

HOPE ENTERPRISE CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2022 AND 2021



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HOPE ENTERPRISE CORPORATION
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Hope Enterprise Corporation
Jackson, Mississippi

Report on the Audit of the Consolidated Financial Statements

Opinion

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, 2022 and 2021, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hope Enterprise Corporation and entities under its control as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

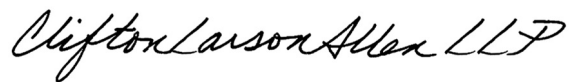
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in the following consolidating or combining statements are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2023, on our consideration of Hope Enterprise Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Hope Enterprise Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hope Enterprise Corporation's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Dallas, Texas
March 31, 2023

HOPE ENTERPRISE CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021

	2022	2021
ASSETS		
Cash and Cash Equivalents	\$ 36,596,423	\$ 20,884,637
Restricted Cash	4,136,758	10,760,353
Grant and Other Receivables	1,395,646	886,105
Contract Revenue Receivable	468,840	108,190
Due from Affiliate	2,575,199	1,530,428
Loans Receivable, Net of Allowance for Loan Losses of Approximately \$3,873,000 and \$3,841,000 in 2022 and 2021, Respectively	159,596,706	158,300,098
Investment Securities	28,147,278	30,454,638
Investment in Affiliated Companies	-	1,187,725
Investment in Secondary Capital of Hope Federal Credit Union	38,035,775	38,035,775
Property and Equipment, Net	2,010,707	2,400,013
Other Assets	446,942	440,175
Right of Use Asset	84,341	-
	\$ 273,494,615	\$ 264,988,137
Total Assets		
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 2,787,306	\$ 2,565,546
Deferred Revenue	4,894,146	7,046,214
Notes Payable	65,856,391	88,456,038
Lease Liability	86,052	-
Total Liabilities	73,623,895	98,067,798
NET ASSETS		
Without Donor Restrictions	39,063,096	39,785,370
Noncontrolling Interests	143,293,561	109,345,170
Total Without Donor Restrictions	182,356,657	149,130,540
With Donor Restrictions	17,514,063	17,789,799
Total Net Assets	199,870,720	166,920,339
	\$ 273,494,615	\$ 264,988,137
Total Liabilities and Net Assets		

See accompanying Notes to Consolidated Financial Statements.

HOPE ENTERPRISE CORPORATION
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND GAINS			
Grants and Contributions	\$ 12,319,744	\$ 610,600	\$ 12,930,344
In-Kind Contributions	5,000	-	5,000
Interest, Dividends, and Related Fees:			
Loans and Other Investments	2,581,338	-	2,581,338
Investment Income, Net	(2,210,252)	-	(2,210,252)
Other Gains	463,259	-	463,259
Contract Services Revenue	969,792	-	969,792
Miscellaneous Revenue	(100,792)	-	(100,792)
Subtotal	14,028,089	610,600	14,638,689
Net Assets Release from Restrictions:			
Satisfaction of Program Restrictions	886,336	(886,336)	-
Total Revenues and Gains	14,914,425	(275,736)	14,638,689
EXPENSES			
Program Expenses:			
Development Finance	3,820,519	-	3,820,519
Housing Initiative	532,705	-	532,705
Policy and Advocacy	747,517	-	747,517
Other Programs	3,313,113	-	3,313,113
Total Program Expenses	8,413,854	-	8,413,854
Supporting Services:			
General and Administration	6,200,192	-	6,200,192
Fundraising and Communication	486,313	-	486,313
Total Expenses	15,100,359	-	15,100,359
CHANGE IN NET ASSETS BEFORE NONCONTROLLING INTEREST	(185,934)	(275,736)	(461,670)
Noncontrolling Interests in Subsidiaries' Net Income	(536,340)	-	(536,340)
CHANGE IN NET ASSETS ATTRIBUTABLE TO CONTROLLING INTEREST	(722,274)	(275,736)	(998,010)
Net Assets Contributable to Controlling Interests - Beginning of Year	39,785,370	17,789,799	57,575,169
NET ASSETS ATTRIBUTABLE TO CONTROLLING INTERESTS - END OF YEAR	39,063,096	17,514,063	56,577,159
Net Assets of Noncontrolling Interests	143,293,561	-	143,293,561
NET ASSETS - END OF YEAR	\$ 182,356,657	\$ 17,514,063	\$ 199,870,720

See accompanying Notes to Consolidated Financial Statements.

HOPE ENTERPRISE CORPORATION
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND GAINS			
Grants and Contributions	\$ 6,904,703	\$ 8,611,537	\$ 15,516,240
Interest, Dividends, and Related Fees:			
Loans and Other Investments	3,074,917	-	3,074,917
Investment Income, Net	1,549	-	1,549
Other Losses	80,117	-	80,117
Contract Services Revenue	7,397,395	-	7,397,395
Subtotal	<u>17,458,681</u>	<u>8,611,537</u>	<u>26,070,218</u>
Net Assets Release from Restrictions:			
Satisfaction of Program Restrictions	<u>10,311,623</u>	<u>(10,311,623)</u>	<u>-</u>
Total Revenues and Gains	<u>27,770,304</u>	<u>(1,700,086)</u>	<u>26,070,218</u>
EXPENSES			
Program Expenses:			
Development Finance	14,699,079	-	14,699,079
Housing Initiative	475,245	-	475,245
Policy and Advocacy	884,961	-	884,961
Other Programs	1,839,013	-	1,839,013
Total Program Expenses	<u>17,898,298</u>	<u>-</u>	<u>17,898,298</u>
Supporting Services:			
General and Administration Expense	7,935,219	-	7,935,219
Fundraising and Communication	530,964	-	530,964
Total Expenses	<u>26,364,481</u>	<u>-</u>	<u>26,364,481</u>
CHANGE IN NET ASSETS BEFORE NONCONTROLLING INTEREST	1,405,823	(1,700,086)	(294,263)
Noncontrolling Interests in Subsidiaries' Net Income	<u>548,152</u>	<u>-</u>	<u>548,152</u>
CHANGE IN NET ASSETS ATTRIBUTABLE TO CONTROLLING INTEREST	1,953,975	(1,700,086)	253,889
Net Assets Contributable to Controlling Interests - Beginning of Year	37,831,395	19,489,885	57,321,280
Liquidation of BIDCO Preferred Stock	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS ATTRIBUTABLE TO CONTROLLING INTERESTS - END OF YEAR	39,785,370	17,789,799	57,575,169
Net Assets of Noncontrolling Interests	<u>109,345,170</u>	<u>-</u>	<u>109,345,170</u>
NET ASSETS - END OF YEAR	<u>\$ 149,130,540</u>	<u>\$ 17,789,799</u>	<u>\$ 166,920,339</u>

See accompanying Notes to Consolidated Financial Statements.

HOPE ENTERPRISE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets Attributable to Controlling Interests	\$ (998,010)	\$ 253,889
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Noncontrolling Interests in Subsidiaries' (Gain) Loss	536,340	(548,152)
Depreciation and Amortization	410,692	320,207
Loss on Extinguishment of Debt	445,289	-
Provision for Loan Losses	480,095	2,101,973
Forgiveness of Mortgage Loan Debt	620,137	601,511
Assignment of Debt	-	3,158,000
Equity in Affiliate	1,187,725	(80,117)
Realized and Unrealized Net Losses on Investments	3,261,512	747,911
Changes in Operating Assets and Liabilities:		
Contract Revenue Receivable	(360,650)	111,687
Grants Receivable	(509,541)	1,127,182
Due from Affiliate	(1,044,771)	(1,530,428)
Other Receivables and Prepaid Expenses	(6,767)	(108,174)
ROU Asset	(84,341)	-
Accounts Payable and Other Liabilities	221,760	(2,563,340)
Deferred Revenue	(2,152,068)	5,921,485
Lease Liability	86,052	-
Net Cash Provided by Operating Activities	2,093,454	9,513,634
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (Increase) Decrease in Loans Held for Investment	(2,396,840)	47,640,652
Purchases of Investments	(5,004,248)	(15,054,240)
Proceeds from Maturities and Sales of Investments	4,050,096	5,052,169
Issuance of Secondary Capital Loan	-	(22,560,775)
Purchase of Property and Equipment	(466,675)	(540,614)
Net Cash Provided (Used) by Investing Activities	(3,817,667)	14,537,192
CASH FLOWS FROM FINANCING ACTIVITIES		
Return of Capital Contributions to Noncontrolling Interests	35,000,000	-
Cash Dividends Paid to Noncontrolling Interests	(1,587,949)	(1,509,457)
Proceeds from Issuance of Notes Payable	7,647,509	79,496,228
Payments on Long-Term Borrowings	(30,247,156)	(101,820,333)
Net Cash Provided (Used) by Financing Activities	10,812,404	(23,833,562)
NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	9,088,191	217,264
Cash, Cash Equivalents, Restricted Cash - Beginning of Year	31,644,990	31,427,726
CASH, CASH EQUIVALENTS, RESTRICTED CASH - END OF YEAR	\$ 40,733,181	\$ 31,644,990
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	\$ 1,146,425	\$ 924,793

See accompanying Notes to Consolidated Financial Statements.

HOPE ENTERPRISE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Company

Hope Enterprise Corporation (the Company) is a nonprofit community development financial institution (CDFI) primarily serving Alabama, 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.

Principles of Consolidation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and include the accounts of the Company and entities under its control which include ECD Investments, LLC (ECDI), Home Again, Inc. (Home Again), and seventeen additional New Markets Tax Credit entities, as described in further detail below. 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. The purpose of ECDI is the same as that of the Company. Home Again is a nonprofit 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 nineteen additional limited liability companies included in the consolidated financial statements of the Company. The Company serves as the Managing Member of all nineteen entities. Debt and equity funding into two of those entities ECD Associates, LLC (ECDA) and ECD New Markets, LLC (ECDNM) is used for secondary capital loans and contributions to Hope Federal Credit Union (HFCU). The remaining seventeen limited liability companies are Community Development Entities (CDEs) created for investors to benefit from 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 COE operating agreements.

HOPE ENTERPRISE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Cash and Cash Equivalents

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

At December 31, 2022, the Company's cash accounts exceeded federally insured limits. Although balances at each institution are insured up to \$250,000, management believes cash held in excess of these limits subjects the Company to minimal risk.

Restricted Cash

Restricted cash represents funding from restricted grants and debt that may only be used for specified purposes and not for general corporate matters. Interest income on these funds is included in revenue.

Cash and cash equivalents at December 31, 2022 totaling \$36,596,423, and restricted cash totaling \$4,136,758, as included on the consolidated statement of financial position, equal total cash, cash equivalents, and restricted cash shown of the consolidated statement of cash flows of \$40,733,181. Cash and cash equivalents at December 31, 2021 totaling \$20,884,637, and restricted cash totaling \$10,760,353, as included on the consolidated statement of financial position, equal total cash, cash equivalents, and restricted cash shown of the consolidated statement of cash flows of \$31,644,990.

Grants and Contributions Receivable and Revenue

Unconditional grants and contributions are recognized as revenue in the period the commitment is received. Unconditional grants and contributions 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 and contributions are those with a measurable performance or other barrier and a right of return, and are not recognized until the conditions have been met. Contributions received totaling \$4,894,146 and \$7,046,214 at December 31, 2022 and 2021, respectively, have been recognized in the accompanying consolidated statement of financial position as deferred revenue because the conditions on which they depend have not yet been met. Management considers all grants and contributions receivable to be fully collectible and therefore no allowance for uncollectible amounts is necessary. The Company has received \$8,890,243 of conditional grants that have not been recognized because the conditions have not been met as of year-end.

Donated Goods and Services

During the years ended December 31, 2022 and 2021, Home Again received donated gift cards totaling \$5,000 and \$-0-, respectively.

Home Again estimates the fair value of donated goods and services on the basis of estimates of the current market rates for similar supplies and services.

HOPE ENTERPRISE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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

Donated Goods and Services (Continued)

Contributed gift cards were utilized by Home Again's program. There were no donor-imposed restrictions associated with the donated items. During the years ended December 31, 2022 and 2021 Home Again did not monetize any donated goods.

During the years ended December 31, 2022 and 2021 the Company did not receive any donated services.

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.

The Company receives New Markets Tax Credit (NMTC) allocations as a Community Development Entity (CDE). Revenue from the allocation service fee is recognized when the sub-CDE created by the Company obtains a qualified low-income community investment (QLICI). These fees are included in contract services revenue on the consolidated statements of activities. During the years ended December 31, 2022 and 2021, revenue from these fees totaled \$550,001 and \$25,667, respectively.

The Company receives fees from the Small Business Administration for originating loans under the Paycheck Protection Program (PPP). Revenue from the origination service fees is recognized when the loan is originated. These fees are included in contract services revenue on the consolidated statements of activities. During the years ended December 31, 2022 and 2021, revenue from these fees totaled \$27,000 and \$6,789,896, respectively.

HOPE ENTERPRISE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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

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 from (i) quoted prices for similar assets or liabilities in active markets; (ii) quoted prices for identical or similar assets or liabilities in inactive markets; (iii) inputs other than quoted prices that are observable for the asset or liability; and (iv) inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.

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.

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.

HOPE ENTERPRISE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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

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, and forgivable mortgage loans. The commercial loans are typically collateralized by property, equipment, inventories, and/or receivables 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. Unless collection of interest is reasonably certain, as in the case of a government guarantee, the Company generally discontinues the accrual of interest and recognizes income only as received for loans 90 days or more past due. A loan may also be placed in nonaccrual status when, in management's judgment, the collection of interest is doubtful. All interest accrued but not collected for loans that are placed in nonaccrual 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 nonaccrual loans is either applied against principal or reported as interest income, based on management's assessment regarding the recovery of principal. The Company has determined that the impact of capitalizing nonrefundable fees and other costs is not significant. These costs have been expensed as incurred. Management has also issued loans at below-market rates. Interest income from these loans is imputed based on the market rate offered to those of a similar type. Imputed interest is approximately \$41,000 and \$34,000 as of December 31, 2022 and 2021, respectively.

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 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 (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.

The Company has four significant TDRs or impaired loans totaling approximately \$5,820,000 and \$6,077,000 during the years ended December 31, 2022 and 2021, respectively.

HOPE ENTERPRISE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Loans Receivable (Continued)

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 5 to 15 years, and only become due upon on 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 the property 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 \$620,000 and \$602,000 in debt forgiveness during 2022 and 2021, respectively, related to these mortgage loans.

As of December 31, 2022, the Company has a conditional promise to forgive the following amounts over the next five years:

<u>Years Ending December 31,</u>	<u>Amount</u>
2023	\$ 607,582
2024	484,832
2025	218,540
2026	191,457
2027	182,082
Thereafter	<u>1,348,557</u>
Total	<u><u>\$ 3,033,050</u></u>

Allowance for Loan Losses

The allowance for loan losses is determined based on homogeneous pools of loans. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. 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 allowance for loan losses is maintained at a level that, in management's judgment, is adequate to absorb possible losses on existing loans that may become uncollectable, based on evaluations of the collectability of loans. 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, and credit concentrations. This evaluation also considers the balance of impaired loans. 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.

HOPE ENTERPRISE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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

Allowance for Loan Losses (Continued)

The Company assigns a risk rating to commercial loans and periodically performs detailed internal reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into the following major categories, defined as follows:

Pass: Loans classified as Pass are loans with no existing or known potential weaknesses deserving of management's close attention.

Special Mention: Loans classified as Special Mention have a potential weakness that deserves management's close attention. If left uncorrected, this potential weakness may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

Substandard: Loans classified as Substandard are not adequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans classified as Substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Well defined weaknesses include a borrower's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time, or the failure to fulfill economic expectations. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as Doubtful have all the weaknesses inherent in those classified as Substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss: Loans classified as Loss are considered uncollectable and anticipated to be charged off.

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.

HOPE ENTERPRISE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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

Investment Securities (Continued)

Premiums and discounts on investment securities are recognized as adjustments to interest income by the interest method over the period to maturity and are 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 held a 47.63% equity interest in Homestead Development, LLC (Homestead). The investment was accounted for using the equity method of accounting since the Company did not have a controlling interest. Homestead Development, LLC was liquidated during the year ended December 31, 2022.

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.

HOPE ENTERPRISE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received and released from restrictions when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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, and the fifteen New Market Tax Credit entities are limited liability companies, no income taxes are provided. Additionally, two New Market Tax Credit entities are taxed as a C corporation and are a subject to income taxes.

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 2017.

Change in Accounting Principles

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This standard requires that contributed nonfinancial assets are reported on a separate line item in the statements of activities, apart from contributions of cash and other financial assets. It also requires disclosure of disaggregated amounts of contributed nonfinancial assets by category that depicts the type of contributed nonfinancial assets along with additional qualitative information about the monetization of such assets, donor restrictions and valuation techniques. The adoption of this standard did not have any significant impact on the accompanying consolidated financial statements or disclosures.

HOPE ENTERPRISE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in Accounting Principles (Continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (ASC 842)*. The new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent of the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The adoption of this standard did not have any significant impact on the accompanying financial statements or disclosures.

Subsequent Events

In connection with the preparation of the consolidated financial statements, management of the Company evaluated subsequent events through March 31, 2023, which was the date the consolidated financial statements were available to be issued.

NOTE 2 GRANT AND OTHER RECEIVABLES

The Company's management anticipates grant receivables will be received and available for support of the Company's programs. The makeup of grant and other receivables are as follows:

	<u>2022</u>	<u>2021</u>
Grant Receivable in Less Than One Year	\$ 677,500	\$ 460,388
Grant Receivable in One to Five Years	535,000	40,000
Subtotal	<u>1,212,500</u>	<u>500,388</u>
Less: Adjustment to Reflect Grant Receivables at Fair Value at the Date of Grant, Based on 2.5% Discount Rate in 2022 and 2021	<u>(25,990)</u>	<u>(2,608)</u>
Total Grant Receivables	1,186,510	497,780
Other Receivables Due in Less Than One Year	<u>209,136</u>	<u>388,325</u>
Total Grant and Other Receivables	<u>\$ 1,395,646</u>	<u>\$ 886,105</u>

HOPE ENTERPRISE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 3 FAIR VALUE MEASUREMENTS

At December 31, 2022 and 2021, 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 nonrecurring 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:

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Investment Securities	\$ -	\$ 28,147,278	\$ -	\$ 28,147,278

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Investment Securities	\$ -	\$ 30,454,638	\$ -	\$ 30,454,638

NOTE 4 INVESTMENT SECURITIES

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

	December 31, 2022	
	Amortized	
	Cost	Fair Value
Government Agencies	\$ 2,152,457	\$ 1,892,497
Residential Mortgage-Backed Securities	19,242,827	17,170,047
Treasuries	98,578	98,578
US Treasury Bonds	4,395,102	3,981,728
Municipal Bonds	5,762,657	5,004,428
Total	\$ 31,651,621	\$ 28,147,278

	December 31, 2021	
	Amortized	
	Cost	Fair Value
Government Agencies	\$ 2,151,719	\$ 2,119,878
Residential Mortgage-Backed Securities	19,700,486	19,561,161
US Treasury Bonds	3,407,061	3,414,884
Municipal Bonds	5,449,425	5,358,715
Total	\$ 30,708,691	\$ 30,454,638

HOPE ENTERPRISE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 4 INVESTMENT SECURITIES (CONTINUED)

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

	December 31, 2022	
	Amortized Cost	Fair Value
US Treasury and Municipal Bonds and Government Agency Securities:		
Due Within One Year	\$ 1,754,515	\$ 1,625,816
Due After One Year Through Five Years	5,794,730	5,107,724
Due After Five Years Through Ten Years	4,859,549	4,243,691
Subtotal	<u>12,408,794</u>	<u>10,977,231</u>
Residential Mortgage-Backed Securities	<u>19,242,827</u>	<u>17,170,047</u>
Total	<u>\$ 31,651,621</u>	<u>\$ 28,147,278</u>

NOTE 5 LOANS, NET

The Company makes loans to small businesses located in rural, economically disadvantaged areas of Alabama, 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.

Included in commercial loans is a concentration in New Market Tax Credit program loans originated by community development entities which aggregated approximately \$139,680,000 and \$111,550,000 at December 31, 2022 and 2021, respectively. These interest-only loans have seven-year repayment terms.

The Coronavirus Aid, Relief and Economic Security Act (CARES Act) was signed into law on March 27, 2020. The CARES Act provided economic relief to individuals and businesses through the Payroll Protection Program (PPP), which allowed financial institutions to grant forgivable, guaranteed Small Business Administration (SBA) loans. The PPP loans do not require payments until six months after funding, mature at 24 or 60 months and bear interest at 1.00%. During the years ended December 31, 2022 and 2021, the Company had approximately \$13,593,047 and \$35,810,000, respectively, of PPP loans outstanding reported in commercial loans. Management determined that the impact of deferring origination fees associated with the loans was not significant.

HOPE ENTERPRISE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 5 LOANS, NET (CONTINUED)

The composition of loans as of December 31 is as follows:

	2022	2021
Commercial Loans	\$ 159,492,212	\$ 157,948,334
Forgivable Mortgage Loans	3,611,034	3,770,671
Other Consumer Mortgage Loans	366,788	422,077
Subtotal	163,470,034	162,141,082
Allowance for Loan Losses	3,873,328	3,840,984
Total	<u>\$ 159,596,706</u>	<u>\$ 158,300,098</u>

The Company has sold loan participations to various other companies, which are secured by commercial property. These loan participations were sold without recourse and the Company performs all loan servicing functions on these loans. Loan participations sold and excluded from the commercial loan segment above, totaled approximately \$5,127,869 and \$11,439,000 at December 31, 2022 and 2021, respectively.

The allowance for loan losses is as follows:

	December 31, 2022				
	Balance - Beginning of Year	Charge-Offs	Recoveries	Provision (Credit) for Loan Losses	Balance - End of Year
Commercial	\$ 3,838,874	\$ (466,167)	\$ 18,923	\$ 480,095	\$ 3,871,725
Other Consumer Mortgage Loans	2,110	(507)	-	-	1,603
Total	<u>\$ 3,840,984</u>	<u>\$ (466,674)</u>	<u>\$ 18,923</u>	<u>\$ 480,095</u>	<u>\$ 3,873,328</u>
	December 31, 2021				
	Balance - Beginning of Year	Charge-Offs	Recoveries	Credit for Loan Losses	Balance - End of Year
Commercial	\$ 2,029,253	\$ (465,872)	\$ 173,392	\$ 2,102,101	\$ 3,838,874
Other Consumer Mortgage Loans	2,238	-	-	(128)	2,110
Total	<u>\$ 2,031,491</u>	<u>\$ (465,872)</u>	<u>\$ 173,392</u>	<u>\$ 2,101,973</u>	<u>\$ 3,840,984</u>

Because they do not represent a credit risk, management has determined that a reserve for forgivable mortgage loans is unnecessary.

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

	December 31, 2022				
	Loans		Allowance		Net
	Individually	Collectively	Individually	Collectively	
Commercial	\$ 6,112,127	\$ 153,380,085	\$ 2,226,390	\$ 1,645,335	\$ 155,620,487
Other Consumer Mortgage Loans	-	366,788	-	1,603	365,185
Total	<u>\$ 6,112,127</u>	<u>\$ 153,746,873</u>	<u>\$ 2,226,390</u>	<u>\$ 1,646,938</u>	<u>\$ 155,985,672</u>
	December 31, 2021				
	Loans		Allowance		Net
	Individually	Collectively	Individually	Collectively	
Commercial	\$ 8,178,607	\$ 149,769,727	\$ 2,144,212	\$ 1,694,662	\$ 154,109,460
Other Consumer Mortgage Loans	-	422,077	-	2,110	419,967
Total	<u>\$ 8,178,607</u>	<u>\$ 150,191,804</u>	<u>\$ 2,144,212</u>	<u>\$ 1,696,772</u>	<u>\$ 154,529,427</u>

HOPE ENTERPRISE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 5 LOANS, NET (CONTINUED)

The following tables show the commercial loan portfolio allocated by management's internal risk ratings:

	December 31, 2022				Total
	Pass Categories	Special Mention Category	Substandard Category	Doubtful Category	
Commercial Loans	\$ 152,030,424	\$ 1,349,648	\$ 6,044,286	\$ 67,854	\$ 159,492,212

	December 31, 2021				Total
	Pass Categories	Special Mention Category	Substandard Category	Doubtful Category	
Commercial Loans	\$ 151,177,387	\$ 453,178	\$ 6,237,241	\$ 80,528	\$ 157,948,334

As of December 31, 2022 and 2021, all other consumer and forgivable mortgage loans were performing.

The following tables show an aging analysis of the loan portfolio by time past due as of December 31:

	December 31, 2022				Total
	Current	Past Due 30-89 Days	Past Due Greater Than 90 Days and Accruing Interest	Nonaccrual	
Commercial Loans	\$ 157,509,718	\$ 109,330	\$ 1,873,164	\$ -	\$ 159,492,212
Forgivable Mortgage Loans	3,611,034	-	-	-	3,611,034
Other Consumer Mortgage Loans	366,788	-	-	-	366,788
Total	<u>\$ 161,487,540</u>	<u>\$ 109,330</u>	<u>\$ 1,873,164</u>	<u>\$ -</u>	<u>\$ 163,470,034</u>

	December 31, 2021				Total
	Current	Past Due 30-89 Days	Past Due Greater Than 90 Days and Accruing Interest	Nonaccrual	
Commercial Loans	\$ 149,363,232	\$ 4,088,731	\$ 4,415,843	\$ 80,528	\$ 157,948,334
Forgivable Mortgage Loans	3,770,671	-	-	-	3,770,671
Other Consumer Mortgage Loans	422,077	-	-	-	422,077
Total	<u>\$ 153,555,980</u>	<u>\$ 4,088,731</u>	<u>\$ 4,415,843</u>	<u>\$ 80,528</u>	<u>\$ 162,141,082</u>

At December 31, 2021, substantially all of the Company's delinquent loans were extended under the PPP program. Once PPP loans are 60 days past due, the Company can submit a request for guaranty purchase from the SBA. At the time of guaranty purchase, SBA will pay accrued interest through the deferment period plus up to 120 days of additional interest due to payment default.

All loans on nonaccrual were greater than 90 days delinquent. Interest income foregone on nonaccrual loans was immaterial for the years ended December 31, 2022 and 2021.

HOPE ENTERPRISE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 5 LOANS, NET (CONTINUED)

The following tables present information related to impaired loans as of December 31:

		December 31, 2022				
		Average Principal Balance	Unpaid Principal Balance	Total Loans with No Specific Allowance	Total Loans with a Specific Allowance	Specific Allowance
Commercial Loans		\$ 7,145,367	\$ 6,112,127	\$ 113,424	\$ 5,998,703	\$ 2,226,390
		December 31, 2021				
		Average Principal Balance	Unpaid Principal Balance	Total Loans with No Specific Allowance	Total Loans with a Specific Allowance	Specific Allowance
Commercial Loans		\$ 4,530,771	\$ 8,178,607	\$ 2,044,367	\$ 6,134,240	\$ 2,144,212

During 2022, the Company had no TDRs that modified the principal and interest rate of the impacted loans.

The Company does not have material commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings or whose loans are in nonaccrual.

NOTE 6 INVESTMENT IN AFFILIATED COMPANIES

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

	2022	2021
Assets:		
Cash	\$ -	\$ 392,073
Property and Equipment	-	2,843,712
Other Assets	-	17,863
Total Assets	\$ -	\$ 3,253,648
Liabilities and Members' Equity:		
Deposits	\$ -	\$ 28,267
Notes Payable to Related Entities	-	2,903,944
Retained Earnings (Deficit)	-	321,437
Total Liabilities and Members Equity	\$ -	\$ 3,253,648

HOPE ENTERPRISE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 6 INVESTMENT IN AFFILIATED COMPANIES (CONTINUED)

	<u>2022</u>	<u>2021</u>
Results of Operations:		
Revenue	\$ -	\$ 622,115
Interest Expense	-	26,124
Other Expenses	-	299,016
Net Earnings	<u>\$ -</u>	<u>\$ 296,975</u>

NOTE 7 RELATED PARTY TRANSACTIONS

Under the terms of its contractual arrangements with HFCU, 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 annual net income of more than \$240,000. HFCU and the Company share the same members of management and certain HFCU members are also borrowers from the Company and its affiliates. The Company incurred expenses of \$494,300 and \$4,415,000 relative to its obligation to reimburse certain operating expenses of HFCU in 2022 and 2021, respectively.

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 two fixed rate loans at 1.00% for \$550,000 each, both maturing in 2024, two fixed rate loans at 1.00% for \$825,000 and \$1,050,000 maturing in 2025 and 2027, two fixed rate loans at 1.00% for \$3,000,000 and \$2,000,000 maturing on January 13, 2026, three fixed rate loans at 1.00% for \$14,560,775, \$5,000,000 and \$1,500,000 maturing on December 31, 2026, a fixed rate loan at 1.00% for \$1,000,000 maturing on April 29, 2026, two fixed rate loans at 1.00% for \$3,000,000 and \$2,000,000 maturing on December 30, 2026, and one fixed rate loan at 3% for \$3,000,000 maturing on December 17, 2028. Interest income received from HFCU relative to the secondary capital loans was \$440,358 and \$153,279 for the years ended December 31, 2022 and 2021, respectively. No repayments are due on the above secondary capital loans until 2024 and thereafter.

The Company incurred \$-0- and \$3,950,000 in 2022 and 2021, 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 totaled \$-0- in 2022 and 2021. The Company had deposit accounts with HFCU as of December 31, 2022 and 2021, totaling \$20,112,099 and \$22,352,930, respectively.

HOPE ENTERPRISE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 7 RELATED PARTY TRANSACTIONS (CONTINUED)

The Company has a mortgage and note payable to HFCU with an outstanding principal balance of \$744,013 and \$760,853 at December 31, 2022 and 2021, respectively. See terms of note at Note 9.

NOTE 8 PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2022	2021
Computer Equipment	\$ 5,306,394	\$ 4,984,669
Office Equipment and Other	931,773	871,164
Buildings and Improvements	2,027,655	2,178,978
Construction in Progress	6,000	215,625
Subtotal	8,271,822	8,250,436
Less: Accumulated Depreciation	(6,261,115)	(5,850,423)
Total	\$ 2,010,707	\$ 2,400,013

NOTE 9 NOTES PAYABLE

The Company also entered into two loan facilities with banks to provide funding in amounts up to \$85,000,000 for each. The outstanding balances under these loan facilities at December 31, 2022 are \$12,040,731 and \$40,119,732, and at December 31, 2021 are \$1,646,704 and \$80,146,793. The proceeds of both facilities are to be used to provide Paycheck Protection Program Loans (see Note 5) and are secured by such outstanding loans. 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.

The Company recognized interest expense of \$44,344 and \$30,443 during 2022 and 2021, respectively, related to its mortgage and note payable to HFCU.

HOPE ENTERPRISE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 9 NOTES PAYABLE (CONTINUED)

Notes payable consist of the following as of December 31:

<u>Description</u>	<u>2022</u>	<u>2021</u>
1% Notes Payable:		
Interest Due Quarterly and Maturing from 2024 through 2034	\$ 6,999,417	\$ 6,999,417
Interest Due Quarterly and Maturing from 2025 through 2027	1,000,000	1,000,000
Interest Due Annually and Maturing from 2023 through 2030	1,800,000	1,800,000
Interest Due Quarterly and at Maturity, March 2031	5,000,000	5,000,000
1.5% Note Payable, Interest Due Quarterly and Maturing in 2026	560,775	560,775
1.5% Note Payable, Interest Due Quarterly and Maturing in 2027	141,605	-
2.4% Note Payable, Interest Due Quarterly and Maturing in 2031	2,000,000	-
Notes Payable to Banks with		
Principal and Interest Due Monthly:		
Principal and Interest Payable at 3% and Maturing in 2022	-	453,317
Principal and Interest Payable at 3% and Maturing in 2025	307,906	-
Notes Payable to Banks with Interest Due Quarterly:		
Interest Payable at 3.25% and Maturing from 2025 through 2028	1,000,000	1,000,000
0.35% Note Payable Secured by Pledged PPP Loans, Maturing as the Pledged Loans Mature	12,040,731	39,599,720
1.35% Note Payable with Interest Due Monthly, Maturing in 2024	999,944	999,944

HOPE ENTERPRISE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 9 NOTES PAYABLE (CONTINUED)

<u>Description</u>	<u>2022</u>	<u>2021</u>
2% Note Payable:		
Interest Due Quarterly and Maturing from 2031 to 2033	\$ 5,000,000	\$ 5,000,000
Interest Due Semi-Annually and Maturing in 2026	3,000,000	3,000,000
Interest Due Quarterly and Maturing in 2027	1,500,000	-
3% Notes Payable:		
Interest Due Quarterly and Maturing in 2022	-	1,000,000
Interest Due Quarterly and Maturing in 2026	4,000,000	4,000,000
Interest Due Quarterly and Maturing in 2028	3,000,000	3,000,000
Interest Due Quarterly and Maturing in 2030	10,000,000	10,000,000
4.75% Mortgage Payable to HFCU with Monthly Installments of \$5,099, Including Interest at Prime Plus 1.5%, Payable Until Final Balloon in February 2031	744,013	760,853
Note Payable to Nonprofit Foundation Bearing Interest at 2% with Interest Due Quarterly, Maturing in 2026	250,000	250,000
Note Payable to Nonprofit Foundation Bearing Interest at 2% with Interest Due Quarterly and Maturing from 2026 through 2028	752,000	752,000
Interest Free Notes Payable:		
Nonprofit Foundation Maturing in 2024	400,000	400,000
Nonprofit Foundation Maturing in 2025	250,000	250,000
Maturing in 2022 Secured by Pledged PPP Loans	-	520,012
Other Notes Payable, with Interest at 1% to 2.5%	110,000	110,000
2% Line of Credit with Interest Due Quarterly, Maturing in 2029	5,000,000	-
3% Line of Credit with Interest Due Monthly, Maturing in 2026	-	2,000,000
Total Notes Payable	<u>\$ 65,856,391</u>	<u>\$ 88,456,038</u>

All notes payable without collateral described above represent unsecured notes.

Notes payable maturities at December 31, 2022, are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2023	\$ 12,311,866
2024	2,590,871
2025	814,757
2026	9,367,385
2027	2,424,717
Thereafter	38,346,795
Total	<u>\$ 65,856,391</u>

HOPE ENTERPRISE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 10 NET ASSETS

Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following as of December 31:

	<u>2022</u>	<u>2021</u>
Net Assets Subject to Expenditures for Specified Purpose:		
Development Finance Activities	\$ 16,024,218	\$ 16,871,662
Housing Initiative Activities	369,500	83,900
Other Program Activities	387,833	81,725
Subtotal	<u>16,781,551</u>	<u>17,037,287</u>
Net Assets Subject to Passage of Time:		
For Periods after December 31	40,000	60,000
Net Assets to be Maintained in Perpetuity:		
Revolving Loan Funds	692,512	692,512
Total Net Assets with Donor Restrictions	<u>\$ 17,514,063</u>	<u>\$ 17,789,799</u>

Noncontrolling Interests

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 19 additional New Market Tax Credit entities 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 2022 and 2021. Dividends in arrears relative to the ECDI Class A units totaled \$114,775 at December 31, 2022 and 2021.

HOPE ENTERPRISE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 10 NET ASSETS (CONTINUED)

Noncontrolling Interests (Continued)

The changes in noncontrolling interest are as follows:

	Balance - January 1, 2022	Equity Investment	Dividends Paid	Net Earnings (Loss)	Balance - December 31, 2022
ECD Investments Consolidated	\$ (400,112)	\$ -	\$ -	\$ (5,371)	\$ (405,483)
ECD Associates Consolidated	1,178,967	-	(27,928)	8,043	1,159,082
Hope New Markets 5	3,654,085	-	(98,173)	(24,998)	3,530,914
Hope New Markets 6	10,794,083	-	-	52,581	10,846,664
Hope New Markets 7	7,721,228	-	(77,592)	77,592	7,721,228
Hope New Markets 8	7,699,606	-	(217,783)	217,784	7,699,607
Hope New Markets 9	8,686,378	-	(310,237)	310,236	8,686,377
Hope New Markets 10	7,779,327	-	(212,399)	212,398	7,779,326
Hope New Markets 11	8,448,859	-	(3,468)	50,373	8,495,764
Hope New Markets 12	9,659,238	-	(81,333)	81,357	9,659,262
Hope New Markets 13	7,690,838	-	(96,390)	96,390	7,690,838
Hope New Markets 14	6,694,622	-	(59,791)	59,790	6,694,621
Hope New Markets 15	13,387,896	-	(100,790)	100,790	13,387,896
Hope New Markets 16	6,688,181	-	(50,652)	50,653	6,688,182
Hope New Markets 17	9,661,974	-	(96,240)	96,240	9,661,974
Hope New Markets 18	-	7,000,000	(29,341)	(214,744)	6,755,915
Hope New Markets 19	-	14,000,000	(80,716)	(407,135)	13,512,149
Hope New Markets 20	-	8,000,000	(45,115)	(225,640)	7,729,245
Hope New Markets 21	-	6,000,000	-	-	6,000,000
Total	<u>\$ 109,345,170</u>	<u>\$ 35,000,000</u>	<u>\$ (1,587,948)</u>	<u>\$ 536,339</u>	<u>\$ 143,293,561</u>

	Balance - January 1, 2021	Equity Investment	Dividends Paid	Net Earnings (Loss)	Balance - December 31, 2021
ECD Investments Consolidated	\$ (367,467)	\$ -	\$ -	\$ (32,645)	\$ (400,112)
ECD Associates Consolidated	1,208,767	-	(82,223)	52,423	1,178,967
Hope New Markets 5	5,741,702	-	(98,174)	(1,989,443)	3,654,085
Hope New Markets 6	10,721,241	-	-	72,842	10,794,083
Hope New Markets 7	7,721,228	-	(77,592)	77,592	7,721,228
Hope New Markets 8	7,699,605	-	(217,783)	217,784	7,699,606
Hope New Markets 9	8,712,231	-	(336,090)	310,237	8,686,378
Hope New Markets 10	7,779,327	-	(212,399)	212,399	7,779,327
Hope New Markets 11	8,403,408	-	-	45,451	8,448,859
Hope New Markets 12	9,659,227	-	(81,333)	81,344	9,659,238
Hope New Markets 13	7,690,838	-	(96,390)	96,390	7,690,838
Hope New Markets 14	6,694,622	-	(59,791)	59,791	6,694,622
Hope New Markets 15	13,387,896	-	(100,790)	100,790	13,387,896
Hope New Markets 16	6,688,180	-	(50,652)	50,653	6,688,181
Hope New Markets 17	9,661,974	-	(96,240)	96,240	9,661,974
Total	<u>\$ 111,402,779</u>	<u>\$ -</u>	<u>\$ (1,509,457)</u>	<u>\$ (548,152)</u>	<u>\$ 109,345,170</u>

HOPE ENTERPRISE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 11 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, are comprised of the following:

	<u>2022</u>	<u>2021</u>
Cash and Cash Equivalents	\$ 36,596,423	\$ 20,884,637
Grants Receivables	677,500	460,388
Investment Securities	28,147,278	30,454,638
Loans Receivable	724,229	632,615
Loan Guarantees Receivable from SBA	6,488,902	35,735,697
Interest Receivable	<u>468,840</u>	<u>108,190</u>
Financial Assets, at Year End	73,103,172	88,276,165
Less: Those Not Available for General Expenditures within One Year, Due to:		
Restricted by Donors	(17,514,063)	(17,789,799)
Lines of Credit Secured by		
Loan Guarantees Receivable from SBA	<u>(6,488,902)</u>	<u>(35,735,697)</u>
Financial Assets Available to Meet Cash Needs for General Expenditure within One Year	<u>\$ 49,100,207</u>	<u>\$ 34,750,669</u>

The Company's liquidity management policy has structured its financial assets to be available for its general expenditures and other obligations that come due. The Company invests cash in excess of daily requirements in short-term investments. In the event of an unanticipated liquidity need, the Company also could draw upon available loan facilities as discussed in Note 9.

NOTE 12 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 \$94,937 in 2022 and \$131,719 in 2021.

NOTE 13 COMMITMENTS AND CONTINGENCIES

Off-Consolidated Statement of Financial Condition Activities

The Company is a party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its customers. These commitments represent financial instruments to extend credit that involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the consolidated financial statements.

The Company's exposure to credit loss is represented by the contractual notional amount of these instruments. The Company uses the same credit policies in making commitments as it does for those loans recorded in the consolidated financial statements.

HOPE ENTERPRISE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 13 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Off-Consolidated Statement of Financial Condition Activities (Continued)

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 \$4,102,000 and \$6,658,000 at December 31, 2022 and 2021, respectively.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies but may include consumer assets, residential real estate, commercial real estate, and member share balances.

Unfunded commitments under revolving credit lines are commitments for possible future extensions of credit to existing members. These lines-of-credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed.

Credit Enhancement Loans

As of December 31, 2022, HFCU has loans outstanding that are partially collateralized by credit enhancement guarantees from the Company through a charter school credit enhancement program. Total credit enhancement guarantees from the Company for these loans aggregated approximately \$11,276,000 and \$11,520,000 as of December 31, 2022 and 2021, respectively.

Deferred Compensation Plan

The Company has an executive employment agreement with its principal executive which entitles the principal executive to receive certain benefits based upon years of service and attainment of certain incentives. The Company accrued a liability for past services relative to this deferred compensation arrangement, which was \$657,994 and \$440,133 as of December 31, 2022 and 2021, respectively.

Concentrations

Contributions totaling \$5,633,457 and \$7,520,750 were received from three donors and two donors in the years ended December 31, 2022 and 2021, respectively, representing 38% and 25% of total revenue, respectively. Should these contribution levels decrease, the Company may be adversely affected.

**HOPE ENTERPRISE CORPORATION
ECD ASSOCIATES, LLC
CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2022
(SEE INDEPENDENT AUDITORS' REPORT)**

NOTE 14 FUNCTIONAL CLASSIFICATION OF EXPENSES

A summary of 2022 expenses summarized by functional and natural classification follows. Costs are either charged directly to program activities or supporting services based on specific identification or are allocated among the programs and supporting services benefited. The expenses that are allocated include office supplies, telephone and utilities expense, which are allocated on the basis of time and effort incurred for program activities compared to time and effort incurred for supporting services.

	Program Activities					Supporting Services			Total Expenses
	Development Finance	Housing Initiative	Policy and Advocacy	Other Programs	Programs Total	General and Administration	Fundraising and Communication	Supporting Total	
Salaries, Employee Taxes, and Benefits	\$ 574,285	\$ 60,323	\$ 466,300	\$ 794,392	\$ 1,895,300	\$ 2,331,114	\$ 352,547	\$ 2,683,661	\$ 4,578,961
Bank Fees	16,116	-	-	-	16,116	23,232	-	23,232	39,348
Conferences and Employee Training	4,043	17	48,037	17,926	70,023	27,260	2,048	29,308	99,331
Contractual Services	847,767	97	49,481	1,522,540	2,419,885	525,855	14,540	540,395	2,960,280
Dues, Fees, and Memberships	7,733	499	34,289	46,724	89,245	72,626	3,999	76,625	165,870
Equipment, Furniture, and Fixtures	116,120	8,002	56,740	94,337	275,199	383,417	48,130	431,547	706,746
Forgiveness of Mortgage Loan Debt	219,386	400,751	-	-	620,137	-	-	-	620,137
HFCU Operational Support	494,300	-	-	-	494,300	-	-	-	494,300
Insurance	-	-	-	-	-	232,496	-	232,496	232,496
Miscellaneous	165,827	167	2,175	5,073	173,242	176,017	1,593	177,610	350,852
Office Supplies	14,270	520	11,572	380,137	406,499	66,835	10,324	77,159	483,658
Pass Through Grants	460,699	-	-	234,699	695,398	75,000	-	75,000	770,398
Professional Fees	70,241	-	-	42,744	112,985	223,786	4,750	228,536	341,521
Rent and Employee Parking	258	-	13	108	379	45	12	57	436
Repairs and Maintenance	9,622	257	915	4,596	15,390	77,183	918	78,101	93,491
Service Fees	69,006	57,595	12,712	28,267	167,580	215,891	5,302	221,193	388,773
Staff Recruitment and Relocation	33,000	-	-	-	33,000	-	-	-	33,000
Telephone and Utilities	50,371	4,697	40,010	65,726	160,804	171,494	30,558	202,052	362,856
Travel	44,066	287	25,273	75,844	145,470	137,584	11,592	149,176	294,646
Interest	142,808	-	-	-	142,808	963,612	-	963,612	1,106,420
Provision for Loan Losses	480,601	(507)	-	-	480,094	-	-	-	480,094
Depreciation and Amortization	-	-	-	-	-	410,693	-	410,693	410,693
Lease Expense	-	-	-	-	-	86,052	-	86,052	86,052
Total	\$ 3,820,519	\$ 532,705	\$ 747,517	\$ 3,313,113	\$ 8,413,854	\$ 6,200,192	\$ 486,313	\$ 6,686,505	\$ 15,100,359

**HOPE ENTERPRISE CORPORATION
ECD ASSOCIATES, LLC
CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2022
(SEE INDEPENDENT AUDITORS' REPORT)**

NOTE 14 FUNCTIONAL CLASSIFICATION OF EXPENSES (CONTINUED)

A summary of 2021 expenses summarized by functional and natural classification follows.

	Program Activities					Supporting Services			Total Expenses
	Development Finance	Housing Initiative	Policy and Advocacy	Other Programs	Programs Total	General and Administration	Fundraising and Communication	Supporting Total	
Salaries, Employee Taxes, and Benefits	\$ 1,653,950	\$ 8,896	\$ 487,250	\$ 681,304	\$ 2,831,400	\$ 2,333,579	\$ 362,647	\$ 2,696,226	\$ 5,527,626
Bank Fees	18,332	-	-	-	18,332	20,310	-	20,310	38,642
Conferences and Employee Training	504	350	1,686	2,291	4,831	7,556	425	7,981	12,812
Contractual Services	870,512	5	96,787	466,048	1,433,352	2,007,864	15,669	2,023,533	3,456,885
Dues, Fees, and Memberships	9,513	1,293	11,534	14,880	37,220	46,051	6,064	52,115	89,335
Equipment, Furniture, and Fixtures	188,413	1,443	81,910	114,885	386,651	508,357	65,781	574,138	960,789
Forgiveness of Mortgage Loan Debt	210,220	391,291	-	-	601,511	-	-	-	601,511
HFCU Operational Support	4,441,500	-	-	-	4,441,500	-	-	-	4,441,500
Insurance	20,303	-	-	-	20,303	90,223	-	90,223	110,526
Miscellaneous	410,895	1,599	109,049	53,669	575,212	287,441	7,806	295,247	870,459
Office Supplies	15,596	117	7,194	17,258	40,165	45,802	4,734	50,536	90,701
Pass Through Grants	4,197,213	-	-	341,313	4,538,526	1,237,500	-	1,237,500	5,776,026
Professional Fees	289	4	1,125	1,247	2,665	17,666	291	17,957	20,622
Rent and Employee Parking	17,054	12	796	6,714	24,576	2,989	636	3,625	28,201
Repairs and Maintenance	38,952	242	13,876	31,006	84,076	47,880	9,831	57,711	141,787
Service Fees	16,227	68,318	-	-	84,545	-	-	-	84,545
Staff Recruitment and Relocation	-	-	-	-	-	1,577	-	1,577	1,577
Telephone and Utilities	151,310	1,453	-	100,423	253,186	250,969	53,843	304,812	557,998
Travel	43,933	349	73,626	7,975	125,883	47,951	3,237	51,188	177,071
Interest	292,263	-	128	-	292,391	661,297	-	661,297	953,688
Provision for Loan Losses	2,102,100	(127)	-	-	2,101,973	-	-	-	2,101,973
Depreciation and Amortization	-	-	-	-	-	320,207	-	320,207	320,207
Total	\$ 14,699,079	\$ 475,245	\$ 884,961	\$ 1,839,013	\$ 17,898,298	\$ 7,935,219	\$ 530,964	\$ 8,466,183	\$ 26,364,481



**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***

Supervisory Committee and 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 financial statements of Hope Enterprise Corporation, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Hope Enterprise Corporation's basic financial statements, and have issued our report thereon dated March 31, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hope Enterprise Corporation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hope Enterprise Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Hope Enterprise Corporation'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 or significant deficiencies.

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Dallas, Texas
March 31, 2023



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE,
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Hope Enterprise Corporation
Jackson, Mississippi

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Hope Enterprise Corporation's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Hope Enterprise Corporation's major federal programs for the year ended December 31, 2022. Hope Enterprise Corporation's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Hope Enterprise Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Hope Enterprise Corporation and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Hope Enterprise Corporation's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Hope Enterprise Corporation's federal programs.

Auditors' Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control Over Compliance

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

Board of Directors
Hope Enterprise Corporation

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

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Hope Enterprise Corporation as of and for the year ended December 31, 2022, and have issued our report thereon dated March 31, 2023, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.


CliftonLarsonAllen LLP

Dallas, Texas
June 8, 2023

**HOPE ENTERPRISE CORPORATION
STATEMENT OF FINANCIAL POSITION – NEIGHBORWORKS AMERICA FUNDS
DECEMBER 31, 2022**

ASSETS

Loans Receivable	\$ <u> -</u>
Total Assets	\$ <u><u> -</u></u>

LIABILITIES AND NET ASSETS

NET ASSETS	
With Donor Restrictions	<u> -</u>
Total Net Assets	\$ <u><u> -</u></u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

HOPE ENTERPRISE CORPORATION
STATEMENT OF ACTIVITIES – NEIGHBORWORKS AMERICA FUNDS
YEAR ENDED DECEMBER 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND GAINS			
Expendable Grants	\$ 668,500	\$ -	\$ 668,500
Net Assets Released from Restrictions:			
Transfer from Changes in Program Restrictions	-	-	-
Total Revenues and Gains	668,500	-	668,500
EXPENSES			
Other Programs	668,500	-	668,500
Total Expenses	668,500	-	668,500
CHANGE IN NET ASSETS	-	-	-
Net Assets - Beginning of Year	-	-	-
NET ASSETS - END OF YEAR	\$ -	\$ -	\$ -

See accompanying Notes to Schedule of Expenditures of Federal Awards.

HOPE ENTERPRISE CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2022

Federal Grantor/Program Title	Federal CFDA Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of the Treasury			
NeighborWorks America	21.116	\$ -	\$ 668,500
Community Development Financial Institutions Program - Rapid Response Program	21.024	-	1,000,000
Community Development Financial Institutions Program	21.020	-	766,530
Coronavirus State and Local Fiscal Recovery Funds	21.027	-	170,000
Total U.S. Department of the Treasury			<u>2,605,030</u>
U.S. Department of Education			
Credit Enhancement for Charter School Facilities Program	84.354	-	54,104
Total U.S. Department of Education			<u>54,104</u>
U.S. Department of Agriculture			
Rural Housing Preservation Grants	10.433	-	99,370
Total U.S. Department of Agriculture			<u>99,370</u>
Total Expenditures of Federal Awards			<u>\$ 2,758,504</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

HOPE ENTERPRISE CORPORATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2022

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal activity of Hope Enterprise Corporation under programs of the federal government for the year ended December 31, 2022. The information in the Schedule is presented in accordance with the requirements of 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Hope Enterprise Corporation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Hope Enterprise Corporation.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained the in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Company has chosen not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance. The Company did not contract any federal loans, loan guarantees and did not receive federal noncash assistance.

NOTE 3 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 capital funds grants. During 2022 and 2021, the Company was awarded NeighborWorks America capital funds grants totaling \$559,000 and \$375,000, 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, all were considered expendable grants and no amounts were received with donor restrictions. The unexpended portion of donor-restricted grants relates to grant funds held in perpetuity and amounted to \$-0- at December 31, 2022 and 2021. As of December 31, 2022, the Company was in compliance with the bonding and insurance requirements of the grant agreement.

NOTE 4 SUBRECIPIENTS

The Company did not provide any federal awards to subrecipients during the year ended December 31, 2022.

NOTE 5 NONCASH ASSISTANCE

The Company did not receive any federal assistance in noncash form during the year ended December 31, 2022.

**HOPE ENTERPRISE CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2022**

Section I – Summary of Auditors’ Results

Financial Statements

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? _____ yes x no
 - Significant deficiency(ies) identified? _____ yes x none reported
3. Noncompliance material to financial statements noted? _____ yes x no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? _____ yes x no
 - Significant deficiency(ies) identified? _____ yes x none reported
2. Type of auditors’ report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR Part 200, Uniform Administrative Requirements, Cost Principals, and Audit Requirements for Federal Award? _____ yes x no

Identification of Major Federal Programs

Assistance Listing Number(s) (ALN)	Name of Federal Program or Cluster
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21.020

Community Development Financial Institutions Program

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

 x yes _____ no

**HOPE ENTERPRISE CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2022**

Section II – Financial Statement Findings

None.

Section III – Findings and Questioned Costs – Federal Awards

None.

Section IV – Prior Year Findings and Questioned Costs Relating to Financial Statement

2021 – 001

Type of Finding:

- Significant Deficiency in Internal Control over Financial Reporting

Condition: During audit testing of commercial loans, CLA noted exceptions in commercial credit files.

Status: Fully corrected.

Section V – Prior Year Findings and Questioned Costs Relating to Federal Awards

None.