

10883

47

**Hope Enterprise Corporation**  
**CONSOLIDATED FINANCIAL STATEMENTS WITH**  
**SUPPLEMENTARY INFORMATION**

**Years Ended December 31, 2017 and 2016**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date AUG 29 2018



**CRI** CARR  
RIGGS &  
INGRAM

CPAs and Advisors

CRIcpa.com

**Hope Enterprise Corporation**  
**Table of Contents**  
**December 31, 2017 and 2016**

<b>REPORT</b>	
Independent Auditors' Report	1
<b>FINANCIAL STATEMENTS</b>	
Consolidated Statements of Financial Position	4
Consolidated Statements of Activities and Changes in Net Assets	5
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8
<b>SUPPLEMENTARY INFORMATION</b>	
Statement of Financial Position – Neighborworks America Funds	33
Statement of Activities and Changes in Net Assets – Neighborworks America Funds	33
Schedule of Compensation, Benefits and Other Payments to Chief Executive Officer	34
Schedule of Expenditures of Federal Awards	35
Notes to Schedule of Expenditures of Federal Awards	36
Independent Auditors' 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	37
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	39
Schedule of Findings and Questioned Costs	42
Summary Schedule of Prior Findings and Questioned Costs	43
Independent Auditors' Report on Compliance with State Laws and Regulations	44



Carr, Riggs & Ingram, LLC  
400 West Parkway Place  
Suite 300  
Ridgeland, MS 39157

Mailing Address:  
P.O. Box 2418  
Ridgeland, MS 39158-2418

(601) 853-7050  
(601) 853-9331 (fax)  
CRlcpa.com  
[www.cricpa.com](http://www.cricpa.com)

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Hope Enterprise Corporation  
Jackson, Mississippi

We have audited the accompanying consolidated financial statements of Hope Enterprise Corporation and entities under its control ("the Company"), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and changes in net assets and of cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

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

### **Basis for Qualified Opinion**

Consolidated subsidiaries of the Company hold a loan receivable from Quitman Investment Fund II (Quitman), and an investment accounted for on the equity method, Hickory Holdings, LLC, which is related to and, through a subsidiary, leases equipment to a subsidiary of Quitman. These entities have incurred recurring operating losses, and, further, in 2016 the Quitman subsidiary terminated its agreement with the entity which was its primary source of revenue. As a result, the Company's loan receivable is considered collateral dependent, and the Company is unable to provide sufficient audit evidence related to the fair value of that collateral. Similarly, the Company is unable to provide sufficient audit evidence related to any potential impairment of the equity method investment it holds in Hickory Holdings, LLC. The loan receivable, net of the related allowance for loan losses, was carried at \$0 and \$8.2 million and the equity method investment was carried at \$0 and \$5.7 million in the Company's 2017 and 2016 consolidated statements of financial position, respectively. Consequently, we were unable to determine whether any adjustments to the 2016 statement of financial position was necessary. Any such adjustments would directly impact both the 2017 and 2016 statements of activities. The 2017 and 2016 consolidated statements of activities includes a provision for loan loss of \$8.2 million and \$2.3 million related to this loan and a charge of \$5.7 million and \$3.0 million for the Company's share of Hickory Holdings, LLC's losses incurred in 2017 and 2016, respectively. In the event the outcome of the uncertainties regarding the carrying value of the loan and equity investment referred to above had been known, up to \$13.9 million of losses included in the 2017 consolidated statement of activities may have been reflected in the 2016 consolidated statement of activities, along with a corresponding reduction in the 2016 consolidated statement of financial position.

### **Qualified Opinion**

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hope Enterprise Corporation and entities under its control as of December 31, 2017 and 2016, and the changes in their consolidated net assets and their consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Report on Supplementary Information**

Our 2017 audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in the Statement of Financial Position – NeighborWorks America Funds, the Statement of Activities and Changes in Net Assets – NeighborWorks America Funds and Schedule of Compensation, Benefits, and Other Payments to Chief Executive Officer, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is also presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The supplementary 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 supplementary 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 August 16, 2018, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the Company's internal control over financial reporting and compliance.

*Carr, Riggs & Ingram, L.L.C.*

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi  
August 16, 2018

**Hope Enterprise Corporation**  
**Consolidated Statements of Financial Position**

<i>December 31,</i>	<b>2017</b>	<b>2016</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 10,259,725	8,914,806
Restricted cash	1,390	5,000,169
Grants receivable	11,228,543	4,829,402
Contract revenue receivable	166,105	181,659
Receivable from Hope Federal Credit Union	-	1,418,172
Consumer mortgage loans held for sale	534,305	804,017
Loans receivable - net of allowance for loan losses of approximately \$12,303,000 (2017) and \$3,855,000 (2016)	78,179,747	55,812,341
Loan guarantees receivable from Small Business Administration	139,032	139,032
Investment securities	7,865,604	7,983,612
Investment in affiliated companies	1,036,558	6,757,047
Investment in secondary capital of Hope Federal Credit Union	12,475,000	11,725,000
Property and equipment, net	2,473,583	1,883,827
Foreclosed property	132,520	316,120
Other assets	620,255	557,096
<b>Total assets</b>	<b>\$ 125,112,367</b>	<b>\$ 106,322,300</b>
<b>Liabilities and net assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,330,206	1,007,650
Funds held in escrow	21,521	23,097
Payable to Hope Federal Credit Union	866,648	-
Notes payable	23,474,898	24,775,559
<b>Total liabilities</b>	<b>25,693,273</b>	<b>25,806,306</b>
Commitments and contingencies (Note 5, 11, 12 and 13)		
Net assets:		
Unrestricted	10,334,706	10,367,152
Non-controlling interests (Note 12)	64,427,517	48,486,345
<b>Total unrestricted</b>	<b>74,762,223</b>	<b>58,853,497</b>
Temporarily restricted	22,958,599	19,533,185
Permanently restricted	1,698,272	2,129,312
<b>Total net assets</b>	<b>99,419,094</b>	<b>80,515,994</b>
<b>Total liabilities and net assets</b>	<b>\$ 125,112,367</b>	<b>\$ 106,322,300</b>

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

**Hope Enterprise Corporation**  
**Consolidated Statements of Activities and Changes in Net Assets**

*Year ended December 31, 2017*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues and gains</b>				
Grants and contributions	\$ 6,378,091	\$ 11,633,874	\$ -	\$ 18,011,965
In-kind contributions	298,597	-	-	298,597
Interest, dividends and related fees:				
Loans and other investments	1,648,571	-	-	1,648,571
Investment securities and cash equivalents	329,791	-	-	329,791
Net realized and unrealized losses on investment securities	(44,536)	-	-	(44,536)
Loss on sale of assets	(21,408)	-	-	(21,408)
Contract services revenue	1,149,864	-	-	1,149,864
	<u>9,738,970</u>	<u>11,633,874</u>	<u>-</u>	<u>21,372,844</u>
Net assets released from restrictions:				
Satisfaction of program restrictions	8,208,460	(8,208,460)	-	-
Transfers from changes in program restrictions	431,040	-	(431,040)	-
	<u>18,378,470</u>	<u>3,425,414</u>	<u>(431,040)</u>	<u>21,372,844</u>
<b>Expenses</b>				
Program expenses:				
Development finance	14,783,989	-	-	14,783,989
Housing initiative	926,749	-	-	926,749
Policy and advocacy	705,298	-	-	705,298
Other programs	5,912,125	-	-	5,912,125
	<u>22,328,161</u>	<u>-</u>	<u>-</u>	<u>22,328,161</u>
General administration:				
General and administration expense	2,858,658	-	-	2,858,658
Fund-raising and communication	1,604,256	-	-	1,604,256
	<u>26,791,075</u>	<u>-</u>	<u>-</u>	<u>26,791,075</u>
Equity in loss of affiliated company	(5,720,489)	-	-	(5,720,489)
Change in net assets before non-controlling interest	(14,133,094)	3,425,414	(431,040)	(11,138,720)
Non-controlling interests in subsidiaries' net loss	14,100,648	-	-	14,100,648
<b>Change in net assets attributable to controlling interest</b>	<b>(32,446)</b>	<b>3,425,414</b>	<b>(431,040)</b>	<b>2,961,928</b>
Net assets attributable to controlling interests:				
At beginning of year	10,367,152	19,533,185	2,129,312	32,029,649
At end of year	10,334,706	22,958,599	1,698,272	34,991,577
Net assets of non-controlling interests (Note 12)	64,427,517	-	-	64,427,517
<b>Total net assets at end of year</b>	<b>\$ 74,762,223</b>	<b>\$ 22,958,599</b>	<b>\$ 1,698,272</b>	<b>\$ 99,419,094</b>

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

**Hope Enterprise Corporation**  
**Consolidated Statements of Activities and Changes in Net Assets**

*Year ended December 31, 2016*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues and gains</b>				
Grants and contributions	\$ 5,021,516	\$ 12,150,000	\$ 500,000	\$ 17,671,516
In-kind contributions	1,044,386	-	-	1,044,386
Interest, dividends and related fees:				
Loans and other investments	1,344,150	-	-	1,344,150
Debt securities and cash equivalents	299,887	-	-	299,887
Net realized and unrealized losses on debt securities held as investments	(45,553)	-	-	(45,553)
Contract services revenue	354,629	-	-	354,629
	8,019,015	12,150,000	500,000	20,669,015
Net assets released from restrictions:				
Satisfaction of program restrictions	1,557,871	(1,557,871)	-	-
Transfers from changes in program restrictions	359,200	-	(359,200)	-
Total revenues and gains	9,936,086	10,592,129	140,800	20,669,015
<b>Expenses</b>				
Program expenses:				
Development finance	7,281,205	-	-	7,281,205
Housing initiative	872,283	-	-	872,283
Policy and advocacy	825,994	-	-	825,994
Other programs	2,563,124	-	-	2,563,124
	11,542,606	-	-	11,542,606
General administration:				
General and administration expense	2,312,836	-	-	2,312,836
Fund-raising and communication	1,385,378	-	-	1,385,378
Total expenses	15,240,820	-	-	15,240,820
Equity in loss of affiliated company	(2,950,000)	-	-	(2,950,000)
Change in net assets before non-controlling interest	(8,254,734)	10,592,129	140,800	2,478,195
Non-controlling interests in subsidiaries' loss	4,311,059	-	-	4,311,059
<b>Change in net assets attributable to controlling interest</b>	(3,943,675)	10,592,129	140,800	6,789,254
Net assets attributable to controlling interests:				
At beginning of year	14,310,827	8,941,056	1,988,512	25,240,395
At end of year	10,367,152	19,533,185	2,129,312	32,029,649
Net assets of non-controlling interests (Note 12)	48,486,345	-	-	48,486,345
<b>Total net assets at end of year</b>	<b>\$ 58,853,497</b>	<b>\$ 19,533,185</b>	<b>\$ 2,129,312</b>	<b>\$ 80,515,994</b>

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

**Hope Enterprise Corporation**  
**Consolidated Statements of Cash Flows**

<i>Years ended December 31,</i>	<b>2017</b>	<b>2016</b>
<b>Operating activities</b>		
Change in net assets attributable to controlling interests	\$ 2,961,928	\$ 6,789,254
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Non-controlling interests in subsidiaries' loss	(14,100,648)	(4,311,059)
Depreciation and amortization	386,406	282,244
Loss on sale of assets	21,408	-
Provision for loan losses	8,872,459	779,387
Forgiveness of mortgage loan debt	740,814	885,843
Equity in loss in excess of cash distribution from affiliate	5,720,489	3,163,000
Impairment losses on foreclosed property	59,336	58,031
Realized and unrealized loss on investments	44,536	45,553
Proceeds from sales of mortgage loans held for sale	138,485	42,666
Changes in operating assets and liabilities:		
Contract revenue receivable	15,554	116,507
Grants receivable	(6,399,141)	(3,305,666)
Other receivables and prepaid expenses	1,082,889	977,242
Accounts payable and other liabilities	1,187,628	307,334
<b>Net cash provided by operating activities</b>	<b>732,143</b>	<b>5,830,336</b>
<b>Investing activities</b>		
Net decrease in loans held for investment	(31,954,548)	5,153,347
Purchase of investments	(1,774,267)	(4,084,281)
Proceeds from maturities and sales of investments	1,825,672	1,865,441
Decrease (increase) in restricted cash held in escrow	4,998,779	(5,000,169)
Issuance of of secondary capital loan	(1,500,000)	-
Proceeds from repayment of secondary capital loans	750,000	1,000,000
Proceeds from sales of foreclosed property	251,831	12,097
Purchase of property and equipment	(725,850)	(424,404)
<b>Net cash used in investing activities</b>	<b>(28,128,383)</b>	<b>(1,477,969)</b>
<b>Financing activities</b>		
Capital contributions from non-controlling interests	31,000,000	-
Cash dividends paid to non-controlling interests	(958,180)	(6,150,170)
Long-term borrowings	3,101,299	3,400,000
Payments on long-term borrowings	(4,401,960)	(5,672,557)
<b>Net cash provided by (used in) financing activities</b>	<b>28,741,159</b>	<b>(8,422,727)</b>
Net increase (decrease) in cash and cash equivalents	1,344,919	(4,070,360)
Cash and cash equivalents, beginning of year	8,914,806	12,985,166
<b>Cash and cash equivalents, end of year</b>	<b>\$ 10,259,725</b>	<b>\$ 8,914,806</b>
Supplemental disclosure of noncash investing and financing activities:		
Property received upon foreclosure on loans	\$ 182,000	\$ 144,000
Loan receivable from affiliate exchanged for non-controlling interest	\$ -	\$ 1,036,558

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

## Hope Enterprise Corporation Notes to Consolidated Financial Statements

### NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Description of the Company*

Hope Enterprise Corporation (the "Company") is a not-for-profit development financial corporation primarily serving Arkansas, Louisiana, Mississippi and Tennessee. The goal of the Company is to improve the regional economy through investment, jobs and growth. The services of the Company include financing, management assistance, financial counseling and market development and are designed to support business creation and expansion, homeownership and community development.

#### *Basis of Presentation*

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and include the accounts of the Company and entities under its control which include, ECD Investments, LLC (ECDI), ECD Investments BIDCO, Inc. (BIDCO), Home Again, Inc. (Home Again), ECD Associates, LLC (ECDA), ECD New Markets, LLC (ECDNM), ECD New Markets 3, LLC (ECDNM3) ECD New Markets 4, LLC (ECDNM4), ECD New Markets 5, LLC (ECDNM5), Hope New Markets 1, LLC (HNM1), Hope New Markets 2, LLC (HNM2), Hope New Markets 3, LLC (HNM3), Hope New Markets 4, LLC (HNM4), Hope New Markets 5, LLC (HNM5), Hope New Markets 7, LLC (HNM7), Hope New Markets 8, LLC (HNM8) and Hope New Markets 9, LLC (HNM9). All significant intercompany transactions and balances have been eliminated in consolidation. The preparation of such consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The allowance for loan losses and the valuation of foreclosed property and investments are determined utilizing material estimates that are particularly susceptible to change in the near term.

ECDI is a limited liability company subsidiary of the Company and owns the corporate stock of BIDCO. The purpose of ECDI and BIDCO is the same as that of the Company. Home Again is a non-profit organization in which the Company serves as the primary sponsor and also controls the Board of Directors. Home Again provides mortgage financing and recovery consultation services to eligible people in the coastal region of Mississippi in the aftermath of Hurricane Katrina and other distressed communities throughout the mid-south.

There are also thirteen additional limited liability companies included in the consolidated financial statements of the Company, which include ECDA, ECDNM, ECDNM3, ECDNM4, ECDNMS, HNM1, HNM2, HNM3, HNM4, HNM5, HNM7, HNM8 and HNM9. The Company serves as the Managing Member of all thirteen entities. Debt and equity funding into ECDA and ECDNM is used for secondary capital loans and contributions to Hope Federal Credit Union (HFCU). The remaining eleven limited liability companies are Community Development Entities (CDEs) created for investors to benefit from

**Hope Enterprise Corporation**  
**Notes to Consolidated Financial Statements**

**NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

(Continued)

the New Markets Tax Credit program administered by the U.S. Department of the Treasury. Substantially all of the qualified equity investments must be in turn used to provide available investment capital to low-income communities. The CDEs will dissolve after the loans provided by the CDEs mature, in accordance with the terms of the CDE operating agreements. Accordingly, ECD Central was dissolved in 2016.

Although not included in the consolidated financial statements, the Company is also the primary sponsor of HFCU. Under the terms of its contractual arrangements, the Company has agreed to reimburse HFCU for certain operating expenses and losses incurred on loans considered to be higher risk than typically underwritten by regulated financial institutions such as HFCU. Such obligations are limited so as to not provide HFCU with monthly net income of more than \$20,000. HFCU and the Company share the same members of management and certain HFCU members are also borrowers from the Company and its affiliates.

The net assets of the Company are reported as unrestricted, temporarily restricted or permanently restricted. Restricted net assets are created by donor-imposed restrictions on their use. All other net assets are legally unrestricted and are therefore reported as unrestricted net assets. Temporarily restricted net assets are grants restricted to and intended for support of future operations and/or specific programs. Permanently restricted net assets are grants donated as permanent revolving loan funds.

In connection with the preparation of the consolidated financial statements, management of the Company evaluated subsequent events through August 16, 2018, which was the date the consolidated financial statements and related supplemental information were available to be issued.

***Fair Value Measurements***

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The Company utilizes a fair value hierarchy for measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs. Three levels of inputs are used to measure fair value:

- Level 1** Valuations based on unadjusted quoted prices for identical assets in active markets accessible at the measurement date.
- Level 2** Valuations derived for similar assets in active markets, or other inputs that are observable or can be corroborated by market data.
- Level 3** Valuations derived from unobservable (supported by little or no market activity) inputs that reflect an entity's best estimate of what hypothetical market participants would use to determine a transaction price at the reporting date.

**Hope Enterprise Corporation**  
**Notes to Consolidated Financial Statements**

**NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

When quoted market prices in active markets are unavailable, the Company determines fair values using various valuation techniques and models based on a range of observable market inputs including pricing models, quoted market price of publicly traded securities with similar duration and yield, time value, yield curve, prepayment speeds, default rates and discounted cash flow. In most cases, these estimates are determined based on independent third party valuation information, and the amounts are disclosed in the Level 2 of the fair value hierarchy. If quoted market prices and independent third party valuation information are unavailable, the Company produces an estimate of fair value based on internally developed valuation techniques, which, depending on the level of observable market inputs, will render the fair value estimate as Level 2 or Level 3.

The Company generally obtains one quoted market price or dealer quote per instrument. When dealer quotations are used, the Company uses the mid-mark as fair value. As part of the price verification process, valuations based on quotes are corroborated by comparison both to other quotes and to recent trading activity in the same or similar instruments. To the extent the Company determines a price or quote is inconsistent with actual trading activity observed in that investment or similar investments, or if the Company does not believe the quote is reflective of the market value for the investment, the Company would internally develop a fair value using this observable market information.

***Cash Equivalents***

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

***Grants Receivable***

Unconditional grants are recognized as revenue in the period the commitment is received. Unconditional grants to be received over a period of time in excess of one year are recorded at fair value at the date of the grant based upon the present value of payments to be received. Conditional grants are not recognized until they become unconditional, which is when the future event on which they depend has occurred.

***Contract Services Revenue and Related Receivables***

Contract services revenue is recognized in the period services are rendered. For related receivables, no allowance for doubtful accounts has been deemed necessary. Management determines the allowance by reviewing all outstanding amounts on a monthly basis, identifying troubled accounts and using historical experience applied to an aging of accounts. Contract receivables are written off when deemed uncollectible. Recoveries of contract receivables previously written off are recorded when received.

**Hope Enterprise Corporation**  
**Notes to Consolidated Financial Statements**

**NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

***Consumer Mortgage Loans Held-for-Sale***

Mortgage loans held-for-sale are carried at the lower of aggregate cost or market value and are primarily fixed-rate single-family residential loans originated and held under contract to be sold in the secondary market to a permanent investor. Such loans are generally sold within 30 days and mortgage servicing rights are released at point of sale. Although investors have limited recourse to return a purchased loan, no such returns occurred in 2017 or 2016. All mortgage loans are collateralized by the related residence of the borrower. Net unrealized losses, if any, are recognized through a valuation allowance by a charge to expense.

***Loans Receivable***

Loans receivable are stated at the amount of unpaid principal less an allowance for loan losses and consist of commercial loans, consumer mortgage loans not held for sale and forgivable mortgage loans. The commercial loans are typically collateralized by property, equipment, inventories, and/or receivables with loan-to-value ratios from 50 percent to 100 percent and are generally guaranteed by the principals of the borrowing business entity. Interest income is computed on the loan balance outstanding and is accrued as earned. Loans are considered past due if the required principal and interest payments have not been received as of the date such payments are due. For all loans 90 days or more past due, the Company generally discontinues the accrual of interest and recognizes income only as received. A loan may also be placed in non-accrual status when, in management's judgment, the collection of interest is doubtful. All interest accrued but not collected for loans that are placed in non-accrual status or charged off is reversed through interest income unless management believes the accrued interest is recoverable through the liquidation of collateral. Interest received on non-accrual loans is either applied against principal or reported as interest income, based on management's assessment regarding the recovery of principal. When material, the net amount of nonrefundable loan origination fees and direct costs associated with the lending process is deferred and accreted to interest income over the life of the loans using a method that approximates the interest method.

A loan is considered impaired when it is probable, based on current information and events, that the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Impaired commercial loans are measured by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. The amount of impairment, if any, and any subsequent changes are included in the allowance for loan losses. Interest on accruing impaired loans is recognized as long as such loans do not meet the criteria for nonaccrual status.

A loan is considered a troubled debt restructured loan based on individual facts and circumstances. The Company makes various types of concessions when structuring troubled debt restructurings

**Hope Enterprise Corporation**  
**Notes to Consolidated Financial Statements**

**NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

(TDRs) including rate reductions, payment extensions, and forbearance. The Company classifies troubled debt restructured loans as impaired and evaluates the need for an allowance for loan losses on a loan-by-loan basis. An allowance for loan losses is based on either the present value of estimated future cash flows or the estimated fair value of the underlying collateral. Loans retain their interest accrual status at the time of modification.

At December 31, 2017, the Company had 4 commercial real estate loans and 2 other business asset loans classified as TDRs which totaled approximately \$172,000. At December 31, 2016, the Company had 2 commercial real estate loans and 6 other business asset loans classified as TDRs which totaled approximately \$219,000. For these TDRs, the Company had a related loan loss allowance of approximately \$113,000 and \$75,000 at December 31, 2017 and 2016, respectively. These loans were modified by changing certain interest terms. No accrued interest was forgiven in 2017 or 2016. There were no specific charge-offs of principal related to TDRs during 2017 or 2016. Collateral dependent loans that are TDRs are charged down to their fair value estimate less a cost to sell estimate, which approximates net realizable value. During 2017 and 2016, there were no TDRs that subsequently defaulted within twelve months of loan modification.

Loans receivable also include forgivable mortgage loans that are made to accommodate the financial needs of qualifying customers. The terms of these loans differ significantly from traditional mortgage loans since they are forgivable over a stated period of time, typically from five to fifteen years, and only become due upon the sale or transfer of the residence. No principal or interest payments are received for loans made under the forgivable mortgage loan programs. Persons receiving loans under the forgivable mortgage loan programs must meet certain eligibility requirements and agree to occupy the residence for a stated period of time. The Company holds a secured interest in certain of the property funded until the occupancy period is met. At such time, the interest in the property is transferred to the borrower. No allowance for credit losses has been deemed necessary based on the forgivable nature of the loans and management's evaluation of the excess of the value of the collateral securing the loans over the unforgiven portion of the mortgage loans. The Company recorded approximately \$741,000 and \$886,000 in debt forgiveness during 2017 and 2016, respectively, related to these mortgage loans. As of December 31, 2017, the Company has a conditional promise to forgive the following amounts over the next five years:

2018	\$ 709,000
2019	528,000
2020	96,000
2021	50,000
2022	48,000
2023 and thereafter	398,000

**Hope Enterprise Corporation**  
**Notes to Consolidated Financial Statements**

**NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

***Allowance for Loan Losses***

The allowance for loan losses is determined based on various components for individually impaired loans and for homogeneous pools of loans. The allowance for loan losses is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries by portfolio segment. The methodology for determining charge-offs is consistently applied to each segment. The allowance for loan losses is maintained at a level that, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, and changes in its risk profile, credit concentrations, historical trends and economic conditions. This evaluation also considers the balance of impaired loans. The Company evaluates the allowance for loan losses on an individual basis for impaired loans. All other loans are evaluated on a collective basis. Losses on individually identified impaired loans are measured based on the present value of expected future cash flows discounted at each loan's original effective market interest rate. As a practical expedient, impairment may be measured based on the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through the provision added to the allowance for loan losses. Though management believes the allowance for loan losses to be adequate, ultimate losses may vary from their estimates. However, estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the change in net assets during periods in which they become known.

***Investment Securities***

Investment securities are carried at fair value based on quoted market prices. Unrealized gains and losses are included in the change in net assets. The primary components that determine a security's fair value are its coupon rate, maturity and credit characteristics. The Company holds these securities as part of its asset/liability strategy and they may be sold as a result of changes in interest rate risk, prepayment risk or other similar economic factors.

Premiums and discounts on investment securities are recognized as adjustments to interest income by the interest method over the period to maturity and adjusted for prepayments as applicable. The specific identification method is used to compute the realized gains or losses on the sale of these assets. Security purchases and sales are accounted for on the trade date.

***Investment in Affiliated Companies***

The Company had a 98.91% non-controlling equity interest in Hickory Holdings, LLC (Hickory). The investment in affiliated company is accounted for using the equity method of accounting. Hickory is not consolidated since the Company has a preferred unit interest, does not control the operations of

**Hope Enterprise Corporation**  
**Notes to Consolidated Financial Statements**

**NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

Hickory, and does not control the election or termination of Hickory's managing members or its management. The principal business activity of Hickory is the acquisition, ownership, financing and, holding of lease equipment and other personal property. In 2017, Hickory filed for bankruptcy protection from creditors and the Company's investment in Hickory was subsequently written off at a loss of approximately \$5,720,000.

In 2016, the Company acquired a 47.63% non-controlling equity interest in Homestead Development, LLC (Homestead) by exchanging a loan receivable for the equity interest. The investment is accounted for using the equity method of accounting since the Company does not have a controlling interest.

***Property and Equipment***

Property and equipment are stated at cost, if purchased, and estimated fair value at the date received, if donated to the Company. Depreciation on property and equipment is calculated principally by the straight-line method over the estimated useful lives of the assets which generally range from three to 39 years. The carrying value of long-lived assets is reviewed if facts and circumstances indicate a potential impairment of carrying value may have occurred utilizing relevant cash flow and profitability information. Impairment losses are recorded when the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts.

***Foreclosed Property***

Property acquired through, or in lieu of, loan foreclosure is held for sale and is initially recorded at the fair value of the property acquired at the date of foreclosure net of estimated selling costs, which establishes a new cost basis. Loan balances in excess of the fair value of the property acquired at the date of foreclosure are charged to the allowance for loan losses. A valuation allowance and a corresponding charge to operations is established to reflect declines in value subsequent to acquisition, if any, below the new basis. Required developmental costs associated with foreclosed property under construction are capitalized and considered in determining the fair value of the property. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in program expenses.

***Income Taxes***

The Company and Home Again have received rulings from the Internal Revenue Service for exemption from income taxes as public charities under Internal Revenue Code Sections 501(c)(3) and 509 (a)(2). Since ECDI, ECDA, ECDNM, ECDNM3, ECDNM4, ECDNM5, HNM1, HNM2, HNM3, HNM4, HNM5, HNM7, HNM8 and HNM9 are limited liability companies, no income taxes are provided. The results of operations are reportable by the LLC members on their individual income tax returns. BIDCO is subject to income taxes at the corporate level. As such, deferred income taxes relate to temporary differences between assets and liabilities of BIDCO that are recognized differently for

**Hope Enterprise Corporation**  
**Notes to Consolidated Financial Statements**

**NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

(Continued)

financial reporting purposes and income tax purposes. Deferred tax assets and liabilities pertain to net operating loss carryforwards and the allowance for loan losses. A valuation allowance of approximately \$1,768,000 and \$2,537,000, respectively, was recorded at December 31, 2017 and 2016, to offset the net deferred tax assets of BIDCO. The valuation allowance is established to provide for amounts that management considers may not be realized as a result of income limitations. At December 31, 2017, BIDCO had net operating loss carryforwards of approximately \$7,060,000 that will begin to expire in 2024.

Potential exposures involving tax positions taken that may be challenged by taxing authorities contain assumptions based upon past experiences and judgments about potential actions by taxing jurisdictions. Management does not believe that the ultimate settlement of these items will result in a material amount. With minimum exceptions, the Company is no longer subject to income tax examinations prior to 2014.

***Effects of Recent Accounting Guidance***

In May 2014, the FASB issued ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)*." ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 is effective for the Company on January 1, 2019. The Company is still evaluating the potential impact on its financial statements.

In January 2016, the FASB issued ASU 2016-01, "*Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*", which requires that all equity investments (except those accounted for under the equity method of accounting) be measured at fair value with changes in fair value recognized in net income. This guidance eliminates the available-for-sale classification for equity securities with readily determinable fair values. It also amends certain disclosure requirements associated with the fair value of financial instruments. However, companies may elect to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. ASU 2016-01 is effective for annual periods, beginning after December 15, 2017.

**Hope Enterprise Corporation**  
**Notes to Consolidated Financial Statements**

**NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

In February 2016, the FASB issued ASU 2016-02, “Leases”, which establishes a comprehensive lease standard under GAAP for virtually all industries. The new standard requires lessees to recognize a right of use asset and a lease liability for virtually all of their leases, other than leases that meet the definition of short term leases and will apply for annual periods beginning after December 15, 2018, including interim periods therein. Early adoption is permitted.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments (ASU 2016-13)”, which introduces the current expected credit losses methodology. Among other things, ASU 2016-13 requires the measurement of all expected credit losses for financial assets, including available-for-sale debt securities, held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The new model will require institutions to calculate all probable and estimable losses that are expected to be incurred through the loan’s entire life. ASU 2016-13 also requires the allowance for credit losses for purchased financial assets with credit deterioration since origination to be determined in a manner similar to that of other financial assets measured at amortized cost; however, the initial allowance will be added to the purchase price rather than recorded as credit loss expense. The disclosure of credit quality indicators related to the amortized cost of financing receivables will be further disaggregated by year of origination (or vintage). Institutions are to apply the changes through a cumulative-effect adjustment to their net assets as of the beginning of the first reporting period in which the standard is effective. The amendments are effective for fiscal years beginning after December 15, 2020. Early application will be permitted for fiscal years beginning after December 15, 2018.

On August 26, 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15)” which amends guidance in FASB ASC 230 on the classification of certain cash receipts and payments in the statement of cash flows, in order to reduce inconsistent application. The amendments address eight cash flow issues including debt repayment and extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments following a business combination, proceeds from the settlement of insurance claims and corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows. ASU 2016-15 is effective for the Company for annual reporting periods beginning after December 15, 2017. Entities must apply the guidance retrospectively to all periods presented but may apply it prospectively from the earliest date practicable if retrospective application would be impracticable.

In January 2017, the FASB issued ASU 2017-04, “Intangibles - Goodwill and Others (Topic 350): Simplifying the Test for Goodwill Impairment”. ASU 2017-04 simplifies the measurement of goodwill impairment by eliminating the requirement of performing a hypothetical purchase price allocation to measure goodwill impairment. ASU 2017-04 is effective for annual and any interim impairment tests

**Hope Enterprise Corporation**  
**Notes to Consolidated Financial Statements**

**NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

(Continued)

for periods beginning after December 15, 2021. Early adoption is allowed as of January 1, 2017, for annual and any interim impairment tests occurring after January 1, 2017. The Company is still evaluating the potential impact on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, "Receivables—Nonrefundable Fees and Other Costs (Topic 310-20): Premium Amortization on Purchased Callable Debt Securities". This guidance was issued to shorten the amortization period for certain callable debt securities held at a premium. The guidance requires the premium to be amortized to the earliest call date. It will become effective on January 1, 2019, with early adoption permitted, including during interim periods. The adoption is to be applied on a modified retrospective basis through an adjustment to retained earnings. The Company is still evaluating the potential impact on the Company's consolidated financial statements.

***Reclassifications***

Certain reclassifications have been made in the 2016 consolidated financial statements to conform to the method of presentation used in 2017.

**NOTE 2: FAIR VALUE MEASUREMENTS**

At December 31, 2017 and 2016, the only items carried at fair value in the accompanying consolidated statements of financial position were investment securities, certain collateral-dependent impaired loans and certain foreclosed property. Investment securities are measured at fair value on a recurring basis with changes in fair value recognized as a change in net assets, whereas impaired loans and foreclosed property are carried at the lower of cost or fair value on a non-recurring basis and are written down to fair value upon initial recognition or subsequent impairment. Fair value amounts for collateral-dependent loans are generally based on internally developed collateral valuations. These valuations incorporate measures such as recent sales prices for comparable properties or customized discounting criteria.

The fair value measurements by input level follow:

<b><i>December 31, 2017</i></b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Impaired loans	\$ 525,698	\$ -	\$ -	\$ 525,698
Foreclosed property	54,251	-	-	54,251
Investment securities	7,865,604	-	7,865,604	-
<hr/>				
<b><i>December 31, 2016</i></b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Impaired loans	\$ 8,825,589	\$ -	\$ -	\$ 8,825,589
Foreclosed property	85,969	-	-	85,969
Investment securities	7,983,613	-	7,983,613	-

**Hope Enterprise Corporation**  
**Notes to Consolidated Financial Statements**

**NOTE 3: GRANTS RECEIVABLE**

The Company's management anticipates grants receivable will be received and available for support of the Company's programs as follows:

<i>December 31,</i>	<b>2017</b>	<b>2016</b>
Receivable in less than one year	\$ 10,283,016	\$ 3,802,627
Receivable in one to five years	1,150,000	1,063,016
Receivable in six years	20,000	40,000
	<b>11,453,016</b>	<b>4,905,643</b>
Less adjustment to reflect grants receivable at fair value at the date of grant, based on 2.11% discount rate in 2017 and 1.88% in 2016	<b>(224,473)</b>	<b>(76,241)</b>
	<b>\$ 11,228,543</b>	<b>\$ 4,829,402</b>

**NOTE 4: INVESTMENT SECURITIES**

Investment securities, presented in the financial statements at fair value, are categorized as follows:

<i>December 31, 2017</i>	<b>Amortized Cost</b>	<b>Fair Value</b>
Government agencies	\$ 3,631,487	\$ 3,600,078
Residential mortgage-backed securities	2,469,104	2,428,287
Municipal bonds	1,844,186	1,836,286
Equity securities	953	953
<b>Total</b>	<b>\$ 7,945,730</b>	<b>\$ 7,865,604</b>

<i>December 31, 2016</i>	<b>Amortized Cost</b>	<b>Fair Value</b>
Government agencies	\$ 3,159,863	\$ 3,151,855
Residential mortgage-backed securities	3,317,705	3,294,455
Municipal bonds	1,542,156	1,537,302
<b>Total</b>	<b>\$ 8,019,724</b>	<b>\$ 7,983,612</b>

**Hope Enterprise Corporation**  
**Notes to Consolidated Financial Statements**

**NOTE 4: INVESTMENT SECURITIES (Continued)**

The amortized cost and approximate fair value of debt securities, by expected maturity, are shown below.

<i>December 31, 2017</i>	<b>Amortized Cost</b>	<b>Fair Value</b>
Due within one year	\$ 1,071,268	\$ 1,065,039
Due after one year through five years	4,013,727	3,980,645
Due after five years through ten years	2,036,679	2,007,085
Due after ten years through twenty years	789,875	779,688
Due after twenty years	33,228	32,194
	<b>\$ 7,944,777</b>	<b>\$ 7,864,651</b>

**NOTE 5: LOANS AND COMMITMENTS**

The Company makes loans to small businesses located in rural, economically disadvantaged areas of Arkansas, Louisiana, Mississippi and Tennessee. Such loans, the proceeds of which normally provide working capital and equipment financing to undercapitalized businesses that may be unable to obtain credit from conventional financing sources, have a higher than typical degree of risk.

Loans other than consumer mortgage loans held for sale consisted of the following:

<i>December 31,</i>	<b>2017</b>	<b>2016</b>
Commercial loans	<b>\$ 88,649,944</b>	\$ 57,720,630
Forgivable mortgage loans	<b>1,828,877</b>	1,941,938
Other consumer mortgage loans not held for sale	<b>3,661</b>	4,798
Allowance for loan losses	<b>(12,302,735)</b>	(3,855,025)
	<b>\$ 78,179,747</b>	<b>\$ 55,812,341</b>

Included in commercial loans are New Market Tax Credit program loans originated by community development entities which aggregated approximately \$74,095,000 and \$44,025,000 at December 31, 2017 and 2016, respectively. These interest-only loans have seven year repayment terms which will begin to mature in 2018.

**Hope Enterprise Corporation**  
**Notes to Consolidated Financial Statements**

**NOTE 5: LOANS AND COMMITMENTS (Continued)**

Transactions in the allowance for loan losses are summarized as follows:

<i>December 31,</i>	<b>2017</b>	<b>2016</b>
Balance at beginning of year	\$ 3,855,025	\$ 4,417,598
Provisions charged to program expense	8,872,459	779,387
Loans charged off and foreclosed	<b>(424,749)</b>	<b>(1,341,960)</b>
<b>Balance at end of year</b>	<b>\$ 12,302,735</b>	<b>\$ 3,855,025</b>

A summary of the commercial loans and related allowance for loan losses evaluated for impairment both individually and collectively is as follows:

<i>December 31, 2017</i>	Loans		Allowance		Net
	Individually	Collectively	Individually	Collectively	
Commercial loans secured by:					
Commercial real estate	\$ 702,443	\$ 33,580,159	\$ 150,129	\$ 614,021	\$ 33,518,452
Single family real estate	39,484	5,600,365	-	183,186	5,456,663
Multi-family real estate	180,891	3,296,284	22,501	42,783	3,411,891
Other business assets	11,730,496	10,483,183	11,093,806	132,265	10,987,608
Construction	-	22,624,347	-	37,582	22,586,765
Unsecured commercial loans	-	412,292	-	26,462	385,830
<b>Totals</b>	<b>\$ 12,653,314</b>	<b>\$ 75,996,630</b>	<b>\$ 11,266,436</b>	<b>\$ 1,036,299</b>	<b>\$ 76,347,209</b>

*December 31, 2016*

Commercial loans secured by:					
Commercial real estate	\$ 313,554	\$ 18,892,223	\$ 76,024	\$ 406,700	\$ 18,723,053
Single family real estate	62,622	5,655,679	-	185,753	5,532,548
Multi-family real estate	640,718	4,307,453	152,384	56,038	4,739,749
Other business assets	11,082,704	10,087,361	2,765,781	104,483	18,299,801
Construction	52,197	6,152,579	42,801	35,752	6,126,223
Unsecured commercial loans	-	473,540	-	29,309	444,231
<b>Totals</b>	<b>\$ 12,151,795</b>	<b>\$ 45,568,835</b>	<b>\$ 3,036,990</b>	<b>\$ 818,035</b>	<b>\$ 53,865,605</b>

**Hope Enterprise Corporation**  
**Notes to Consolidated Financial Statements**

**NOTE 5: LOANS AND COMMITMENTS (Continued)**

Changes in the allowance for loans losses by portfolio class were as follows:

<i>Year ended</i> <i>December 31, 2017</i>	Balance at Beginning of Year	Charge-offs	Recoveries	Provision for Loan Losses	Balance at End of Year
Commercial loans secured by:					
Commercial real estate	\$ 482,724	\$ (424,749)	\$ -	\$ 706,175	\$ 764,150
Single family real estate	185,753	-	-	(2,567)	183,186
Multi-family real estate	208,422	-	-	(143,138)	65,284
Other business assets	2,870,264	-	-	8,355,807	11,226,071
Construction	78,553	-	-	(40,971)	37,582
Unsecured commercial loans	29,309	-	-	(2,847)	26,462
	<b>\$ 3,855,025</b>	<b>\$ (424,749)</b>	<b>\$ -</b>	<b>\$ 8,872,459</b>	<b>\$ 12,302,735</b>

<i>Year ended</i> <i>December 31, 2016</i>	Balance at Beginning of Year	Charge-offs	Recoveries	Provision for Loan Losses	Balance at End of Year
Commercial loans secured by:					
Commercial real estate	\$ 3,146,479	\$ (1,341,960)	\$ -	\$ (1,321,795)	\$ 482,724
Single family real estate	307,754	-	-	(122,001)	185,753
Multi-family real estate	138,767	-	-	69,655	208,422
Other business assets	740,254	-	-	2,130,010	2,870,264
Construction	38,395	-	-	40,158	78,553
Unsecured commercial loans	45,949	-	-	(16,640)	29,309
	<b>\$ 4,417,598</b>	<b>\$ (1,341,960)</b>	<b>\$ -</b>	<b>\$ 779,387</b>	<b>\$ 3,855,025</b>

Loan commitments are made to accommodate the financial needs of the Company's customers. These arrangements have credit risk essentially the same as that involved in extending loans to customers of commercial banks and are subject to the Company's normal credit practices. The Company uses the same credit policies in making these commitments and conditional obligations as it does for on-balance sheet instruments. The Company's maximum exposure to credit loss in the event of nonperformance by the other party for loan commitments (including unused lines of credit) was approximately \$2,497,000 and \$1,840,000 at December 31, 2017 and 2016, respectively.

Approximately \$260,000 and \$3,052,000 of the allowance for loan losses relates to non-accrual loans at December 31, 2017 and 2016, respectively. The Company had non-accrual loans with 17 customers totaling approximately \$1,653,000 at December 31, 2017. The Company had non-accrual loans with 14 customers totaling approximately \$12,361,000 at December 31, 2016. There were no loans past due 90 days or more and still accruing interest at December 31, 2017 and 2016.

**Hope Enterprise Corporation**  
**Notes to Consolidated Financial Statements**

**NOTE 5: LOANS AND COMMITMENTS (Continued)**

The Company had impaired loans of approximately \$12,653,000 and \$12,152,000 as of December 31, 2017 and 2016, respectively. There was approximately \$11,266,000 and \$3,037,000 in the allowance for loan losses specifically allocated to these impaired loans at December 31, 2017 and 2016, respectively.

Impaired loans with no allowance for loan losses specifically allocated to these loans approximated \$861,000 and \$289,000 at December 31, 2017 and 2016, respectively. The average balance of impaired loans was approximately \$12,403,000 in 2017 and \$9,423,000 in 2016. Income recognized on impaired loans was approximately \$57,000 in 2017 and \$120,000 in 2016.

Information relative to impaired loans is as follows:

	Unpaid Principal Balance	Total Loans with No Specific Allowance	Total Loans with a Specific Allowance	Specific Allowance
<i>December 31, 2017</i>				
Commercial loans secured by:				
Commercial real estate	\$ 702,443	\$ 236,398	\$ 466,045	\$ 150,129
Single family real estate	39,484	39,484	-	-
Multi-family real estate	180,891	88,520	92,371	22,501
Other business assets	11,730,496	496,778	11,233,718	11,093,806
<b>Total impaired loans</b>	<b>\$ 12,653,314</b>	<b>\$ 861,180</b>	<b>\$ 11,792,134</b>	<b>\$ 11,266,436</b>
<i>December 31, 2016</i>				
Commercial loans secured by:				
Commercial real estate	\$ 313,554	\$ 189,220	\$ 124,334	\$ 76,024
Single family real estate	62,622	62,622	-	-
Multi-family real estate	640,718	-	640,718	152,384
Other business assets	11,082,704	37,374	11,045,330	2,765,781
Construction	52,197	-	52,197	42,801
<b>Total impaired loans</b>	<b>\$ 12,151,795</b>	<b>\$ 289,216</b>	<b>\$ 11,862,579</b>	<b>\$ 3,036,990</b>

**Hope Enterprise Corporation**  
**Notes to Consolidated Financial Statements**

**NOTE 5: LOANS AND COMMITMENTS (Continued)**

The Company determines delinquency status based on recent payment history. An aging analysis of past due and nonaccrual commercial loans by class is as follows:

<i>December 31, 2017</i>	Current	Past Due 30- 89 Days	Past Due Greater Than 90 Days	Nonaccrual	Total
Commercial loans secured by:					
Commercial real estate	\$ 33,584,352	\$ -	\$ -	\$ 698,249	\$ 34,282,601
Single family real estate	5,282,110	318,255	-	39,484	5,639,849
Multi-family real estate	3,384,803	92,372	-	-	3,477,175
Other business assets	21,218,019	80,442	-	915,219	22,213,680
Construction	22,624,347	-	-	-	22,624,347
Unsecured commercial loans	412,292	-	-	-	412,292
<b>Commercial loans</b>	<b>\$ 86,505,923</b>	<b>\$ 491,069</b>	<b>\$ -</b>	<b>\$ 1,652,952</b>	<b>\$ 88,649,944</b>

<i>December 31, 2016</i>	Current	Past Due 30- 89 Days	Past Due Greater Than 90 Days	Nonaccrual	Total
Commercial loans secured by:					
Commercial real estate	\$ 18,689,325	\$ 204,385	\$ -	\$ 312,067	\$ 19,205,777
Single family real estate	5,655,679	-	-	62,622	5,718,301
Multi-family real estate	4,116,306	191,146	-	640,718	4,948,170
Other business assets	9,876,428	-	-	11,293,637	21,170,065
Construction	6,152,579	-	-	52,198	6,204,777
Unsecured commercial loans	473,540	-	-	-	473,540
<b>Commercial loans</b>	<b>\$ 44,963,857</b>	<b>\$ 395,531</b>	<b>\$ -</b>	<b>\$ 12,361,242</b>	<b>\$ 57,720,630</b>

**Credit Quality Indicators**

The credit quality indicator utilized by the Company to internally analyze the loan portfolio is the internal risk rating. At the time of loan origination, a risk rating based on an eight point grading system is assigned to each commercial-related loan based on loan officer and management assessments of the risk associated with each particular loan. The first four loan ratings are "pass" rated credits. Loans classified as pass credits have no material weaknesses and are performing as agreed. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Company's credit position at some future date. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loans

**Hope Enterprise Corporation**  
**Notes to Consolidated Financial Statements**

**NOTE 5: LOANS AND COMMITMENTS (Continued)**

classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable. Loans classified as loss are considered uncollectible and their continuance as a loan is not warranted.

A summary of the carrying amount of commercial loans by credit quality indicator is as follows:

<i>December 31, 2017</i>	Pass Categories	Special Mention Category	Substandard Category	Doubtful Category	Total
Commercial loans secured by:					
Commercial real estate	\$ 17,073,376	\$ 16,308,695	\$ 658,002	\$ 242,528	\$ 34,282,601
Single family real estate	432,109	5,168,257	39,483	-	5,639,849
Multi-family real estate	3,232,941	63,343	180,891	-	3,477,175
Other business assets	13,538,462	7,944,622	730,596	-	22,213,680
Construction	16,804,347	5,820,000	-	-	22,624,347
Unsecured commercial loans	108,489	303,803	-	-	412,292
<b>Totals</b>	<b>\$ 51,189,724</b>	<b>\$ 35,608,720</b>	<b>\$ 1,608,972</b>	<b>\$ 242,528</b>	<b>\$ 88,649,944</b>
<i>December 31, 2016</i>					
Commercial loans secured by:					
Commercial real estate	\$ 16,142,829	\$ 2,749,394	\$ 71,026	\$ 242,528	\$ 19,205,777
Single family real estate	5,293,452	362,226	40,856	21,766	5,718,300
Multi-family real estate	4,242,590	64,864	-	640,718	4,948,172
Other business assets	9,876,428	210,933	11,082,704	-	21,170,065
Construction	6,152,579	-	52,197	-	6,204,776
Unsecured commercial loans	153,557	319,983	-	-	473,540
<b>Totals</b>	<b>\$ 41,861,435</b>	<b>\$ 3,707,400</b>	<b>\$ 11,246,783</b>	<b>\$ 905,012</b>	<b>\$ 57,720,630</b>

**Hope Enterprise Corporation**  
**Notes to Consolidated Financial Statements**

**NOTE 6: INVESTMENT IN AFFILIATED COMPANIES**

Summarized, unaudited financial information of Hickory Holdings, LLC (Hickory) as of and for the year ended December 31, 2016 is as follows. Hickory filed for bankruptcy protection from its creditors in 2017 and the investment carrying value (\$5.7 million) at December 31, 2016 was charged to expense in 2017.

<i>December 31,</i>	2016
<b>Assets</b>	
Current assets	\$ 930,326
Machinery and equipment	44,921,020
Deferred loan costs	653,934
	<u>\$ 46,505,280</u>
<b>Liabilities and Members' Equity</b>	
Current liabilities	\$ 475,433
Long-term debt	40,369,000
Equity of preferred unitholders	5,570,835
Equity of common unitholders	90,012
	<u>\$ 46,505,280</u>

During 2016, ECDNM5 received cash dividends of approximately \$213,000 from Hickory.

Summarized, unaudited financial information of Homestead Development, LLC, is as follows:

<i>December 31,</i>	2017	2016
<b>Assets</b>		
Cash	\$ 103,937	\$ 25,601
Property and equipment	3,038,686	3,153,897
Other assets	34,874	42,761
	<u>\$ 3,177,497</u>	<u>\$ 3,222,259</u>
<b>Liabilities and Members' Equity</b>		
Accounts payable	\$ 8,859	\$ 8,859
Deposits	13,437	13,403
Notes payable to related entities	3,375,007	3,551,575
Capital and retained deficit	(219,806)	(351,578)
	<u>\$ 3,177,497</u>	<u>\$ 3,222,259</u>

**Hope Enterprise Corporation**  
**Notes to Consolidated Financial Statements**

**NOTE 6: INVESTMENT IN AFFILIATED COMPANIES (Continued)**

<i>Year ended December 31,</i>	<b>2017</b>	<b>2016</b>
<b>Results of Operations</b>		
Revenue	\$ 496,157	\$ 488,433
Interest expense	13,640	100,808
Depreciation	66,404	85,273
Other expenses	284,341	388,992
<b>Net earnings (loss)</b>	<b>\$ 131,772</b>	<b>\$ (86,640)</b>

**NOTE 7: SECONDARY CAPITAL OF HOPE FEDERAL CREDIT UNION**

Secondary capital of HFCU are loans that require principal repayments, unless HFCU (i) is unable to fully service existing senior indebtedness, (ii) is unable to satisfy its operating expenses, or (iii) does not have available cash flows for the withdrawals of funds for the account. If such loans are not required to be repaid, they will be recognized as expense in the period the losses are incurred. The advances include a fixed rate loan at 5.45% for \$2,800,000 (\$1,050,000 outstanding at December 31, 2017) maturing in 2027, two fixed rate loans at 1.00% for \$5,000,000 and \$2,000,000 maturing on December 31, 2023, a fixed rate loan at 2.60% for \$1,500,000 maturing on December 22, 2023, a fixed rate loan at 1.00% for \$1,000,000 maturing on April 29, 2025, and three variable rate loans aggregating \$1,925,000 with interest floors and caps from 5.00% - 10.90% (with effective rates of 5.00% - 5.45% at December 31, 2017), maturing in 2024 – 2025, with principal payments required each year until maturity. Interest income received from HFCU relative to the secondary capital loans approximated \$265,000 and \$312,000 for the years ended December 31, 2017 and 2016, respectively. No repayments are due on the above secondary capital loans until 2023 and thereafter.

The Company incurred expenses approximating \$2,432,000 and \$3,705,000 relative to its obligation to reimburse certain operating expenses of HFCU in 2017 and 2016, respectively. The Company incurred approximately \$300,000 and \$1,651,000 in 2017 and 2016, respectively, for grants to HFCU which are included in development finance expense in the accompanying consolidated statements of activities.

Accounts payable to HFCU for grants and contractual services aggregated approximately \$867,000 at December 31, 2017. Accounts receivable from HFCU for grants and contractual services aggregated approximated \$1,418,000 at December 31, 2016. The Company had deposit accounts with HFCU as of December 31, 2017 and 2016, totaling approximately \$4,331,000 and \$10,736,000, respectively.

**Hope Enterprise Corporation**  
**Notes to Consolidated Financial Statements**

**NOTE 8: PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

<i>December 31,</i>	2017	2016
Computer equipment	\$ 3,818,415	\$ 3,390,518
Office equipment and other	819,004	687,114
Building and improvements	2,226,047	1,833,703
	6,863,466	5,911,335
Accumulated depreciation	(4,389,883)	(4,027,508)
	<u>\$ 2,473,583</u>	<u>\$ 1,883,827</u>

**NOTE 9: FORECLOSED PROPERTY**

An analysis of foreclosed property follows:

<i>December 31,</i>	2017	2016
Balance at beginning of year	\$ 316,120	\$ 244,556
Transfer from loans	240,903	144,000
Carrying value of foreclosed property sold	(365,167)	(14,405)
Impairments recognized	(59,336)	(58,031)
Balance at end of year	<u>\$ 132,520</u>	<u>\$ 316,120</u>

**NOTE 10: EMPLOYEE BENEFIT PLAN**

The Company sponsors a defined contribution 401(k) plan (the "Plan") for all employees. The Company contributes 100% of the first 4% contributed by each employee. Expenses of the Plan were approximately \$82,000 in 2017 and \$71,000 in 2016.

**NOTE 11: NOTES PAYABLE**

The Company has entered into one loan facility with a bank and one loan facility with a non-bank lender to provide funding in amounts up to \$20,000,000 and \$3,000,000, respectively. The bank facility may be increased and extended at the discretion of the lender and subject to certain terms of that agreement. The outstanding balances under these loan facilities at December 31, 2017, were approximately \$2,892,000 and \$1,500,000, respectively. The outstanding balances under these loan facilities at December 31, 2016, were approximately \$4,751,000 and \$1,500,000, respectively. The proceeds of both facilities are to be used for small business lending activities of the Company. The agreements contain certain financial covenants, including but not limited to, net assets ratios, delinquent loan ratios, a current ratio, a liquidity reserve and restrictions on the amount of support

**Hope Enterprise Corporation**  
**Notes to Consolidated Financial Statements**

**NOTE 11: NOTES PAYABLE (Continued)**

which may be provided to its affiliates. All remaining notes payable of the Company are unsecured except for collateral consisting of a first real estate mortgage on the corporate office facilities relative to the note payable to HFCU.

Total interest paid on all notes payable approximated \$703,000 and \$684,000 in 2017 and 2016, respectively. The Company recognized interest expense of approximately \$47,000 and \$49,000 during 2017 and 2016, respectively, related to its mortgage and note payable to HFCU.

Notes payable consisted of the following:

<i>December 31,</i>	<b>2017</b>	<b>2016</b>
1% notes payable:		
interest due quarterly and maturing from 2020 through 2025	\$ 6,999,417	\$ 6,500,000
interest due annually and maturing 2018 through 2020	1,675,000	3,499,417
interest due at maturity, January 2025	2,000,000	2,000,000
Notes payable to banks with interest due quarterly:		
interest payable at 3.25%, maturing from 2022 through 2025	1,000,000	1,000,000
interest payable at 4.5%, maturing in December 2018	1,500,300	1,000,000
1.35% note payable to bank with interest due at maturity in 2024	999,944	999,944
4.30% note payable with interest due monthly, maturing in 2018	1,500,000	1,500,000
Note payable bearing interest at 4% monthly, maturing from 2018 through 2022	2,892,469	4,751,191
5% mortgage payable to HFCU with monthly installments of \$7,773, including interest at prime plus 1.5%, payable until final balloon in December 2020	911,768	955,007
6% note payable to bank with interest due at maturity in 2018	1,101,000	-
3% notes payable with interest due quarterly and maturing in 2022	1,000,000	1,000,000
Notes payable to non-profit foundations bearing interest at 2.5% with interest due quarterly, maturing 2018 through 2021	750,000	750,000
Note payable to non-profit foundation bearing interest at 2% with interest due at maturity in December 2028	1,000,000	500,000
Other notes payable, with interest at 1% to 3%	145,000	320,000
<b>Total notes payable</b>	<b>\$ 23,474,898</b>	<b>\$ 24,775,559</b>

Notes payable maturities at December 31, 2017, are as follows:

2018	\$ 5,101,028
2019	883,088
2020	4,090,351
2021	1,009,335
2022	3,391,152
Thereafter	8,999,944
	<b>\$ 23,474,898</b>

**Hope Enterprise Corporation**  
**Notes to Consolidated Financial Statements**

**NOTE 12: NON-CONTROLLING INTEREST AND NET ASSETS**

ECDI has issued 220 Class A units at \$25,000 per unit. The owners of the Class A units may elect three of the seven members of the management committee of ECDI. The Company, the sole Class B unit holder, appoints the other four members. The Company is the sole managing member of ECDA and elects three of the five board of directors of ECDNM. ECDA is the primary investing member of ECDNM. The Company is the sole managing member of ECDNM3, ECDNM4, ECDNM5, HNM1, HNM2, HNM3, HNM4, HNM5, HNM7, HNM8 and HNM9 and elects two of the three board of directors of each company. Although the Company controls the board of directors of these entities, the Company has only a minor investment in these entities and thus receives minimal allocations of earnings or losses. Further, the Company received minimal distributions from these entities during 2017 and 2016.

Dividends in arrears relative to the ECDI Class A units totaled \$114,775 at December 31, 2017, and 2016, respectively. Temporarily restricted net assets include approximately \$2,456,000 and \$3,087,000 of net assets of Home Again at December 31, 2017 and 2016, respectively, and approximately \$20,503,000 (2017) and \$16,446,000 (2016) for financial assistance programs offered by the Company. Permanently restricted net assets include approximately \$1,698,000 and \$2,129,000 at December 31, 2017 and 2016, respectively, of revolving loan funds available to customers of the Company.

The changes in non-controlling interest are as follows:

	Balance January 1, 2017	Equity Investment	Dividends Paid	Net Earnings (Loss)	Balance December 31, 2017
ECDI	\$ 621,796	\$ -	\$ -	\$ (119,913)	\$ 501,883
ECDA	1,133,422	-	(102,532)	168,946	1,199,836
ECD Central	-	-	-	-	-
ECDNM3	8,706,622	-	(353,427)	353,394	8,706,589
ECDNM4	8,258,236	-	-	(8,249,075)	9,161
ECDNM5	5,758,693	-	-	(5,720,116)	38,577
HNM1	5,790,923	-	(43,646)	47,851	5,795,128
HNM2	7,721,221	-	(77,747)	85,842	7,729,316
HNM3	4,704,521	-	(35,012)	35,011	4,704,520
HNM4	5,790,911	-	(85,462)	85,462	5,790,911
HNM5	-	6,000,000	-	(237,233)	5,762,767
HNM7	-	8,000,000	(35,994)	(204,370)	7,759,636
HNM8	-	8,000,000	(74,409)	(225,986)	7,699,605
HNM9	-	9,000,000	(149,951)	(120,461)	8,729,588
	<b>\$ 48,486,345</b>	<b>\$ 31,000,000</b>	<b>\$ (958,180)</b>	<b>\$ (14,100,648)</b>	<b>\$ 64,427,517</b>

**Hope Enterprise Corporation**  
**Notes to Consolidated Financial Statements**

**NOTE 12: NON-CONTROLLING INTEREST AND NET ASSETS (Continued)**

	Balance January 1, 2016	Dividends Paid	Net Earnings (Loss)	Balance December 31, 2016
ECDI	\$ 747,225	\$ -	\$ (125,429)	\$ 621,796
ECDA	1,094,001	(159,649)	199,070	1,133,422
ECD Central	4,850,000	(5,025,239)	175,239	-
ECDNM3	8,705,614	(354,466)	355,474	8,706,622
ECDNM4	10,529,884	(64,424)	(2,207,224)	8,258,236
ECDNM5	9,013,251	(304,500)	(2,950,058)	5,758,693
HNM1	5,790,924	(43,650)	43,649	5,790,923
HNM2	7,721,229	(77,755)	77,747	7,721,221
HNM3	4,704,526	(35,016)	35,011	4,704,521
HNM4	5,790,920	(85,471)	85,462	5,790,911
	<b>\$ 58,947,574</b>	<b>\$ (6,150,170)</b>	<b>\$ (4,311,059)</b>	<b>\$ 48,486,345</b>

**NOTE 13: COMMITMENTS AND CONTINGENCIES**

***Concentration of Credit Risk***

The Company maintains cash balances at a financial institution in excess of insured limits by approximately \$7,531,000 at December 31, 2017. The Company periodically assesses the financial condition of the institutions and believes that the risk of any loss is minimal.

***Litigation***

The Company is a defendant in litigation arising from normal business activities. Management, with the advice of legal counsel, is of the opinion that the ultimate resolution of these matters will not have a material adverse effect on the consolidated financial statements.

**Hope Enterprise Corporation**  
**Notes to Consolidated Financial Statements**

**NOTE 14: NATURAL CLASSIFICATION OF EXPENSES**

A summary of expenses presented by natural classification follows:

<i>Years ended December 31,</i>	<b>2017</b>	<b>2016</b>
Salaries, employee taxes and benefits	\$ 3,856,357	3,288,361
Bank and payroll fees	293,061	225,913
Conferences and employee training	38,491	46,980
Contractual services	7,409,224	3,418,853
Dues, fees and memberships	59,482	57,163
Equipment, furniture and fixtures maintenance	355,249	179,564
Forgiveness of mortgage loan debt	740,814	885,843
HFCU operational support	2,432,316	3,705,278
Insurance	162,545	165,170
Miscellaneous	6,390	9,372
Office supplies	160,792	169,726
Rent and employee parking	20,371	21,851
Repairs and maintenance	156,185	127,880
Service fees	7,328	28,129
Staff recruitment and relocation	5,777	7,151
Telephone and utilities	903,370	898,079
Travel	236,372	239,935
Interest	652,782	645,910
Provision for loan losses	8,872,459	779,387
Impairment loss on foreclosed assets	59,336	58,031
Depreciation and amortization	362,374	282,244
<b>Totals</b>	<b>\$ 26,791,075</b>	<b>\$ 15,240,820</b>

**NOTE 15: NEIGHBORWORKS AMERICA FUNDS**

The Company has a grant agreement with NeighborWorks America which is structured in accordance with Section 607(e) of the Neighborhood Reinvestment Corporation Act, as amended (42 U.S.C. 8101, et. seq.). The agreement provides for the funding of certain ongoing community lending and support projects in the form of grants. During 2017 and 2016, the Company was awarded NeighborWorks America grants totaling \$639,000 and \$929,000, respectively, which is included in revenue. Expenditures relative to these awards are shown in detail in the accompanying Schedule of Expenditures of Federal Awards. Of the amounts received from NeighborWorks America, \$0 (2017) and \$500,000 (2016) increased permanently restricted loans and capital projects and \$0 (2017) and \$175,000 (2016) in temporarily restricted grants were awarded. The unexpended portion of temporarily restricted grants amounted to \$0 and \$259,145 at December 31, 2017 and 2016,



**Hope Enterprise Corporation**  
**Notes to Consolidated Financial Statements**

**NOTE 15: NEIGHBORWORKS AMERICA FUNDS (Continued)**

respectively. NeighborWorks America also awarded an additional \$639,000 and \$254,000 in expendable grants during 2017 and 2016, respectively, to support the Company's program activities. All of these funds were expended in the year awarded. As of December 31, 2017, the Company was in compliance with the bonding and insurance requirements of the grant agreement.

**Hope Enterprise Corporation**  
**Statement of Financial Position - Neighborworks America Funds**

*December 31, 2017*

<b>Assets</b>	
Cash	\$ -
Loans receivable	1,005,760
<b>Total assets</b>	<b>\$ 1,005,760</b>
<b>Net assets</b>	
Temporarily restricted	\$ -
Permanently restricted - loan & capital asset	1,005,760
<b>Total net assets</b>	<b>\$ 1,005,760</b>

**Statement of Activities and Changes in Net Assets -  
Neighborworks America Funds**

*Year ended December 31, 2017*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues</b>				
Expendable grants	\$ 639,000	\$ -	\$ -	\$ 639,000
Capital grant	-	-	-	-
	<b>639,000</b>	<b>-</b>	<b>-</b>	<b>639,000</b>
Net assets released from restrictions:				
Transfer from changes in program restrictions	431,040	-	(431,040)	-
Satisfaction of program restrictions	259,145	(259,145)	-	-
Total revenues	<b>1,329,185</b>	<b>(259,145)</b>	<b>(431,040)</b>	<b>639,000</b>
<b>Expenses</b>				
Other programs	1,329,185	-	-	1,329,185
Change in net assets	-	(259,145)	(431,040)	(690,185)
Net assets at beginning of year	-	259,145	1,436,800	1,695,945
Net assets at end of year	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,005,760</b>	<b>\$ 1,005,760</b>

**Hope Enterprise Corporation**  
**Schedule of Compensation, Benefits and Other Payments**  
**to Chief Executive Officer**

*Year ended December 31, 2017*

---

Chief Executive Officer: William Bynum

<b>Purpose</b>	<b>Amount</b>
Salary	\$ 322,571
Benefits - insurance	8,753
Benefits - retirement	10,591
Per diem - meals	1,453
Reimbursements	887
Travel	19,077
Conferences	7,606
Housing - lodging	10,263
Group meals	5,546
<b>Total net assets</b>	<b>\$ 386,747</b>

**Hope Enterprise Corporation**  
**Schedule of Expenditures of Federal Awards**  
**For Year Ended December 31, 2017**

*Year ended December 31, 2017*

Federal Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<b>U.S. Department of Housing and Urban Development:</b>				
Community Development Block Grant/States' Program - Passed Through from:				
Neighborhood Stabilization Program				
City of New Orleans Fresh Foods	14.228	72-6001000	\$ -	\$ 737,177
Total U.S. Department of Housing and Urban Development				- 737,177
<b>U. S. Department of the Treasury:</b>				
NeighborWorks America	21.000		-	1,329,185
Total U.S. Department of the Treasury				- 1,329,185
<b>U.S. Department of Agriculture:</b>				
Grants - Passed Through from:				
Delta Regional Authority Capital Building for Rural Communities				
	10.446	64-0656103	-	83,521
Rural Community Development Initiative				
	10.446		-	23,753
Total U.S. Department of Agriculture				- 107,274
Total Federal Awards			\$ -	\$ 2,173,636

**Hope Enterprise Corporation**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For Year Ended December 31, 2017**

**NOTE 1: BASIS OF PRESENTATION**

The accompanying schedule includes all federal programs administered by the Company. Federal programs included in the accompanying schedule are accounted for using the accrual basis of accounting, whereby revenues are recognized in the accounting period in which they are earned and expenses are recognized when services or benefits are received. The Company has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance.



**CRI** CARR  
RIGGS &  
INGRAM  
CPAs and Advisors

Carr, Riggs & Ingram, LLC  
400 West Parkway Place  
Suite 300  
Ridgeland, MS 39157

Mailing Address:  
P.O. Box 2418  
Ridgeland, MS 39158-2418

(601) 853-7050  
(601) 853-9331 (fax)  
CRIcpa.com

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Hope Enterprise Corporation  
Jackson, Mississippi

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 Hope Enterprise Corporation ("the Company"), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, which was qualified related to the recoverability of certain assets by two entities that were not federally funded but were consolidated by the Company, and have issued our report thereon dated August 16, 2018.

**Internal Control Over Financial Reporting**

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

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

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

any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Carr, Riggs & Ingram, L.L.C.*

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi  
August 16, 2018



**CRI** CARR  
RIGGS &  
INGRAM  
CPAs and Advisors

Carr, Riggs & Ingram, LLC  
400 West Parkway Place  
Suite 300  
Ridgeland, MS 39157

Mailing Address:  
P.O. Box 2418  
Ridgeland, MS 39158-2418

(601) 853-7050  
(601) 853-9331 (fax)  
CRIcpa.com

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors  
Hope Enterprise Corporation  
Jackson, Mississippi

**Report on Compliance for Each Major Federal Program**

We have audited Hope Enterprise Corporation's ("the Company") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Company's major federal programs for the year ended December 31, 2017. The Company's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for the Company's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major program. However, our audit does not provide a legal determination of the Company's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the Company complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

### **Report on Internal Control Over Compliance**

Management of the Company is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Company's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Company's 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

*Carr, Riggs & Ingram, L.L.C.*

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi  
August 16, 2018

**Hope Enterprise Corporation**  
**Schedule of Findings and Questioned Costs**

*For the year ended December 31, 2017*

---

**Section I - Summary of Auditors' Results**

***Financial Statements***

Type of auditors' report issued Qualified

Internal control over financial reporting:  
 Material weakness(es) identified? No

Significant deficiency(ies) identified  
 not considered to be material weakness(es)? No

Noncompliance material to financial statements noted? No

***Federal Awards***

Internal control over major programs:  
 Material weakness identified? No

Significant deficiency(ies) identified  
 not considered to be material weakness(es)? No

Type of auditors' report issued on compliance  
 for programs audited: Unmodified

Any audit findings disclosed that are required to be reported in  
 accordance with 2 CFR, Section 200.516(a)? No

Identification of major program(s) audited:

<b><i>CFDA Number(s)</i></b>	<b><i>Name of Federal Program or Cluster Number</i></b>
21.000	NeighborWorks America

Dollar threshold used to distinguish  
 between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? No

**Section II – Financial Statement Findings**

No items were reported.

**Section III – Federal Award Findings and Questioned Costs**

No items were reported.



**Hope Enterprise Corporation**  
**Summary Schedule of Prior Findings and Questioned Costs**

**Section IV – Prior Findings and Questioned Costs**

No audit findings related to federal awards were reported in the audit of the year ended December 31, 2016.



Carr, Riggs & Ingram, LLC  
400 West Parkway Place  
Suite 300  
Ridgeland, MS 39157

Mailing Address:  
P.O. Box 2418  
Ridgeland, MS 39158-2418

(601) 853-7050  
(601) 853-9331 (fax)  
CRICpa.com

## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

To the Board of Directors  
Hope Enterprise Corporation  
Jackson, Mississippi

We have audited the consolidated financial statements of Hope Enterprise Corporation as of and for the year ended December 31, 2017, and have issued our report dated August 16, 2018. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

As required by the Louisiana Legislative Auditor, we have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not the objective of our audit and, accordingly, we do not express such an opinion.

The results of those procedures and our audit of the general purpose financial statements disclosed instances of noncompliance with state laws and regulations. Our findings and recommendations and your responses are as follows:

### **Finding:**

Non-compliance over timeliness of financial reporting.

### **Criteria:**

According to the Uniform Guidance, 2 CFR 200.501(a), non-Federal entities that expend \$750,000 or more in a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with the provision of these parts. The audit package and the data collection form shall be submitted 30 days after receipt of the auditor's report(s), or 9 months after the end of the fiscal year – whichever comes first – pursuant to OMB Uniform Guidance 2 CFR 200.512(a). Furthermore, the State of Louisiana Governmental Audit Guide requires such audits to be completed within six months after the end of the fiscal year.

### **Condition:**

The Company's audit package for the fiscal year ended December 31, 2017 is expected to be timely submitted to the Federal Audit Clearinghouse but was not timely submitted to the State of Louisiana. The Company requested and received a one month extension of time to file.

**Cause:**

Earlier in 2018, the Company completed and issued the audit of its financial statements. The auditor, Carr Riggs & Ingram, LLC, (CRI) was under contract to also perform the Uniform Guidance audit. Since the senior auditor familiar with the Company's audit was on maternity leave, CRI began the Uniform Guidance audit late. The Company therefore requested and received an extra month to complete the audit.

**Effect:**

The Company did not comply with Louisiana Single Audit requirements for timely submission of its audit package.

**Recommendation:**

CRI will schedule this audit more expeditiously for the 2018 fiscal year audit.

The Louisiana Legislative Auditor or a public accounting firm will review, on a subsequent year's audit engagement, the findings in this report to ensure that corrective action has been taken.

This report is intended for the information of Hope Enterprise Corporation's management, and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Carr, Riggs & Ingram, L.L.C.*

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi  
August 16, 2018