

Family Scholar House, Inc. and Subsidiaries

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

December 31, 2022 and June 30, 2022

Family Scholar House, Inc. and Subsidiaries

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Independent Auditor's Report

To the Board of Directors
Family Scholar House, Inc. and Subsidiaries

Opinion

We have audited the accompanying consolidated financial statements of Family Scholar House, Inc. and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2022 and June 30, 2022, and the related consolidated statements of activities, consolidated statements of changes in net assets, consolidated statements of functional expenses, and consolidated statements of cash flows for the period from July 1, 2022 through December 31, 2022 and year ended June 30, 2022, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Family Scholar House, Inc. and Subsidiaries as of December 31, 2022 and June 30, 2022, and the changes in its net assets and its cash flows for the period from July 1, 2022 through December 31, 2022 and year ended June 30, 2022 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Family Scholar House, Inc. and Subsidiaries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Family Scholar House, Inc. and Subsidiaries' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted 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, including omissions, 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, 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 Family Scholar House, Inc. and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Family Scholar House, Inc. and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating statements of financial position and consolidating statements of activities and changes in net assets are 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 audits 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.

CohnReznick LLP

Charlotte, North Carolina
December 20, 2023

Family Scholar House, Inc. and Subsidiaries

**Consolidated Statements of Financial Position
December 31, 2022 and June 30, 2022**

	<u>December 31, 2022</u>	<u>June 30, 2022</u>
Assets		
Current assets		
Cash and cash equivalents - corporate operations	\$ 2,342,133	\$ 2,040,713
Cash and cash equivalents - operating partnerships	39,619	179,277
Cash, tenant security deposits	41,642	43,878
Cash, restricted - corporate operations	76,326	71,228
Investments - corporate operations	250,000	250,000
Accounts receivable, net - corporate operations	-	27,776
Accounts receivable, net - operating partnerships	63,040	25,091
Pledges receivable, net	24,931	57,405
Grants receivable	301,242	154,595
Prepaid expenses and other assets	<u>229,616</u>	<u>384,284</u>
Total current assets	<u>3,368,549</u>	<u>3,234,247</u>
Net property and equipment - corporate operations	3,562,563	3,534,432
Net property and equipment - operating partnerships	<u>23,949,237</u>	<u>24,238,959</u>
Total property and equipment	<u>27,511,800</u>	<u>27,773,391</u>
Other long-term assets		
Investments, restricted - corporate operations	1,013,314	1,013,653
Restricted property reserves - operating partnerships	1,514,567	1,559,769
Notes and interest receivable	1,436,543	1,410,051
Other assets, net - operating partnerships	<u>73,352</u>	<u>82,383</u>
Total other long-term assets	<u>4,037,776</u>	<u>4,065,856</u>
Total assets	<u><u>\$ 34,918,125</u></u>	<u><u>\$ 35,073,494</u></u>

Family Scholar House, Inc. and Subsidiaries

**Consolidated Statements of Financial Position
December 31, 2022 and June 30, 2022**

	<u>December 31, 2022</u>	<u>June 30, 2022</u>
Liabilities		
Current liabilities		
Accounts payable and accrued expenses - corporate operations	\$ 104,373	\$ 103,395
Accounts payable and accrued expenses - operating partnerships	342,239	360,410
Due to affiliates	13,669	4,551
Accrued interest	3,654	3,577
Current portion of notes payable - operating partnerships	19,212	38,970
Deferred revenue and other liabilities	466,654	299,178
Tenant security deposits - operating partnerships	<u>57,724</u>	<u>104,916</u>
Total current liabilities	<u>1,007,525</u>	<u>914,997</u>
Long-term liabilities		
Accrued interest	120,692	114,350
Notes payable, less current portion, net - corporate operations	1,788,947	1,788,947
Notes payable, less current portion, net - operating partnerships	2,773,678	2,755,925
Deferred revenue and other liabilities	<u>654,530</u>	<u>739,125</u>
Total long-term liabilities	<u>5,337,847</u>	<u>5,398,347</u>
Total liabilities	<u>6,345,372</u>	<u>6,313,344</u>
Commitments and contingencies	-	-
Net assets without donor restrictions		
Net assets without donor restrictions, controlling	8,127,813	7,858,714
Net assets without donor restrictions, controlling - operating partnerships	6,773,302	6,864,089
Net assets without donor restrictions, noncontrolling	<u>12,817,885</u>	<u>13,237,781</u>
Total net assets without donor restrictions	27,719,000	27,960,584
Net assets with donor restrictions	<u>853,753</u>	<u>799,566</u>
Total net assets	<u>28,572,753</u>	<u>28,760,150</u>
Total liabilities and net assets	<u>\$ 34,918,125</u>	<u>\$ 35,073,494</u>

See Notes to Consolidated Financial Statements.

Family Scholar House, Inc. and Subsidiaries

Consolidated Statements of Activities
Period from July 1, 2022 through December 31, 2022 and Year Ended June 30, 2022

	December 31, 2022			June 30, 2022		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Revenues						
Rent - net of vacancies	\$ 819,027	\$ -	\$ 819,027	\$ 1,620,408	\$ -	\$ 1,620,408
Service fees	28,941	-	28,941	68,083	-	68,083
Philanthropy	499,873	-	499,873	1,224,090	-	1,224,090
Grants	1,520,446	620,940	2,141,386	1,319,284	1,329,991	2,649,275
Contributed nonfinancial assets	16,235	-	16,235	17,365	-	17,365
Interest	33,911	-	33,911	61,451	-	61,451
Unrealized (loss) gain on investments	(699)	-	(699)	(13,927)	-	(13,927)
Other	161,303	-	161,303	787,868	-	787,868
Release of restricted net assets	566,753	(566,753)	-	961,454	(961,454)	-
Total revenues	3,645,790	54,187	3,699,977	6,046,076	368,537	6,414,613
Expenses and losses						
Compensation	1,618,137	-	1,618,137	2,439,272	-	2,439,272
Administrative	859,618	-	859,618	1,398,478	-	1,398,478
Professional services	66,259	-	66,259	112,394	-	112,394
Depreciation and amortization	642,120	-	642,120	1,539,279	-	1,539,279
Facility	624,556	-	624,556	1,105,933	-	1,105,933
Interest and fees	70,497	-	70,497	128,843	-	128,843
Project expenses	6,187	-	6,187	19,033	-	19,033
Total expenses and losses	3,887,374	-	3,887,374	6,743,232	-	6,743,232
Change in net assets						
Consolidated	(241,584)	54,187	(187,397)	(697,156)	368,537	(328,619)
Attributable to noncontrolling interest	(419,896)	-	(419,896)	(751,112)	-	(751,112)
Change in net assets attributable to Family Scholar House, Inc.	\$ 178,312	\$ 54,187	\$ 232,499	\$ 53,956	\$ 368,537	\$ 422,493

See Notes to Consolidated Financial Statements.

Family Scholar House, Inc. and Subsidiaries

Consolidated Statements of Changes in Net Assets
Period from July 1, 2022 through December 31, 2022 and Year Ended June 30, 2022

	Net Assets Without Donor Restrictions			Net Assets With Donor Restrictions	Total Net Assets
	Controlling	Noncontrolling	Total		
Balance, July 1, 2021	\$ 14,668,847	\$ 13,988,893	\$ 28,657,740	\$ 431,029	\$ 29,088,769
Change in net assets	<u>53,956</u>	<u>(751,112)</u>	<u>(697,156)</u>	<u>368,537</u>	<u>(328,619)</u>
Balance, June 30, 2022	14,722,803	13,237,781	27,960,584	799,566	28,760,150
Change in net assets	<u>178,312</u>	<u>(419,896)</u>	<u>(241,584)</u>	<u>54,187</u>	<u>(187,397)</u>
Balance, December 31, 2022	<u>\$ 14,901,115</u>	<u>\$ 12,817,885</u>	<u>\$ 27,719,000</u>	<u>\$ 853,753</u>	<u>\$ 28,572,753</u>

See Notes to Consolidated Financial Statements.

Family Scholar House, Inc. and Subsidiaries

**Consolidated Statement of Functional Expenses
Period from July 1, 2022 through December 31, 2022**

	Program Services	General and Administrative	Fundraising	Operating Partnerships	Total
Assistance Payments	\$ 232,964	\$ -	\$ -	\$ -	\$ 232,964
Automobile Expense	17,685	10	-	-	17,695
Depreciation and Amortization	114,960	7,454	-	519,706	642,120
Employee Benefits	115,692	1,343	5,398	-	122,433
Employee Training	61,220	-	-	3,018	64,238
Insurance	10,757	9,000	-	55,044	74,801
Interest and Other Expenses	-	-	-	70,497	70,497
Legal and Accounting	-	42,222	-	44,065	86,287
Miscellaneous	122,486	1,793	-	6,151	130,430
Newsletter	-	-	9,945	-	9,945
Office Supplies	28,982	1,641	-	1,702	32,325
Payroll Tax	99,585	2,023	2,723	-	104,331
Printing and Postage	1,045	275	-	-	1,320
Professional Fees	94,428	-	12,000	-	106,428
Program Publications	142,747	-	-	-	142,747
Public Relations	-	-	17,000	-	17,000
Repairs and Maintenance	-	1,645	-	226,209	227,854
Salary and Wages	1,200,548	35,864	34,032	114,472	1,384,916
Telephone and Internet	28,954	1,587	-	22,418	52,959
Utilities	21,324	614	-	138,817	160,755
Management and Other Partnership Fees	-	-	-	47,769	47,769
Facility Expense	-	-	-	106,721	106,721
Administrative Expenses	-	-	-	16,610	16,610
Bad Debt Expense	-	-	-	34,229	34,229
Total expenses	<u>\$ 2,293,377</u>	<u>\$ 105,471</u>	<u>\$ 81,098</u>	<u>\$ 1,407,428</u>	<u>\$ 3,887,374</u>

See Notes to Consolidated Financial Statements.

Family Scholar House, Inc. and Subsidiaries

**Consolidated Statement of Functional Expenses
Year Ended December 31, 2022**

	Program Services	General and Administrative	Fundraising	Operating Partnerships	Total
Assistance Payments	\$ 470,556	\$ -	\$ -	\$ -	\$ 470,556
Automobile Expense	28,501	-	-	5	28,506
Depreciation and Amortization	190,584	16,151	-	1,332,544	1,539,279
Employee Benefits	199,941	3,124	6,462	-	209,527
Employee Training	30,881	-	-	1,441	32,322
Insurance	16,904	24,555	-	110,691	152,150
Interest and Other Expenses	2,232	-	-	126,611	128,843
Legal and Accounting	-	33,906	-	141,732	175,638
Miscellaneous	117,389	96,421	-	14,370	228,180
Newsletter	-	-	6,173	-	6,173
Office Supplies	38,139	1,296	-	3,485	42,920
Payroll Tax	136,271	5,912	3,658	-	145,841
Printing and Postage	2,566	218	-	-	2,784
Professional Fees	8,000	-	22,000	6,440	36,440
Program Publications	269,728	-	-	-	269,728
Public Relations	-	-	15,656	-	15,656
Repairs and Maintenance	701	3,746	-	372,755	377,202
Salary and Wages	1,765,600	48,733	30,462	233,620	2,078,415
Telephone and Internet	45,046	3,089	-	46,009	94,144
Utilities	41,627	2,964	-	251,736	296,327
Management and Other Partnership Fees	-	-	-	93,154	93,154
Facility Expense	-	-	-	105,681	105,681
Administrative Expenses	-	9,409	-	31,512	40,921
Bad Debt Expense	-	-	-	172,845	172,845
Total expenses	<u>\$ 3,364,666</u>	<u>\$ 249,524</u>	<u>\$ 84,411</u>	<u>\$ 3,044,631</u>	<u>\$ 6,743,232</u>

See Notes to Consolidated Financial Statements.

Family Scholar House, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Period from July 1, 2022 to December 31, 2022 and Year ended June 30, 2022

	<u>December 31, 2022</u>	<u>June 30, 2022</u>
Operating activities		
Changes in net assets	\$ (187,397)	\$ (328,619)
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	642,120	1,539,279
Amortization of deferred financing fees	1,378	3,813
Unrealized loss (gain) on investment	699	13,927
Forgiveness of debt	(102,896)	(482,092)
Net changes in current assets and liabilities that provided (used) cash		
Accounts receivable, net	(10,173)	131,398
Pledges receivable, net	32,474	(27,405)
Grants receivable	(146,647)	(31,779)
Prepaid expenses and other assets	154,668	(212,787)
Accounts payable	(8,075)	52,258
Accrued interest payable	6,419	12,792
Deferred revenue	185,777	77,142
Tenant security deposits liability	(47,192)	3,450
Net cash provided by operating activities	<u>521,155</u>	<u>751,377</u>
Investing activities		
Net change in property and equipment	(371,498)	(662,520)
Purchase of investments	(360)	(1,190,000)
Net change in restricted property reserves - operating partnerships	(9,923)	(7,778)
Net change in notes receivable	<u>(26,492)</u>	<u>(34,976)</u>
Net cash used in investing activities	<u>(408,273)</u>	<u>(1,895,274)</u>
Financing activities		
Proceeds from notes payable	930,000	-
Principal payments on notes payable	<u>(933,383)</u>	<u>(34,519)</u>
Net cash used in financing activities	<u>(3,383)</u>	<u>(34,519)</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	109,499	(1,178,416)
Cash, cash equivalents, and restricted cash, beginning	<u>3,848,753</u>	<u>5,027,169</u>
Cash, cash equivalents, and restricted cash, end	<u>\$ 3,958,252</u>	<u>\$ 3,848,753</u>
Cash paid for interest	<u>\$ 62,700</u>	<u>\$ 111,088</u>
Noncash investing and financing activities:		
Increase in property and equipment in accounts payable	\$ -	\$ 16,482
Equipment purchases	<u>-</u>	<u>(16,482)</u>
Total noncash investing and financing activities	<u>\$ -</u>	<u>\$ -</u>

See Notes to Consolidated Financial Statements.

Family Scholar House, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2022 and June 30, 2022

Note 1 - Nature of activities

Family Scholar House, Inc. ("FSH" or the "Organization") is a not-for-profit, community-based collaborative effort, headquartered in Louisville, Kentucky, which assists single parents, young adults formerly in foster care and other vulnerable populations in obtaining post-secondary education that leads to a livable wage. FSH works to end the cycle of poverty and transform our communities by empowering families and youth to succeed in education and achieve life-long self-sufficiency. FSH accomplishes this mission through providing holistic support for participants. This begins with needs assessment and continues with success coaching to ensure students, who may have been away from the educational environment for some time, develop the skills and leverage the tools to make them successful in their educational and career endeavors. Care management is also an integral component of the FSH support services. Residential participants meet with care managers twice monthly to identify any challenges for the family and are provided with resources to overcome those challenges. Others have access to programs and services as needed. Many of the participants come to FSH lacking some of the basic life skills necessary for them to be self-sufficient, including financial literacy, healthful behaviors, stress management, and physical and mental wellbeing. Recognizing the evolving challenges of labor shortages and workforce needs as well as the changes brought by the pandemic, FSH has developed programs responsive to what participants need and how best to be available to them. In addition to affordable housing, and residential programming, newer programs include the Trager Response Center for on-demand coaching and advocacy and MyKY.info, FSH's mobilized web-app providing free resources in both English and Spanish across the Commonwealth of Kentucky. FSH engages volunteers throughout the communities served to share expertise with participants in key areas and build relationships. FSH complements paid staff and interns by leveraging volunteers to create the continuum of service necessary for FSH participants to succeed. While the young adult and parent scholar are at the center of many programs of FSH, the children scholars also receive the support and resources they need to become successful students and aspire to proceed to higher education in their adult life. This includes two-generation programs such as Toddler Book Club, Children for Change, and summer career and leadership camps. FSH creates a college-going culture for every participant in the program and defines college broadly to include credentialing, apprenticeships, and trades, as well as two- and four-year college experiences. The continuum of care described above is available for all participants. As housing units become available, some participants and their families are able to reside at one of the FSH campuses. Currently, there are five campuses in Louisville, Kentucky, with a total of 279 affordable apartments. These campuses become communities of peer support, providing a network of people with similar backgrounds and experiences who strengthen and encourage one another through the challenges of higher education and life. Thus, Family Scholar House, Inc. is an education and workforce program with a housing component that utilizes internal resources and community collaborations to meet the needs of the individuals and families served. FSH is supported primarily through donor contributions, grants, and fund-raising activities.

Note 2 - Significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of the Family Scholar House and its wholly-owned subsidiaries, collectively referred to as the Corporate Operations:

Project Women Development, LLC ("PWD") is a single member limited liability company, which was formed in February 2008, and whose purpose is to consult and manage the construction of the Family Scholar House property.

Family Scholar House, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2022 and June 30, 2022

DSH GP, Inc. is a wholly-owned for-profit corporation, which was formed in March 2010 for the purpose of being the general partner in Downtown Scholar House, LLLP.

SJSH GP, LLC is a single member limited liability company, which was formed in December 2010 for the purpose of being the general partner in Stoddard-Johnston Scholar House, LLLP.

Parkland GP, LLC is a single member limited liability company, which was formed in December 2012 for the purpose of being the general partner in Parkland Scholar House, LLLP.

Louisville Scholar House, LLC (the "Company") was formed to fund construction of 56 independent living apartments and a child development center in Louisville, Kentucky. Construction was completed in August 2008. National City Community Development Corporation was the investor member owning a 99.99% Company interest, in exchange for a loan commitment of approximately \$7,035,000 to the Company, and has received low-income tax credits generated by the Company. During 2021, the investor member assigned its rights to the manager.

The accompanying consolidated financial statements also include the accounts of the Organization's investments in limited partnerships or limited liability companies in which Family Scholar House, Inc. has a controlling interest. These entities are included in the consolidation according to generally accepted accounting principles ("GAAP") which require the partnership accounts be consolidated for all limited partnerships or limited liability companies which are deemed to be controlled by the Organization. All intercompany transactions have been eliminated in consolidation.

The following entities are included in the consolidated financial statements of the Organization, collectively known as Operating Partnerships:

Downtown Scholar House, LLLP (the "Partnership") was formed to fund the rehabilitation and construction of 54 independent living apartments in Louisville, Kentucky. The construction of the apartments was completed in January 2011. Ohio Equity Fund for Housing Limited Partnership XXIII is the limited partner owning a 99.9% partnership interest, in exchange for an equity commitment of approximately \$3,003,000 to the DSH Partnership, and has received low-income tax credits generated by the Partnership. Additional financing to complete construction of this project is being provided by grants and loans from governmental agencies.

Stoddard Johnston Scholar House, LLLP (the "Partnership") was formed to fund the rehabilitation and construction of 57 independent living apartments in Louisville, Kentucky through certain tax credits generated by the SJSH Partnership along with various grants and loans from government agencies. The construction of the apartments was completed in March 2012. PNC Bank, NA, is the limited partner owning a 99.99% partnership interest, in exchange of an equity commitment of approximately \$9,309,000 to the Partnership, and has received low-income tax credits generated by the Partnership.

Parkland Scholar House, LLLP (the "Partnership") was formed to fund the rehabilitation and construction of 48 independent living apartments in Louisville, Kentucky through certain tax credits generated by the Parkland Partnership along with various grants and loans from government agencies. The construction of the apartments was completed in August 2013. PNC Bank, NA, is the limited partner owning a 99.9% partnership interest, in exchange of an equity commitment of approximately \$8,500,000 and is to receive low-income tax credits generated by the Partnership.

Family Scholar House, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2022 and June 30, 2022

Basis of accounting

The consolidated financial statements of the Organization are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Accounting Standards Codification ("ASC") as produced by the Financial Accounting Standards Board ("FASB") is the sole source of authoritative GAAP for nongovernmental entities.

Revenue recognition

Rental income, principally from short-term leases on apartment units is recognized as the rentals become due.

The Organization recognizes gifts of cash and other assets as revenue without donor restrictions unless they are received with donor restrictions. Gifts with restrictions are reported as revenue with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Consolidated Statements of Activities as net assets released from restrictions.

Unconditional promises to give are recorded as revenue at estimated net realizable value. Conditional promises to give, this is, those with a measurable performance or other barrier, and a right of return are not recognized until the conditions on which they depend have been substantially met. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as revenue without donor restrictions in the period of receipt. Unconditional promises to give with payments due in future periods are discounted to present value and reported as revenue with donor restrictions.

A portion of our revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditional upon certain performance requirements and the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when we have incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the consolidated statements of financial position. The Organization was awarded cost-reimbursable grants of \$2,782,416 and \$209,818 that have not been recognized as of December 31, 2022 and June 30, 2022, respectively, because qualifying expenditures have not yet been incurred. In addition, \$227,750 has been received in advance under federal and state contracts and grants and is included in deferred revenue as of December 31, 2022.

Special event revenues are recognized when the event is held. Contributions received at or related to a special event are recorded as Philanthropy in the Consolidated Statements of Activities.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from those estimates.

Cash and cash equivalents

The Organization considers all highly-liquid investments with maturities when purchased of three months or less, that are not designated for a specific purpose to be cash equivalents. The Organization typically maintains balances with its bank in excess of federally-insured limits.

Family Scholar House, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2022 and June 30, 2022

Restricted cash

Program participants have the option of making regular payments to a Participant Future Fund. These restricted funds are maintained by the Organization and disbursed to the participants at the completion of the program.

The Operating Partnerships are required to make monthly deposits for replacement reserves and taxes and insurance escrows in a separate account held by the project. The mortgagor for the Operating Partnership controls these escrow deposits.

Investments

This classification includes certificates of deposits, bonds, and shares of stock. Investments in marketable securities are reported at fair value. See Note 5.

Accounts receivable and bad debts

An allowance for doubtful accounts is recorded when receivables are deemed uncollectible. The estimated losses are based on a review of the current status of existing receivables. Management's estimate of the allowance is based on historical collection experience and a review of the current status of tenant accounts receivable. It is reasonably possible that management's estimate of the allowance will change. As of December 31, 2022 and June 30, 2022, the allowance for doubtful accounts was \$2,319 and \$13,962, respectively.

Property and equipment

Property and equipment purchased by the Organization are stated at cost. Property and equipment donated to the Organization are stated at estimated fair value at the date of donation. The Organization's policy is to capitalize all long-lived assets with a cost greater than \$500. Depreciation of property and equipment is provided on the straight-line basis over the estimated useful lives of the assets ranging from 3 to 40 years.

Predevelopment project costs

The Organization incurs costs in connection with properties it is considering for development as well as costs associated with properties in the initial stages of development. These costs include such items as market and environmental studies, purchase options, and legal and accounting costs. Predevelopment costs are capitalized until such time as the project is either abandoned or becomes an approved project with independent funding sources. Predevelopment project costs are written off when a potential project is no longer considered desirable or feasible.

Impairment of long-lived assets

In accordance with GAAP, management continually monitors events and changes in circumstances, which could indicate that the carrying value of real estate may not be recoverable. If events or changes in circumstances are present, management assesses the recoverability of real estate by determining whether the carrying value will be recovered through the undiscounted future cash flows expected to be generated from its uses and eventual disposition. If the carrying amount of the real estate exceeds its estimated undiscounted cash flows, the impairment to be recognized is measured by the amount of its carrying value of the real estate that exceeds its fair value. No impairment loss has been recognized during the period from July 1, 2022 through December 31, 2022 and the year ended June 30, 2022.

Debt issuance costs

Debt issuance costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the mortgage and notes payable to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is computed using an imputed interest rate on the related loan.

Family Scholar House, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2022 and June 30, 2022

Tax credit fees and intangible assets amortization

Tax credit monitoring fees are being amortized using the straight-line method over the 15-year tax credit compliance period. Intangible assets are being amortized over the useful lives of the intangible assets ranging from 3 to 10 years.

Amortization expense for the period from July 1, 2022 through December 31, 2022 and the year ended June 30, 2022 was \$9,031 and \$41,217, respectively. Estimated amortization expense for each of the ensuing years through December 31, 2027 is as follows:

2023	\$	16,743
2024		16,087
2025		16,087
2026		12,980
2027		8,073

Basis of presentation and net assets

GAAP requires the Organization to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Program service expenses must be segregated from management and general expenses. Contributions received are recorded as support without donor restrictions or with donor restrictions. Net assets without donor restrictions are those that have no external restrictions. Net assets with donor restrictions are those net assets for which use is limited by donors to a specific time period and/or purpose of for which use is restricted in perpetuity by donors.

Noncontrolling interest in operating partnerships

This represents the aggregate balance of limited partner or investor member equity interests in the nonwholly-owned limited partnerships or limited liability companies that are included in the consolidated financial statements.

Net assets without donor restrictions

Net assets without donor restrictions are available for use at the discretion of the board of trustees and/or management for general operating purposes. From time to time the board designates a portion of these net assets for specific purposes which makes them unavailable for use at management's discretion.

Net assets with donor restrictions

Net assets with donor restrictions consists of assets whose use is limited by donor-imposed, time and/or purpose restrictions.

FSH reports gifts of cash and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time or purpose restriction is accomplished, the net assets are reclassified as net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

See Note 12 for more information on the composition of net assets with donor restrictions.

Family Scholar House, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2022 and June 30, 2022

Income tax status

FSH and its consolidated nonprofit corporations are exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state statutes. FSH did not have any unrelated business income for the period from July 1, 2022 through December 31, 2022 and the year ended June 30, 2022. All nonprofit corporations are required to file tax returns with the IRS and other taxing authorities. Management has analyzed the tax positions taken by the Organization and has concluded that, as of December 31, 2022, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements. Accordingly, these consolidated financial statements do not reflect a provision for income taxes and there are no other tax positions which must be considered for disclosure. For the period from July 1, 2022 through December 31, 2022 and the year ended June 30, 2022, the Organization did not identify any uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements.

DSH GP, Inc. is a corporation subject to income taxes. No income taxes were due and payable for the years ended December 31, 2022 and 2021.

The Operating Partnerships in which the Organization has an ownership interest have elected to be treated as pass-through entities for income tax purposes and, as such, are not subject to income taxes. Rather, all items of taxable income, deductions and tax credits are passed through to and are reported by their owners on their respective income tax returns. The Operating Partnerships' federal tax statuses are based on their legal status as a partnership or a limited liability company. Accordingly, the Operating Partnerships are not required to take any tax positions in order to qualify as a pass-through entity. The Operating Partnerships are required to file and do file tax returns with the Internal Revenue Service and other taxing authorities. Accordingly, these consolidated financial statements do not reflect a provision for income taxes and the Operating Partnerships have no other tax positions which must be considered for disclosure.

Income tax returns filed by the Organization and its consolidated entities are subject to examination by the Internal Revenue Service for a period of three years. While no income tax returns are currently being examined by the Internal Revenue Service, tax years since 2018 remain open.

Contributed services, supplies and property

Certain contributed services, supplies, and property are recorded as support and expenses or a related asset at fair value when determinable, otherwise at values indicated by the donor. The Organization received contributed services, supplies, and property of \$16,235 and \$17,365, respectively, during the period from July 1, 2022 through December 31, 2022 and the year ended June 30, 2022.

Functional allocation of expenses

The costs of providing the various programs, general and administrative, fundraising, and operating partnerships have been summarized on a functional basis in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The cost of providing the Organization's programs and other activities is summarized on a functional basis. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using the proportion of full-time employee equivalents of a program service versus the total organizational full-time employee equivalents.

Family Scholar House, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2022 and June 30, 2022

General and administrative expense include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Organization. General and administrative activities include those that provide governance (Board of Directors), oversight, business management, financial recordkeeping, budgeting, legal services, human resource management, and similar activities that ensure an adequate working environment and an equitable employment program.

Fundraising activities include publicizing and conducting fundraising campaigns; maintaining donor lists; conducting special fundraising events; and other activities involved with soliciting contributions from corporations, foundations, individuals, and others. Fundraising costs, including advertising, are expensed as incurred, even those they may result in contributions received in future years.

Operating partnerships expenses include those costs that are directly related to the operations of the properties.

Reclassifications

Reclassifications have been made to the prior year balances to conform to the current year presentation.

Adopted accounting pronouncements

The Organization adopted Accounting Standards Update 2016-02 (as amended), *Leases* ("Topic 842") on January 1, 2022 ("Adoption Date") and applied the ASU to the earliest comparative period presented in the consolidated financial statements. Topic 842 requires lessees to recognize a right-of-use asset and a corresponding lease liability for all leases. Additionally, the Organization elected and applied the following practical expedients on the Adoption Date:

- The package of practical expedients permitting the Organization to not reassess (i) the lease classification of existing leases; (ii) whether existing and expired contracts are or contain leases; and (iii) initial direct costs for existing leases.
- Application of Topic 842 at the Adoption Date, instead of applying them to the earliest comparative period presented in the consolidated financial statements.

The Organization accounted for its existing operating leases with residential tenants of the Operating Partnerships as operating leases. Adopting Topic 842 in accounting for residential tenant leases did not result in adjustments to the consolidated financial statements.

For the year ended December 31, 2022, the Organization also adopted ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This standard provides guidance on the presentation of contributed nonfinancial assets in the consolidated statement of activities and changes in net assets and additional disclosure requirements for each type of contributed nonfinancial asset. The ASU provides transparency on the measurement of the contributed nonfinancial assets of the Organization and will not change existing recognition and measurement requirements. The Organization has implemented the provisions of ASU 2020-07 applicable to all contributed nonfinancial assets, which has been applied retrospectively to all periods presented.

Family Scholar House, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2022 and June 30, 2022

Note 3 - Liquidity and availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of the statement of financial position date, comprise the following:

	12/31/2022	6/30/2022
Cash and cash equivalents - corporate operations	\$ 2,342,133	\$ 2,040,713
Cash and cash equivalents - operating partnerships	39,619	179,277
Cash, restricted - corporate operations	76,326	71,228
Investments - corporate operations	250,000	250,000
Accounts receivable, net - corporate operations	-	27,776
Accounts receivable, net - operating partnerships	63,040	25,091
Pledges receivable, net	24,931	57,405
Grants receivable	301,242	154,595
Net assets with donor restrictions included in cash and cash equivalents	<u>(853,753)</u>	<u>(799,566)</u>
Total assets available	<u><u>\$ 2,243,538</u></u>	<u><u>\$ 2,006,519</u></u>

As part of FSH's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due. Cash utilized by the parent organization, in excess of daily requirements, is invested in short-term investments and money market funds.

Note 4 - Cash and deposits

Cash and deposits are categorized as unrestricted, which include board-designated amounts for a specific purpose, or restricted. Unrestricted cash held by the Operating Partnerships is generally not available for corporate purposes but is instead limited for use within individual properties.

At December 31, 2022 and June 30, 2022, cash and deposits were as follows:

	12/31/2022	6/30/2022
Unrestricted cash - corporate operations	\$ 2,342,133	\$ 2,040,713
Restricted cash - corporate operations	<u>76,326</u>	<u>71,228</u>
Total cash - corporate operations	<u><u>\$ 2,418,459</u></u>	<u><u>\$ 2,111,941</u></u>
Unrestricted cash - operating partnerships	\$ 39,619	\$ 179,277
Restricted cash - tenant security deposits - operating partnerships	41,642	43,878
Restricted cash - restricted property reserves operating partnerships	<u>1,514,567</u>	<u>1,559,769</u>
Total cash - operating partnerships	<u><u>\$ 1,595,828</u></u>	<u><u>\$ 1,782,924</u></u>

Family Scholar House, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2022 and June 30, 2022

Note 5 - Fair value

The Organization uses fair value to measure certain assets and liabilities. Fair value should be based on the assumptions that market participants would use when pricing the asset or liability, and establishes the following fair value hierarchy:

- Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access;
- Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as interest rates and yield curves that are observable at commonly quoted intervals; and
- Level 3 inputs are unobservable inputs for the asset or liability that are typically based on an entity's own assumptions as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the fair value measurement will fall within the lowest level input that is significant to the fair value measurement in its entirety.

The Organization carries its certificates of deposits, bonds, and shares of stock at fair value. The fair value of these instruments is determined using a three-tier fair value hierarchy. Based on this hierarchy, the Organization determined the fair value of its certificates of deposits, bonds, and shares of stocks using quoted market prices, a Level 1 or an observable input. At December 31, 2022 and June 30, 2022, the Organization's investments had a fair value and carrying amount of \$1,263,314 and \$1,263,653, respectively.

Note 6 - Pledges and grants receivable

Pledges and grants receivable consist of unconditional promises to give. As of December 31, 2022 and June 30, 2022, \$326,173 and \$212,000, respectively, remain receivable. As of December 31, 2022, future maturities are as follows:

2023	\$	326,173
2024		-
2025		-
2026		-
2027		-
Thereafter		-
Total pledge receivable		<u>\$ 326,173</u>

The valuation of pledges and grants receivable is based upon a detail analysis of past due accounts and the history of uncollectible accounts. At December 31, 2022 and June 30, 2022, the Organization considers all pledges and grants receivable to be fully collectible; accordingly, no allowance for uncollectible pledges and grants was recorded.

Family Scholar House, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2022 and June 30, 2022

Note 7 - Property and equipment

Property and equipment consists of the following at December 31, 2022 and June 30, 2022:

	<u>12/31/2022</u>	<u>6/30/2022</u>
Land and land improvements	\$ 2,577,479	\$ 2,541,467
Buildings	39,330,945	39,237,001
Furniture and equipment	2,249,300	2,007,758
Predevelopment project costs	<u>62,193</u>	<u>62,193</u>
 Total property and equipment	 44,219,917	 43,848,419
Less accumulated depreciation	<u>(16,708,117)</u>	<u>(16,075,028)</u>
 Property and equipment, net	 <u>\$ 27,511,800</u>	 <u>\$ 27,773,391</u>

Depreciation expense for the period from July 1, 2022 through December 31, 2022 and the year ended June 30, 2022 was \$633,089 and \$1,498,062, respectively.

Note 8 - Property management fee

The Operating Partnerships entered into management agreements with Beacon Property Management for the management of the rental operations of the properties beginning March 1, 2020. Beacon Property Management charges a monthly fee of \$35 per occupied unit or 6% of monthly rents collected, as defined. During the period from July 1, 2022 through December 31, 2022 and the year ended June 30, 2022, \$38,744 and \$84,269 of the management fees have been charged to operations, respectively.

Note 9 - American Recovery and Reinvestment Act ("ARRA")

On May 17, 2010, Downtown Scholar House, LLLP entered into a \$3,086,874 note payable with the Kentucky Housing Corporation, which was funded through the Tax Credit Exchange Program ("TCEP") pursuant to Section 1602 of the American Recovery and Reinvestment Act of 2009. Under Section 1602, state housing agencies can exchange allocations of low-income housing tax credits ("LIHTC") which have been allocated to their state under Section 42 of the Internal Revenue Code ("Section 42") for cash at a prescribed rate of up to \$.85 for each dollar of LIHTC. In turn, the state housing agencies can use Section 1602 funds to make forgivable loans to properties that qualify for LIHTC.

Downtown Scholar House, LLLP's loan does not bear interest and matures on November 15, 2026. Under the loan agreement, loan principal is forgiven annually at the rate of 6.67% over the 15-year tax credit compliance period. Forgiveness is subject to Downtown Scholar House, LLLP maintaining compliance with Section 42. During the period from July 1, 2022 through December 31, 2022 and the year ended June 30, 2022, Downtown Scholar House, LLLP recognized \$102,896 and \$205,792, respectively, as income from debt forgiveness. As of December 31, 2022 and June 30, 2022, the outstanding balance of this note was \$823,166 and \$926,062, respectively.

The note is secured by a mortgage on the rental property and assignment of leases and rents.

Family Scholar House, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
December 31, 2022 and June 30, 2022**

Note 10 - Notes payable

Notes payable consists of the following at December 31, 2022 and June 30, 2022:

	<u>12/31/2022</u>	<u>6/30/2022</u>
Forgivable loan from a government agency, collateralized by a mortgage and regulatory agreement, bearing 0% interest. The note will be forgiven in full at its maturity in December 2040 as long as the Organization maintains compliance with the affordability requirements in the funding commitment agreement.	\$ 1,000,000	\$ 1,000,000
Note payable to a government agency, collateralized by a mortgage and regulatory agreement, bearing interest at 1%. Principal and interest are payable on or before the maturity date in December 2030. Interest may be paid yearly. For the period from July 1, 2022 through December 31, 2022 and year ended June 30, 2022, interest expense of \$0 and \$2,232, respectively, was charged to operations.	288,947	288,947
Forgivable loan from a government agency, collateralized by a mortgage and regulatory agreement, bearing 0% interest. The note will be forgiven in full at its maturity in February 2032 as long as the Organization maintains compliance with the affordability requirements in the funding commitment agreement.	500,000	500,000
Note payable to Citizens Union Bank due in September 2026 at an interest rate of 7.5%. Monthly payments of principal and interest of \$9,734 began in 2013. The loan is secured by a first mortgage lien on the rental property. For the period from July 1, 2022 through December 31, 2022 and year ended June 30, 2022, interest expense of \$4,136 and \$70,986, respectively, was charged to operations.	-	924,777
Note payable to Republic Bank & Trust Company due in July 2027 at an interest rate of 5%. Monthly payments of interest of \$2,475 began in 2022. The loan is secured by a first mortgage lien on the rental property. For the period from July 1, 2022 through December 31, 2022 and year ended June 30, 2022, interest expense of \$19,375 and \$0, respectively, was charged to operations.	930,000	-

Family Scholar House, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
December 31, 2022 and June 30, 2022**

	<u>12/31/2022</u>	<u>6/30/2022</u>
Note payable to PNC Bank due in January 2027 at interest rate of 5.75% with monthly payments of principal and interest of \$5,054. The balance payable at December 31, 2022 and June 30, 2022 is \$737,918 and \$746,524, respectively. Unamortized debt issuance costs as of December 31, 2022 and June 30, 2022 are \$15,028 and \$16,406, respectively. The loan is secured by a first mortgage lien on the rental property. For the period from July 1, 2022 through December 31, 2022 and year ended June 30, 2022, interest expense of \$23,171 and \$47,625, respectively, was charged to operations. Debt issuance costs are amortized based on an imputed interest rate of 5.88%.	737,918	746,524
Note payable to CDBG at an interest rate of 1% due on December 31, 2030. The note is secured by a second mortgage on the rental property. For the period from July 1, 2022 through December 31, 2022 and year ended June 30, 2022, interest expense of \$3,000 and \$3,000, respectively, was charged to operations.	300,000	300,000
HOME note payable to the Louisville/Jefferson County Metro Government at an interest rate of 1%, due in February 2031. For the period from July 1, 2022 through December 31, 2022 and year ended June 30, 2022, interest expense of \$7,708 and \$5,000, respectively, was charged to operations.	500,000	500,000
Note payable to Louisville Metro Housing Authority, without interest, due in March 2056. If the note is not paid on or before the maturity date, the note shall thereafter bear interest on the outstanding principal balance at an annual rate of 10% until paid. For the period from July 1, 2022 through December 31, 2022 and year ended June 30, 2022, no interest expense was charged to operations.	340,000	340,000
Paycheck Protection Program note payable to Republic Bank & Trust Company, which is forgivable if used for certain qualifying expenses over a 24-week period. For the period from July 1, 2022 through December 31, 2022 and year ended June 30, 2022, no interest expense was charged to operations. The full amount of the loan of \$276,300 was forgiven on July 26, 2021 and included in other revenue on the consolidated statements of activities.	-	-
	<u>\$ 4,596,865</u>	<u>\$ 4,600,248</u>

Family Scholar House, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2022 and June 30, 2022

Future maturities of notes payable are as follows:

For the year ended December 31, 2023	\$	19,212
2024		20,346
2025		21,547
2026		22,819
2027		1,583,994
Thereafter		<u>2,928,947</u>
		4,596,865
Less: net loan fees		<u>(15,028)</u>
	\$	<u><u>4,581,837</u></u>

Note 11 - Notes receivable

On February 10, 2016, the Organization entered into a loan agreement with Riverport FSH LLC, in the original amount of \$1,262,000. The loan bears interest at 2.81% compounded annually. Principal and interest shall be deferred and payable until the sooner of February 1, 2049 and the date in which the Lender acquires the Premises in accordance with the Lease (see Note 19). Interest income for the period from July 1, 2022 through December 31, 2022 and the year ended June 30, 2022 amounted to \$26,492 and \$34,976, respectively, of which, \$174,543 and \$148,051 remains receivable at December 31, 2022 and June 30, 2022. The principal balance outstanding at December 31, 2022 and June 30, 2022 amounted to \$1,262,000 and \$1,262,000, respectively.

Note 12 - Net assets with donor restrictions

Net assets with donor restrictions at December 31, 2022 and June 30, 2022 are available for the following purposes:

	<u>12/31/2022</u>	<u>6/30/2022</u>
HEROES Campaign	\$ 6,057	\$ 192,567
Impact	114,000	114,000
Houston Scholar House	88,661	127,823
Workforce Solutions and Response Center	50,000	125,000
Robert Rounsavall Family Foundation	83,314	83,653
Re-FRAME program	68,700	-
Toyota (Kiosks)	69,000	-
Ready to Learn, Prepared for Life program	106,691	-
Sam Swope - at-risk youth	65,000	-
KentuckianaWorks - Americorps participants	130,000	-
Allgeier Scholarship	2,757	8,257
Various other programs	<u>69,573</u>	<u>148,266</u>
	<u><u>\$ 853,753</u></u>	<u><u>\$ 799,566</u></u>

Family Scholar House, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2022 and June 30, 2022

Note 13 - Related party transactions

The Organization has significant related party transactions with affiliates. It provides development services, fund raising assistance, resident and administrative services.

Notes and interest receivable, affiliates

The amounts loaned by the Organization primarily represent predevelopment and development loans to affiliates. These loans are generally collateralized with real estate of the funded property. These loans have been eliminated in consolidation.

Development fee income

Generally, all development fee income is earned in connection with affiliated entities. Development fees which are paid from operating cash flows from affiliated entities are eliminated in consolidation.

Investor service fee

The Limited Partner is entitled to receive a cumulative annual investor service fee as outlined in the Partnership Agreement for certain Operating Partnerships. The fee is payable to the extent of cash flow available for distribution. For the period from July 1, 2022 through December 31, 2022 and the year ended June 30, 2022, \$4,692 and \$4,551, respectively, were charged to operations. As of December 31, 2022 and June 30, 2022, \$13,669 and \$4,551, respectively, remains payable.

Asset management fee

An affiliate of the Limited Partner of Downtown Scholar House LLLP is entitled to receive a one-time payment of \$65,000 as an asset management fee. As required by the Partnership Agreement, any accrued and unpaid asset management fee shall be paid in full in the event of a disposition of the Project, as defined. The asset management fee was paid from equity contributions during 2011 and is recorded as a prepaid asset and amortized over the tax credit compliance period. As of December 31, 2022 and June 30, 2022, the balance in the prepaid asset management fee is \$13,361 and \$17,694, respectively. For the period from July 1, 2022 through December 31, 2022 and the year ended June 30, 2022, asset management fees of \$4,333 and \$4,334 were expensed, respectively.

Note 14 - Statements of cash flows

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

	Consolidated	
	12/31/2022	6/30/2022
Cash and cash equivalents - corporate operations	\$ 2,342,133	\$ 2,040,713
Cash and cash equivalents - operating partnerships	39,619	179,277
Cash, tenant security deposits	41,642	43,878
Cash, restricted - corporate operations	76,326	71,228
Restricted property reserves - operating partnerships	1,458,532	1,513,657
Total cash, cash equivalents, and restricted cash shown on the statements of cash flows	<u>\$ 3,958,252</u>	<u>\$ 3,848,753</u>

Family Scholar House, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2022 and June 30, 2022

Amounts included in restricted cash are comprised of security deposits held in trust for the future benefit of tenants upon moving out of the property and other reserves as required by regulatory authority and the partnership agreements.

Note 15 - Guarantor agreements

The Organization is the general partner in various limited partnerships for the purpose of purchasing, constructing, rehabilitating and operating low-income housing in the Louisville Metro area. As general partner, the Organization is obligated to guarantee amounts borrowed by the partnerships and lend amounts to the partnerships to avoid any cash flow deficits from partnership operations.

Note 16 - Special events

The Organization held various fundraising events to raise awareness among the attendees and the local community as to the Organization's cause, and to solicit donations. Gross revenues and direct event expenses related to fundraising events during the period from July 1, 2022 through December 31, 2022 and the year ended June 30, 2022 were as follows are recorded as Philanthropy in the consolidated statements of activities:

	12/31/2022	6/30/2022
Revenues	\$ 231,004	\$ 504,251
Expenses	(108,662)	(113,992)
	<u>\$ 122,342</u>	<u>\$ 390,259</u>

Note 17 - Retirement Plan

The Organization has a SIMPLE IRA plan to fund retirement for its employees. Effective January 1, 2021, the SIMPLE IRA plan was converted to a 401(k). The Organization matches employees' contributions up to 4% of their compensation. The Organization made contributions of \$21,583 and \$37,697 for the period from July 1, 2022 through December 31, 2022 and the year ended June 30, 2022, respectively.

Note 18 - Concentrations

During the period from July 1, 2022 through December 31, 2022, the Organization received 4.65% of its contribution revenue without donor restrictions from one donor. The single largest donor was \$23,994. During the year ended June 30, 2022, the Organization received 2.01% of its contribution revenue without donor restriction from one donor. The single largest donor was \$25,000. During the period from July 1, 2022 through December 31, 2022 and the year ended June 30, 2022, the Organization received 60.59% and 11.32%, respectively, of its grant revenue without donor restriction from one grantor agency.

During the period from July 1, 2022 through December 31, 2022 and the year ended June 30, 2022, the Organization received 22.34% and 75.19%, respectively, of its grant revenue with donor restriction from one grantor agency.

As of December 31, 2022 and June 30, 2022, 20.54% and 35.38%, respectively, of pledges and grants receivable was due from a single donor.

Family Scholar House, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2022 and June 30, 2022

Note 19 - Commitments and contingencies

Property use restrictions

Several of the properties owned by the Organization were developed using monies provided by grants and restrictive, low interest rate loans. The terms of these loans restrict the use of the property and generally require it to be rented to low-income qualified tenants for the period of the grant or related loan term. Failure to comply with the terms of the grant or the loans would result in a requirement to repay a portion or all of the proceeds received.

Other

As the general partner in various partnerships, the Organization and other consolidated entities may be subject to other liabilities should an affected partnership's assets become insufficient to meet its obligations.

The Organization has entered into an employment agreement with its President and Chief Executive Officer which provided for severance pay should she be terminated without cause. This commitment expires on June 30, 2027.

Lease agreement

The Organization entered into a lease agreement with Riverport FSH, LLC in February 2017 to lease the academic services building. The term of the lease is 17 years, commencing on the Delivery Date, as defined. The rent is \$1 annually. The lease commenced on July 16, 2018.

Note 20 - Subsequent events

Events that occur after the consolidated statement of financial position date but before the consolidated financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the consolidated statement of financial position date are recognized in the accompanying consolidated financial statements. Subsequent events which provide evidence about conditions that existed after the consolidated statement of financial position date require disclosure in the accompanying notes. Management evaluated the activity of the Organization through December 20, 2023 (the date the consolidated financial statements were available to be issued) and concluded that no subsequent events have occurred that would require disclosure in the notes to the consolidated financial statements.

Supplementary Information

Family Scholar House, Inc. and Subsidiaries
Consolidating Statement of Financial Position
December 31, 2022

	Family Scholar House, Inc.	Louisville Scholar House, LLC	Downtown Scholar House, LLLP	Stoddard Johnston Scholar House, LLLP	Parkland Scholar House, LLLP	Eliminations	Consolidated Family Scholar House, Inc.
Assets							
Current assets							
Cash and cash equivalents - corporate operations	\$ 2,342,133	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,342,133
Cash and cash equivalents - operating partnerships	-	5,671	979	28,284	4,685	-	39,619
Cash, tenant security deposits	-	10,877	11,450	11,041	8,274	-	41,642
Cash, restricted - corporate operations	76,326	-	-	-	-	-	76,326
Investments	250,000	-	-	-	-	-	250,000
Accounts receivable, net - operating partnerships	-	32,669	5,456	23,329	1,586	-	63,040
Due from affiliates	73,533	-	-	-	-	(73,533)	-
Pledges receivable, net	24,931	-	-	-	-	-	24,931
Grants receivable	310,998	-	-	-	-	(9,756)	301,242
Prepaid expenses and other assets	196,282	5,740	16,971	4,955	5,668	-	229,616
Total current assets	3,274,203	54,957	34,856	67,609	20,213	(83,289)	3,368,549
Property and equipment							
Land and land improvements	321,309	898,904	693,191	191,450	472,625	-	2,577,479
Buildings	3,645,227	11,321,563	7,828,820	10,332,014	7,931,818	(1,728,497)	39,330,945
Furniture and equipment	1,311,597	67,747	281,322	331,345	257,289	-	2,249,300
Predevelopment project costs	62,193	-	-	-	-	-	62,193
Accumulated depreciation	(1,777,763)	(5,567,873)	(2,711,712)	(4,453,855)	(3,131,741)	934,827	(16,708,117)
Net property and equipment	3,562,563	6,720,341	6,091,621	6,400,954	5,529,991	(793,670)	27,511,800
Other long-term assets							
Investments, restricted	1,013,314	-	-	-	-	-	1,013,314
Restricted property reserves - operating partnerships	-	89,321	519,721	579,311	326,214	-	1,514,567
Investments in limited partnerships, net	499,813	-	-	-	-	(499,813)	-
Notes and interest receivable, affiliates	2,182,692	-	-	-	-	(2,182,692)	-
Notes and interest receivable	1,436,543	-	-	-	-	-	1,436,543
Other assets, net - operating partnerships	6,760	2,642	10,725	24,905	28,320	-	73,352
Total other long-term assets	5,139,122	91,963	530,446	604,216	354,534	(2,682,505)	4,037,776
Total assets	\$ 11,975,888	\$ 6,867,261	\$ 6,656,923	\$ 7,072,779	\$ 5,904,738	\$ (3,559,464)	\$ 34,918,125

Family Scholar House, Inc. and Subsidiaries
Consolidating Statement of Financial Position
December 31, 2022

	Family Scholar House, Inc.	Louisville Scholar House, LLC	Downtown Scholar House, LLLP	Stoddard Johnston Scholar House, LLLP	Parkland Scholar House, LLLP	Eliminations	Consolidated Family Scholar House, Inc.
Liabilities							
Current liabilities							
Accounts payable and accrued expenses - corporate operations	\$ 104,373	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 104,373
Accounts payable and accrued expenses - operating partnerships	-	65,360	195,661	19,463	61,755	-	342,239
Due to affiliates	-	-	-	48,047	48,911	(83,289)	13,669
Accrued interest	-	-	-	3,654	-	-	3,654
Current portion of notes payable - operating partnerships	-	-	-	19,212	-	-	19,212
Deferred revenue and other liabilities	260,250	-	206,404	-	-	-	466,654
Tenant security deposits - operating partnerships	14,514	10,884	11,400	11,375	9,551	-	57,724
Total current liabilities	379,137	76,244	413,465	101,751	120,217	(83,289)	1,007,525
Long-term liabilities							
Accrued interest	32,568	-	-	88,124	-	-	120,692
Accrued interest, affiliates	-	-	189,930	-	53,294	(243,224)	-
Notes payable, less current portion, net - corporate operations	1,788,947	-	-	-	-	-	1,788,947
Notes payable, less current portion, net - operating partnerships	-	-	930,000	1,843,678	-	-	2,773,678
Notes payable, less current portion, affiliates	-	-	1,766,329	69,925	103,214	(1,939,468)	-
Deferred revenue and other liabilities	-	17,715	617,476	14,012	5,327	-	654,530
Total long-term liabilities	1,821,515	17,715	3,503,735	2,015,739	161,835	(2,182,692)	5,337,847
Total liabilities	2,200,652	93,959	3,917,200	2,117,490	282,052	(2,265,981)	6,345,372
Net assets without donor restrictions							
Net assets without donor restrictions, controlling - corporate operations	8,921,483	-	-	-	-	(793,670)	8,127,813
Net assets without donor restrictions, controlling - operating partnerships	-	6,773,302	499,705	(1)	109	(499,813)	6,773,302
Net assets without donor restrictions, noncontrolling - operating partnerships	-	-	2,240,018	4,955,290	5,622,577	-	12,817,885
Total net assets without donor restrictions	8,921,483	6,773,302	2,739,723	4,955,289	5,622,686	(1,293,483)	27,719,000
Net assets with donor restrictions	853,753	-	-	-	-	-	853,753
Total net assets	9,775,236	6,773,302	2,739,723	4,955,289	5,622,686	(1,293,483)	28,572,753
Total liabilities and net assets	\$ 11,975,888	\$ 6,867,261	\$ 6,656,923	\$ 7,072,779	\$ 5,904,738	\$ (3,559,464)	\$ 34,918,125

See Independent Auditor's Report.

Family Scholar House, Inc. and Subsidiaries
Consolidating Statement of Activities
and Changes in Net Assets
Period July 1, 2022 through December 31, 2022

	Family Scholar House, Inc.	Louisville Scholar House, LLC	Downtown Scholar House, LLLP	Stoddard Johnston Scholar House, LLLP	Parkland Scholar House, LLLP	Eliminations	Consolidated Family Scholar House, Inc.
Revenues							
Rent - net of vacancies	\$ -	\$ 221,236	\$ 215,137	\$ 224,108	\$ 158,546	\$ -	\$ 819,027
Service fees	36,733	-	-	-	-	(7,792)	28,941
Philanthropy	499,873	-	-	-	-	-	499,873
Grants	2,141,386	-	-	-	-	-	2,141,386
Contributed nonfinancial assets	16,235	-	-	-	-	-	16,235
Interest	50,338	3	81	2,294	1,693	(20,498)	33,911
Unrealized (loss) on investments	(699)	-	-	-	-	-	(699)
Other	-	(46)	134,640	20,580	19,236	(13,107)	161,303
Total revenues	<u>2,743,866</u>	<u>221,193</u>	<u>349,858</u>	<u>246,982</u>	<u>179,475</u>	<u>(41,397)</u>	<u>3,699,977</u>
Expenses and losses							
Compensation	1,503,665	29,860	28,555	30,492	25,565	-	1,618,137
Administrative	771,783	21,754	23,859	20,528	29,486	(7,792)	859,618
Professional services	54,222	3,360	1,602	3,180	3,895	-	66,259
Depreciation and amortization	122,414	206,784	103,688	195,395	170,934	(157,095)	642,120
Facility	26,008	134,844	106,740	167,479	189,485	-	624,556
Interest and fees	13,107	-	53,888	33,879	3,228	(33,605)	70,497
Project expenses	1,854	-	4,333	-	-	-	6,187
Total expenses and losses	<u>2,493,053</u>	<u>396,602</u>	<u>322,665</u>	<u>450,953</u>	<u>422,593</u>	<u>(198,492)</u>	<u>3,887,374</u>
Change in net assets	250,813	(175,409)	27,193	(203,971)	(243,118)	157,095	(187,397)
Net assets at beginning of year	<u>9,524,423</u>	<u>6,948,711</u>	<u>2,712,530</u>	<u>5,159,260</u>	<u>5,865,804</u>	<u>(1,450,578)</u>	<u>28,760,150</u>
Net assets at end of year	<u>\$ 9,775,236</u>	<u>\$ 6,773,302</u>	<u>\$ 2,739,723</u>	<u>\$ 4,955,289</u>	<u>\$ 5,622,686</u>	<u>\$ (1,293,483)</u>	<u>\$ 28,572,753</u>

See Independent Auditor's Report.

Family Scholar House, Inc. and Subsidiaries
Consolidating Statement of Financial Position
June 30, 2022

	Family Scholar House, Inc.	Louisville Scholar House, LLC	Downtown Scholar House, LLLP	Stoddard Johnston Scholar House, LLLP	Parkland Scholar House, LLLP	Eliminations	Consolidated Family Scholar House, Inc.
Assets							
Current assets							
Cash and cash equivalents - corporate operations	\$ 2,040,713	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,040,713
Cash and cash equivalents - operating partnerships	-	85,499	25,769	66,160	1,849	-	179,277
Cash, tenant security deposits	-	12,569	9,696	11,598	10,015	-	43,878
Cash, restricted - corporate operations	71,228	-	-	-	-	-	71,228
Investment	250,000	-	-	-	-	-	250,000
Accounts receivable, net - corporate operations	27,776	-	-	-	-	-	27,776
Accounts receivable, net - operating partnerships	-	1,861	4,802	9,234	9,194	-	25,091
Due from affiliate	75,497	-	-	-	-	(75,497)	-
Pledges receivable, net	57,405	-	-	-	-	-	57,405
Grants receivable	154,595	-	-	-	-	-	154,595
Prepaid expenses and other assets	286,057	22,957	32,778	19,821	22,671	-	384,284
Total current assets	2,963,271	122,886	73,045	106,813	43,729	(75,497)	3,234,247
Property and equipment							
Land and land improvements	321,309	862,892	693,191	191,450	472,625	-	2,541,467
Buildings	3,645,227	11,254,151	7,828,820	10,332,014	7,905,286	(1,728,497)	39,237,001
Furniture and equipment	1,161,572	67,747	246,925	318,794	212,720	-	2,007,758
Predevelopment project costs	62,193	-	-	-	-	-	62,193
Accumulated depreciation	(1,655,869)	(5,361,990)	(2,609,813)	(4,262,168)	(2,962,920)	777,732	(16,075,028)
Net property and equipment	3,534,432	6,822,800	6,159,123	6,580,090	5,627,711	(950,765)	27,773,391
Other long-term assets							
Investments, restricted	1,013,653	-	-	-	-	-	1,013,653
Restricted property reserves - operating partnerships	-	61,853	522,346	562,569	413,001	-	1,559,769
Investments in limited partnerships, net	499,813	-	-	-	-	(499,813)	-
Notes and interest receivable, affiliates	2,175,009	-	-	-	-	(2,175,009)	-
Notes and interest receivable	1,410,051	-	-	-	-	-	1,410,051
Other assets, net - operating partnerships	7,280	3,543	12,514	28,613	30,433	-	82,383
Total other long-term assets	5,105,806	65,396	534,860	591,182	443,434	(2,674,822)	4,065,856
Total assets	\$ 11,603,509	\$ 7,011,082	\$ 6,767,028	\$ 7,278,085	\$ 6,114,874	\$ (3,701,084)	\$ 35,073,494

Family Scholar House, Inc. and Subsidiaries
Consolidating Statement of Financial Position
June 30, 2022

	Family Scholar House, Inc.	Louisville Scholar House, LLC	Downtown Scholar House, LLLP	Stoddard Johnston Scholar House, LLLP	Parkland Scholar House, LLLP	Eliminations	Consolidated Family Scholar House, Inc.
Liabilities							
Current liabilities							
Accounts payable and accrued expenses - corporate operations	\$ 103,395	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 103,395
Accounts payable and accrued expenses - operating partnerships	-	45,642	235,427	39,686	39,655	-	360,410
Due to affiliates	-	-	-	42,211	37,837	(75,497)	4,551
Accrued interest	-	-	-	3,577	-	-	3,577
Current portion of notes payable - operating partnerships	-	-	20,301	18,669	-	-	38,970
Deferred revenue and other liabilities	90,150	-	209,028	-	-	-	299,178
Tenant security deposits	64,026	10,884	9,400	11,805	8,801	-	104,916
Total current liabilities	257,571	56,526	474,156	115,948	86,293	(75,497)	914,997
Long-term liabilities							
Accrued interest	32,568	-	5,782	76,000	-	-	114,350
Accrued interest, affiliates	-	-	183,485	-	52,056	(235,541)	-
Notes payable, less current portion, net - corporate operations	1,788,947	-	-	-	-	-	1,788,947
Notes payable, less current portion, net - operating partnerships	-	-	904,476	1,851,449	-	-	2,755,925
Notes payable, less current portion, affiliates	-	-	1,766,329	69,925	103,214	(1,939,468)	-
Deferred revenue and other liabilities	-	5,845	720,270	5,503	7,507	-	739,125
Total long-term liabilities	1,821,515	5,845	3,580,342	2,002,877	162,777	(2,175,009)	5,398,347
Total liabilities	2,079,086	62,371	4,054,498	2,118,825	249,070	(2,250,506)	6,313,344
Net assets without donor restrictions							
Net assets without donor restrictions, controlling - corporate operations	8,724,857	-	-	-	-	(866,143)	7,858,714
Net assets without donor restrictions, controlling - operating partnerships	-	6,948,711	499,705	(1)	109	(584,435)	6,864,089
Net assets without donor restrictions, noncontrolling - operating partnerships	-	-	2,212,825	5,159,261	5,865,695	-	13,237,781
Total net assets without donor restrictions	8,724,857	6,948,711	2,712,530	5,159,260	5,865,804	(1,450,578)	27,960,584
Net assets with donor restrictions	799,566	-	-	-	-	-	799,566
Total net assets	9,524,423	6,948,711	2,712,530	5,159,260	5,865,804	(1,450,578)	28,760,150
Total liabilities and net assets	\$ 11,603,509	\$ 7,011,082	\$ 6,767,028	\$ 7,278,085	\$ 6,114,874	\$ (3,701,084)	\$ 35,073,494

See Independent Auditor's Report.

Family Scholar House, Inc. and Subsidiaries
Consolidating Statement of Activities
and Changes in Net Assets
Year ended June 30, 2022

	Family Scholar House, Inc.	Louisville Scholar House, LLC	Downtown Scholar House, LLLP	Stoddard Johnston Scholar House, LLLP	Parkland Scholar House, LLLP	Eliminations	Consolidated Family Scholar House, Inc.
Revenues							
Rent - net of vacancies	\$ -	\$ 455,592	\$ 375,204	\$ 458,547	\$ 331,065	\$ -	\$ 1,620,408
Service fees	87,802	-	-	-	-	(19,719)	68,083
Philanthropy	1,224,090	-	-	-	-	-	1,224,090
Grants	2,649,275	-	-	-	-	-	2,649,275
Contributed nonfinancial assets	17,365	-	-	-	-	-	17,365
Interest	80,748	3	149	170	128	(19,747)	61,451
Unrealized gain on investments	(13,927)	-	-	-	-	-	(13,927)
Other	492,200	121,478	208,545	6,672	74,473	(115,500)	787,868
Total revenues	4,537,553	577,073	583,898	465,389	405,666	(154,966)	6,414,613
Expenses and losses							
Compensation	2,205,652	60,651	57,917	61,613	53,439	-	2,439,272
Administrative	1,272,956	74,667	83,661	46,399	56,014	(135,219)	1,398,478
Professional services	55,906	9,015	11,376	17,270	18,827	-	112,394
Depreciation and amortization	206,735	469,692	205,312	335,612	321,942	(14)	1,539,279
Facility	55,921	264,021	239,297	244,775	301,919	-	1,105,933
Interest and fees	2,232	-	88,256	55,625	2,477	(19,747)	128,843
Project expenses	14,699	-	4,334	-	-	-	19,033
Miscellaneous financial expenses	84,622	-	-	-	-	(84,622)	-
Total expenses and losses	3,898,723	878,046	690,153	761,294	754,618	(239,602)	6,743,232
Change in net assets	638,830	(300,973)	(106,255)	(295,905)	(348,952)	84,636	(328,619)
Net assets at beginning of year	8,885,593	7,165,062	2,818,785	5,455,165	6,214,756	(1,450,592)	29,088,769
Other transfers	-	84,622	-	-	-	(84,622)	-
Net assets at end of year	\$ 9,524,423	\$ 6,948,711	\$ 2,712,530	\$ 5,159,260	\$ 5,865,804	\$ (1,450,578)	\$ 28,760,150

See Independent Auditor's Report.



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