Federation of Appalachian Housing Enterprises, Inc.
Berea, Kentucky

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

June 30, 2022 and 2021

CohnReznick
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Federation of Appalachian Housing Enterprises, Inc.

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Independent Auditor's Report

To the Board of Trustees

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, 2022 and 2021, 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, 2022 and 2021, 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 audit 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 of Federation of Appalachian Housing Enterprises, Inc. 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 accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for the purpose 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, 2022, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Federation of Appalachian Housing Enterprises, Inc.'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, 2022, except for the schedule of expenditures
of federal awards, as to which the date is January 17, 2023

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	$ 9,969,733	$ 6,301,578	$ 16,271,311
Cash unavailable for operations	3,952,671	-	3,952,671
Accounts receivable	725,982	-	725,982
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	24,125,529	7,754,913	31,880,442
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	340,746	39,601	380,347
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	66,973,636	7,922,706	74,896,342
Total assets	$ 91,099,165	$ 15,677,619	$ 106,776,784

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
Liabilities and Net Assets			
Liabilities			
Current liabilities			
Accounts payable	$ 136,801	$ -	$ 136,801
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	439,877	-	439,877
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

Federation of Appalachian Housing Enterprises, Inc.

Consolidated Statement of Financial Position
June 30, 2021

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
Assets			
Current assets			
Cash and cash equivalents	$ 9,285,826	$ 5,508,142	$ 14,793,968
Cash unavailable for operations	4,091,778	-	4,091,778
Accounts receivable	320,751	132,931	453,682
Current grants receivable	-	226,586	226,586
Accrued interest receivable	440,352	3,962	444,314
Deposits	1,670	-	1,670
Prepaid expenses	122,237	-	122,237
Current notes receivable	15,583,840	11,157	15,594,997
Current consumer loans receivable	-	17,976	17,976
Current mortgage notes receivable	1,211,990	822,797	2,034,787
Total current assets	31,058,444	6,723,551	37,781,995
Noncurrent assets			
Notes receivable, net	29,953,075	539,482	30,492,557
Bankruptcy arrearages	3,570	-	3,570
Mortgage notes receivable, net	16,357,245	7,273,614	23,630,859
Consumer loans receivable, net	-	101,916	101,916
Property held for resale, net	486,236	32,363	518,599
Grants receivable	30,952	62,878	93,830
Investments	214,532	-	214,532
Property and equipment, net	3,066,337	-	3,066,337
Intangible assets, net	201,037	-	201,037
Deferred compensation	405,205	-	405,205
Total noncurrent assets	50,718,189	8,010,253	58,728,442
Total assets	$ 81,776,633	$ 14,733,804	$ 96,510,437
Liabilities and Net Assets			
Liabilities			
Current liabilities			
Accounts payable	$ 164,542	$ 1,386,686	$ 1,551,228
Payroll taxes payable	20,521	-	20,521
Client advances and deposits	1,118,839	2,844	1,121,683
Accrued interest payable	157,948	-	157,948
Accrued expenses	462,126	-	462,126
Current portion of deferred revenue	-	581,609	581,609
Current portion of notes payable	5,761,603	-	5,761,603
Total current liabilities	7,685,579	1,971,139	9,656,718
Noncurrent liabilities			
Deferred revenue	688,489	-	688,489
Long-term portion of notes payable	49,381,549	-	49,381,549
Deferred compensation	405,205	-	405,205
Total noncurrent liabilities	50,475,243	-	50,475,243
Other liabilities			
Equity equivalent	4,000,000	-	4,000,000
Total liabilities	62,160,822	1,971,139	64,131,961
Net assets			
Net assets	19,015,811	12,762,665	31,778,476
Net assets, board designated	600,000	-	600,000
Total net assets	19,615,811	-	32,378,476
Total liabilities and net assets	$ 81,776,633	$ 1,971,139	$ 96,510,437

See Notes to 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 on investments	108,556	-	108,556
Unrealized gain 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
Net assets at beginning of period	19,615,811	12,762,665	32,378,476
Increase in net assets	2,855,254	2,505,002	5,360,256
Net assets at end of period	$ 22,471,065	$ 15,267,667	$ 37,738,732

Federation of Appalachian Housing Enterprises, Inc.

Consolidated Statement of Activities
Year Ended June 30, 2021

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
Revenue			
Mortgage and note interest	$ 2,644,019	$ 40,510	$ 2,684,529
Contributions, grants	889,839	1,534,144	2,423,983
State grants	22,500	-	22,500
Pass-through grants	931,607	40,177	971,784
Federal grants	2,244,441	980,376	3,224,817
Realized gain (loss) on investments	69,925	(7,462)	62,463
Unrealized gain on investments	18,984	-	18,984
Interest income	7,221	1,115	8,336
Administration income	26,372	-	26,372
Gain on acquisition of assets	352,309	-	352,309
Gain on sale of loans	720,393	-	720,393
Fees and service charges	1,124,496	-	1,124,496
Miscellaneous income	131,209	-	131,209
Gain on extinguishment of debt	775,500.00	-	775,500
Net assets released from restrictions			
Satisfaction of program restrictions	4,606,636	(4,606,636)	-
Total revenue	14,565,451	(2,017,776)	12,547,675
Expenses			
Program expenses	9,429,670	-	9,429,670
General and administrative	286,255	-	286,255
Fundraising	715,887	-	715,887
Membership	822,299	-	822,299
Total expenses	11,254,111	-	11,254,111
Increase (decrease) in net assets	3,311,340	(2,017,776)	1,293,564
Net assets at beginning of period	16,304,471	14,780,441	31,084,912
Net assets at end of period	$ 19,615,811	$ 12,762,665	$ 32,378,476

See Notes to 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

Federation of Appalachian Housing Enterprises, Inc.

Consolidated Statement of Functional Expenses
Year Ended June 30, 2021

Expenses	General and Administrative	Membership	Fundraising	Program Services: Home Lending	Program Services: Community Lending	Program Services: Loan Servicing	Program Services: Strategic Programs	Program Services: Single Family Portfolio	Total Program Services	Total
Personnel expenses	$ 184,221	$ 564,764	$ 583,367	$ 737,817	$ 364,168	$ 496,122	$ 1,868,612	$ 91,750	$ 3,558,469	$ 4,890,821
Travel expenses	921	3,490	2,574	3,733	1,862	2,935	6,239	384	15,153	22,138
Board and committee meetings	-	11,245	-	-	-	-	-	-	-	11,245
Conferences and workshops	215	1,342	576	884	176	353	5,915	64	7,391	9,524
Occupancy expense	3,420	9,532	9,131	9,701	5,487	8,618	38,257	982	63,045	85,128
REO expense	-	-	-	-	-	-	-	1,303	1,303	1,303
Supplies and publications	802	1,546	1,996	2,036	1,376	2,025	5,382	486	11,305	15,649
Postage and shipping	520	599	862	9,349	737	35,318	1,149	409	46,962	48,943
Communications	842	2,512	2,632	3,589	1,745	3,115	11,537	430	20,416	26,402
Equipment and maintenance	2,849	7,641	9,179	12,007	5,863	10,429	293,669	1,432	323,400	343,069
Subscriptions	4,979	12,684	16,132	5,785	5,232	9,094	6,632	151	26,894	60,689
Licenses, fees and permits	2,481	2,985	3,113	21,156	11,882	5,673	2,515	292	41,518	50,097
Employee education	244	179	504	1,718	467	745	1,465	185	4,580	5,507
Memberships	2,626	22,205	3,518	1,961	1,399	722	2,876	876	7,834	36,183
Marketing and advertising	3,573	11,083	7,149	4,389	3,673	4,316	8,318	-	20,696	42,501
Liability and property insurance	8,745	583	2,915	4,081	12,826	11,659	9,199	8,745	46,510	58,753
Service charges	1,847	195	676	12,292	87,422	11,936	2,041	563	114,254	116,972
Depreciation and amortization	26,063	1,738	8,688	12,163	38,226	34,751	26,063	26,063	137,266	173,755
Organizational expenses	702	448	1,559	287	528	48	917	477	2,257	4,966
Contributions	295	1,061	736	245	270	245	445	-	1,205	3,297
Software lease	3,640	678	1,918	8,757	9,077	17,923	7,987	3,539	47,283	53,519
Professional fees	16,498	8,313	29,534	2,093	13,517	8,048	20,503	9,480	53,641	107,986
Contract services	15,418	16,656	27,076	94,205	34,978	74,990	517,855	9,601	731,629	790,779
Loan processing expense	-	-	-	711	1,040	-	-	-	1,751	1,751
Loan servicing expense	-	-	-	-	-	4,348	-	-	4,348	4,348
Pass thru grants	-	140,198	-	5,000	-	-	1,084,866	-	1,089,866	1,230,064
Grant expense	-	-	-	-	-	-	7,381	-	7,381	7,381
Administration	-	-	-	26,373	-	-	-	-	26,373	26,373
Bad debt expense	-	-	-	-	464,294	-	-	(22,229)	442,065	442,065
Interest expense	3,642	243	1,214	1,700	1,087,698	4,857	3,642	80,258	1,178,155	1,183,254
KY HOME program recapture	-	-	-	-	-	-	-	1,386,686	1,386,686	1,386,686
Miscellaneous expense	1,712	379	838	1,038	2,736	2,396	2,229	1,635	10,034	12,963
Total expenses	$ 286,255	$ 822,300	$ 715,887	$ 983,070	$ 2,156,679	$ 750,666	$ 3,935,694	$ 1,603,562	$ 9,429,670	$ 11,254,111

See Notes to Consolidated Financial Statements.

Federation of Appalachian Housing Enterprises, Inc.

Consolidated Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	2022	2021
Cash flow from operating activities		
Changes in net assets	$ 5,360,256	$ 1,293,564
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	186,327	173,755
(Gain) loss on disposal of assets	(74,487)	3,345
(Recovery of) provision for loan losses	(235,837)	376,259
Additional provision for portfolio purchase	-	(14,370)
Gain on investments using equity method	(28,143)	(18,984)
Gain on purchase of loan portfolio	(70,112)	(371,272)
PPP loan forgiveness	-	(775,500)
Net charge offs on purchase	(261,896)	(29,207)
(Increase) decrease in operating assets		
Accounts receivable	(272,300)	292,732
Grants receivable	(500,849)	887,411
Accrued interest receivable	(43,315)	(154,725)
Prepaid expenses	(132,118)	15,538
Deferred compensation	4,732	(222,349)
Deposits	1,335	-
Increase (decrease) in operating liabilities		
Accounts payable	(1,414,425)	1,288,706
Payroll taxes payable	(9,319)	20,522
Client advances and deposits	32,176	(46,788)
Accrued interest payable	29,194	29,206
Accrued expenses	(22,250)	(7,972)
Deferred revenue	(190,254)	529,887
Deferred compensation	(4,732)	222,349
Net cash provided by operating activities	2,353,983	3,492,107
Cash flow from investing activities		
Purchase of property and equipment	(24,093)	(16,121)
Proceeds from sale of property and equipment	317,729	117,229
Purchase of loan portfolio	(253,596)	(1,135,715)
Purchase of intangible assets	(159,764)	(21,983)
Payments received on notes receivable	28,601,854	31,855,353
Disbursement of loans receivable funds	(35,983,577)	(46,520,710)
Net cash used in operating activities	(7,501,447)	(15,721,947)
Cash flow from financing activities		
Proceeds from long-term debt borrowings	28,762,143	49,558,513
Payments on long-term debt	(22,276,443)	(32,960,109)
Net cash provided by financing activities	6,485,700	16,598,404
Net increase in cash and cash equivalents, cash unavailable for operations and restricted cash	1,338,236	4,368,564
Cash and cash equivalents, cash unavailable for operations and restricted cash at beginning of year	18,885,746	14,517,182
Cash and cash equivalents, cash unavailable for operations and restricted cash at end of year	$ 20,223,982	$ 18,885,746
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 1,420,068	$ 1,244,258

See Notes to Consolidated Financial Statements.

Note 1 - Organization

Federation of Appalachian Housing Enterprises, Inc. (FAHE or the Organization) is a nonprofit organization that was founded in 1980 to serve Appalachia via a Network of nonprofits. FAHE is building the American Dream. Our unique collaborative model connects a Network of local, regional, and national leaders, all working together to ensure that no community is left behind. Working with our 50+ Members across the Appalachian portion of Kentucky, Tennessee, West Virginia, Virginia, Alabama, and Maryland, we use our expertise in finance, collaboration, innovation, advocacy, and communication to achieve a more prosperous Appalachian region.

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 designated Community Development Financial Institution (CDFI) by the US Treasury. As a CDFI, FAHE offers two clusters of loan products, one for nonprofit corporations and others who serve low-income populations and the other for low-income populations or areas directly for home purchase or rehabilitation/energy retrofit.

Specifically, FAHE's principal services include Mortgage Lending, Community Lending Services (CLS), Strategic Programs, Membership, and Loan Servicing, as described below:

- Mortgage Lending - JustChoice Lending (JCL) is a full-service mortgage lender that strengthens communities by creating successful homeowners. JustChoice was the first nonprofit third party originator for Freedom and has been instrumental in creating a national 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 we service for FAHE, our partners, and our borrowers. During the year ended June 30, 2022, FAHE serviced 4,140 loans.
    - Following is a list of states where either JCL or Loan Servicing (in some states both) are licensed to conduct business; Kentucky, Tennessee, Indiana, Florida, Mississippi, Virginia, West Virginia, Maine, Michigan, Hawaii, Minnesota, South Carolina, Illinois, and Alabama.
- Community Lending Services - FAHE couples a Community Loan Fund with outstanding lending expertise to facilitate the flow of impactful private and public investments into housing and community development projects across the region.
- 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.
- 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 Kentucky, Tennessee, West Virginia, Virginia, Alabama, and Maryland get access to specialized training, information sharing, financial resources, and a stronger combined political voice that supports positive change in their communities.

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, where by the donor has stipulated the funds be maintained in perpetuity. As of June 30, 2022 and 2021, 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, 2022 and 2021:

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	-
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

June 30, 2021

	Appalachia Outreach Programs	Partners for Rural Transformation	Lending Programs with stipulations to revolve
Salary support	$ 654,108	$ 253,838	$ -
Travel	15,140	-	-
Pass thru grants	917	62,500	-
Indirect costs	-	54,375	-
Convenings	-	25,301	-
Equipment	2,500	-	-
Marketing	-	3,440	-
Consultant	-	376,307	-
Lending guidelines	757,000	-	10,557,239
Total	$ 1,429,665	$ 775,761	$ 10,557,239
Total net assets with donor restrictions at June 30, 2021			$ 12,762,665

The Partners for Rural Transformation ("PRT") initiative is a joint venture comprised of six CDFIs that serve target sectors comprising three-quarters of the country's persistent poverty counties, drawing on their collective voice and shared experiences. The PRT initiative works toward a reimagined future for rural America and the people who call it home. Those CDFIs and their target sectors are: Come Dream/Come Build, serving the colonias on the border of Texas and Mexico; Communities Unlimited, serving the Black Belt and Deep South; FAHE, serving Central Appalachia; Hope Credit Union/Hope Enterprises, serving the Delta; Oweesta, serving Native Communities; and Rural Community Assistance Corporation, serving the rural West, including farm worker and Native communities. FAHE serves as the fiscal agent of the PRT.

Cash and Cash Equivalents

For purposes of the Statements of Financial Position and the Statements of Cash Flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents unless held by investment managers as part of the investment portfolio. As required by grant and servicing agreements, FAHE does hold cash in separate bank accounts.

Cash Unavailable for Operations

As of June 30, 2021, FAHE maintains an $800,000 compensating balance arrangement with Commercial Bank against a $6,000,000 line of credit, as well as $173,998 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, 2022 and 2021 was $6,301,578 and $5,508,142, respectively. All restricted cash held at the end of the fiscal year of 2022 and 2021 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 $1,153,859 and $1,121,683 at June 30, 2022 and 2021, 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:

	2022	2021
Compensating balance	$ 1,458	$ 974,063
Escrow cash and liability	2,026,053	1,313,269
Bond guarantee program	1,249,393	1,285,848
USDA community facilities	675,767	518,598
Total cash unavailable for operations	$ 3,952,671	$ 4,091,778

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, 2022 and 2021, depreciation expense was $136,522 and $139,510, 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, 2022 and 2021 was $49,807 and $25,089, respectively.

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

	2022	2021
Land	$ 130,133	$ 130,133
Building	3,393,604	3,393,604
Building improvements	34,600	34,600
Equipment and vehicles	1,070,378	1,043,747
Subtotal	4,628,715	4,602,084
Accumulated depreciation	(1,654,677)	(1,535,747)
Property and equipment, net	$ 2,974,038	$ 3,066,337
Intangible assets	$ 307,247	$ 276,168
Accumulated amortization	(124,938)	(75,131)
Intangible assets, net	$ 182,309	$ 201,037

No offices were utilized rent-free during the year ended June 30, 2022 nor the year ended June 30, 2021.

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 Accounting Standards Update (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.

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 2018.

Compensated Absences

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

Estimates

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

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the 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 and committee meetings	Direct
Conference and workshops	Time and cost
Occupancy expenses	Headcount/time and effort
Supplies and publications	Specific use/time and effort
Postage and shipping	Specific use/time and effort
Communications	Headcount/time and effort
Equipment and maintenance	Headcount/time and effort
Subscriptions	Specific use/time and effort
License, fees and permits	Specific use/time and effort
Employee education	Time and effort
Memberships	Time and effort
Marketing and advertising	Time and effort
Liability and property insurance	Headcount
Depreciation and amortization	Headcount
Organizational expenses	Time and effort
Software lease	Specific use/time and effort
Legal fees	Time and effort
Audit and 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
Miscellaneous expense	Specific use/time and effort

Note 3 - Recent Accounting Pronouncement

Financial Accounting Standards Board ASU 2016-02, *Leases* (Topic 842) supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for FAHE's year ending June 30, 2023. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. FAHE is currently evaluating the impact of the adoption of the new standard 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, 2022:

	Cost	Market value	Unrealized appreciation
KY NWA Alliance Investment	$ 1,000	$ 687	$ (313)
Scenic states	-	129,588	129,588
FHLB stock	112,400	112,400	-
Balance June 30, 2022	$ 113,400	$ 242,675	129,275
Balance June 30, 2021	$ 113,400	$ 214,532	101,758
Unrealized gain on investments			$ 27,517

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 nonactive markets;
- Pricing models whose inputs are observable for substantially the full term of the asset or liability; and
- Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

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

The Organization's fair value of securities available for sale measured on a recurring basis at June 30, 2022 and 2021 is as follows:

		Fair Value Measurements at Reporting Date Using		
June 30, 2022	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	$ 687	$ -	$ -	$ 687
Scenic States investment	129,588	-	-	129,588
FHLB Stock	112,400	-	112,400	-
	$ 242,675	$ -	$ 112,400	$ 130,275
June 30, 2021	Fair Value	(Level 1)	(Level 2)	(Level 3)
KY NWA Alliance investment	$ 687	$ -	$ -	$ 687
Scenic States investment	101,445	-	-	101,445
FHLB Stock	112,400	-	112,400	-
	$ 214,532	$ -	$ 112,400	$ 102,132

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, 2020	$ 687	$ 82,461
Total gains and losses - unrealized, included in earnings	-	18,984
June 30, 2021	687	101,445
Total gains and losses - unrealized, included in earnings	-	28,143
June 30, 2021	$ 687	$ 129,588

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 $821,266 and $320,416 as of June 30, 2022 and 2021, respectively. The balance of the unconditional promises to give in fiscal year 2022 will be received according to the following schedule:

Fiscal year ending June 30,	Amount to be received
2023	$ 749,327
2024	71,939
	$ 821,266

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.

Property held for resale also consists of property preservation advances. The Organization advances funds for expenses for property preservation to protect the value of their collateral related to mortgages receivable. These expenses are shown as receivables from the borrower unless the Organization takes the property back. At June 30, 2022 and 2021, the Organization held $86,196 and $289,731, respectively, in REO property, $94,001 and $80,566, respectively, in property preservation and $212,837 and $212,837, respectively, in investment property. The related allowances recorded as of June 30, 2022 and 2021 were $12,687 and $64,535, respectively, for REO property. There were no allowances recorded for property preservation advances.

During the year ended June 30, 2017, an old factory building, related to the land where the Organization's new office building was built, was transferred to a membership organization in order to qualify for a federal environmental remediation grant. The Member Organization holds a payable to FAHE and in accordance FAHE holds a receivable from the Member for the carrying value of the property, $212,837. At the completion of the environmental remediation, FAHE and the Member Organization will begin work to either sell or repurpose the building. As of June 30, 2021, the grant was completed, and the property transferred back to FAHE. This is shown as investment property in the disclosure above.

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 $885,096 and $1,431,695 as of June 30, 2022 and 2021, respectively. The Organization has determined these loans do not meet the definition of a security and therefore does not elect to report them using the "Fair Value Option." These loans are considered conditional promises to give and are reported at amortized cost. The expense of forgiving a portion of a loan is recorded as a programmatic expense as the conditions are met. The Organization changed its loan loss reserve policy during fiscal year 2015 to fully reserve the entirety of the programmatic loan balance due to their intent to never collect these loans. The balance of the programmatic loans nets to zero in the Mortgage Receivables line of the consolidated statements of financial position.

Balances of the Organization's mortgages receivable by security and LTV as of June 30, 2022 and 2021 are as follows:

2022 Mortgages Receivable

	Lien Position					
Security Type	**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

2021 Mortgages Receivable

	Lien Position					
Security Type	**LTV <75%**	**LTV 76-90%**	**LTV 91-100%**	**LTV > 100%**	**Unsecured**	**Total**
Real Estate - First Position	$ 6,732,610	$ 8,271,599	$ 2,799,286	$ -	$ -	$ 17,803,495
Real Estate - Subordinated	1,921,493	522,238	7,646,495	11,994	-	10,102,220
NMTC Leverage Loans	-	-	-	-	-	-
Other Collateral	-	-	-	-	-	-
Unsecured	-	-	-	-	133,213	133,213
Total	8,654,103	8,793,837	10,445,781	11,994	133,213	28,038,928
Less: Bankruptcy Arrearages						(3,570)
Less: Servicing Cost of 0% Loans						(169,401)
Less: Allowance for Loan Losses						(2,080,419)
Mortgage Notes Receivalbe, Net of Allowance						$ 25,785,538

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 a portion of its net assets for this purpose. The balance of the Board Designated Net Assets as of June 30, 2022 and 2021 is $600,000. This provides aggregate loan loss coverage of no less than 4.0% on the FAHE loan portfolio. Based on actual, historical delinquency trends, the Organization's management does not expect to incur any charges against this designation. 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 $242,760 and $375,179 as of June 30, 2022 and 2021, 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.

Notes receivable by product type as of June 30, 2022 and 2021 are as follows:

Product Type	2022	2021
Acquisition	$ 159,010	$ 159,010
Construction	19,869,298	14,959,402
Mini-Permanent	3,330,803	2,796,314
Permanent (Community Lending)	33,080,889	29,148,342
Equipment and Machinery	34,102	43,549
Working Capital	1,241,207	1,365,960
Total	$ 57,715,309	$ 48,472,577

Balances of the Organization's community loan portfolio by security and LTV as of June 30, 2022 and 2021 are as follows:

2022 Notes Receivable

	Lien Position					
Security Type	**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

2021 Notes Receivable

	Lien Position					
Security Type	**LTV <75%**	**LTV 76-90%**	**LTV 91-100%**	**LTV > 100%**	**Unsecured**	**Total**
Real Estate - First Position	$ 34,009,533	$ 6,671,406	$ -	$ 159,010	$ -	$ 40,839,949
Real Estate - Subordinated	904,745	-	-	-	-	904,745
NMTC Leverage Loans	-	-	-	-	-	-
Other Collateral	3,929,374	1,576,192	301,253	340,219	-	6,147,038
Unsecured	-	-	-	-	580,845	580,845
Total Notes Receivable	$ 38,843,652	$ 8,247,598	$ 301,253	$ 499,229	$ 580,845	48,472,577
Less: Allowance for Loan Losses						(2,385,023)
Notes Receivable Net of Allowance						$ 46,087,554

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 noncollectible, 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, 2022 and 2021 is as follows:

2022 Allowance for loan losses	Mortgage lending	Consumer loans receivable	Community lending	Total
Beginning 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

2021 Allowance for loan losses	Mortgage lending	Consumer loans receivable	Community lending	Total
Beginning balance	$ 2,486,266	$ 14,820	$ 1,816,536	$ 4,317,622
Charge-offs	(84,849)	-	-	(84,849)
Recoveries	55,642	-	-	55,642
Provision	(389,962)	(1,498)	568,487	177,027
Ending balance	$ 2,067,097	$ 13,322	$ 2,385,023	$ 4,465,442

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, 2022 and June 30, 2021. 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 nonaccrual loans as nonperforming. FAHE had no new troubled debt restructurings during the year ended June 30, 2022. A $1.28 UR construction loan in our Community Lending portfolio was classified as a troubled debt restructure loan in 2021, because the borrower requested modification related to a snag with tax credit allocations. That $1.28 UR construction loan is classified as a nonaccrual in 2022.

2022 Performing vs. Nonperforming Loans

	Mortgage lending	Consumer loans receivable	Community lending	Mortgage conveyances
Performing	$ 24,212,370	$ 98,639	$ 56,437,526	$ 463,127
TDR	137,764	-	-	-
Nonaccrual	666,385	21,231	1,277,783	181,567
Nonperforming	716,941	-	-	-
Total	$ 25,733,460	$ 119,870	$ 57,715,309	$ 644,694

2021 Performing vs. Nonperforming Loans

	Mortgage lending	Consumer loans receivable	Community lending	Mortgage conveyances
Performing	$ 25,882,599	$ 133,213	$ 46,872,333	$ -
TDR	184,919	-	1,277,783	-
Nonaccrual	460,040	-	322,463	62,397
Nonperforming	1,215,703	-	-	100,055
Total	$ 27,743,261	$ 133,213	$ 48,472,579	$ 162,452

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, 2022 and 2021. 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
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
2021						
Mortgage lending	$ 18,343	$ 908,836	$ 612,107	$ 1,539,286	$ 26,203,975	$ 27,743,261
Mortgage conveyances	17,325	64,748	80,379	162,452	-	162,452
Consumer lending	-	-	-	-	133,213	133,213
Community lending	-	-	-	-	48,472,579	48,472,579
Total	$ 35,668	$ 973,584	$ 692,486	$ 1,701,738	$ 74,809,767	$ 76,511,505

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, 2022 and 2021 was $12,550 and $29,562, respectively. The average investment in impaired loans as of June 30, 2022 and 2021 was $2,475,348 and $1,812,128, respectively. The Organization had $61,032 and $25,116 in troubled debt restructuring loans in default as of June 30, 2022 and 2021, respectively.

	Impaired loans		
	Unpaid principal balance	Related allowance	Net recorded investment
2022			
Mortgage lending	$ 1,542,320	$ (146,989)	$ 1,395,331
Mortgage conveyances	181,567	(45,392)	136,175
Community lending	1,277,783	(1,127,783)	150,000
Total	$ 3,001,670	$ (1,320,164)	$ 1,681,506
2021			
Mortgage lending	$ 1,467,442	$ (176,499)	$ 1,290,943
Mortgage conveyances	162,452	(37,522)	124,930
Community lending	322,463	(3,225)	319,238
Total	$ 1,952,357	$ (217,246)	$ 1,735,111

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, 2022 and 2021, loans on nonaccrual status and their respective classes are as follows:

Nonaccrual loans	2022	2021
Mortgage lending	$ 687,616	$ 460,040
Mortgage conveyances	181,567	62,397
Community lending - Non IRP	1,277,783	322,463
Total	$ 2,146,966	$ 844,900

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, 2022 and 2021 are as follows:

2022 Notes Payable

	Lien Position			
Funder 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	-	2,680,330
Faith-based organizations	-	1,330,888	-	1,330,888
Individuals	-	2,129,450	-	2,129,450
Intermediaries	-	6,175,000	-	6,175,000
Other	1,276,499	1,800,000	-	3,076,499
Total	$ 33,050,926	$ 24,077,924	$ 4,500,000	$ 61,628,850

2021 Notes Payable

	Lien Position			
Funder Source	Secured	Unsecured	Subordinated	Total
Depository institutions and related foundations	$ 4,197,318	$ 5,250,000	$ 4,500,000	$ 13,947,318
Federal government	23,987,866	-	-	23,987,866
Private foundations	-	2,308,000	-	2,308,000
State or local government	1,829,889	1,153,407	-	2,983,296
Faith-based organizations	-	840,586	-	840,586
Individuals	-	1,959,084	-	1,959,084
Intermediaries	1,800,000	4,175,000	-	5,975,000
Other	500,000	2,642,000	-	3,142,000
Total	$ 32,315,073	$ 18,328,077	$ 4,500,000	$ 55,143,150

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

As of June 30, 2021, notes payable interest rates ranged from 0% - 4.56% with maturities from September 2, 2021 through December 22, 2056.

The principal repayment requirements at June 30, 2022 relating to the above notes payable are as follows:

	2022	2021
2023	$ 11,796,663	$ 12,757,798
2024	13,532,529	9,477,361
2025	3,510,829	2,793,369
2026	3,756,752	3,677,672
2027	4,026,134	-
Later years	25,005,943	20,675,349
	$ 61,628,850	$ 55,143,152

As of June 30, 2022 and 2021, $24,077,924 and $29,828,078 of notes payable, respectively, are unsecured and represent private investments by individuals and groups.

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.

During the year ended June 30, 2021, the Organization had four open lines of credit from various banks with available credit balances totaling $10,302,682.

The Organization's pledged collateral by asset type for years ended June 30, 2022 and 2021 are as follows:

	2022	2021
Line of credit collateral		
Community loans receivable	$ 671,348	$ 1,932,697
Notes payable collateral		
Cash	-	800,000
Community loans receivable	30,517,311	28,598,223
Single family loans receivable	1,954,915	2,769,003
Fixed assets	1,276,499	1,300,000
	$ 34,420,073	$ 35,399,923

Near the end of the fiscal year ended June 30, 2022, some of the notes assigned as collateral for the Commercial Bank loan had been paid down. Management assigned $3,261,179 in construction notes to Commercial Bank as collateral for the undercollateralized line of credit. The balance of these notes will increase with additional construction draws, in effect, overcollateralizing the note.

The Organization has covenants relating to debt investments. As of June 30, 2022, 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, 2022 and 2021, FAHE had drawn down $15,000,000 and $15,000,000, respectively, of the 2015 allocation. As of June 30, 2022 and 2021, FAHE had drawn $9,300,000 and $7,400,000, respectively, of the 2019 allocation.

Note 12 - 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, 2022 and 2021, $116,547 and $116,817, respectively, was expended.

The Organization provides a 457 plan to eligible employees based on Board designation. During the years ended June 30, 2022 and 2021, $26,510 and $32,685, respectively, was expended and is included as a component of personnel expenses on the accompanying consolidated statements of functional expenses.

Note 13 - Operating Leases

During FY21 FAHE leased three vehicles and three copy machines. During FY22 FAHE leased two vehicles and three copy machines on multi-year operating leases. The vehicle lease has a term of three years, which includes the servicing and support in the monthly lease amount. The purchase option at the end of the lease is for the fair market value of the vehicle at that time.

For the years ended June 30, 2022 and 2021, total rental expenses under leases amounted to $36,490 and $71,139, respectively, and is reported as a component of occupancy expense on the accompanying consolidated statements of functional expenses.

As of June 30, 2022, FAHE was obligated under its operating lease arrangements as follows:

Fiscal year ending June 30,	Total
2022	$ 36,490
2023	29,782
2024	10,630
2025	2,808
	$ 79,710

Note 14 - Commitments and Contingencies

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

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

The Organization's management feels confident these loans will be repaid, but in the event of default they are fully secured by real estate due to the limitations on loan LTV and pose no additional liability to the Organization. As of June 30, 2022 and 2021, the Organization has a contingent liability of $521,290 and $551,374, 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, 2022 and 2021, FAHE had committed, but undisbursed, credit lines totaling $2,198,734 and $10,174,457, respectively.

Note 15 - 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 $26,498,024 and $27,905,713 at June 30, 2022 and 2021, 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 $57,715,308 and $48,472,579 as of June 30, 2022 and 2021, respectively, are secured by the assets of the Organization with the exception of the unsecured amount as noted. As of June 30, 2022 and 2021, $586,464 and $713,013, respectively, were unsecured. The unsecured loans are spread between the mortgages, notes and consumer loans receivable.

Note 16 - 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.

	2022	2021
Cash and cash equivalents	$ 16,271,311	$ 14,793,968
Cash unavailable for operations	3,952,671	4,091,778
	$ 20,223,982	$ 18,885,746

Note 17 - Portfolios Purchased

FAHE purchased one portfolio from one organization during the year ended June 30, 2022 and two portfolios from one organization during the year ended June 30, 2021. The portfolios were recorded at the outstanding principal balance. The gain on sale is recorded through gain on acquisition of assets on the consolidated statements 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, 2022, the total purchase amount was $253,596. The gain on purchase of the portfolios recognized was $70,112.

For the purchases during the year ended June 30, 2021, the total purchase amount was $1,139,913. The gain on purchase of the portfolios recognized was $282,689 and the loan loss reserve was increased $14,370 to avoid overstating income and expenses for delinquent loans, for a total portfolio purchase of $1,436,972. The total gain on acquisition of assets was $352,309, which was due to the recognition of gain related to past portfolios that had been held in deferred revenue from past portfolio purchases.

Note 18 - 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 $26,000,000 in the event of unanticipated cash flow needs.

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

	2022	2021
Cash and cash equivalents	$ 15,471,311	$ 14,793,968
Accounts receivable	725,982	453,682
Grants receivable	749,327	226,586
Accrued interest receivable	487,629	443,739
Notes receivable, net	7,517,982	15,594,997
Mortgages receivable, net	1,899,982	2,034,786
Consumer loans receivable, net	20,868	17,976
Less: Cash and cash equivalents with restrictions	(4,579,063)	(5,508,142)
Less: Lending programs with stipulations to revolve	(1,722,515)	(1,380,255)
Additional funds to be released from restrictions	1,867,169	1,385,009
Cash available for operations within one year	$ 22,438,672	$ 28,062,346

Note 19 - Coronavirus (COVID-19) Impact

Prior to the beginning of fiscal year 2021, the World Health Organization declared the coronavirus (COVID-19) outbreak to be a pandemic. COVID-19 continued to spread across the globe and impacted worldwide economic activity and financials markets. This pandemic not only disrupted operations, but also opened the door for other large impact disruptions to the economy due to governmental decree. The Organization weathered these disruptions well. There is very little to FAHE's business model that could not be managed in a remote capacity, and the Organization was able to maintain a skeleton crew in the building with adequate safety measures. The Organization used this period of disruption to hone-in on business continuity measures and implement new technological advancements to allow more of the transaction work to be done remotely. While the COVID-19 pandemic has been extremely disruptive and uncertain, the Organization found new opportunities. The focus on the importance of housing and broadband has increased the opportunity for funding of the Organization and pass thru capability for the network. At the end of fiscal year 2020, FAHE reserved an allotment of allowance for loan loss due to the uncertainty of the pandemic on the performance of the pandemic. This additional reserve has been exhausted and was not replaced. The current economic climate leans toward higher cost of living that may impact FAHE in the coming years with the possibility that current borrowers may not be able to make their loan payments on schedule. This possibility is already captured in the regular allowance for loan loss procedure through regular portfolio monitoring, and management will make adjustments accordingly as the needs arise. No other material financial risk to the Organization related to the pandemic is anticipated by management at this time.

Note 20 - 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 are incredibly rare: there are 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. At the time of this report, the extent of loans at risk was unknown. The area is still rebuilding the infrastructure required for communication, and we have not been able to complete borrower reach out and inspections. 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.

	Outstanding principal balance	# of loans	Average loan balance	% of total assets at risk
Impact on funds without restriction				
Loans without restriction	$ 551,005	38	$ 14,500	
Maximum impact on funds without restriction	$ 551,005	38	$ 14,500	0.50%
Impact on funds with restrictions				
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 impact on funds with restrictions	$ 1,000,603	69		1%
Impact on other financial instruments				
Forgivable loans, 100% allowance, $0 net value	$ 252,900	31	$ 8,158	0%

Supplementary Information

Federation of Appalachian Housing Enterprises, Inc.

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

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		$ -	$ 3,874,000
Total United States Department of Agriculture			-	3,874,000
United States Department of Housing and Urban Development				
Pass-through from Kentucky Housing Corporation				
Home Investment Partnership Program (HOME)	14.239	N/A	-	410,123
Pass-through from Virginia Housing				
Home Investment Partnership Program (HOME)	14.239	N/A	-	70,606
Subtotal Home Investment Partnership Program (HOME)			-	480,729
Pass-through from Local Initiatives Support Corporation				
Rural Community Development Initiative	10.446	45314-0017	-	9,225
Total United States Department of Housing and Urban Development			-	489,954
United States Department of Treasury				
Community Development Financial Institutions Program	21.020		-	560,030
Community Deveopment Financial Institutions Rapid Response Program	21.024		-	1,826,265
Pass- through from NeighborWorks America Expendable and Capital Grant Program	21.000	N/A	-	728,173
Pass-through from Opportunity Finance Network				
Community Development Financial Institutions Bond Guarantee Program	21.014	15-2-BG-012323	-	15,000,000
Community Development Financial Institutions Bond Guarantee Program	21.014	19-BGA-00002	-	9,300,000
Subtotal Community Development Financial Institutions Bond Guarantee Program			-	24,300,000
Total United States Department of Treasury			-	27,414,468
Appalachian Regional Commission				
Appalachian Area Development	23.002		-	407,608
Total Appalachian Regional Commission			-	407,608
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	1900003586	-	1,785,840
Mental Health Disaster Assistance and Emergency Mental Health	93.982	N/A		695,040
Block Grants for Prevention and Treatment of Substance Abuse	93.959	N/A	-	285,144
Total United States Department of Health and Human Services			-	2,766,024
Total Expenditures of Federal Awards			$ -	$ 34,952,054

The accompanying notes are an integral part of this schedule.

Notes to Schedule of Expenditures of Federal Awards
June 30, 2022

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, 2022. 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, 2022, proceeds of $900,383 were drawn by FAHE from this issuance and $1,378,859 repaid. The outstanding balance as of June 30, 2022 was $13,621,141.

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, 2022, proceeds of $1,900,000 were drawn by FAHE from this issuance and no amounts were repaid. The outstanding balance as of June 30, 2022 was $9,300,000.

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, 2022 $1,360,000 of proceeds were received by FAHE from its allocation and $202,225 was repaid. As of June 30, 2022, $3,646,024 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*

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

We have audited, in accordance with the 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, 2022, 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, 2022. The financial statements of certain subsidiaries of Federation of Appalachian Housing Enterprises, Inc. 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 affiliates.

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 as a basis for designing the 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Federation of Appalachian Housing Enterprises, Inc.'s internal control over financial reporting.

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Federation of Appalachian Housing Enterprises, Inc.'s 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 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 over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

CohnReznick LLP

Bethesda, Maryland
September 28, 2022

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, 2022. 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, 2022.

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.

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
January 17, 2023

Federation of Appalachian Housing Enterprises, Inc.

Schedule of Findings and Questioned Costs
June 30, 2022

Section 1 - Summary of Auditor's Results

Financial Statements

1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP	Unmodified
2. Internal control over financial reporting:	
a. Material weakness(es) identified?	No
b. Significant deficiency(ies) identified?	None reported
3. Noncompliance material to the financial statements noted?	No

Federal Awards

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

Federal Assistance Listing Number(s)	Name of Federal Program
93.788	Opioid STR
10.766	Community Facilities Loans and Grants
21.024	Community Development Financial Institutions Rapid Response Program

5. Dollar threshold used to distinguish between Type A and Type B programs	$750,000
6. Auditee qualified as low-risk auditee?	Yes

Federation of Appalachian Housing Enterprises, Inc.

Schedule of Findings and Questioned Costs
June 30, 2022

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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