraising	1,108,689	-	1,108,689
Membership	1,070,967	-	1,070,967
	<u>21,434,216</u>	<u>-</u>	<u>21,434,216</u>
Total Expenses			
Change in net assets	(2,025,840)	3,029,105	1,003,265
Cumulative effect adjustment	(273,887)	-	(273,887)
Net assets at beginning of period	<u>30,404,675</u>	<u>12,646,120</u>	<u>43,050,795</u>
Net assets at end of period	<u>\$ 28,104,948</u>	<u>\$ 15,675,225</u>	<u>\$ 43,780,173</u>

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

**Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries**

**Consolidated Statement of Functional Expenses  
Year Ended June 30, 2025**

Expenses				Program Services						Total Program Services	Total
	General & Administrative	Membership	Fundraising	Home Lending	Community Lending	Loan Servicing	Partners for Rural Transformation	Strategic Programs	Single Family Portfolio		
Personnel expenses	\$ 415,122	\$ 1,078,976	\$ 984,607	\$ 1,422,499	\$ 835,891	\$ 951,913	\$ 661,347	\$ 2,802,405	\$ 162,494	\$ 6,836,549	\$ 9,315,254
Travel expenses	10,783	32,162	18,583	25,712	13,482	8,323	549	25,772	1,678	75,516	137,044
Board & committee meetings	2,404	2,003	2,003	-	801	801	-	-	-	1,602	8,012
Conference & workshops	2,399	154,917	12,901	6,783	2,871	4,164	34,082	8,062	421	56,383	226,600
Occupancy expense	32,947	24	24	27,580	5,348	19,583	-	3,559	-	56,070	89,065
REO expense	-	-	-	-	-	-	-	-	31,675	-	31,675
Supplies & publications	2,972	489	355	2,381	1,098	1,988	283	1,539	262	7,551	11,367
Postage & shipping	1,297	472	413	4,069	821	49,681	245	2,871	200	57,887	60,069
Communications	6,060	5,333	4,836	8,641	4,759	16,716	968	18,231	-	49,315	65,544
Equipment & maintenance	26,879	16,930	15,731	34,701	17,282	25,991	-	60,495	-	138,469	198,009
Subscriptions	1,853	6,138	6,791	1,807	1,066	1,390	3,119	3,449	92	10,923	25,705
Licenses, fees & permits	980	45	55	32,314	269	31,174	-	10,642	37	74,436	75,516
Employee education	718	583	1,416	675	497	420	-	22	19	1,633	4,350
Memberships	3,857	14,163	8,069	2,865	1,669	1,072	-	2,399	1,405	9,410	35,499
Marketing & advertising	438	4,402	3,152	9,583	878	1,190	9,695	77,412	-	98,758	106,750
Liability & property insurance	23,324	3,009	3,762	11,286	4,138	7,524	6,019	24,828	376	54,171	84,266
Service charges	755	3,155	258	4,319	181,785	18,875	26	2,267	755	208,027	212,195
Depreciation & amortization	46,827	6,042	7,553	22,658	8,308	15,106	12,084	49,848	755	108,759	169,181
Organizational expenses	4,134	533	667	2,001	734	1,334	1,067	4,401	67	9,604	14,938
Contributions	55	2,150	138	-	28	-	-	220	-	248	2,591
Software lease	22,470	9,674	26,755	40,805	87,024	55,155	-	54,575	10,358	247,917	306,816
Professional fees	26,627	9,106	11,696	12,994	23,947	23,740	-	18,179	9,712	88,572	136,001
Contract services	50,813	266,482	72,879	112,714	95,069	114,026	105,679	179,629	8,481	615,598	1,005,772
Loan processing expense	-	-	-	(1,769)	4,931	-	-	-	-	3,162	3,162
Loan servicing expense	-	-	-	-	-	9,709	-	-	-	9,709	9,709
Pass thru grants	31,070	3,914,797	10,357	34,499	45,570	41,427	1,601,039	2,550,082	31,070	4,303,687	8,259,911
Grant expense	-	8,379	-	-	-	-	137,960	24,804	-	162,764	171,143
Administration	-	-	-	18,404	219	28,083	-	-	26,510	73,216	73,216
Provision for credit losses	-	-	-	-	184,376	-	-	-	(295,566)	(111,190)	(111,190)
REO provision	-	-	-	-	-	-	-	-	68,075	68,075	68,075
Loans forgiven	-	-	-	-	-	-	-	-	78,794	78,794	78,794
Interest expense	6,469	835	1,043	3,130	2,212,741	2,087	1,669	6,886	98,164	2,324,677	2,333,024
KY HOME program recapture	-	-	-	-	-	-	-	-	305,136	305,136	305,136
Miscellaneous expense	242	264	287	962	276	271	-	332	16	1,857	2,650
<b>Total Expenses</b>	<b>\$ 721,495</b>	<b>\$ 5,541,063</b>	<b>\$ 1,194,331</b>	<b>\$ 1,841,613</b>	<b>\$ 3,735,878</b>	<b>\$ 1,431,743</b>	<b>\$ 2,575,831</b>	<b>\$ 5,932,909</b>	<b>\$ 540,986</b>	<b>\$ 16,058,960</b>	<b>\$ 23,515,849</b>

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

## Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries

### Consolidated Statement of Functional Expenses Year Ended June 30, 2024

Expenses				Program Services					Single Family Portfolio	Total Program Services	Total
	General and Administrative	Membership	Fundraising	Home Lending	Community Lending	Loan Servicing	Partners for Rural Transformation	Strategic Programs			
Personnel expenses	\$ 326,021	\$ 734,255	\$ 844,090	\$ 1,132,587	\$ 800,037	\$ 831,359	\$ 925,548	\$ 2,615,263	\$ 149,858	\$ 6,454,652	\$ 8,359,018
Travel expenses	11,626	37,148	27,218	18,727	21,138	7,939	1,899	16,031	2,332	68,066	144,058
Board & committee meetings	3,270	2,725	2,725	-	1,090	1,090	-	-	-	2,180	10,900
Conference & workshops	1,218	103,684	6,576	7,167	4,630	2,689	13,612	8,257	174	36,529	148,007
Occupancy expense	31,204	1,121	1,169	25,493	5,446	18,452	264	4,204	-	53,859	87,353
REO expense	-	-	-	-	-	-	-	-	17,881	-	17,881
Supplies & publications	7,649	1,578	1,867	6,879	2,916	6,392	596	9,821	787	27,391	38,485
Postage & shipping	614	298	427	2,749	1,007	63,423	490	2,368	238	70,275	71,614
Communications	6,287	5,593	4,992	8,990	4,964	6,784	776	18,435	-	39,949	56,821
Equipment & maintenance	27,952	13,760	14,440	29,476	23,008	28,909	-	51,091	6,803	139,287	195,439
Subscriptions	3,676	4,588	7,929	6,419	2,639	5,448	3,033	9,145	57	26,741	42,934
Licenses, fees & permits	3,520	2,850	2,748	42,892	3,277	19,846	8	7,489	81	73,593	82,711
Employee education	2,028	1,538	1,887	8,644	979	3,160	8	1,295	142	14,228	19,681
Memberships	3,296	17,256	5,930	2,129	1,559	2,843	-	3,761	1,158	11,450	37,932
Marketing & advertising	368	1,059	2,987	53,955	339	352	8,080	455	16	63,197	67,611
Liability & property insurance	21,535	2,779	3,473	10,420	3,821	6,947	5,557	22,924	347	50,016	77,803
Service charges	91	2,702	65	9,256	153,054	17,904	-	692	(3,432)	177,474	180,332
Depreciation & amortization	54,423	7,022	8,778	26,334	9,656	17,556	14,045	57,934	878	126,403	196,626
Organizational expenses	2,594	335	418	1,255	460	837	670	2,762	42	6,026	9,373
Contributions	-	5,775	-	-	-	-	-	-	-	-	5,775
Software lease	13,719	3,335	9,116	31,985	55,768	41,475	2,406	28,472	10,570	170,676	196,846
Professional fees	20,197	419	37,439	3,257	15,934	20,798	400	13,171	16,326	69,886	127,941
Contract services	38,728	119,855	122,837	92,502	98,233	165,387	371,676	106,692	8,319	842,809	1,124,229
Loan processing expense	-	-	-	(5,361)	43,725	-	-	-	-	38,364	38,364
Loan servicing expense	-	-	-	-	-	13,506	-	-	-	13,506	13,506
Pass thru grants	-	-	-	108,250	-	-	5,716,308	1,935,300	-	7,759,858	7,759,858
Grant expense	-	-	-	16,442	-	-	147,529	22,987	-	186,958	186,958
Administration	-	-	-	24,456	-	-	-	-	15,100	39,556	39,556
Provision for credit losses	-	-	-	-	(1,674)	-	-	-	(42,081)	(43,755)	(43,755)
Interest expense	6,729	868	1,085	3,256	1,782,014	2,171	1,737	7,163	85,660	1,882,001	1,890,683
KY HOME program recapture	-	-	-	-	-	-	-	-	246,687	246,687	246,687
Miscellaneous expense	304	424	493	879	302	286	776	729	(1,204)	1,768	2,989
<b>Total expenses</b>	<b>\$ 587,049</b>	<b>\$ 1,070,967</b>	<b>\$ 1,108,689</b>	<b>\$ 1,669,038</b>	<b>\$ 3,034,322</b>	<b>\$ 1,285,553</b>	<b>\$ 7,215,418</b>	<b>\$ 4,946,441</b>	<b>\$ 516,739</b>	<b>\$ 18,667,511</b>	<b>\$ 21,434,216</b>

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

# Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows Years Ended June 30, 2025 and 2024

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ 15,557,096	\$ 1,003,265
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	169,181	196,626
Gain on sale of property	(43,989)	-
Provision for credit losses	(13,233)	(31,100)
Provision for property held for resale	-	27,363
Provision for unfunded loan commitments	(97,957)	(40,018)
Gain on investments	(13,098)	(7,546)
Gain on MSRs	(21,103)	(11,201)
Gain on sale of loans	(157,388)	-
REO provision	68,075	-
Loans forgiven	78,794	-
Right-Of-Use assets	(9,277)	(18,544)
Decrease (increase) in operating assets		
Accounts receivable	173,972	(166,125)
Grants receivable	3,299,138	(4,462,617)
Servicing receivable	(30,854)	(53,731)
Accrued interest receivable	(141,606)	(49,821)
Prepaid expenses	(15,799)	(53,981)
Deferred compensation	(127,789)	(112,756)
Deposits	-	165
Increase (decrease) in operating liabilities		
Accounts payable	233,888	32,746
Payroll taxes payable	5,264	1,631
Client advances and deposits	566,867	119,198
Accrued interest payable	10,533	116,077
Accrued expenses	329,584	134,882
Lease Liability	9,277	18,544
Deferred revenue	714,780	2,500
Deferred compensation	127,789	112,756
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	20,672,145	(3,241,687)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	-	(97,207)
Proceeds from sale of property and equipment	-	1,485
Purchase of intangible assets	(26,131)	-
Payments received on notes receivable	37,633,011	31,538,547
Disbursement of loans receivable funds	(65,884,793)	(44,399,729)
NET CASH USED IN INVESTING ACTIVITIES	(28,277,913)	(12,956,904)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt borrowings	27,600,000	21,180,244
Payments on long-term debt	(6,809,507)	(16,780,624)
NET CASH PROVIDED BY FINANCING ACTIVITIES	20,790,493	4,399,620
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS AND CASH UNAVAILABLE FOR OPERATIONS	13,184,725	(11,798,971)
CASH AND CASH EQUIVALENTS AND CASH UNAVAILABLE FOR OPERATIONS AT BEGINNING OF YEAR	19,013,028	30,811,999
AT END OF YEAR	\$ 32,197,753	\$ 19,013,028
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 2,322,490	\$ 1,774,608
Cumulative effect adjustment	\$ -	\$ 273,887
Charge offs of loans	\$ 81,640	\$ 35,241
Right-of-use asset in exchange for operating lease liability	\$ 12,537	\$ 30,503

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

## Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements June 30, 2025 and 2024

#### Note 1 - Organization

Federation of Appalachian Housing Enterprises, Inc. ("Fahe" or the "Organization") is a nonprofit membership organization that was founded in 1980 by our original Members to serve the Central Appalachian region via a network of nonprofits. Fahe brings people, organizations, and resources together to build homes, communities, and a thriving Appalachia through expanding economic opportunity and security for all. As leaders, we speak with a unified voice to influence policy, philanthropy, and systems change. As a purpose-oriented Network of 50+ diverse community-based nonprofits, serving the Appalachian states of KY, TN, VA, WV, MD, and AL, While we are located in and directly serve the Appalachian region, we also focus on advocacy and change on a national stage to increase the level of investment in all our nation's underserved communities so they can become places of opportunity for all people.

Fahe serves as the direct link between national, transformative resources and local Appalachian leaders. By leveraging relationships with funders, investors, and partners, Fahe connects these local leaders to national resources, empowering them to enact positive change in their communities.

For over four decades, Fahe has increased the scale and reach of our Network's interventions by:

- Identifying and supporting the development of local leaders who are committed to delivering interventions that result in safe, well-designed homes that are affordable; and
- Providing those leaders with access to the expertise, capital, subsidy, training, and other resources that support and catalyze positive opportunities for the communities and people they serve.

Fahe is a certified Community Development Financial Institution ("CDFI") by the US Treasury. As a CDFI, Fahe offers two clusters of loan products: one for corporations-primarily nonprofit-that serve low-income populations and low-income communities, and the second to consumers for home purchase or rehabilitation, preservation, and/or retrofits to improve the safety and performance (energy efficiency) of existing residences.

Specifically, Fahe's principal services include Mortgage Lending, Loan Servicing, Community Lending, Programs, Membership, and Partners for Rural Transformation, as described below:

- Mortgage Lending-(d/b/a) JustChoice Lending ("JCL") is a full-service mortgage lender that strengthens communities by creating successful homeowners. Fahe is certified by both Fannie Mae and Freddie Mac to deliver loans to them. JCL created a national mortgage nonprofit packaging system for United States Department of Agriculture ("USDA") Rural Development 502 Direct loans.
- Loan Servicing-Fahe Loan Servicing emphasizes quality customer care and personalized account management on the mortgages it services for Fahe and for third party clients. Fahe is licensed to conduct mortgage lending or servicing business in the following states: Alabama, Florida, Hawaii, Illinois, Indiana, Kentucky, Maine, Maryland, Michigan, Minnesota, Mississippi, Montana, South Carolina, Tennessee, Virginia, Utah, Washington, West Virginia, and Wisconsin.
- Community Lending Services-Fahe provides working capital, construction, bridge, and permanent loans to companies-primarily nonprofit-to support community development efforts in communities.

## Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements June 30, 2025 and 2024

- Strategic Programs-Strategic Programs, what once had been known as Fahe Consulting, connects different organizations to specialized resources that will help to expand their projects and improve the quality of life in their communities (e.g. disaster recovery, SUD recovery, etc.).
- Membership-The Membership Team strengthens our Network by connecting the Members to each other and to Fahe's expertise and services. Fahe's 50+ Members in the Appalachian portion of Alabama, Kentucky, Maryland, Tennessee, Virginia, and West Virginia get access to specialized training, information sharing, financial resources, and a stronger combined political voice that supports positive change in their communities.
- Partners for Rural Transformation ("PRT") - PRT is a partnership led by a steering committee of six CDFI's serving three-quarters of the country's persistent poverty counties serving Appalachia, the Deep South, the Mississippi Delta, the Rio Grande Valley, Native American Communities, and farming regions in the Rural West. PRT strengthens local economies and builds power among those living in some of the most disinvested parts of the country. Fahe serves as a fiscal agent for PRT.

#### Note 2 - Summary of Significant Accounting Policies

##### Principles of Consolidation

The financial statements include the consolidated statements of the Organization and its subsidiaries, Fahe Capital Corporation I, Fahe Consulting, LLC, Fahe TN, LLC, Park Community LLC, and Fahe Holding Company, LLC. Accordingly, all significant inter-company balances and transactions have been eliminated.

Fahe Capital Corporation I, a wholly-owned subsidiary of Fahe, was formed in 2000 to syndicate private investments from corporations, generating a market rate return delivered through a federal tax credit. Investments raised through Low Income Housing Tax Credit Equity Funds managed by Fahe Capital Corporation I and a partner, Virginia Community Development Corporation, facilitated the creation/preservation of affordable rental housing.

Fahe Consulting, LLC, a wholly owned subsidiary of Fahe, was formed in 2006 to help communities connect to opportunities by providing turn-key consulting services to nonprofits, municipalities, and others who wish to accomplish community development outcomes but who lack the technical expertise or personnel to achieve their desired outcomes. Fahe Consulting assists with filing applications for federal, state and local funding by overseeing the development process, securing construction and permanent financing, facilitating and tracking construction progress and preparing any and all required project reports.

Fahe TN, LLC, a wholly-owned subsidiary established in 2011 and domiciled in Tennessee. Fahe TN, LLC was created to provide access to investments through Tennessee's Community Investment Tax Credit Program.

Park Community LLC, a wholly-owned subsidiary established in 2015 to meet the requirements of a grant, but at the close out of the grant was utilized to allow Fahe to borrow from the Bond Guarantee Program by pledging single family mortgages as collateral.

Fahe Holding Company LLC, a wholly-owned subsidiary established in 2018 to hold the Oak Street Office and qualify for refinancing with New Markets Tax Credits.

## Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements June 30, 2025 and 2024

#### Basis of Accounting

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

Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.
- Net assets with donor restrictions - Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. As of June 30, 2025 and 2024, the Organization had \$0 and \$0, respectively, of net assets with donor restrictions maintained in perpetuity.

Below is a breakdown of the net assets with donor restrictions as of June 30, 2025 and 2024:

	<b>June 30, 2025</b>		
	Appalachia Outreach Programs	Partners for Rural Transformation	Lending Programs with stipulations to revolve
Salary Support	\$ 518,665	\$ 685,503	\$ -
Travel	2,523	185,299	-
Pass Thru Grants	10,626,677	401,300	-
Indirect Costs	177,982	527,569	-
Convenings	750	-	-
Equipment	4,383	-	-
Marketing	6,896	12,467	-
Consultant	18,875	266,303	-
Lending Guidelines	-	-	9,401,803
<b>Total</b>	<b>\$ 11,356,751</b>	<b>\$ 2,078,441</b>	<b>\$ 9,401,803</b>
Total Net Assets with Donor Restrictions at June 30, 2025			<b>\$ 22,836,995</b>

**Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
June 30, 2025 and 2024**

	<b>June 30, 2024</b>		
	<u>Appalachia Outreach Programs</u>	<u>Partners for Rural Transformation</u>	<u>Lending Programs with stipulations to revolve</u>
Salary Support	\$ 1,187,589	\$ 968,320	\$ -
Travel	7,589	117,896	-
Pass Thru Grants	1,347,078	1,200,000	-
Indirect Costs	157,059	755,002	-
Convenings	750	40,000	-
Equipment	6,200	-	-
Marketing	2,550	23,677	-
Consultant	-	300,000	-
Lending Guidelines	-	-	9,561,515
<b>Total</b>	<u><u>\$ 2,708,815</u></u>	<u><u>\$ 3,404,895</u></u>	<u><u>\$ 9,561,515</u></u>
			<u><u>\$ 15,675,225</u></u>

Total Net Assets with Donor Restrictions at June 30, 2024

**Cash and Cash Equivalents**

For purposes of the consolidated statements of financial position and consolidated statements of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents unless held by investment managers as part of the investment portfolio. As required by certain grant and servicing agreements, Fahe does hold cash in separate bank accounts.

**Cash Unavailable for Operations**

Fahe maintained a balance of \$59,083 and \$42,288 of revolving cash collateral related to the \$302,000 note Fahe TN, LLC holds with Commercial Bank at June 30, 2025 and 2024, respectively. The total balance of the assigned mortgages receivable plus revolving cash collateral account balance must equal \$302,000 at each month end reconciliation.

Cash received from grants and held with restrictions at June 30, 2025 and 2024 was \$2,647,276 and \$2,863,645, respectively. All restricted cash held at the end of the fiscal year of 2025 and 2024 was restricted to the lending program or operations and required to be lent following the guidelines of each donor.

The Organization receives financial assets and recognizes the assets and the liability related to cash held for tax and insurance related to loan servicing and pre-close escrow for JustChoice Lending. The balances of those assets and offsetting liabilities were \$1,785,290 and \$1,333,433 at June 30, 2025 and 2024, respectively, which is included in client advances and deposits and servicing receivable on the consolidated statements of financial position.

## Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements June 30, 2025 and 2024

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

	2025	2024
Cash collateral	\$ 59,083	\$ 42,288
Escrow cash and liability	1,785,290	1,333,433
Bond guarantee program	1,949,752	2,178,045
USDA community facilities	697,524	685,600
Total cash unavailable for operations	<u>\$ 4,491,649</u>	<u>\$ 4,239,366</u>

#### Investments

The Organization carries investments in equity securities with readily determinable fair market values and all investments in debt securities at their fair values in the consolidated statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying consolidated statements of activities. The Organization holds two investments that are recorded using the equity method, due to no fair value or equivalent being readily determinable.

#### Mortgage, Notes, and Loans Receivable

Mortgage, notes, and loans receivable are stated at the outstanding principal balance, less an allowance for credit losses. The allowance for credit losses is increased by charges to the change in net assets and decreased by charge-offs (net of recoveries).

Since the interest rate charged to the borrowers corresponds with the customary rates applicable to the low-income housing industry, the Organization considers these rates to be reasonable and has not made any adjustment for imputed interest that would be applicable to higher interest rate conventional housing loans.

#### Allowance for Credit Losses

##### *Single Family (Mortgages Receivable) and Consumer Loans Allowance*

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

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

- a. Whether or not the loan is current;
- b. The borrower's financial condition;
- c. The borrower's credit worthiness;
- d. Risk of loss due to no fault of the borrower;
- e. Collateral and Loan-To-Value (LTV);

## Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements June 30, 2025 and 2024

- f. Lien position;
- g. Reasonable and supportable forecasts of current and future economic conditions; and
- h. Other outstanding indebtedness to either Fahe or another lender.

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

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

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

#### *Deferred Loans*

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

#### *Community Loans Allowance*

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

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

#### *Unfunded Commitments Liability*

Fahe maintains a separate reserve for credit losses on off-balance-sheet credit exposures, including unfunded loan commitments, which is included in other liabilities on the consolidated balance sheet. The reserve for credit losses on off-balance sheet credit exposures is adjusted as a provision for credit losses in the income statement. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life, utilizing the same models and approaches for Fahe's other community loan portfolio segments described above, as these unfunded commitments share similar risk

## Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements June 30, 2025 and 2024

characteristics as its loan portfolio segments; however, both working capital and construction loans have an adjustment factor based on historical fluctuations in funded balances.

#### *Credit Quality Information*

Fahe determines credit quality of its existing portfolio by examining delinquency and other factors monthly. The following tables present performing and nonperforming loans based on payment activity for the years ended June 30, 2025 and 2024. Payment activity is reviewed by management on a monthly basis to determine credit quality of the loans. Loans are considered to be nonperforming when days delinquent is greater than 60 days in the previous month. The Organization has found that it is in its best interest to consider loans past this date nonperforming instead of the traditional single-family mortgage standard of 90 days. Fahe's Loan Servicing Department has found it has the best chances of collection if contact is made with the borrower during the first month of delinquency.

Subsequent to its adoption of ASC 326, because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. Occasionally, the Organization modifies loans by providing principal forgiveness on certain of its real estate loans. When principal forgiveness is provided, the amortized cost basis of the asset is written off against the allowance for credit losses. The amount of the principal forgiveness is deemed to be uncollectible; therefore, that portion of the loan is written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses.

Fahe maintains a large portfolio of deferred loans, the majority of which carry a set of programmatic requirements related to their grant funding source. When the loan matures and the Organization works with the borrower to extend the maturity date - it is functioning within the parameters of the program and original contract. In this case, the modification is not considered a modification for a borrower experiencing financial difficulty.

In some cases, the Organization will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. For the real estate loans included in the "combination" columns below, multiple types of modifications have been made on the same loan within the current reporting period. The combination is at least two of the following: a term extension, principal forgiveness, and interest rate reduction.

**Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
June 30, 2025 and 2024**

The following tables show the amortized cost basis as of June 30, 2025 and 2024 of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of loans and type of concession granted and describes the financial effect of the modifications made to borrowers experiencing financial difficulty:

<b>2025</b>	<b>Term Extension</b>		
	<u>Amortized Cost Basis</u>	<u>% of Total Loan Type</u>	<u>Financial Effect</u>
<u>Loan Type</u>			
Mortgage Lending	\$ 22,116	0.09%	Added sixteen years to the term, which reduced the borrowers monthly principal payment.
Mortgage Conveyances	-	-	
Consumer Lending	-	-	
Community Lending	-		
<b>Total</b>	<b>\$ 22,116</b>		

<b>2024</b>	<b>Term Extension</b>		
	<u>Amortized Cost Basis</u>	<u>% of Total Loan Type</u>	<u>Financial Effect</u>
<u>Loan Type</u>			
Mortgage Lending	\$ 32,379	0.13%	Added five years to the term, which reduced the borrowers monthly principal payment.
Mortgage Conveyances	-		
Consumer Lending	-		
Community Lending	-		
<b>Total</b>	<b>\$ 32,379</b>		

**Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
June 30, 2025 and 2024**

The Organization closely monitors the performance of the loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table depicts the performance of loans that have been modified in the last 12 months as of June 30, 2025 and 2024:

Age Analysis of Load Modifications for Borrowers Facing Financial Difficulty

	Current	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Total Loan Modifications
<b>2025</b>						
Mortgage Lending	\$ 22,116	\$ -	\$ -	\$ -	\$ -	\$ 22,116
Mortgage Conveyances	-	-	-	-	-	-
Consumer Lending	-	-	-	-	-	-
Community Lending	-	-	-	-	-	-
<b>Total</b>	<b>\$ 22,116</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 22,116</b>

Age Analysis of Load Modifications for Borrowers Facing Financial Difficulty

	Current	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Total Loan Modifications
<b>2024</b>						
Mortgage Lending	\$ 32,379	\$ -	\$ -	\$ -	\$ -	\$ 32,379
Mortgage Conveyances	-	-	-	-	-	-
Consumer Lending	-	-	-	-	-	-
Community Lending	-	-	-	-	-	-
<b>Total</b>	<b>\$ 32,379</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 32,379</b>

**Fixed Assets and Intangible Assets**

The Organization capitalizes all expenditures for fixed asset acquisitions in excess of \$500. Fixed assets are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed on a straight-line basis over the useful lives of the assets generally as follows:

Building and improvements	39 years
Computers and data handling equipment	3 years
Vehicles and equipment	5 years

During the years ended June 30, 2025 and 2024, depreciation expense was \$148,947 and \$159,563, respectively.

## Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements June 30, 2025 and 2024

During the year ended June 30, 2016, the Organization amortized costs associated with the issuance of the CDFI Bond Guarantee Program, of which Fahe was allocated \$15,000,000. During the year ended June 30, 2020, the Organization amortized costs associated with the issuance of a second CDFI Bond Guarantee Program, of which Fahe was allocated \$20,000,000. These costs will be expensed during the life of each respective bond program.

Fahe has capitalized the closing costs of other long-term investments as well, to be expensed during the life of each respective investment. Amortization expense for the years ended June 30, 2025 and 2024 was \$20,235 and \$37,063, respectively.

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

	2025	2024
Land	\$ 130,133	\$ 130,133
Building	3,393,604	3,393,604
Building improvements	34,600	34,600
Equipment and vehicles	920,321	920,321
Subtotal	4,478,658	4,478,658
Accumulated depreciation	(1,762,429)	(1,613,483)
Property and equipment, net	\$ 2,716,229	\$ 2,865,175
Intangible assets	\$ 343,378	\$ 317,247
Accumulated amortization	(235,593)	(215,358)
Intangible assets, net	\$ 107,785	\$ 101,889

#### Revenue Recognition

Contributions - Contributions received are recorded as increases in net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions, once all donor conditions have been met and the contribution is deemed unconditional. All donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is satisfied), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Fees and service charges - Fahe has elected to use the following optional exemptions, which have been applied consistently to all contracts within all reporting periods presented:

- Fahe recognizes the incremental cost of obtaining a contract as an expense, when incurred, if the amortization period of the asset that Fahe would have recognized is one year or less.
- For performance obligations satisfied over time, if Fahe has a right to consideration, Fahe will generally recognize revenue in the amount to which Fahe has a right to charge.
- Fahe does not generally disclose information about its remaining performance obligations that have an original duration of one year or less, or where Fahe recognizes revenue in the amount to which Fahe has a right to charge.

## Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements June 30, 2025 and 2024

#### Leases

The Organization is a lessee in several operating leases, for vehicles and office equipment. The Organization determines if an arrangement is a lease, or contains a lease, at inception of a contract and when the terms of an existing contract are changed. The Organization recognizes a lease liability and a right-of-use ("ROU") asset at the commencement date of the lease. The lease liability is initially and subsequently recognized based on the present value of its future lease payments. The Organization utilizes the US Treasury Bill rate on the inception date of the contract as the discount rate for calculating the present value of future payments. The ROU asset is measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized. Lease cost for lease payments is recognized on a straight-line basis over the lease term.

#### Mortgage Servicing Rights

In accordance with applicable accounting standards, Fahe records a separate servicing asset or servicing liability representing the right or obligation to service third-party mortgage loans or mortgage loans that it holds as securitized in transactions accounted for as a sale. If servicing is retained in connection with these securitizations, the resulting servicing asset or liability is initially recorded at its fair value as a component of the transaction's sale proceeds. Initial measurement is based on an analysis of discounted cash flows based on assumptions that market participants use to estimate fair value including, but not limited to, estimates of prepayment rates, default rates, contractual servicing fee income, escrow account earnings, and ancillary income and late fees. Servicing assets are only recorded in a qualified sale transaction, and so Fahe does not book any servicing asset related to loans that are held for investment.

Servicing assets and servicing liabilities are subsequently measured at either fair value or amortized in proportion to, and over the period of estimated net servicing income. Fahe elects one of these methods on a class basis. A class is determined based on (1) the availability of market inputs used in determining the fair value of servicing assets and servicing liabilities, and/or (2) our method for managing the risks of servicing assets and servicing liabilities. Based on consideration of these factors, Fahe currently applies the fair value method when accounting for servicing rights related to residential real estate loans.

The rate of prepayment of loans serviced is the most significant estimate involved in the measurement process. Estimates of prepayment rates consider prepayment history, projections observed or inferred in the marketplace, industry trends, and other considerations. Actual prepayment rates frequently differ from those projected by management due to changes in a variety of economic factors, including prevailing interest rates and the availability of alternative financing sources to borrowers. If actual prepayments of the loans being serviced were to occur more quickly than projected, Fahe would write down the carrying value of servicing through a charge to earnings (or in the case of a servicing liability, reduce the carrying value through a credit to earnings in certain circumstances) in the current period. Conversely, if actual prepayments of the loans being serviced were to occur more slowly than had been projected, the carrying value of servicing assets could increase, and servicing income would exceed previously projected amounts; in the case of a servicing liability, a charge to earnings may be required in these circumstances. Accordingly, the servicing assets actually realized, or the servicing liabilities actually incurred, could differ from the amounts initially recorded.

#### 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

## **Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries**

### **Notes to Consolidated Financial Statements June 30, 2025 and 2024**

509(a). The Organization is not aware of any uncertain tax positions that would require adjustment to the financial statements.

The Organization is the single member of Fahe Capital Corporation I, Fahe Consulting, LLC, Fahe TN, LLC, Park Community LLC, and Fahe Holding Company, LLC (the "subsidiaries"). As such, the subsidiaries are treated as disregarded entities under the Internal Revenue Code and the Organization reports the activities of the subsidiaries and the existence of its controlling interest in the subsidiaries on the Organization's tax return.

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 2021.

#### **Compensated Absences**

Upon separation, Fahe staff are paid out up to a maximum of 352 accrued vacation 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. The balance of accrued compensated absences is included in accrued expenses on the consolidated statements of financial position.

#### **Estimates**

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

## Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements June 30, 2025 and 2024

#### Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and detailed in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Cost center expenses are charged directly to the cost center and then allocated across the various programs based on time and effort or headcount, some expense lines will have a mixture of specific use and headcount or time and effort. The expenses that are allocated include the following:

<u>Expenses</u>	<u>Method of Allocation</u>
Personnel expenses	Time and Effort
Travel expenses	Time and Cost
Board and committee meetings	Direct
Conference & workshops	Time and Cost
Occupancy expenses	Headcount/Time and Effort
REO expense	Single Family Portfolio
Supplies and publications	Specific Use/Time and Effort
Postage and shipping	Specific Use/Time and Effort
Communications	Headcount/Time and Effort
Equipment and maintenance	Headcount/Time and Effort
Subscriptions	Specific Use/Time and Effort
License, fees and permits	Specific Use/Time and Effort
Employee education	Time and Effort
Memberships	Time and Effort
Marketing & advertising	Time and Effort
Liability & property insurance	Headcount
Service charges	Specific Use/Time and Effort
Depreciation and amortization	Headcount
Organizational expenses	Time and Effort
Contributions	Membership
Software lease	Specific Use/Time and Effort
Professional fees	Time and Effort
Contract services	Specific Use/Time and Effort
Loan processing expense	Specific Use
Loan servicing expense	Specific Use
Pass thru grants	Specific Use
Grant expense	Specific Use
Administration	Specific Use/Time and Effort
Provision for credit losses	Specific Use
Interest expense	Headcount/Specific Use
KY HOME program recapture	Single Family Portfolio
Miscellaneous expense	Specific Use/Time and Effort

## Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements June 30, 2025 and 2024

#### Note 3 - Accounting Pronouncements

##### Change in Accounting Principle

On July 1, 2023, the Organization adopted Accounting Standards Update No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, and its related amendments using the modified retrospective approach. The new standard changed the impairment model for most financial assets that are measured at amortized cost and certain other instruments, including trade receivables, from an incurred loss model to a current and expected loss model and added certain new required disclosures. Under the current and expected loss ("CECL") model, entities recognize credit losses to be incurred over the entire contractual term of the instrument rather than delaying recognition of credit losses until it is probable the loss has been incurred. In accordance with ASC 326, the Organization evaluates certain criteria, including aging and historical write-offs, current economic condition of specific customers and future economic conditions to determine the appropriate allowance for credit losses. As a result of the adoption of ASC 326, the Organization recorded a cumulative effect adjustment of \$273,887 as a reduction to its July 1, 2023 opening balance of net assets. In addition, as a result of the adoption of ASC 326, the Organization recorded an increase in loan commitment liability of \$233,869.

The Organization elected not to measure an allowance for credit losses for accrued interest receivable and instead elected to reverse interest income on loans or securities that are placed on nonaccrual status, which is generally when the instrument is 90 days past due, or earlier if Fahe believes the collection of interest is doubtful. Fahe has concluded that this policy results in the timely reversal of uncollectible interest.

#### Note 4 - Investments and Fair Value Measurements

Investments held by the Organization consisted of the following as of June 30, 2025:

	Cost	Market Value	Unrealized Appreciation
KY NWA Alliance Investment	\$ 1,000	\$ -	\$ (1,000)
Scenic States	-	168,611	168,611
FHLB stock	112,400	123,900	11,500
Balance, June 30, 2025	<u>\$ 113,400</u>	<u>\$ 292,511</u>	167,611
Balance, June 30, 2024	<u>\$ 113,400</u>	<u>\$ 267,913</u>	154,513
Unrealized gain (loss) on investments			<u>\$ 13,098</u>

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

**Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
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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 nonactive 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, 2025 and 2024 is as follows:

		Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2025	Fair Value			
KY NWA Alliance investment	\$ -	\$ -	\$ -	\$ -
Scenic States investment	168,611	-	-	168,611
FHLB Stock	123,900	-	123,900	-
	<u>\$ 292,511</u>	<u>\$ -</u>	<u>\$ 123,900</u>	<u>\$ 168,611</u>
June 30, 2024	Fair Value	(Level 1)	(Level 2)	(Level 3)
KY NWA Alliance investment	\$ -	\$ -	\$ -	\$ -
Scenic States investment	155,513	-	-	155,513
FHLB Stock	112,400	-	112,400	-
	<u>\$ 267,913</u>	<u>\$ -</u>	<u>\$ 112,400</u>	<u>\$ 155,513</u>

**Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
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Available-for-sale securities measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	<u>KY NWA Alliance</u>	<u>Scenic States</u>
July 1, 2021	\$ 687	\$ 101,445
Total gains and losses - unrealized, included in earnings	<u>-</u>	<u>28,143</u>
June 30, 2022	687	129,588
Total gains and losses - unrealized, included in earnings	<u>(687)</u>	<u>18,379</u>
June 30, 2023	-	147,967
Total gains and losses - unrealized, included in earnings	<u>-</u>	<u>7,546</u>
June 30, 2024	-	155,513
Total gains and losses - unrealized, included in earnings	<u>-</u>	<u>13,098</u>
June 30, 2025	<u>\$ -</u>	<u>\$ 168,611</u>

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

**Note 5 - Grant Funds Receivable**

Unconditional promises to give amounted to \$2,006,417 and \$5,305,555 as of June 30, 2025 and 2024, respectively. The balance of the unconditional promises to give as of June 30, 2025 will be received according to the following schedule:

<u>Fiscal Year ending June 30,</u>	<u>Amount to be received</u>
2026	\$ 1,902,251
2027	<u>104,166</u>
	<u>\$ 2,006,417</u>

**Note 6 - Property Held for Resale**

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

At June 30, 2025 and 2024, the Organization held \$87,348 and \$155,423, respectively, in REO property, and \$212,837, in investment property. The related allowances recorded as of June 30, 2025 and 2024 were \$21,837 and \$39,625, respectively, for REO property.

## Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements June 30, 2025 and 2024

#### Note 7 - Mortgage and Consumer Notes Receivable

Fahe makes loans to individual borrowers for home purchase and rehabilitation of existing homes. Fahe is an approved FHA and USDA lender offering a combination of loans held on balance sheet, loans sold off balance sheet, and loans packaged to USDA Rural Development and brokered to State Housing Finance Agencies. In addition to traditional mortgage products, Fahe provides subordinated loans to low-income homebuyers to ensure affordability. The subordinated finance can be in the form of an amortized loan or as a soft subordinate lien for down payment assistance. Mortgage lending funds are made available from several different sources. These sources include federal and state grants awarded to the Organization, borrowings of lower interest funds made available by state housing agencies, grants from foundations, and revolved funds in the Organization's various lending portfolios. Loans are made in accordance with the restrictions imposed by the various funding sources.

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

The Organization has a programmatic loan balance of \$420,131 and \$571,750 as of June 30, 2025 and 2024, respectively. The Organization has determined these loans do not meet the definition of a security and therefore does not elect to report them using the "Fair Value Option." These loans are considered conditional promises to give and are reported at amortized cost. The expense of forgiving a portion of a loan is recorded as a programmatic expense as the conditions are met. The Organization changed its loan loss reserve policy during fiscal year 2015 to fully reserve the entirety of the programmatic loan balance due to their intent to never collect these loans. The balance of the programmatic loans nets to zero in the Mortgage Receivables line of the consolidated statements of financial position.

## Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements June 30, 2025 and 2024

Balances of the Organization's mortgage and consumer notes receivable by security and LTV as of June 30, 2025 and 2024 are as follows:

#### 2025 Mortgages Receivable

Lien Position	LTV <75%	LTV 76-90%	LTV 91-100%	LTV > 100%	Unsecured	Total
Real Estate – First Position	\$ 8,973,830	\$ 3,485,726	\$ 1,299,266	\$ -	\$ -	\$ 13,758,822
Real Estate – Subordinated	1,117,414	388,854	9,932,082	10,784	-	11,449,134
NMTC Leverage Loans	-	-	-	-	-	-
Other Collateral	-	-	-	-	-	-
Unsecured	-	-	-	-	54,181	54,181
<b>Total</b>	<b>\$ 10,091,244</b>	<b>\$ 3,874,580</b>	<b>\$ 11,231,348</b>	<b>\$ 10,784</b>	<b>\$ 54,181</b>	<b>\$ 25,262,137</b>
Less: Bankruptcy Arrearages						(21,415)
Less: Servicing Cost of 0% Loans						(137,605)
Less: Allowance for Credit Losses						(1,662,543)
Mortgage Notes Receivable, Net of Allowance						<u>\$ 23,440,574</u>

#### 2024 Mortgages Receivable

Lien Position	LTV <75%	LTV 76-90%	LTV 91-100%	LTV > 100%	Unsecured	Total
Real Estate – First Position	\$ 8,220,761	\$ 5,139,637	\$ 1,759,299	\$ -	\$ -	\$ 15,119,697
Real Estate – Subordinated	1,372,622	330,174	8,855,310	10,784	-	10,568,890
NMTC Leverage Loans	-	-	-	-	-	-
Other Collateral	-	-	-	-	-	-
Unsecured	-	-	-	-	70,506	70,506
<b>Total</b>	<b>\$ 9,593,383</b>	<b>\$ 5,469,811</b>	<b>\$ 10,614,609</b>	<b>\$ 10,784</b>	<b>\$ 70,506</b>	<b>\$ 25,759,093</b>
Less: Bankruptcy Arrearages						(28,359)
Less: Servicing Cost of 0% Loans						(143,860)
Less: Allowance for Loan Losses						(2,023,516)
Mortgage Notes Receivable, Net of Allowance						<u>\$ 23,563,358</u>

The Organization had loan covenants with certain foundations that require the Organization to maintain certain levels of allowances to cover potential credit losses. In lieu of charging the full amount of the requirements to earnings, the Organization's Board of Directors chose to voluntarily designate \$600,000 of its net assets for this purpose. This provides aggregate loan loss coverage of no less than 4.0% on the Fahe loan portfolio. Based on actual, historical delinquency trends, the Organization's management does not expect to incur any charges against this designation. Now that those certain foundations' investments have matured, Fahe's Board of Directors will be assessing the need to continue this designation and may release the set-aside in the coming year.

The recorded investment of mortgage notes receivable secured by residential real estate properties where formal foreclosure procedures are in process is \$393,150 and \$459,025 as of June 30, 2025 and June 30, 2024, respectively.

## Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements June 30, 2025 and 2024

#### Note 8 - Notes Receivable

The Organization makes loans to Corporations. Financial product types provided to members and partner Community Development Corporations (CDCs) in support of affordable housing include: (1) Acquisition, (2) Construction, (3) Mini-Permanent, (4) Permanent, (5) Equipment and Machinery, and (6) Working Capital loans. The target market end user of these loans is the low-income targeted population or low-income communities.

Product Type	2025	2024
Construction	\$ 41,596,206	\$ 31,906,780
Acquisition	2,177,614	-
Mini-Permanent	11,630,532	2,385,049
Permanent (Community Lending)	40,680,861	32,755,961
Equipment and Machinery	2,937	13,733
Working Capital	1,373,788	1,727,997
Total	\$ 97,461,938	\$ 68,789,520

Balances of the Organization's community loan portfolio by security and LTV as of June 30, 2025 and June 30, 2024 are as follows:

2025 Notes Receivable						
Lien Position	LTV <75%	LTV 76-90%	LTV 91-100%	LTV > 100%	Unsecured	Total
Real Estate – First Position	\$ 67,144,811	\$ 12,653,172	\$ -	\$ 1,058,223	\$ -	\$ 80,856,206
Real Estate – Subordinated	1,086,527	-	-	-	-	1,086,527
NMTC Leverage Loans	-	-	-	-	-	-
Other Collateral	2,867,508	11,690,147	-	642,320	-	15,199,975
Unsecured	-	-	-	-	319,230	319,230
Total Notes Receivable	\$ 71,098,846	\$ 24,343,319	\$ -	\$ 1,700,543	\$ 319,230	\$ 97,461,938
Less: Allowance for Credit Losses						(1,367,818)
Notes Receivable Net of Allowance						\$ 96,094,120
2024 Notes Receivable						
Lien Position	LTV <75%	LTV 76-90%	LTV 91-100%	LTV > 100%	Unsecured	Total
Real Estate – First Position	\$ 44,438,344	\$ 6,796,374	\$ -	\$ 1,993,078	\$ -	\$ 53,227,796
Real Estate – Subordinated	1,886,473	-	-	-	-	1,886,473
NMTC Leverage Loans	-	-	-	-	-	-
Other Collateral	3,091,198	9,933,258	-	494,252	-	13,518,708
Unsecured	-	-	-	-	156,543	156,543
Total Notes Receivable	\$ 49,416,015	\$ 16,729,632	\$ -	\$ 2,487,330	\$ 156,543	\$ 68,789,520
Less: Allowance for Credit Losses						(1,183,442)
Notes Receivable Net of Allowance						\$ 67,606,078

**Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
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**Note 9 - Allowance for Credit losses**

The activity in the allowance for loan loss accounts for the years ended June 30, 2025 and 2024 is as follows:

2025 Allowance for Credit Losses				
	Consumer Loans			
	Mortgage Lending	Receivable	Community Lending	Total
Beg. Balance	\$ 2,016,466	\$ 7,050	\$ 1,183,442	\$ 3,206,958
Charge-Offs	(81,640)	-	-	(81,640)
Recoveries	14,825	1,408	-	16,233
Provision	<u>(292,526)</u>	<u>(3,040)</u>	<u>184,376</u>	<u>(111,190)</u>
Ending Balance	<u>\$ 1,657,125</u>	<u>\$ 5,418</u>	<u>\$ 1,367,818</u>	<u>\$ 3,030,361</u>

2024 Allowance for Credit Losses				
	Consumer Loans			
	Mortgage Lending	Receivable	Community Lending	Total
Beg. Balance	\$ 2,297,828	\$ 27,577	\$ 947,904	\$ 3,273,309
Charge-Offs	(35,241)	-	-	(35,241)
Recoveries	28,033	423	250,000	278,456
Provision	<u>(274,154)</u>	<u>(20,950)</u>	<u>(14,462)</u>	<u>(309,566)</u>
Ending Balance	<u>\$ 2,016,466</u>	<u>\$ 7,050</u>	<u>\$ 1,183,442</u>	<u>\$ 3,206,958</u>

Fahe has identified the unfunded portion of certain lines of credit as unconditionally cancellable credit exposures, meaning Fahe can cancel the unfunded commitment at any time. No credit loss estimate is reported for off-balance sheet credit exposures that are unconditionally cancellable by Fahe or for undrawn amounts under such arrangements that may be drawn prior to the cancellation of the arrangement.

- Working Capital Usage Factor: 45% allowance based on historical utilization rate
- Construction Loan Usage Factor: 70% allowance based on historical utilization rate

**Unfunded Commitments**

	<b>Total Allowance for Credit Losses - Unfunded Commitments</b>
Balance at June 30, 2024	\$ 233,869
Provision for credit losses	<u>(97,957)</u>
Balance at June 30, 2025	<u>\$ 135,912</u>

**Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
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**Age Analysis of Past Due Financing Receivables by Class**

The table below includes an aging analysis of the recorded investment of past due financing receivables as of June 30, 2025 and 2024. 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
<b>2025</b>						
Mortgage Lending	\$ 264,267	\$ 754,548	\$ 715,726	\$ 1,734,541	\$ 22,973,307	\$ 24,707,848
Mortgage Conveyances	49,510	-	28,100	77,610	422,498	500,108
Consumer Lending	-	-	-	-	54,181	54,181
Community Lending	-	-	-	-	97,461,940	97,461,940
<b>Total</b>	<b>\$ 313,777</b>	<b>\$ 754,548</b>	<b>\$ 743,826</b>	<b>\$ 1,812,151</b>	<b>\$ 120,911,926</b>	<b>\$ 122,724,077</b>

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
<b>2024</b>						
Mortgage Lending	\$ 830,695	\$ 374,410	\$ 809,184	\$ 2,014,289	\$ 23,219,382	\$ 25,233,671
Mortgage Conveyances	-	-	96,773	96,773	358,144	454,917
Consumer Lending	-	-	-	-	70,503	70,503
Community Lending	-	-	-	-	68,789,520	68,789,520
<b>Total</b>	<b>\$ 830,695</b>	<b>\$ 374,410</b>	<b>\$ 905,957</b>	<b>\$ 2,111,062</b>	<b>\$ 92,437,549</b>	<b>\$ 94,548,611</b>

**Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
June 30, 2025 and 2024**

**Nonaccrual loans**

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

As of June 30, 2025 and 2024, loans on nonaccrual status and their respective classes are as follows:

	June 30, 2025		
	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans
Mortgage Lending	\$ -	\$ 545,820	\$ 545,820
Mortgage Conveyances	-	26,529	26,529
Consumer Lending	-	-	-
Community Lending	-	-	-
<b>Total</b>	<b>\$ -</b>	<b>\$ 572,349</b>	<b>\$ 572,349</b>

  

	June 30, 2024		
	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans
Mortgage Lending	\$ -	\$ 620,017	\$ 620,017
Mortgage Conveyances	-	96,773	96,773
Consumer Lending	-	-	-
Community Lending	-	-	-
<b>Total</b>	<b>\$ -</b>	<b>\$ 716,790</b>	<b>\$ 716,790</b>

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. Written off accrued interest for the years ended June 30, 2025 and 2024 are as follows:

	Nonaccrual Loans	
	2025	2024
Mortgage Lending	\$ 545,820	\$ 620,017
Mortgage Conveyances	26,529	96,773
Consumer Lending	-	-
Community Lending	-	-
<b>Total</b>	<b>\$ 572,349</b>	<b>\$ 716,790</b>

## Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements June 30, 2025 and 2024

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

#### Note 10 - Notes Payable

Notes payable, by type of funding source and lien position as of June 30, 2025 and 2024 are as follows:

##### 2025 Notes Payable

Funding Source	Security Type and Lien Position			Total
	Secured	Unsecured	Subordinated	
Depository Institutions and Related Foundations	\$ 489,157	\$ 9,000,000	\$ 8,000,000	\$ 17,489,157
Federal Government	46,440,470	-	-	46,440,470
Private Foundations	-	10,900,000	-	10,900,000
State or Local Government	1,261,871	513,234	-	1,775,105
Faith-Based Organizations	-	1,825,000	-	1,825,000
Individuals	-	2,495,301	-	2,495,301
Corporations and Related Corporate Foundations	-	-	-	-
Insurance Companies	-	-	-	-
Intermediaries	-	6,175,000	-	6,175,000
Pension or Other Investment Funds	-	-	-	-
Public Debt Market	-	-	-	-
Other	1,150,080	2,600,000	-	3,750,080
<b>Total</b>	<b>\$ 49,341,578</b>	<b>\$ 33,508,535</b>	<b>\$ 8,000,000</b>	<b>\$ 90,850,113</b>

##### 2024 Notes Payable

Funding Source	Security Type and Lien Position			Total
	Secured	Unsecured	Subordinated	
Depository Institutions and Related Foundations	\$ 3,625,573	\$ 4,000,000	\$ 6,000,000	\$ 13,625,573
Federal Government	32,735,494	-	-	32,735,494
Private Foundations	-	7,942,000	-	7,942,000
State or Local Government	1,430,848	628,120	-	2,058,968
Faith-Based Organizations	-	1,685,604	-	1,685,604
Individuals	-	2,545,883	-	2,545,883
Corporations and Related Corporate Foundations	-	-	-	-
Insurance Companies	-	-	-	-
Intermediaries	-	6,175,000	-	6,175,000
Pension or Other Investment Funds	-	-	-	-
Public Debt Market	-	-	-	-
Other	1,191,098	2,100,000	-	3,291,098
<b>Total</b>	<b>\$ 38,983,013</b>	<b>\$ 25,076,607</b>	<b>\$ 6,000,000</b>	<b>\$ 70,059,620</b>

As of June 30, 2025, notes payable interest rates ranged from 0.5%-7.55% with maturities from July 1, 2025 through December 30, 2056.

As of June 30, 2024, notes payable interest rates ranged from 0.5%-8.43% with maturities from July 1, 2024 through December 22, 2056.

**Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
June 30, 2025 and 2024**

The principal repayment requirements at June 30, 2025, relating to the above notes payable are as follows:

	2025
2026	\$ 9,770,695
2027	4,720,583
2028	4,992,766
2029	7,958,254
2030	13,772,262
Later Years	49,635,553
	\$ 90,850,113

As of June 30, 2025 and 2024, \$33,508,535 and \$25,076,607 of notes payable, respectively, are unsecured and represent private investments by individuals and groups.

During the year ended June 30, 2025, the Organization had four open lines of credit from various banks with available credit balances totaling \$7,813,800.

During the year ended June 30, 2024, the organization had six open lines of credit from various banks with available credit balances totaling \$5,677,384.

The Organization's pledged collateral by asset type for the years ended June 30, 2025 and 2024 are as follows:

	2025	2024
<i>Encumbered Assets</i>		
<i>Line of Credit Collateral</i>		
Cash	\$ 59,084	\$ 42,288
Community Loans Receivable	3,380,863	8,396,458
Single Family Loans Receivable	430,074	583,285
 <i>Note Payable Collateral</i>		
Cash	2,388,409	1,435,060
Community Loans Receivable	46,131,604	30,395,346
Single Family Loans Receivable	7,417,197	7,765,788
Fixed Assets	1,150,080	1,191,099
Total	\$ 60,957,311	\$ 49,809,324

The Organization has covenants relating to debt investments. As of June 30, 2025, Fahe's activity was not constrained by these covenants. The covenants with the highest potential to become restrictive are related to growth requirements of the Organization's net assets without donor restrictions and related ratios. Management is cognizant that as Fahe continues to expand the Bond Guarantee Program and bring on other debt, it is imperative to continue to increase net assets without donor restrictions through net income and capital grants.

## Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements June 30, 2025 and 2024

#### Note 11 - Letter of Credit

On December 2, 2024, the Organization entered into a standby letter of credit agreement with Central Bank & Trust Co. The proceeds of the facility are to be used in the event the Organization fails to make payments to the United States Department of Agriculture Rural Housing Service ("USDA"). If payments are missed the USDA has the ability to call the bank to obtain their payment. At June 30, 2025, the borrowing capacity was \$2,484,000. Interest is payable at a fluctuating interest rate, but never less than 6%, which was 7.5% at June 30, 2025. At June 30, 2025, there was no outstanding borrowing. The facility expires on December 2, 2029.

#### Note 12 - Community Development Financial Institutions (CDFI) Bond Guarantee Program

The CDFI Bond Guarantee Program ("BGP" or "Bond Program") was enacted through the Small Business Jobs Act of 2010 (Public Law 111-240) on September 27, 2010. The legislation directs the Treasury Department to guarantee the full amount of bonds issued to support CDFIs that make investments for patient capital to CDFIs. The Federal Financing Bank, a financing arm of the U.S. Treasury, will purchase all of the bonds issued under the BGP, including the Opportunity Finance Network ("OFN") Bonds, and the U.S. Treasury will guarantee repayment. The bonds will not be remarketed or sold to any other investors.

In 2015, the CDFI Fund approved OFN to serve as a Qualified Issuer and issue a bond totaling \$127,000,000 on behalf of the Organization and six other CDFIs. Fahe's portion of the issuance was \$15,000,000. In 2019, the CDFI Fund approved OFN to serve as a Qualified Issuer and issue a new bond. Fahe's portion of this issuance was \$20,000,000. As of June 30, 2025 and 2024, Fahe had drawn down \$15,000,000 of the 2015 allocation. As of June 30, 2025 and 2024, Fahe had drawn \$20,000,000 and \$16,600,000, respectively, of the 2019 allocation.

#### Note 13 - Other Liabilities

The Organization shows EQ2 notes under Other Liabilities on the consolidated statements of financial position in order to represent more clearly the nature of the payable and to adhere to industry practices. The EQ2 is defined by having six attributes as follows (1) the EQ2 investment is carried as an investment on the investor's balance sheet in accordance with generally accepted accounting principles; (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).

#### Note 14 - Retirement Plan

The Organization participates in a 401(k) defined contribution plan established by Nationwide. Employees are eligible to contribute to the plan after 90 days of employment. The Organization matches on a sliding scale up to 4% depending on employee's contribution amounts. During the years ended June 30, 2025 and 2024, \$191,961 and \$179,863, respectively, was expended and is included as a component of personnel expenses on the accompanying consolidated statements of functional expenses.

The Organization provides a 457 plan to eligible employees based on Board designation. During the years ended June 30, 2025 and 2024, \$45,129 and \$31,837, respectively, was expended and is

## Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements June 30, 2025 and 2024

included as a component of personnel expenses on the accompanying consolidated statements of functional expenses.

#### Note 15 - Operating Leases

The Organization has obligations as a lessee for a vehicle and other office equipment. The Organization classified these leases as operating leases. These leases generally contain renewal options for periods ranging from two to three years. Because the Organization is not reasonably certain to exercise these renewal options, the optional periods are not included in determining the lease term, and associated payments under these renewal options are excluded from lease payments.

During 2025 and 2024, Fahe leased one vehicle and three copy machines on multi-year operating leases. The vehicle lease has a term of three years, which includes the servicing and support in the monthly lease amount. The purchase option at the end of the lease is for the fair market value of the vehicle at that time.

For the years ended June 30, 2025 and 2024, total rental expenses under leases amounted to \$9,660 and \$11,111, respectively, and is reported as a component of occupancy expense on the accompanying statements of functional expenses.

As of June 30, 2025, Fahe was obligated under its operating lease arrangements as follows:

Fiscal year ending June 30,	Total
2026	\$ 11,597
2027	11,597
2028	9,949
2029	5,544
2030	5,261
	<hr/>
	43,948
	<hr/>
Less imputed interest	(1,690)
	<hr/>
Total operating leases	<u>\$ 42,258</u>

#### Note 16 - Commitments and Contingencies

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

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

The Organization's management feels confident these loans will be repaid, but in the event of default they are fully secured by real estate due to the limitations on loan LTV and pose no additional liability to the Organization. As of June 30, 2025 and 2024, the Organization has a contingent liability of \$399,031 and \$423,564, respectively. The Organization no longer issues any new guarantees.

## Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements June 30, 2025 and 2024

Fahe had committed, but undisbursed, credit lines totaling \$20,889,695 and \$15,137,500 as of June 30, 2025 and 2024, respectively.

#### Note 17 - Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to a concentration of credit risk consist principally of cash and cash equivalents and notes receivable. The Organization maintains cash balances in various financial institutions. The cash accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per depositor, per insured bank, for each ownership category. The Organization manages the cash position to mitigate and/or eliminate any associated risk. The Organization maintains a sweep account agreement to ensure that all balances above the FDIC limits are insured, in addition to holding a letter of credit from the FHLB to cover all accounts not eligible to earn interest.

The Organization provides mortgage loans primarily to low- and moderate-income individuals. Mortgage notes totaling \$25,262,137 and \$27,759,090 at June 30, 2025 and 2024, respectively, are secured by the property purchased or improved except as noted below as unsecured. These mortgage receivables are a concentration of credit risk. The Organization provides loans to groups to support the growth of low-income housing opportunities in its service area. Notes receivable totaling \$97,461,938 and \$68,789,520 as of June 30, 2025 and 2024, respectively, are secured by the assets of the Organization with the exception of the unsecured amount as noted. As of June 30, 2025 and 2024, \$373,411 and \$227,044, respectively, were unsecured. The unsecured loans are spread between the mortgages, notes and consumer loans receivable.

#### Note 18 - Consolidated Statements of Cash Flows

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

	2025	2024
Cash and cash equivalents	\$ 27,706,104	\$ 14,773,662
Cash unavailable for operations	4,491,649	4,239,366
	<u>\$ 32,197,753</u>	<u>\$ 19,013,028</u>

#### Note 19 - Schedule of Liquidity

The following table shows the Organization's financial assets, reduced by amounts not available within one year. Certain financial assets are designated as illiquid when they are unavailable as cash within a year, have donor restrictions, or held in reserves for others.

The Organization's goal is to maintain liquid financial assets for 90 days of operating expenses and obligations. As part of its liquidity plan, any excess cash is held in a reserve account. The Organization has access to revolving lines of credit in the amount of \$7,813,800 in the event of unanticipated cash flow needs, see Note 10.

**Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
June 30, 2025 and 2024**

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

	2025	2024
Cash and cash equivalents	\$ 27,706,104	\$ 14,773,662
Accounts receivable	290,518	464,490
Grants receivable	1,902,251	5,027,430
Servicing receivable	132,121	101,268
Accrued interest receivable	559,406	417,800
Notes receivable, net	31,419,109	17,641,391
Mortgages receivable, net	2,053,815	1,830,290
Consumer loans receivable, net	18,366	14,338
Less: Cash and cash equivalents with restrictions	(11,877,610)	(1,703,977)
Less: Lending programs with stipulations to revolve	(1,755,552)	(1,800,293)
Additional funds to be released from restrictions	2,407,215	3,067,970
Cash available for operations within one year	\$ 52,855,743	\$ 39,834,369

**Note 20 - Board Designated Net Assets**

Fahe received a \$12 million grant from the Heron Foundation in quarter 2 of fiscal year 2023. This was an unprecedented opportunity for Fahe to display the trust the foundation has in Fahe's stewardship of assets, and hopefully will begin to set the stage for future trust-based funding by other foundations. While this grant was awarded as unrestricted organizational support, the Fahe Board of Directors designated the grant to further support the mission of the Partners for Rural Transformation. The PRT Steering Committee then established the plan below for the use of funds:

- 6 - \$1 million grants to each PRT member for net asset without donor restrictions growth - 1 of which was for Fahe - all were expended in FY 2023
- \$1.2 million indirect support to Fahe
- \$4.8 million support of PRT operations - to be spent in future years to strengthen the Persistent Opportunity Fund

In order to facilitate transparent communication with Fahe's funders and investors about the intended spend-down nature of these funds, the Fahe Board of Directors designated \$4.7 million (the unspent portion of this grant) in net assets at June 30, 2023 for future support of PRT, to be released at recommendation of staff as part of the annual budget process.

The Organization has contacted all investors that require positive net asset growth as a covenant of their investment to discuss any possible negotiation necessary to maintain compliant status if Fahe were to see a net reduction in unrestricted net assets related to the spend down of this net asset designation. At June 30, 2025, Fahe was in compliance with all investor covenants.

Fahe released \$4,388,560 from Board Designation through 2025 which was utilized by the Partners for Rural Transformation Program. As of June 30, 2025, \$311,440 remains in Board Designated Net Assets for PRT.

In August 2024, Fahe received a \$12,000,000 donation on behalf of a donor who has a donor-advised account within the Goldman Sachs Philanthropy Fund. The Board of Directors approved a plan to

## Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements June 30, 2025 and 2024

utilize these funds for lending, Membership grants, and training. During FY25, \$8,400,000 was expended in grants and capital. The Board designated the remaining balance of \$3,600,000 to be expended for pass-thru grants and training in future fiscal years.

The balance of the Board Designated Net Assets as of June 30, 2025 and 2024, respectively, is \$4,511,440 and \$1,056,477.

#### **Note 21 - Conditional Contributions**

At June 30, 2025 contributions approximating \$12,393,689 have not been recognized in the accompanying consolidated statements of activities because the barriers on which they depend have not yet been met. Of the total conditional contributions, \$372,000 will be matched at about 32 cents on the dollar, or \$119,000, and \$127,174 will be matched at about 43 cents on the dollar, or \$54,685. In addition, \$1,978,315 of contributions depend on obtaining qualifying applications for housing subsidy, and the remaining are bound by federal cost principles which limit spending discretion.

#### **Note 22 - Subsequent Events**

Events that occur after the consolidated statement of financial position date but before the consolidated financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the consolidated statement of financial position date are recognized in the accompanying consolidated financial statements. Subsequent events which provide evidence about conditions that existed after the consolidated statement of financial position date require disclosure in the accompanying notes. Management evaluated the activity of the Corporation through September 25, 2025 (the date the consolidated financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the consolidated financial statements or disclosure in the notes to the consolidated financial statements.

## **Supplementary Information**

**Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries**

**Computation of Adjusted Net Worth for Approval of Nonsupervised  
Mortgagees Other than Loan Correspondents**

**Year Ended June 30, 2025**

Minimum net worth required		<u>\$ 1,000,000</u>
Net assets (net worth) Per statement of financial position	\$ 59,337,269	
Less unacceptable assets	<u>742,409</u>	
Adjusted net worth for HUD Requirement purposes		<u>\$ 58,594,860</u>
Adjusted net worth above amount Required		<u>\$ 57,594,860</u>
Adjusted net worth below amount Required		<u>\$ -</u>

See Independent Auditor's Report.

Independent Auditor's Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*

To the Board of Directors  
Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries, which comprise the consolidated statement of financial position as of June 30, 2025, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated September 25, 2025. The financial statements of the subsidiaries were not audited in accordance with *Government Auditing Standards* and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with those subsidiaries.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries' internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries' internal control.

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

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

## Report on Compliance and Other Matters

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

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering. and Subsidiaries' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Bethesda, Maryland  
September 25, 2025

Independent Auditor's Report on Compliance for the Major HUD  
Program and on Internal Control over Compliance Required by the  
*Consolidated Audit Guide for Audits of HUD Programs*

To The Board of Directors  
Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries

Report on Compliance for its Major HUD Program

We have audited Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries' compliance with the compliance requirements described in the *Consolidated Audit Guide for Audits of HUD Programs* (the "Guide") that could have a direct and material effect on Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries' major U.S. Department of Housing and Urban Development ("HUD") program for the year ended June 30, 2025. Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries' major HUD program and the related direct and material compliance requirements are as follows:

<b>Name of Major HUD Program</b>	<b>Direct and Material Compliance Requirements</b>
HUD Title II Nonsupervised Lender	Quality Control Plan, Lender Annual Recertification, Adjusted Net Worth, Liquidity and Licensing

In our opinion, Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major HUD program for the year ended June 30, 2025.

*Basis for Opinion on its Major HUD Program*

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"), the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the Guide. Our responsibilities under those standards and the Guide are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries and to meet our other ethical responsibilities, in accordance with relevant ethical requirements related to our audit. We believe that our audit provides a reasonable basis for our opinion on compliance for its major HUD program. Our audit does not provide a legal determination of Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries' compliance.

*Responsibilities of Management for Compliance*

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, regulations, rules, and provisions of contracts or and grant agreements applicable to its HUD program.

### *Auditor's Responsibilities for the Audit of Compliance*

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Guide will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries' compliance with the requirements of the Major HUD program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Guide, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### Report on 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 compliance requirement of a HUD 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 compliance requirement of a HUD program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a compliance requirement of a HUD program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

*CohnReznick LLP*

Bethesda, Maryland  
September 25, 2025

**Federation of Appalachian Housing Enterprises, Inc. and Subsidiaries**

**Schedule of Findings and Questioned Costs  
Year Ended June 30, 2025**

Our audit disclosed no findings that are required to be reported herein under the HUD Consolidated Audit Guide.



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