Federation of Appalachian Housing Enterprises, Inc.
Berea, Kentucky

Consolidated Financial Statements and
Independent Auditor's Report

June 30, 2023 and 2022

CohnReznick
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Federation of Appalachian Housing Enterprises, Inc.

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Independent Auditor's Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Federation of Appalachian Housing Enterprises, Inc., which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, 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., as of June 30, 2023 and 2022, 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 Financial Statements section of our report. We are required to be independent of Federation of Appalachian Housing Enterprises, Inc., and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 certain subsidiaries were not audited in accordance with *Government Auditing Standards*.

Responsibilities of Management for the 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.'s 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 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.'s 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.'s 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 and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations* ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2023, on our consideration of Federation of Appalachian Housing Enterprises, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Federation of Appalachian Housing Enterprises, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Federation of Appalachian Housing Enterprises, Inc.'s internal control over financial reporting and compliance.

CohnReznick LLP

Bethesda, Maryland
September 28, 2023

Taxpayer Identification Number:
22-1478099

Lead Auditor: Christopher A. Griffin, CPA

Federation of Appalachian Housing Enterprises, Inc.

Consolidated Statement of Financial Position
June 30, 2023

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
Assets			
Current assets			
Cash and cash equivalents	$ 22,565,137	$ 4,107,467	$ 26,672,604
Cash unavailable for operations	3,635,395	-	3,635,395
Accounts receivable	292,171	6,194	298,365
Servicing receivable	520,281	31,256	551,537
Current grants receivable	232,507	-	232,507
Accrued interest receivable	351,202	16,777	367,979
Deposits	500	-	500
Prepaid expenses	112,276	-	112,276
Current notes receivable	8,175,805	11,157	8,186,962
Current consumer loans receivable	-	13,978	13,978
Current mortgage notes receivable	1,265,799	637,956	1,903,755
Total current assets	37,151,073	4,824,785	41,975,858
Noncurrent assets			
Notes receivable, net	45,575,503	1,119,717	46,695,220
Bankruptcy arrearages	29,628	-	29,628
Mortgage notes receivable, net	15,196,744	6,268,457	21,465,201
Consumer loans receivable, net	-	43,138	43,138
Property held for resale, net	277,680	-	277,680
Grants receivable	57,264	553,167	610,431
Investments	260,367	-	260,367
Property and equipment, net	2,974,966	-	2,974,966
Intangible assets, net	138,952	-	138,952
Right-of-Use Assets	14,437	-	14,437
Mortgage Servicing Assets	46,184	-	46,184
Deferred compensation	457,128	-	457,128
Total noncurrent assets	65,028,853	7,984,479	73,013,332
Total assets	$ 102,179,926	$ 12,809,264	$ 114,989,190
Liabilities & Net Assets			
Liabilities			
Current liabilities			
Accounts payable	$ 148,048	$ 150,624	$ 298,672
Payroll taxes payable	13,918	-	13,918
Client advances and deposits	848,257	12,520	860,777
Accrued interest payable	102,863	-	102,863
Accrued expenses	528,101	-	528,101
Current portion of deferred revenue	2,500	-	2,500
Current Lease Liability	7,970	-	7,970
Current portion of notes payable	9,699,299	-	9,699,299
Total current liabilities	11,350,956	163,144	11,514,100
Noncurrent liabilities			
Deferred revenue	-	-	-
Lease Liability	6,466	-	6,466
Long-term portion of notes payable	55,960,701	-	55,960,701
Deferred compensation	457,128	-	457,128
Total noncurrent liabilities	56,424,295	-	56,424,295
Other liabilities			
Equity equivalent	4,000,000	-	4,000,000
Total liabilities	71,775,251	163,144	71,938,395
Net assets			
Net assets	25,104,675	12,646,120	37,750,795
Net assets, board designated	5,300,000	-	5,300,000
Total net assets	30,404,675	12,646,120	43,050,795
Total liabilities and net assets	$ 102,179,926	$ 12,809,264	$ 114,989,190

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

Federation of Appalachian Housing Enterprises, Inc.

Consolidated Statement of Financial Position
June 30, 2022

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
Assets			
Current assets			
Cash and cash equivalents	$ 9,169,733	$ 6,301,578	$ 15,471,311
Cash unavailable for operations	4,752,671	-	4,752,671
Accounts receivable	344,014	-	344,014
Servicing receivable	436,367	39,601	475,968
Current grants receivable	-	749,327	749,327
Accrued interest receivable	483,737	3,892	487,629
Deposits	335	-	335
Prepaid expenses	254,355	-	254,355
Current notes receivable	7,506,825	11,157	7,517,982
Current consumer loans receivable	-	20,868	20,868
Current mortgage notes receivable	1,231,891	668,091	1,899,982
Total current assets	24,179,928	7,794,514	31,974,442
Noncurrent assets			
Notes receivable, net	46,945,721	1,064,700	48,010,421
Bankruptcy arrearages	85	-	85
Mortgage notes receivable, net	15,815,650	6,750,498	22,566,148
Consumer loans receivable, net	-	67,907	67,907
Property held for resale, net	286,347	-	286,347
Grants receivable	71,939	-	71,939
Investments	242,675	-	242,675
Property and equipment, net	2,974,038	-	2,974,038
Intangible assets, net	182,309	-	182,309
Deferred compensation	400,473	-	400,473
Total noncurrent assets	66,919,237	7,883,105	74,802,342
Total assets	$ 91,099,165	$ 15,677,619	$ 106,776,784
Liabilities & Net Assets			
Liabilities			
Current liabilities			
Accounts payable	$ 111,570	$ -	$ 111,570
Payroll taxes payable	11,203	-	11,203
Client advances and deposits	1,152,305	1,554	1,153,859
Accrued interest payable	187,143	-	187,143
Accrued expenses	465,108	-	465,108
Current portion of deferred revenue	-	408,398	408,398
Current portion of notes payable	9,654,944	-	9,654,944
Total current liabilities	11,582,273	409,952	11,992,225
Noncurrent liabilities			
Deferred revenue	671,447	-	671,447
Long-term portion of notes payable	51,973,907	-	51,973,907
Deferred compensation	400,473	-	400,473
Total noncurrent liabilities	53,045,827	-	53,045,827
Other liabilities			
Equity equivalent	4,000,000	-	4,000,000
Total liabilities	68,628,100	409,952	69,038,052
Net assets			
Net assets	21,871,065	15,267,667	37,138,732
Net assets, board designated	600,000	-	600,000
Total net assets	22,471,065	15,267,667	37,738,732
Total liabilities and net assets	$ 91,099,165	$ 15,677,619	$ 106,776,784

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

Federation of Appalachian Housing Enterprises, Inc.

Consolidated Statement of Activities
Year Ended June 30, 2023

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
Revenue			
Mortgage and note interest	$ 3,181,545	$ 48,762	$ 3,230,307
Contributions, grants	13,014,850	2,446,343	15,461,193
State grants	25,000	30,000	55,000
Pass-through grants	1,349,471	225,000	1,574,471
Federal grants	2,035,017	380,498	2,415,515
Realized gain (loss) on sale of property	(271)	-	(271)
Unrealized gain (loss) on investments	17,692	-	17,692
Unrealized gain (loss) on MSRs	46,184	-	46,184
Interest income	275,380	2,314	277,694
Administration income	21,429	-	21,429
Gain on acquisition of assets	280,738	-	280,738
Gain on sale of loans	127,062	-	127,062
Fees and service charges	1,440,417	-	1,440,417
Miscellaneous income	5,499	-	5,499
Net assets released from restrictions			
Satisfaction of program restrictions	5,754,464	(5,754,464)	-
Total Revenue	27,574,477	(2,621,547)	24,952,930
Expenses			
Program expenses	17,226,301	-	17,226,301
General and administrative	506,160	-	506,160
Fundraising	971,710	-	971,710
Membership	936,696	-	936,696
Total Expenses	19,640,867	-	19,640,867
Net assets at beginning of period	22,471,065	15,267,667	37,738,732
Increase (decrease) in net assets	7,933,610	(2,621,547)	5,312,063
Net assets at end of period	$ 30,404,675	$ 12,646,120	$ 43,050,795

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

Federation of Appalachian Housing Enterprises, Inc.

Consolidated Statement of Activities
Year Ended June 30, 2022

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
Revenue			
Mortgage and note interest	$ 3,149,324	$ 36,342	$ 3,185,666
Contributions, grants	1,144,533	5,471,995	6,616,528
State grants	25,000	202,187	227,187
Pass-through grants	1,583,956	-	1,583,956
Federal grants	2,337,291	2,544,295	4,881,586
Realized gain (loss) on investments	108,556	-	108,556
Unrealized gain (loss) on investments	28,143	-	28,143
Interest income	9,814	709	10,523
Administration income	41,468	-	41,468
Gain on acquisition of assets	66,518	-	66,518
Gain on sale of loans	402,639	-	402,639
Fees and service charges	1,061,803	-	1,061,803
Miscellaneous income	(123,022)	-	(123,022)
Net assets released from restrictions			-
Satisfaction of program restrictions	5,750,526	(5,750,526)	-
Total Revenue	15,586,549	2,505,002	18,091,551
Expenses			
Program expenses	10,724,509	-	10,724,509
General and administrative	356,656	-	356,656
Fundraising	894,039	-	894,039
Membership	756,091	-	756,091
Total Expenses	12,731,295	-	12,731,295
Increase (decrease) in net assets	2,855,254	2,505,002	5,360,256
Net assets at beginning of period	19,615,811	12,762,665	32,378,476
Net assets at end of period	$ 22,471,065	$ 15,267,667	$ 37,738,732

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

Federation of Appalachian Housing Enterprises, Inc.

Consolidated Statement of Functional Expenses
Year Ended June 30, 2023

				Program Services						
Expenses	General & Administrative	Membership	Fundraising	Home Lending	Community Lending	Loan Servicing	Strategic Programs	Single Family Portfolio	Total Program Services	Total
Personnel expenses	$ 296,354	$ 610,830	$ 680,615	$ 1,398,693	$ 667,602	$ 744,176	$ 2,470,189	$ 107,664	$ 5,388,324	$ 6,976,123
Travel expenses	9,727	26,418	13,311	12,194	16,423	4,965	6,810	1,109	41,501	90,957
Board & committee meetings	1,086	731	731	261	449	449	261	-	1,420	3,968
Conference & workshops	1,583	151,478	5,626	4,161	4,350	1,090	11,269	435	21,305	179,992
Occupancy expense	20,041	794	992	15,992	3,413	11,667	2,856	-	33,928	55,755
REO expense	-	-	-	-	-	-	-	335	335	335
Supplies & publications	5,031	700	3,719	4,174	2,018	4,175	5,414	438	16,219	25,669
Postage & shipping	555	391	504	3,648	1,019	46,875	1,684	326	53,552	55,002
Communications	5,989	5,391	4,569	8,559	4,727	6,459	22,597	-	42,342	58,291
Equipment & maintenance	20,189	12,394	11,744	26,033	12,631	20,255	46,891	154	105,964	150,291
Subscriptions	2,023	2,851	6,123	1,575	1,344	6,884	4,870	-	14,673	25,670
Licenses, fees & permits	12,888	9,051	8,861	34,326	18,694	10,533	15,744	62	79,359	110,159
Employee education	2,083	1,648	3,168	1,378	890	3,379	812	73	6,532	13,431
Memberships	4,105	17,231	7,475	730	1,593	179	2,142	1,371	6,015	34,826
Marketing & advertising	1,413	2,085	1,597	29,271	1,162	2,299	11,822	-	44,554	49,649
Liability & property insurance	10,434	774	3,529	4,845	15,195	13,822	10,380	10,331	54,573	69,310
Service charges	2,548	2,039	851	11,825	141,273	18,950	3,024	396	175,468	180,906
Depreciation & amortization	21,337	1,422	7,112	9,957	81,760	28,449	21,337	21,337	162,840	192,711
Organizational expenses	1,730	-	4,326	-	885	-	865	865	2,615	8,671
Contributions	267	1,867	284	82	304	235	484	184	1,289	3,707
Software lease	11,142	2,098	5,301	16,551	19,271	29,533	28,908	9,983	104,246	122,787
Professional fees	23,142	3,786	39,588	5,954	17,716	23,773	20,120	18,333	85,896	152,412
Contract services	48,353	82,216	160,023	155,253	56,386	93,886	444,378	10,378	760,281	1,050,873
Loan processing expense	-	-	-	13,862	10,334	25	-	-	24,221	24,221
Loan servicing expense	-	-	-	-	-	5,600	-	-	5,600	5,600
Pass thru grants	-	-	-	-	-	-	7,681,210	-	7,681,210	7,681,210
Grant expense	-	-	-	-	-	-	88,358	-	88,358	88,358
Administration	-	-	-	21,429	-	-	-	139,925	161,354	161,354
Bad debt expense	-	-	-	-	(257,377)	-	-	135,747	(121,630)	(121,630)
Interest expense	3,757	250	1,257	1,752	1,496,643	5,006	3,756	132,558	1,639,715	1,644,979
KY HOME program recapture	-	-	-	-	-	-	-	542,748	542,748	542,748
Miscellaneous expense	383	251	404	852	289	272	(49)	130	1,494	2,532
Total Expenses	$ 506,160	$ 936,696	$ 971,710	$ 1,783,357	$ 2,318,994	$ 1,082,936	$ 10,906,132	$ 1,134,882	$ 17,226,301	$ 19,640,867

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

Federation of Appalachian Housing Enterprises, Inc.

Consolidated Statement of Functional Expenses
Year Ended June 30, 2022

				Program Services						
Expenses	General and Administrative	Membership	Fundraising	Home Lending	Community Lending	Loan Servicing	Strategic Programs	Single Family Portfolio	Total Program Services	Total
Personnel expenses	$ 223,206	$ 549,827	$ 713,877	$ 823,110	$ 492,197	$ 580,437	$ 2,340,821	$ 108,215	$ 4,344,780	$ 5,831,690
Travel expenses	4,985	22,810	6,221	8,315	8,081	6,916	13,021	848	37,181	71,197
Board and committee meetings	-	45,904	-	-	-	-	550	-	550	46,454
Conferences and workshops	482	2,978	986	2,360	2,747	2,586	6,385	41	14,119	18,565
Occupancy expense	4,866	5,577	5,251	8,453	4,816	6,507	35,854	1,061	56,691	72,385
REO expense	-	-	-	-	-	-	-	19,699	19,699	19,699
Supplies and publications	1,001	994	1,637	1,541	1,126	1,274	5,414	366	9,721	13,353
Postage and shipping	279	389	281	7,119	566	45,761	2,252	197	55,895	56,844
Communications	1,900	2,683	1,853	3,451	1,892	2,617	18,660	455	27,075	33,511
Equipment and maintenance	10,749	11,236	10,627	19,742	10,732	14,754	52,415	2,631	100,274	132,886
Subscriptions	2,384	1,861	4,881	2,643	1,428	6,817	5,176	112	16,176	25,302
Licenses, fees and permits	5,944	4,724	4,634	26,617	15,365	5,000	4,701	53	51,736	67,038
Employee education	608	332	591	2,099	774	2,420	1,196	409	6,898	8,429
Memberships	2,673	22,172	6,782	641	1,599	311	2,395	1,389	6,335	37,962
Marketing and advertising	163	312	372	2,693	619	1,480	5,000	-	9,792	10,639
Liability and property insurance	9,547	636	3,182	4,455	14,002	12,729	9,997	9,547	50,730	64,095
Service charges	1,693	1,451	575	12,005	115,833	16,767	1,700	(183)	146,122	149,841
Depreciation and amortization	27,949	1,863	9,316	13,043	40,992	37,266	27,949	27,949	147,199	186,327
Organizational expenses	380	245	1,226	67	447	193	380	380	1,467	3,318
Contributions	438	1,085	796	314	477	433	588	138	1,950	4,269
Software lease	4,731	2,851	3,620	10,439	10,383	21,008	10,580	3,679	56,089	67,291
Professional fees	14,223	7,734	38,387	3,368	21,104	10,812	14,403	14,172	63,859	124,203
Contract services	33,779	32,131	77,034	55,675	36,684	92,666	587,974	6,181	779,180	922,124
Loan processing expense	25	25	25	13,284	298	-	-	-	13,582	13,657
Loan servicing expense	-	-	-	-	-	(5,879)	-	-	(5,879)	(5,879)
Pass thru grants	-	35,550	-	5,000	-	-	2,587,823	-	2,592,823	2,628,373
Grant expense	-	-	-	-	-	-	28,177	-	28,177	28,177
Administration	-	-	-	41,469	-	-	-	-	41,469	41,469
Bad debt expense	57	59	56	103	177,210	178	209	99,086	276,786	276,958
Interest expense	3,877	258	1,292	1,809	1,364,550	5,169	3,877	68,430	1,443,835	1,449,262
KY HOME program recapture	-	-	-	-	-	-	-	325,944	325,944	325,944
Miscellaneous expense	717	404	537	548	943	897	1,339	527	4,254	5,912
Total expenses	$ 356,656	$ 756,091	$ 894,039	$ 1,070,363	$ 2,324,865	$ 869,119	$ 5,768,836	$ 691,326	$ 10,724,509	$ 12,731,295

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

Federation of Appalachian Housing Enterprises, Inc.

Consolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
CASH FLOW FROM OPERATING ACTIVITIES		
Changes in Net Assets	$ 5,312,063	$ 5,360,256
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	192,711	186,327
Loss (gain) on disposal of assets	140,196	(74,487)
Provision for loan losses	282,835	(235,837)
Gain on investments using equity method	(17,692)	(28,143)
Gain on acquisition of assets	(280,738)	(70,112)
Net charge offs on purchase	(977,233)	(261,896)
Decrease (increase) in operating assets		
Accounts receivable	45,649	109,668
Grants receivable	(21,672)	(500,849)
Servicing receivable	(169,569)	(381,969)
Accrued interest receivable	119,650	(43,315)
Prepaid expenses	142,079	(132,118)
Deferred compensation	(56,655)	4,732
Deposits	(165)	1,335
Mortgage servicing assets	(46,184)	-
Increase (decrease) in operating liabilities		
Accounts payable	187,102	(1,414,427)
Payroll taxes payable	2,715	(9,319)
Client advances and deposits	(293,082)	32,176
Accrued interest payable	(84,280)	29,195
Accrued expenses	62,993	(22,249)
Deferred revenue	(1,077,345)	(190,253)
Deferred compensation	56,655	(4,732)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,520,033	2,353,983
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(140,283)	(24,093)
Proceeds from sale of property and equipment	-	317,729
Purchase of loan portfolio	(94,694)	(253,596)
Purchase of intangible assets	(10,000)	(159,764)
Payments received on notes receivable	20,062,973	28,601,854
Disbursement of loans receivable funds	(17,285,161)	(35,983,577)
NET CASH USED IN (PROVIDED BY) INVESTING ACTIVITIES	2,532,835	(7,501,447)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt borrowings	21,749,530	28,762,143
Payments on long-term debt	(17,718,381)	(22,276,443)
NET CASH PROVIDED BY FINANCING ACTIVITIES	4,031,149	6,485,700
OPERATIONS AND RESTRICTED CASH	10,084,017	1,338,237
BEGINNING OF YEAR	20,223,982	18,885,745
END OF YEAR	$ 30,307,999	$ 20,223,982
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 1,615,785	$ 1,420,067
Right of use asset in exchange for operating lease liability	$ 14,437	$ -

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

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—JustChoice Lending (dba) 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 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.

- 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.

In 2011, Fahe established Fahe TN, LLC. This entity is domiciled in Tennessee and was created to provide access to investments through Tennessee's Community Investment Tax Credit Program.

In 2015, Fahe established Park Community LLC. This entity was originally established to meet the requirements of a grant, but at the close out of the grant was utilized to allow Fahe to borrow from the Bond Guarantee Program by pledging single family mortgages as collateral.

In 2018, Fahe established Fahe Holding Company LLC to hold the Oak Street Office and qualify for refinancing with New Markets Tax Credits.

Basis of Accounting

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

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

- Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.

- Net assets with donor restrictions - Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. As of June 30, 2023 and 2022, 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, 2023:

	June 30, 2023		
	Appalachia Outreach Programs	Partners for Rural Transformation	Lending Programs with stipulations to revolve
Salary Support	$ 697,204	$ 741,628	$ -
Travel	-	37,673	-
Pass Thru Grants	183,679	350,000	-
Indirect Costs	20,000	238,029	-
Convenings	-	25,200	-
Equipment	37,000	2,500	-
Marketing	12,208	14,500	-
Consultant	11,750	500,000	-
Lending Guidelines	-	-	9,774,749
Total	$ 961,841	$ 1,909,530	$ 9,774,749
Total Net Assets with Donor Restrictions at June 30, 2023			$ 12,646,120

June 30, 2022

	Appalachia Outreach Programs	Partners for Rural Transformation	Lending Programs with stipulations to revolve
Salary Support	$ 668,402	$ 919,698	$ -
Travel	19,091	115,791	-
Pass Thru Grants	770,348	1,150,000	-
Indirect Costs	21,919	499,610	-
Convenings	5,466	80,000	-
Equipment	-	-	-
Marketing	39,250	24,104	-
Consultant	10,500	147,313	-
Lending Guidelines	-	-	10,796,175
Total	$ 1,534,976	$ 2,936,516	$ 10,796,175
Total Net Assets with Donor Restrictions at June 30, 2022			$ 15,267,667

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
As of June 30, 2022, Fahe maintained an $800,000 compensating balance arrangement with Commercial Bank against a $6,000,000 line of credit, as well as $189,081 of revolving cash collateral related to the $500,000 note Fahe TN, LLC holds with Commercial Bank. The total balance of the assigned mortgages receivable plus revolving cash collateral account balance must equal $500,000 at each month end reconciliation. Effective February 4, 2022, the compensating balance agreement with Commercial Bank was amended and the compensating balance arrangement requirement was removed.

Cash received from grants and held with restrictions at June 30, 2023 and 2022 was $4,107,468 and $6,301,578, respectively. All restricted cash held at the end of the fiscal year of 2023 and 2022 was restricted to the lending program or operations and required to be lent following the guidelines of each donor.

The Organization receives nonfinancial assets and recognizes the assets and the liability related to cash held for tax and insurance related to loan servicing and pre-close escrow for JustChoice Lending. The balances of those assets and offsetting liabilities were $860,777 and $1,153,859 at June 30, 2023 and 2022, respectively, which is included in client advances and deposits on the consolidated statements of financial position.

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

	2023	2022
Compensating balance	$ -	$ 1,458
Escrow cash and liability	1,274,233	2,026,053
Bond guarantee program	1,684,467	1,249,393
USDA community facilities	676,695	675,767
Total cash unavailable for operations	$ 3,635,395	$ 3,952,671

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

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

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

Allowance for Loan Losses
It is the policy of the Organization to provide valuation allowances for estimated loan losses. The allowance for loan losses represents management's best estimate of future bad debts. Additions to the allowance are charged to earnings. Accounts written off are charged against the allowance. Recoveries are credited to the allowance reserve.

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

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

During the years ended June 30, 2023 and 2022, depreciation expense was $139,354 and $136,522, respectively.

During the year ended June 30, 2016, the Organization amortized costs associated with the issuance of the CDFI Bond Guarantee Program, of which Fahe was allocated $15,000,000. During the year ended June 30, 2020, the Organization amortized costs associated with the issuance of a second

CDFI Bond Guarantee Program, of which Fahe was allocated $20,000,000. These costs will be expensed during the life of each respective bond program.

Fahe has capitalized the closing costs of other long-term investments as well, to be expensed during the life of each respective investment. Amortization expense for the years ended June 30, 2023 and 2022 was $53,357 and $49,805, respectively.

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

	2023	2022
Land	$ 130,133	$ 130,133
Building	3,393,604	3,393,604
Building improvements	34,600	34,600
Equipment and vehicles	1,210,662	1,070,378
Subtotal	4,768,999	4,628,715
Accumulated depreciation	(1,794,032)	(1,654,677)
Property and equipment, net	$ 2,974,966	$ 2,974,038
Intangible assets	$ 317,247	$ 307,247
Accumulated amortization	(178,295)	(124,938)
Intangible assets, net	$ 138,952	$ 182,309

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 recognizes revenue in accordance with ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Fahe has elected to use the following optional exemptions that are permitted under the Topic 606, 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.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans, securities and deposits held in other financial institutions. In addition, certain noninterest income streams, such as income from fees and charges on loans are not within the scope of the guidance.

Leases

The Organization is a lessee in several operating leases, for vehicles, office space, and other 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 509(a).

The Organization is not aware of any uncertain tax positions that would require adjustment to the financial statements. The Organization files income tax returns in the U.S. federal jurisdiction. Generally, the Organization is no longer subject to income tax examination by the U.S. federal, state or local tax authorities for years before 2019.

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 in 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.

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:

Expenses	Method of Allocation
Personnel Expenses	Time and Effort
Travel Expenses	Time and Cost
Board & Committee	Direct
Conference & Workshops	Time and Cost
Occupancy Expenses	Headcount/Time and Effort
Supplies & Publications	Specific Use/Time and Effort
Postage & Shipping	Specific Use/Time and Effort
Communications	Headcount/Time and Effort
Equipment & Maintenance	Headcount/Time and Effort

Expenses	Method of Allocation
Subscriptions	Specific Use/Time and Effort
License, Fees & Permits	Specific Use/Time and Effort
Employee Education	Time and Effort
Memberships	Time and Effort
Marketing & Advertising	Time and Effort
Liability & Property Insurance	Headcount
Depreciation & Amortization	Headcount
Organizational Expenses	Time and Effort
Software Lease	Specific Use/Time and Effort
Legal Fees	Time and Effort
Audit & Review Fees	Time and Effort
Contract Services	Specific Use/Time and Effort
Loan Processing Expense	Specific Use
Loan Servicing Expense	Specific Use
Interest Expense	Headcount/Specific Use

Reclassifications

Reclassifications have been made to certain prior year balances to conform to the current year presentations. Such reclassifications were made for comparative purposes only, and do not restate the prior year consolidated financial statements.

Note 3 - Accounting Pronouncements

Change in Accounting Principle

The Organization is a lessee in several operating leases, for vehicles, office space, and other office equipment. The Organization determines if an arrangement is a lease, or contains a lease, at inception of a During the year ended June 30, 2023, the Organization adopted the provisions of Accounting Standards Update 2016-02*, Leases* ("ASU 2016-02"). This purpose of this ASU was to increase transparency and comparability in financial reporting by requiring balance sheet recognition of leases and note disclosure of certain information about lease arrangements. By adopting this standard, Fahe now reports both a ROU asset, current and noncurrent lease liability. Adopting the new standard did not have a material effect on the Organization's net assets for the year ended June 30, 2023.

Upcoming Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which creates a new credit impairment standard for financial instruments. The new standard will requirement management to make a current estimate of expected credit losses as opposed to current U.S. generally accepted accounting principles which delayed recognition until loss was probable. As a result of the ASU, management will be required to perform an assessment of expected credit losses on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. ASU 2016-13 is applicable to loans, debt securities, trade receivables, net investments in leases, off balance-sheet credit exposures, reinsurance receivables and any other financial assets not excluded from the scope that have a contractual right to receive cash. In the period of adoption, the Organization will record a cumulative-effect adjustment to changes in net assets and in subsequent years, changes in the current expected credit loss for the reporting period will be reported on the statement of activities. Expanded disclosures will also be required. The ASU along with certain related ASUs clarifying the scope of ASU 2016-13 and providing transition relief will be effective for fiscal years beginning after December 15, 2022. The Organization is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

Note 4 - Investments and Fair Value Measurements

Investments held by the Organization consisted of the following as of June 30, 2023:

	Cost	Market Value	Unrealized Appreciation
KY NWA Alliance Investment	$ 1,000	$ -	$ (1,000)
Scenic States	-	147,967	147,967
FHLB stock	112,400	112,400	-
Balance June 30, 2023	$ 113,400	$ 260,367	146,967
Balance June 30, 2022	$ 113,400	$ 242,675	129,275
Unrealized gain (loss) on investments			$ 17,692

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

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

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

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

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

The Organization's fair value of securities available for sale measured on a recurring basis at June 30, 2023 and 2022 is as follows:

		Fair Value Measurements at Reporting Date Using		
June 30, 2023	Fair Value	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
KY NWA Alliance investment	$ -	$ -	$ -	$ -
Scenic States investment	147,967	-	-	147,967
FHLB Stock	112,400	-	112,400	-
	$ 260,367	$ -	$ 112,400	$ 147,967
June 30, 2022	Fair Value	(Level 1)	(Level 2)	(Level 3)
KY NWA Alliance investment	$ 687	$ -	$ -	$ 687
Scenic States investment	129,588	-	-	129,588
FHLB Stock	112,400	-	112,400	-
	$ 242,675	$ -	$ 112,400	$ 130,275

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

	KY NWA Alliance	Scenic States
July 1, 2021	$ 687	$ 101,445
Total gains and losses - unrealized, included in earnings	-	28,143
June 30, 2022	687	129,588
Total gains and losses - unrealized, included in earnings	(687)	18,379
June 30, 2023	$ -	$ 147,967

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 $842,938 and $821,266 as of June 30, 2023 and 2022, respectively. The balance of the unconditional promises to give in fiscal year 2023 will be received according to the following schedule:

Fiscal Year ending June 30,	Amount to be received
2024	$ 232,505
2025	610,433
	$ 842,938

Note 6 - Property Held for Resale

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

At June 30, 2023 and 2022, the Organization held $86,456 and $86,196, respectively, in REO property, and $212,837 and $212,837, respectively, in investment property. The related allowances recorded as of June 30, 2023 and 2022 were $21,614 and $12,687, respectively for REO property.

Note 7 - Mortgage Notes Receivable

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

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

The Organization has a programmatic loan balance of $681,000 and $885,096 as of June 30, 2023 and 2022, respectively. The Organization has determined these loans do not meet the definition of a security and therefore does not elect to report them using the "Fair Value Option." These loans are considered conditional promises to give and are reported at amortized cost. The expense of forgiving a portion of a loan is recorded as a programmatic expense as the conditions are met. The Organization changed its loan loss reserve policy during fiscal year 2015 to fully reserve the entirety of the programmatic loan balance due to their intent to never collect these loans. The balance of the programmatic loans nets to zero in the Mortgage Receivables line of the consolidated statement of financial position.

Balances of the organization’s mortgage notes receivable by security and LTV as of June 30, 2023 and 2022 are as follows:

2023 Mortgages Receivable

Lien Position	LTV <75%	LTV 76-90%	LTV 91-100%	LTV > 100%	Unsecured	Total
Real Estate – First Position	$ 7,630,913	$ 6,892,652	$ 1,097,467	$ 41,390	$ -	$ 15,662,422
Real Estate – Subordinated	1,613,131	312,397	8,250,062	11,994	-	10,187,584
NMTC Leverage Loans	-	-	-	-	-	-
Other Collateral	-	-	-	-	-	-
Unsecured	-	-	-	-	84,694	84,694
Total	9,244,044	7,205,049	9,347,529	53,384	84,694	25,934,700
Less: Bankruptcy Arrearages						(29,628)
Less: Servicing Cost of 0% Loans						(153,594)
Less: Allowance for Loan Losses						(2,325,406)
Mortgage Notes Receivable, Net of Allowance						$ 23,426,072

2022 Mortgages Receivable

Lien Position	LTV <75%	LTV 76-90%	LTV 91-100%	LTV > 100%	Unsecured	Total
Real Estate – First Position	$ 7,439,237	$ 7,183,773	$ 1,855,293	$ -	$ -	$ 16,478,303
Real Estate – Subordinated	1,794,789	399,803	7,693,265	11,994	-	9,899,851
NMTC Leverage Loans	-	-	-	-	-	-
Other Collateral	-	-	-	-	-	-
Unsecured	-	-	-	-	119,870	119,870
Total	9,234,026	7,583,576	9,548,558	11,994	119,870	26,498,024
Less: Bankruptcy Arrearages						(85)
Less: Servicing Cost of 0% Loans						(162,231)
Less: Allowance for Loan Losses						(1,780,803)
Mortgage Notes Receivable, Net of Allowance						$ 24,554,905

The Organization had loan covenants with certain foundations that require the Organization to maintain certain levels of allowances to cover potential loan losses. In lieu of charging the full amount of the requirements to earnings, the Organization's Board of Directors chose to voluntarily designate $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 $283,257 and $242,760 as of June 30, 2023 and June 30, 2022, respectively.

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	2023	2022
Acquisition	$ -	$ 159,010
Construction	17,277,433	19,869,298
Mini-Permanent	5,549,269	3,330,803
Permanent (Community Lending)	31,303,268	33,080,889
Equipment and Machinery	24,116	34,102
Working Capital	1,675,999	1,241,207
Total	$ 55,830,085	$ 57,715,309

Balances of the Organization's community loan portfolio by security and LTV as of June 30, 2023 and June 30, 2022 are as follows:

2023 Notes Receivable Lien Position	LTV <75%	LTV 76-90%	LTV 91-100%	LTV > 100%	Unsecured	Total
Real Estate – First Position	$ 35,207,149	$ 10,347,783	$ -	$ 158,942	$ -	$ 45,713,874
Real Estate – Subordinated	2,486,693	-	-	-	-	2,486,693
NMTC Leverage Loans	-	-	-	-	-	-
Other Collateral	4,044,182	2,793,450	284,646	278,119	-	7,400,397
Unsecured	-	-	-	-	229,122	229,122
Total Notes Receivable	$ 41,738,024	$ 13,141,233	$ 284,646	$ 437,061	$ 229,122	$ 55,830,086
Less: Allowance for Loan Losses						(947,904)
Notes Receivable Net of Allowance						$ 54,882,182

2022 Notes Receivable Lien Position	LTV <75%	LTV 76-90%	LTV 91-100%	LTV > 100%	Unsecured	Total
Real Estate – First Position	$ 29,963,253	$ 16,888,160	$ -	$ 1,436,793	$ -	$ 48,288,206
Real Estate – Subordinated	1,152,431	-	-	-	-	1,152,431
NMTC Leverage Loans	-	-	-	-	-	-
Other Collateral	4,275,298	2,793,450	293,136	446,194	-	7,808,078
Unsecured	-	-	-	-	466,594	466,594
Total Notes Receivable	$ 35,390,982	$ 19,681,610	$ 293,136	$ 1,882,987	$ 466,594	$ 57,715,309
Less: Allowance for Loan Losses						(2,186,906)
Notes Receivable Net of Allowance						$ 55,528,403

Note 9 - Allowance for Loan Losses

Single Family (Mortgages Receivable) and Consumer Loans Allowance

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

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

a. Whether or not the loan is current;

b. The borrower's financial condition;

c. The borrower's credit worthiness;

d. Risk of loss due to no fault of the borrower;

e. Collateral and Loan-To-Value (LTV);

f. Lien position; and

g. Other outstanding indebtedness to either Fahe or another lender

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

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

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

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

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

	Reserve Percentage
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%

The activity in the allowance for loan loss accounts for the years ended June 30, 2023 and 2022 is as follows:

2023 Allowance for Loan Losses

	Mortgage Lending	Receivable	Community Lending	Total
Beg. Balance	$ 1,749,709	$ 31,095	$ 2,186,906	$ 3,967,710
Charge-Offs	(60,422)	(21,231)	(928,818)	(1,010,471)
Recoveries	33,238	-	-	33,238
Provision	575,304	17,713	(310,184)	282,833
Ending Balance	$ 2,297,829	$ 27,577	$ 947,904	$ 3,273,310

2022 Allowance for Loan Losses

	Mortgage Lending	Receivable	Community Lending	Total
Beg. Balance	$ 2,067,097	$ 13,322	$ 2,385,023	$ 4,465,442
Charge-Offs	-	-	(322,463)	(322,463)
Recoveries	60,567	-	-	60,567
Provision	(377,956)	17,773	124,346	(235,837)
Ending Balance	$ 1,749,708	$ 31,095	$ 2,186,906	$ 3,967,709

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, 2023 and 2022. 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.

Nonperforming loans also include certain loans that have been modified in troubled debt restructurings where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from Fahe's loss mitigation activities and could include loan modification by way of reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. In fiscal year 2018, the Organization made a change to track troubled debt restructuring with a separate troubled debt restructure designation, which it would keep until the loan was paid off. Therefore, once a loan is designated as a troubled debt restructure it will never return to performing status. Management believes the likelihood of loss for nonperforming loans is increased in this current period due to the persisting weak economy and the growth of performing loans transferred to nonperforming status upon modification in a troubled debt restructuring. The Organization also classifies its non-accrual loans as nonperforming. Fahe had no new troubled debt restructurings during the year ended June 30, 2023. A $1.28 unrestricted construction loan in our Community Lending portfolio was classified as a troubled debt restructure loan in 2021, reclassified as a non-accrual in 2022, then sold during 2023.

2023 Performing vs. Nonperforming Loans

	Mortgage Lending	Consumer Lending	Community Lending	Mortgage Conveyances
Performing	$ 23,173,449	$ 63,463	$ 55,830,085	$ 333,185
TDR	125,952	-	-	-
Non-accrual	970,451	21,231	-	139,677
Nonperforming	1,063,126	-	-	44,166
Total	$ 25,332,978	$ 84,694	$ 55,830,085	$ 517,028

2022 Performing vs. Nonperforming Loans

	Mortgage Lending	Consumer Lending	Community Lending	Mortgage Conveyances
Performing	$ 24,212,370	$ 98,639	$ 56,437,525	$ 463,127
TDR	137,764	-	-	-
Non-accrual	666,385	21,231	1,277,783	181,567
Nonperforming	716,941	-	-	-
Total	$ 25,733,460	$ 119,870	$ 57,715,308	$ 644,694

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, 2023 and 2022. 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
2023						
Mortgage Lending	$ 419,306	$ 398,849	$ 1,634,728	$ 2,452,883	$ 22,880,095	$ 25,332,978
Mortgage Conveyances	1,101	44,167	139,676	184,944	332,084	517,028
Consumer Lending	-	-	21,231	21,231	63,463	84,694
Community Lending	891,035	-	-	891,035	54,939,050	55,830,085
Total	$ 1,311,442	$ 443,016	$ 1,795,635	$ 3,550,093	$ 78,214,692	$ 81,764,785
2022						
Mortgage Lending	$ 383,478	$ 209,254	$ 1,174,072	$ 1,766,804	$ 23,966,657	$ 25,733,461
Mortgage Conveyances	160,494	-	181,567	342,061	302,633	644,694
Consumer Lending	-	-	21,231	21,231	98,639	119,870
Community Lending	-	-	1,277,783	1,277,783	56,437,525	57,715,308
Total	$ 543,972	$ 209,254	$ 2,654,653	$ 3,407,879	$ 80,805,454	$ 84,213,333

Impaired Loans

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

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

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

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

Interest recognized on impaired loans during the years ended June 30, 2023 and 2022 was $28,960 and $12,550, respectively. The average investment in impaired loans as of June 30, 2023 and 2022 was $2,874,752 and $2,475,348, respectively. The Organization had $59,564 and $61,032 in troubled debt restructuring loans in default as of June 30, 2023 and 2022, respectively.

Impaired Loans

	Unpaid Principal Balance	Related Allowance	Net Recorded Investment
2023			
Mortgage Lending	$ 2,159,529	$ (289,052)	$ 1,870,477
Mortgage Conveyances	183,843	(36,244)	147,599
Consumer Lending	21,231	(5,308)	15,923
Community Lending	-	-	-
Total	$ 2,364,603	$ (330,604)	$ 2,033,999
2022			
Mortgage Lending	$ 1,521,089	$ (139,792)	$ 1,381,297
Mortgage Conveyances	181,567	(45,392)	136,175
Consumer Lending	21,231	(7,197)	14,034
Community Lending	1,277,783	(1,127,783)	150,000
Total	$ 3,001,670	$ (1,320,164)	$ 1,681,506

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, 2023 and 2022, loans on nonaccrual status and their respective classes are as follows:

	Nonaccrual Loans	
	2023	2022
Mortgage Lending	$ 970,451	$ 687,616
Mortgage Conveyances	139,677	181,567
Consumer Lending	21,231	-
Community Lending	-	1,277,783
Total	$ 1,131,359	$ 2,146,966

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

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

Note 10 - Notes Payable

Notes payable, by type of funding source and lien position as of June 30, 2023 and 2022 are as follows:

2023 Notes Payable

	Security Type and Lien Position			
Funding Source	Secured	Unsecured	Subordinated	Total
Depository Institutions and Related Foundations	$ 500,000	$ 7,950,000	$ 8,500,000	$ 16,950,000
Federal Government	28,003,089	-	-	28,003,089
Private Foundations	-	4,942,000	-	4,942,000
State or Local Government	1,627,144	769,958	-	2,397,102
Faith-Based Organizations	-	1,695,897	-	1,695,897
Individuals	-	2,464,151	-	2,464,151
Corporations and Related Corporate Foundations	-	-	-	-
Insurance Companies	-	-	-	-
Intermediaries	-	6,175,000	-	6,175,000
Pension or Other Investment Funds	-	-	-	-
Public Debt Market	-	-	-	-
Other	1,232,761	1,800,000	-	3,032,761
Total	$ 31,362,994	$ 25,797,006	$ 8,500,000	$ 65,660,000

2022 Notes Payable

	Security Type and Lien Position			
Funding Source	Secured	Unsecured	Subordinated	Total
Depository Institutions and Related Foundations	$ 3,477,519	$ 7,950,000	$ 4,500,000	$ 15,927,519
Federal Government	26,567,165	-	-	26,567,165
Private Foundations	-	3,742,000	-	3,742,000
State or Local Government	1,729,743	950,586	-	2,680,329
Faith-Based Organizations	-	1,330,888	-	1,330,888
Individuals	-	2,129,450	-	2,129,450
Corporations and Related Corporate Foundations	-	-	-	-
Insurance Companies	-	-	-	-
Intermediaries	-	6,175,000	-	6,175,000
Pension or Other Investment Funds	-	-	-	-
Public Debt Market	-	-	-	-
Other	1,276,499	1,800,000	-	3,076,499
Total	$ 33,050,926	$ 24,077,924	$ 4,500,000	$ 61,628,850

As of June 30, 2023, notes payable interest rates ranged from 0%-4.56% with maturities from July 1, 2023 through December 22, 2056.

As of June 30, 2022, notes payable interest rates ranged from 0%-4.56% with maturities from July 1, 2022 through December 22, 2056.

The principal repayment requirements at June 30, 2023, relating to the above notes payable are as follows:

2024	$ 9,699,299
2025	4,094,420
2026	8,272,167
2027	6,103,262
2028	1,975,208
Later Years	35,515,644
	$ 65,660,000

As of June 30, 2023 and 2022, $25,797,007 and $24,077,924 of notes payable, respectively, are unsecured and represent private investments by individuals and groups.

During the year ended June 30, 2023, the organization had six open lines of credit from various banks with available credit balances totaling $20,500,000.

During the year ended June 30, 2022, the organization had eight open lines of credit from various banks with available credit balances totaling $26,500,000.

The Organization's pledged collateral by asset type for years ended June 30, 2023 and 2022 are as follows:

Encumbered Assets	2023	2022
Line of Credit Collateral		
Cash	$ 205,824	$ 189,081
Community Loans Receivable	847,064	860,429
Single Family Loans Receivable	294,172	386,959
Note Payable Collateral		
Cash	2,361,141	1,925,160
Community Loans Receivable	24,985,399	23,574,040
Single Family Loans Receivable	8,161,399	8,398,185
Fixed Assets	1,232,761	1,276,499
Total	$ 38,087,760	$ 36,610,353

The Organization has covenants relating to debt investments. As of June 30, 2023, 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.

Note 11 - Community Development Financial Institutions (CDFI) Bond Guarantee Program

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

In 2015, the CDFI Fund approved OFN to serve as a Qualified Issuer and issue a bond totaling $127,000,000 on behalf of the Organization and six other CDFIs. Fahe's portion of the issuance was $15,000,000. In 2019, the CDFI Fund approved OFN to serve as a Qualified Issuer and issue a new bond. Fahe's portion of this issuance was $20,000,000. As of June 30, 2023 and 2022, Fahe had drawn down $15,000,000 and $15,000,000, respectively, of the 2015 allocation. As of June 30, 2023 and 2022, Fahe had drawn $11,300,000 and $9,300,000, respectively, of the 2019 allocation.

Note 12 - Other Liabilities

The Organization shows EQ2 notes under Other Liabilities on the consolidated statements of financial position in order to represent more clearly the nature of the payable and to adhere to industry practices. The EQ2 is defined by having six attributes as follows (1) the EQ2 investment is carried as an investment on the investor's balance sheet in accordance with GAAP; (2) the EQ2 investment is a general obligation of Fahe that is not secured by any of Fahe's assets; (3) the EQ2 investment is fully subordinated to the right of repayment of all Fahe's other creditors; (4) the EQ2 investment does not give the investor the right to accelerate payment unless Fahe ceases its normal operations; (5) the EQ2 investment carries an interest rate that is not tied to any income received by Fahe; and (6) the EQ2 investment has a rolling term, and therefore, an indeterminate maturity (also known as an evergreen provision).

Note 13 - Retirement Plan

The Organization participates in a 401(k) defined contribution plan established by Nationwide. Employees are eligible to contribute to the plan after 90 days of employment. The Organization matches on a sliding scale up to 4% depending on employee's contribution amounts. During the years ended June 30, 2023 and 2022, $138,535 and $116,547, respectively, was expended.

The Organization provides a 457 plan to eligible employees based on Board designation. During the years ended June 30, 2023 and 2022, $31,296 and $26,510, respectively, was expended and is included as a component of personnel expenses on the accompanying consolidated statements of functional expenses.

Note 14 - 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 2022 Fahe leased two vehicles and three copy machines on multi-year operating leases. During 2023 Fahe leased one vehicle and three copy machines on multi-year operating leases, as well as one office space in Washington DC. 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, 2023 and 2022, total rental expenses under leases amounted to $12,080 and $36,490, respectively, and is reported as a component of occupancy expense on the accompanying statements of functional expenses.

As of June 30, 2023, Fahe was obligated under its operating lease arrangements as follows:

Fiscal year ending June 30,	Total
2023	$ 12,080
2024	12,610
2025	2,973
Total operating leases	$ 27,663

Note 15 - Commitments and Contingencies

The Organization receives federal and state grant funds that are subject to review by the granting agencies. If an agency finds that the funds are considered not to have been used in accordance with he 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, 2023 and 2022, the Organization has a contingent liability of $501,434 and $521,290, respectively. The Organization no longer issues any new guarantees.

During the year ended June 30, 2011, the Organization entered into an agreement with the Department of Local Governments of the Commonwealth of Kentucky to implement a Neighborhood Stabilization Program (NSP) in the amount of $632,000. Five notes were written on Fahe paper, using NSP grant funding.

As of June 30, 2023 and June 30, 2022, Fahe had committed, but undisbursed, credit lines totaling $11,814,072 and $2,198,734, respectively.

Note 16 - Concentrations of Credit Risk

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

The Organization provides mortgage loans primarily to low- and moderate-income individuals. Mortgage notes totaling $25,934,701 and $26,498,024 at June 30, 2023 and 2022, 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 $55,830,085 and $57,715,308 as of June 30, 2023 and 2022, respectively, are secured by the assets of the Organization with the exception of the unsecured amount as noted. As of June 30, 2023 and 2022, $313,816 and $586,464, respectively, were unsecured. The unsecured loans are spread between the mortgages, notes and consumer loans receivable.

Note 17 - Consolidated Statements of Cash Flows

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

	2023	2022
Cash and cash equivalents	$ 26,672,604	$ 15,471,311
Cash unavailable for operations	3,635,395	4,752,671
	$ 30,307,999	$ 20,223,982

Note 18 - Portfolios Purchased

Fahe purchased one portfolio from one organization during the year ended June 30, 2023. The portfolios were recorded at the outstanding principal balance. The gain on sale is recorded through Gain on Acquisition of Assets on the Statement of Activities. Interest income on these portfolios is recognized when earned. No future revenue has been recorded.

For the purchase during the year ended June 30, 2023, the total purchase amount was $375,431. The gain on purchase of the portfolios recognized was $280,738.

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 $20,500,000 in the event of unanticipated cash flow needs.

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

	2023	2022
Cash and cash equivalents	$ 26,672,604	$ 15,471,311
Accounts receivable	298,365	344,014
Grants receivable	232,507	749,327
Servicing receivable	551,537	475,968
Accrued interest receivable	367,979	487,629
Notes receivable, net	8,186,962	7,517,982
Mortgages receivable, net	1,903,755	1,899,982
Consumer loans receivable, net	13,978	20,868
Less: Cash and cash equivalents with restrictions	(2,370,945)	(4,579,063)
Less: Lending programs with stipulations to revolve	(1,736,522)	(1,722,515)
Additional funds to be released from restrictions	1,696,861	1,867,169
Cash available for operations within one year	$ 35,817,081	$ 22,532,672

Note 20 - Increase in Board Designated Net Assets

Fahe received a $12 million grant from the Heron Foundation in quarter 2 of fiscal year 2023. This is 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, 2023, Fahe was in compliance with all investor covenants.

The balance of the Board Designated Net Assets as of June 30, 2023 and June 30, 2022 respectively, is $5,300,000 and $600,000.

Note 21 - Subsequent Events

Per the National Weather Service, between July 25th and July 30th, 2022, several complexes of thunderstorms brought heavy rain, deadly flash flooding and devastating river flooding to eastern Kentucky and central Appalachia. The overwhelming amounts of rain and resultant flooding led to 39 deaths and widespread catastrophic damage. Entire homes and parts of some communities were swept away by flood waters, leading to costly damage to infrastructure in the region. Radar based rainfall estimates suggest 14-16" of rain fell during the 5 day period. These rainfall values occurring in such a short period of time were incredibly rare: there is less than a 1 in 1000 chance for this much rainfall over five days in a given year.

Fahe holds loans in our single family and community loan portfolio that were impacted by these floods. During fiscal year 2023, Fahe's Loan Servicing team was able to contact borrowers in the impacted region and ensure that they were both safe and able to stay in secure housing. The impact for most Fahe borrowers in the area was limited. There were only three Fahe loans impacted. One of which was fully paid off by Federal Emergency Management Agency resources and the other two homes have been fully repaired/restored and are currently in good standing.

We do not anticipate any further impact from the 2022 floods on the portfolio.

As of June 30, 2023 Fahe held 126 loans in the impacted area, for a total outstanding principal balance of $1,644,560, $196,899 of that balance being forgivable loans with 100% write down already recorded.

As of June 30 ,2022 Fahe held 138 loans in the impacted area, for a total outstanding principal balance of $1,804,508, $252,900 of that balance being forgivable loans with 100% write down already recorded.

June 30, 2023	Outstanding Principal Balance	# of Loans	Average Loan Balance	% of total assets at risk
Loans without Restriction	$ 501,253	33	$ 15,189	
Maximum impact funds without restriction	$ 501,253	38	$ 15,189	0.50%
HOME Program Loans, restricted revolving loan fund, losses allowable	$ 821,536	56	$ 14,670	
Project Reinvest, restricted revolving loan fund, losses allowable	$ 124,872	12	$ 10,406	
Maximum Funds with Restriction	$ 946,408	68		1%
Forgivable Loans, 100% Allowance, $0 Net value	$ 196,899	25	$ 7,876	0%

June 30, 2022	Outstanding Principal Balance	# of Loans	Average Loan Balance	% of total assets at risk
Loans without Restriction	$ 551,005	38	$ 14,500	
Maximum impact funds without restriction	$ 551,005	38	$ 14,500	0.50%
HOME Program Loans, restricted revolving loan fund, losses allowable	$ 875,731	57	$ 15,373	
Project Reinvest, restricted revolving loan fund, losses allowable	$ 124,872	12	$ 10,406	
Maximum Funds with Restriction	$ 1,000,603	69		1%
Forgivable Loans, 100% Allowance, $0 Net value	$ 252,900	31	$ 8,158	0%

Supplementary Information

Federation of Appalachian Housing Enterprises, Inc.

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

Year Ended June 30, 2023

Minimum net worth required		$ 1,000,000
Net assets (net worth) Per statement of financial position	$ 43,050,795	
Less unacceptable assets	818,681	
Adjusted net worth for HUD Requirement purposes		$ 42,232,114
Adjusted net worth above amount Required		$ 41,232,114
Adjusted net worth below amount Required		-

See Independent Auditor’s Report

Federation of Appalachian Housing Enterprises, Inc.

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
United States Department of Agriculture				
Community Facilities Loans and Grants Cluster				
Community Facilities Loans and Grants	10.766		$ -	$ 3,646,024
Subtotal Community Facilities Loans and Grants Cluster			-	3,646,024
Rural Development Cooperative Agreement Program	10.890		-	19,685
Total United States Department of Agriculture			-	3,665,709
United States Department of Housing and Urban Development				
Pass-through from Kentucky Housing Corporation				
Home Investment Partnership Program (HOME)	14.239	N/A	-	441,407
Pass-through from Virginia Housing				
Home Investment Partnership Program (HOME)	14.239	N/A	-	98,079
Subtotal Home Investment Partnership Program (HOME)			-	539,486
Pass-through from Local Initiatives Support Corporation				
Section 4 Capacity Building for Community Development and Affordable Housing	14.252	45314-0016	-	25,326
Section 4 Capacity Building for Community Development and Affordable Housing	14.252	45314-0018	-	18,003
Section 4 Capacity Building for Community Development and Affordable Housing	14.252	45314-0020	-	11,476
Subtotal Section 4 Capacity Building for Community Development and Affordable Housing			-	54,805
Total United States Department of Housing and Urban Development			-	594,291
United States Department of Treasury				
Community Development Financial Institutions Program	21.020		-	448,500
Pass-through from NeighborWorks America Expendable and Capital Grant Program	21.117-328	N/A	-	890,750
Pass-through from Opportunity Finance Network				
Community Development Financial Institutions Bond Guarantee Program	21.014	15-2-BG-012323	-	13,621,141
Community Development Financial Institutions Bond Guarantee Program	21.014	19-BGA-00002	-	11,300,000
Subtotal Community Development Financial Institutions Bond Guarantee Program			-	24,921,141
Total United States Department of Treasury			-	26,260,391
Appalachian Regional Commission				
Appalachian Area Development	23.002		-	391,198
Total Appalachian Regional Commission			-	391,198
United States Department of Health and Human Services				
Pass-through from Kentucky Department for Behavioral Health, Development and Intellectual Disabilities ("DBHDID")				
Opioid STR	93.788	2200001630	-	1,743,240
Mental Health Disaster Assistance and Emergency Mental Health	93.982	2200001630	-	119,751
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2200001630	-	432,801
Subtotal Kentucky Department for Behavioral Health			-	2,295,792
Passed through University of Kentucky Research Foundation				
Injury Prevention and Control Research and State and Community Based Programs	93.136	3200005137-23-1	-	69,814
Total United States Department of Health and Human Services			-	2,365,606
Total Expenditures of Federal Awards			$ -	$ 33,277,195

See Notes to Schedule of Expenditures of Federal Awards

Note 1 - Basis Of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Federation of Appalachian Housing Enterprises, Inc. (the "Organization"), under programs of the federal government for the year ended June 30, 2023. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of Federation of Appalachian Housing Enterprises, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Federation of Appalachian Housing Enterprises, Inc.

Note 2 - Summary Of Significant Accounting Policies

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

Note 3 - Indirect Cost Rate

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

Note 4 - Community Development Financial Institutions Bond Guarantee Program (Assistance Listing Number 21.014)

The CDFI Bond Guarantee Program (BGP or Bond Program) was enacted through the Small Business Jobs Act of 2010 (Public Law 111-240) on September 27, 2010. The legislation directs the U.S. Treasury to guarantee the full amount of bonds issued to support community development financial institutions (CDFIs) that make investments in distressed communities as designated by the CDFI Fund. The Federal Financing Bank, a financing arm of the U.S. Treasury, will purchase all of the bonds issued under the BGP, including the Opportunity Finance Network ("OFN") Bonds, (detailed below) and the U.S. Treasury will guarantee repayment. The OFN bonds will not be remarketed or sold to any 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. During the year ended June 30, 2023, no proceeds were drawn by Fahe from this issuance and $488,423 repaid. The outstanding balance as of June 30, 2023 was $13,132,718.

In 2019, the CDFI Fund approved OFN to serve as Qualified Issuer and issue a bond totaling $100,000,000 on behalf of Fahe and two other CDFIs. Fahe's portion of the issuance was $20,000,000. During the year ended June 30, 2023, proceeds of $2,000,000 were drawn by Fahe from this issuance and no amounts were repaid. The outstanding balance as of June 30, 2023 was $11,300,000.

Note 5 - USDA Community Facilities Relending Program (Assistance Listing Number 10.766)

In 2016, Fahe was awarded an allocation of $50,000,000 through USDA's Community Facilities Relending Program. During the year ended June 30, 2023 no proceeds were received by FAHE from its allocation and $75,653 was repaid. As of June 30, 2023, $3,570,371 was outstanding.

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Federation of Appalachian Housing Enterprises, Inc, which comprise the consolidated statement of financial position as of June 30, 2023, 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 28, 2023. The financial statements of certain subsidiaries were not audited in accordance with *Government Auditing Standards* and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with those subsidiaries.

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control, that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material 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's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of 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's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Federation of Appalachian Housing Enterprises, Inc's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CohnReznick LLP

Bethesda, Maryland
September 28, 2023

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance

The Board of Directors
Federation of Appalachian Housing Enterprises, Inc.

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Federation of Appalachian Housing Enterprises, Inc.'s compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Federation of Appalachian Housing Enterprises, Inc.'s major federal programs for the year ended June 30, 2023. Federation of Appalachian Housing Enterprises, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Federation of Appalachian Housing Enterprises, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal 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 ("*Government Auditing Standards*"); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance 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 to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Federation of Appalachian Housing Enterprises, Inc.'s compliance with the compliance requirements referred to above.

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, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Federation of Appalachian Housing Enterprises, Inc.'s federal programs.

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.'s 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 Uniform Guidance 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.'s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, 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.'s 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.'s 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 Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Federation of Appalachian Housing Enterprises, Inc.'s 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 type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit 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 in internal control over compliance 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

CohnReznick LLP

Bethesda, Maryland
September 28, 2023

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

The Board of Directors
Federation of Appalachian Housing Enterprises, Inc.

Report on Compliance for its Major HUD Program

We have audited Federation of Appalachian Housing Enterprises, Inc.'s 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.'s major U.S. Department of Housing and Urban Development ("HUD") program for the year ended June 30, 2023. Federation of Appalachian Housing Enterprises, Inc.'s major HUD program and the related direct and material compliance requirements are as follows:

Name of Major HUD Program	**Direct and Material Compliance Requirements**
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. 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, 2023.

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 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.'s 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.'s 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.'s 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.'s 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.'s 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.'s 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.

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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 28, 2023

Federation of Appalachian Housing Enterprises, Inc.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

Section 1 - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	___ Yes _X_ No
• Significant deficiency(ies) identified?	___ Yes _X_ None reported
Noncompliance material to financial statements noted?	___ Yes _X_ No

Federal Awards

Internal control over major federal programs:	
• Material weakness(es) identified?	___ Yes _X_ No
• Significant deficiency(ies) identified?	___ Yes _X_ None reported
Type of auditor's report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	___ Yes _X_ No

Identification of major federal programs:

Federal Assistance Listing Number(s)	Name of Federal Program
21.014	Community Development Financial Institutions Bond Guarantee Program
21.117-328	NeighborWorks America Expendable and Capital Grant Program

Dollar threshold used to distinguish between type A and B programs:	$750,000
Auditee qualified as low-risk auditee?	_X_ Yes ___ No

Federation of Appalachian Housing Enterprises, Inc.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

Section 2 - Financial Statement Audit Findings

No matters were reported.

Section 3 – Major Federal Award Program Findings and Questioned Costs

No matters were reported.

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