Management Discussion and Analysis

Independent Auditors' Report
Hope Enterprise Corporation (HEC) received an unmodified, or "clean" audit for FY 2018. The auditors' report refers to matters disclosed in 2016 and 2017 related to investments in Quitman Investment Fund II (Quitman) and Hickory Holdings, LLC, made by ECD New Markets 4, LLC and ECD NM 5, LLC, two HEC New Market Tax Credit (NMTC) entities. These entities have incurred recurring operating losses, and in 2016 the Quitman subsidiary terminated its agreement with the entity that was its primary source of revenue. Because of its de minimis ownership position in the entities, HEC's financial exposure was limited to approximately $1,900, and these transactions do not negatively affect HEC's operations going forward.

Balance Sheet Analysis
HEC's total assets stood at $152.6 million at December 31, 2018, up $27.5 million from December 31, 2017. This change is primarily the result of $34.0 million in transactions carried out by four HEC New Markets Tax Credit entities in 2018 and the $8.8 million distribution of assets for ECD NM, 3,LLC.The effect of these transactions on HEC's net worth position as a percentage of total assets is detailed in the following schedule:

	2018	2017
Unrestricted	4.3%	8.2%
Non-controlling interests	57.8%	51.5%
Total unrestricted	62.1%	59.7%
With Donor Restrictions	19.2%	19.8%
Total net assets	**81.3%**	**79.4%**

As detailed in the following schedule, the vast majority of HEC's assets are tied up in some form of loan, investment, or property that resulted from a loan:

	2018	2017
Loans receivable – net of allowance for loan losses	$96,172,296	$78,179,747
Loan guarantees receivable	119,139	139,032
Investments in affiliated companies	1,036,558	1,036,558
Investment in secondary capital of HCU	12,475,000	12,475,000
Foreclosed property	132,520	132,520
Total	**$109,935,513**	**$91,962,857**
Percent of total assets	**72%**	**74%**

Notes payable rose from $23.5 million at December 31, 2017 to $25.4 million at December 31, 2018. an increase of $1.9 million.

Earnings Analysis
Total revenue for 2018 was $16.3 million as compared to $21.4 million for 2017, and expenses were $16.3 million in 2018 as compared to $26.8 million for 2017. Equity in losses of affiliated companies was $0 in 2018 as compared to $5.7 million in 2017. Non-controlling interests in subsidiaries' losses decreased from

$14.4 million in 2017 to $354,000 in 2018 with the change in net assets attributable to controlling interest decreasing from $3.0 million in 2017 to $875,000 in 2018.

With regard to earned revenue, differences between 2018 and 2017 are summarized in the following schedule:

	2018	2017
Interest, dividends and related fees:		
Loans and other investments	$724,460	$1,648,571
Debt securities and cash equivalents	527,945	329,791
Gain (loss) on sale of assets and investments	(60,126)	(82,320)
Contract services revenues	1,892,274	1,149,864
Total earned revenue	**$3,084,553**	**$3,045,806**

The decrease in interest and related fees from loans is due to the fact that $8.8 million in NMTC loans were distributed to the investor the first quarter, and approximately $27 million in NMTC loans did not close until the last quarter. The increase in contract services revenue is almost wholly the result of fees generated from New Markets Tax Credit related transactions.

Alan Branson
Chief Financial Officer

William Bynum
Chief Executive Officer

Hope Enterprise Corporation

CONSOLIDATED FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

Years Ended December 31, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Hope Enterprise Corporation and entities under its control ("the Company"), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities and of cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified opinion on the 2018 consolidated financial statements and our qualified opinion on the 2017 consolidated financial statements.

Basis for 2017 Qualified Opinion

Consolidated subsidiaries of the Company hold a loan receivable from Quitman Investment Fund II (Quitman), and an investment accounted for on the equity method, Hickory Holdings, LLC, which is related to and, through a subsidiary, leases equipment to a subsidiary of Quitman. These entities have incurred recurring operating losses, and, further, in 2016 the Quitman subsidiary terminated its agreement with the entity which was its primary source of revenue. As a result, the Company's loan receivable is considered collateral dependent, and the Company is unable to provide sufficient audit evidence related to the fair value of that collateral. Similarly, the Company is unable to provide sufficient audit evidence related to any potential impairment of the equity method investment it holds in Hickory Holdings, LLC. The loan receivable, net of the related allowance for loan losses, and the equity method investment had no remaining net basis in the Company's 2017 consolidated statement of financial position. However, we were unable to determine whether any adjustments to the 2016 statement of financial position were necessary. Any such adjustments would directly impact the 2017 consolidated statement of activities. The 2017 consolidated statement of activities includes a provision for loan loss of $8.2 million related to this loan and a charge of $5.7 million for the Company's share of Hickory Holdings, LLC's losses recorded in 2017. Had the outcome of the uncertainties regarding the carrying value of the loan and equity investment referred to above been known, up to $13.9 million of losses included in the 2017 consolidated statement of activities may have been reflected in the 2016 consolidated statement of activities, along with a corresponding reduction in asset carrying values in the 2016 consolidated statement of financial position.

Unmodified Opinion on 2018 and Qualified Opinion on 2017

In our opinion, except for the possible effects on the 2017 consolidated financial statements of the matters described in the Basis for 2017 Qualified Opinion paragraph, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Hope Enterprise Corporation and entities under its control as of December 31, 2018 and 2017, and the changes in their consolidated net assets and their consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our 2018 audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Schedules 1 - 6 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the 2018 consolidated financial statements as a whole.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, management has adopted Financial Accounting Standards Board ASU 2016-14 *Not-for-Profit Entities* (Topic 958); this new standard requires changes to be made in how net assets are classified based on donor restrictions and has added multiple new disclosures. Our opinion is not modified with respect to that matter.

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

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi
July 1, 2019

December 31,	**2018**	2017
Assets		
Cash and cash equivalents	**$ 11,369,898**	$ 10,259,725
Restricted cash	**5,124,098**	1,390
Grants receivable	**13,650,672**	11,228,543
Contract revenue receivable	**272,218**	166,105
Consumer mortgage loans held for sale	**503,354**	534,305
Loans receivable - net of allowance for loan losses of approximately $2,497,000 (2018) and $12,303,000 (2017)	**96,172,296**	78,179,747
Loan guarantees receivable from Small Business Administration	**119,139**	139,032
Investment securities	**8,147,855**	7,865,604
Investment in affiliated companies	**1,036,558**	1,036,558
Investment in secondary capital of Hope Federal Credit Union	**12,475,000**	12,475,000
Property and equipment, net	**2,486,929**	2,473,583
Foreclosed property	**132,520**	132,520
Other assets	**636,874**	620,255
Total assets	**$ 152,127,411**	$ 125,112,367
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 1,778,878**	$ 1,330,206
Funds held in escrow	**21,522**	21,521
Payable to Hope Federal Credit Union	**1,278,425**	866,648
Notes payable	**25,425,528**	23,474,898
Total liabilities	**28,504,353**	25,693,273
Commitments and contingencies (Note 5, 11, 12 and 14)		
Net assets:		
Without donor restrictions	**6,133,130**	10,334,706
Non-controlling interests (Note 12)	**88,252,979**	64,427,517
Total without donor restrictions	**94,386,109**	74,762,223
With donor restrictions	**29,236,949**	24,656,871
Total net assets	**123,623,058**	99,419,094
Total liabilities and net assets	**$ 152,127,411**	$ 125,112,367

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

Year ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and gains			
Grants and contributions	$ 4,813,414	$ 7,947,539	$ 12,760,953
In-kind contributions	495,198	-	495,198
Interest, dividends and related fees:			
Loans and other investments	724,460	-	724,460
Investment securities and cash equivalents	527,945	-	527,945
Net realized and unrealized losses on investment securities	(26,841)	-	(26,841)
Less: Investment expenses	(12,187)	-	(12,187)
Loss on sale of assets	(21,078)	-	(21,078)
Contract services revenue	1,892,274	-	1,892,274
	8,393,185	7,947,539	16,340,724
Net assets released from restrictions:			
Satisfaction of program restrictions	3,045,733	(3,045,733)	-
Expiration of time restrictions	20,000	(20,000)	-
Transfers from changes in program restrictions	301,728	(301,728)	-
Total revenues and gains	11,760,646	4,580,078	16,340,724
Expenses			
Program expenses:			
Development finance	8,333,126	-	8,333,126
Housing initiative	926,750	-	926,750
Policy and advocacy	438,949	-	438,949
Other programs	1,456,672	-	1,456,672
	11,155,497	-	11,155,497
Supporting services:			
General and administration expense	3,701,088	-	3,701,088
Fund-raising and communication	1,459,574	-	1,459,574
Total expenses	16,316,159	-	16,316,159
Change in net assets before non-controlling interest	(4,555,513)	4,580,078	24,565
Non-controlling interests in subsidiaries' net loss	353,937	-	353,937
Change in net assets attributable to controlling interest	(4,201,576)	4,580,078	378,502
Net assets attributable to controlling interests:			
At beginning of year	10,334,706	24,656,871	34,991,577
At end of year	6,133,130	29,236,949	35,370,079
Net assets of non-controlling interests (Note 12)	88,252,979	-	88,252,979
Total net assets at end of year	$ 94,386,109	$ 29,236,949	$ 123,623,058

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

Year ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and gains			
Grants and contributions	$ 6,378,091	$ 11,633,874	$ 18,011,965
In-kind contributions	298,597	-	298,597
Interest, dividends and related fees:			
Loans and other investments	1,648,571	-	1,648,571
Investment securities and cash equivalents	329,791	-	329,791
Net realized and unrealized losses on investment securities	(44,536)	-	(44,536)
Less: Investment expenses	(16,376)	-	(16,376)
Loss on sale of assets	(21,408)	-	(21,408)
Contract services revenue	1,149,864	-	1,149,864
	9,722,594	11,633,874	21,356,468
Net assets released from restrictions:			
Satisfaction of program restrictions	8,188,460	(8,188,460)	-
Expiration of time restrictions	20,000	(20,000)	-
Transfers from changes in program restrictions	431,040	(431,040)	-
Total revenues and gains	18,362,094	2,994,374	21,356,468
Expenses			
Program expenses:			
Development finance	14,783,989	-	14,783,989
Housing initiative	926,749	-	926,749
Policy and advocacy	705,298	-	705,298
Other programs	5,895,749	-	5,895,749
	22,311,785	-	22,311,785
Supporting services:			
General and administration expense	2,858,658	-	2,858,658
Fund-raising and communication	1,604,256	-	1,604,256
Total expenses	26,774,699	-	26,774,699
Equity in loss of affiliated company	(5,720,489)	-	(5,720,489)
Change in net assets before non-controlling interest	(14,133,094)	2,994,374	(11,138,720)
Non-controlling interests in subsidiaries' net loss	14,100,648	-	14,100,648
Change in net assets attributable to controlling interest	(32,446)	2,994,374	2,961,928
Net assets attributable to controlling interests:			
At beginning of year	10,367,152	21,662,497	32,029,649
At end of year	10,334,706	24,656,871	34,991,577
Net assets of non-controlling interests (Note 12)	64,427,517	-	64,427,517
Total net assets at end of year	$ 74,762,223	$ 24,656,871	$ 99,419,094

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

Consolidated Statements of Cash Flows

Years ended December 31,		2018		2017
Operating activities				
Change in net assets attributable to controlling interests	$	**378,502**	$	2,961,928
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Non-controlling interests in subsidiaries' loss		**(353,937)**		(14,100,648)
Depreciation and amortization		**445,606**		386,406
Loss on sale of assets		**21,078**		21,408
Provision for loan losses		**1,490,863**		8,872,459
Forgiveness of mortgage loan debt		**693,470**		740,814
Equity in loss in excess of cash distribution from affiliate		-		5,720,489
Impairment losses on foreclosed property		-		59,336
Realized and unrealized loss on investments		**26,841**		44,536
Proceeds from sales of mortgage loans held for sale		-		138,485
Changes in operating assets and liabilities:				
Contract revenue receivable		**(106,113)**		15,554
Grants receivable		**(2,422,129)**		(6,399,141)
Other receivables and prepaid expenses		**3,274**		1,082,889
Accounts payable and other liabilities		**860,449**		1,187,628
Net cash provided by operating activities		**1,037,904**		732,143
Investing activities				
Net increase in loans held for investment		**(28,942,014)**		(31,954,548)
Purchase of investments		**(1,984,003)**		(1,774,267)
Proceeds from maturities and sales of investments		**1,651,496**		1,825,672
Decrease (increase) in restricted cash		**(5,122,708)**		4,998,779
Issuance of of secondary capital loan		-		(1,500,000)
Proceeds from repayment of secondary capital loans		-		750,000
Proceeds from sales of foreclosed property		-		251,831
Purchase of property and equipment		**(435,531)**		(725,850)
Net cash used in investing activities		**(34,832,760)**		(28,128,383)
Financing activities				
Capital contributions from non-controlling interests		**34,000,000**		31,000,000
Cash dividends paid to non-controlling interests		**(1,045,601)**		(958,180)
Long-term borrowings		**3,750,000**		3,101,299
Payments on long-term borrowings		**(1,799,370)**		(4,401,960)
Net cash provided by financing activities		**34,905,029**		28,741,159
Net increase in cash and cash equivalents		**1,110,173**		1,344,919
Cash and cash equivalents, beginning of year		**10,259,725**		8,914,806
Cash and cash equivalents, end of year	$	**11,369,898**	$	10,259,725
Supplemental disclosure of noncash investing and financing activities:				
Transfer of loan to non-controlling interests	$	**8,775,000**	$	-
Property received upon foreclosure on loans	$	-	$	182,000

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

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

Description of the Company

Hope Enterprise Corporation (the "Company") is a not-for-profit development financial corporation primarily serving 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.

Basis of Presentation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and include the accounts of the Company and entities under its control which include, ECD Investments, LLC (ECDI), ECD Investments BIDCO, Inc. (BIDCO), Home Again, Inc. (Home Again), 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 and owns the corporate stock of BIDCO. The purpose of ECDI and BIDCO is the same as that of the Company. Home Again is a non-profit organization in which the Company serves as the primary sponsor and also controls the Board of Directors. Home Again provides mortgage financing and recovery consultation services to eligible people in the coastal region of Mississippi in the aftermath of Hurricane Katrina and other distressed communities throughout the mid-south.

There are also seventeen additional limited liability companies included in the consolidated financial statements of the Company. The Company serves as the Managing Member of all seventeen 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 fifteen 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 CDE operating agreements.

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

Although not included in the consolidated financial statements, the Company is also the primary sponsor of HFCU. Under the terms of its contractual arrangements, the Company has agreed to reimburse HFCU for certain operating expenses and losses incurred on loans considered to be higher risk than typically underwritten by regulated financial institutions such as HFCU. Such obligations are limited so as to not provide HFCU with 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 net assets of the Company are reported in two categories of net assets, net assets without donor restrictions or with donor restrictions. Net assets with donor restrictions are created by donor-imposed restrictions on their use, subject to passage of time, or required to be maintained in perpetuity. All other net assets are legally unrestricted and are therefore reported as without donor restrictions.

In connection with the preparation of the consolidated financial statements, management of the Company evaluated subsequent events through July 1, 2019, which was the date the consolidated financial statements were available to be issued.

Fair Value Measurements

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

Level 1 Valuations based on unadjusted quoted prices for identical assets in active markets accessible at the measurement date.

Level 2 Valuations derived 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.

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

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

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

Cash Equivalents

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

At December 31, 2018, 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 that may only be used for specified purposes and not for general corporate matters. Interest income on these funds is included in revenue.

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 not recognized until they become

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

unconditional, which is when the future event on which they depend has occurred. Management considers all grants and contributions receivable to be fully collectible and therefore no allowance for uncollectible amounts is necessary.

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.

Consumer Mortgage Loans Held-for-Sale

Mortgage loans held-for-sale are carried at the lower of aggregate cost or fair value and are primarily fixed-rate single-family residential loans originated and held under contract to be sold in the secondary market to a permanent investor. Such loans are generally sold within 30 days and mortgage servicing rights are released at point of sale. Although investors have limited recourse to return a purchased loan, no such returns occurred in 2018 or 2017. All mortgage loans are collateralized by the related residence of the borrower. Net unrealized losses, if any, are recognized through a valuation allowance by a charge to expense. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Loans Receivable

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

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

net amount of nonrefundable loan origination fees and direct costs associated with the lending process is deferred and accreted to interest income over the life of the loans using a method that approximates the interest method.

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

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

At December 31, 2018, the Company had 1 other business asset loans classified as TDRs which totaled approximately $19,000. At December 31, 2017, the Company had 4 commercial real estate loans and 2 other business asset loans classified as TDRs which totaled approximately $172,000. For these TDRs, the Company had a related loan loss allowance of approximately $19,000 and $113,000 at December 31, 2018 and 2017, respectively. These loans were modified by changing certain interest terms. No accrued interest was forgiven in 2018 or 2017. There were no specific charge-offs of principal related to TDRs during 2018 or 2017. Collateral dependent loans that are TDRs are charged down to their fair value estimate less a cost to sell estimate, which approximates net realizable value. During 2018 and 2017, there were no TDRs that subsequently defaulted within twelve months of loan modification. As of December 31, 2018 and 2017, there were no commitments to lend additional funds to any borrower whose loan terms have been modified in a TDR.

Loans receivable also include forgivable mortgage loans that are made to accommodate the financial needs of qualifying customers. The terms of these loans differ significantly from traditional mortgage loans since they are forgivable over a stated period of time, typically from five to fifteen years, and only become due upon 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 certain of the property funded until the occupancy period is met. At such time, the interest in the property

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

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 $693,000 and $741,000 in debt forgiveness during 2018 and 2017, respectively, related to these mortgage loans.

As of December 31, 2018, the Company has a conditional promise to forgive the following amounts over the next five years:

2019	$ 621,000
2020	200,000
2021	150,000
2022	148,000
2023	140,000
2024 and thereafter	1,089,000

In addition, included in loans receivable is a fully reserved loan of approximately $497,000 that is in the process of foreclosure as of December 31, 2018.

Allowance for Loan Losses

The allowance for loan losses is determined based on various components for individually impaired loans and for homogeneous pools of loans. 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 methodology for determining charge-offs is consistently applied to each segment. The allowance for loan losses is maintained at a level that, in management's judgment, is adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectability of loans and prior loan loss experience. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, and changes in its risk profile, credit concentrations, historical trends and economic conditions. This evaluation also considers the balance of impaired loans. The Company evaluates the allowance for loan losses on an individual basis for impaired loans and commercial loans not secured by real estate that exceed $3 million. All other loans are evaluated on a collective basis. Losses on individually evaluated loans are measured based on the present value of expected future cash flows discounted at each loan's original effective market interest rate. As a practical expedient, impairment may be measured based on the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through the provision added to the allowance for loan losses. Though management believes the allowance for

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

loan losses to be adequate, ultimate losses may vary from their estimates. However, estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the change in net assets during periods in which they become known.

Investment Securities

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

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

Investment in Affiliated Companies

The Company had a 98.91% non-controlling equity interest in Hickory Holdings, LLC (Hickory). The investment in affiliated company is accounted for using the equity method of accounting. Hickory is not consolidated since the Company has a preferred unit interest, does not control the operations of Hickory, and does not control the election or termination of Hickory's managing members or its management. The principal business activity of Hickory is the acquisition, ownership, financing and, holding of lease equipment and other personal property. In 2017, Hickory filed for bankruptcy protection from creditors and the Company's investment in Hickory was subsequently written off at a loss of approximately $5,720,000.

The Company also holds a 47.63% non-controlling equity interest in Homestead Development, LLC (Homestead). The investment is accounted for using the equity method of accounting since the Company does not have a controlling interest.

Property and Equipment

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

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

Foreclosed Property

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

Income Taxes

The Company and Home Again have received rulings from the Internal Revenue Service for exemption from income taxes as public charities under Internal Revenue Code Sections 501(c)(3) and 509 (a)(2). Since ECDI and the nineteen New Market Tax Credit entities are limited liability companies, no income taxes are provided. The results of operations are reportable by the LLC members on their individual income tax returns. BIDCO is subject to income taxes at the corporate level. As such, deferred income taxes relate to temporary differences between assets and liabilities of BIDCO that are recognized differently for financial reporting purposes and income tax purposes. Deferred tax assets and liabilities pertain to net operating loss carryforwards and the allowance for loan losses. A valuation allowance of approximately $1,788,000 and $1,768,000, respectively, was recorded at December 31, 2018 and 2017, to offset the net deferred tax assets of BIDCO. The valuation allowance is established to provide for amounts that management considers may not be realized as a result of income limitations. At December 31, 2018, BIDCO had net operating loss carryforwards of approximately $7,163,000 that will begin to expire in 2024.

Potential exposures involving tax positions taken that may be challenged by taxing authorities contain assumptions based upon past experiences and judgments about potential actions by taxing jurisdictions. Management does not believe that the ultimate settlement of these items will result in a material amount. With minimum exceptions, the Company is no longer subject to income tax examinations prior to 2015.

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

New Accounting Pronouncement

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. The Company has adjusted the presentation of its consolidated financial statements accordingly, applying the changes retrospectively to the comparative period presented. The new standards change the following aspects of the Company's consolidated financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The consolidated financial statements include a new disclosure about liquidity and availability of resources (Note 13).
- The disclosure of expenses in Note 15 has been expanded to include expenses listed by both nature and function.

The accompanying information from the December 31, 2017 consolidated financial statements has been restated to conform to the 2018 presentation and disclosure requirements of ASU 2016-14.

Effects of Recent Accounting Guidance

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

In January 2016, the FASB issued ASU 2016-01, *"Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities"*, which requires that all equity investments (except those accounted for under the equity method of accounting) be measured at fair value with changes in fair value recognized in net income. This guidance eliminates the available-for-sale classification for equity securities with readily determinable fair values. It also amends certain disclosure requirements associated with the fair value of financial instruments. However, companies may elect to measure equity investments that do not have readily determinable fair values at cost

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

minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. ASU 2016-01 is effective for annual periods, beginning after December 15, 2017.

In February 2016, the FASB issued ASU 2016-02, "*Leases*", which establishes a comprehensive lease standard under GAAP for virtually all industries. The new standard requires lessees to recognize a right of use asset and a lease liability for virtually all of their leases, other than leases that meet the definition of short term leases and will apply for annual periods beginning after December 15, 2019, including interim periods therein. Early adoption is permitted.

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

On August 26, 2016, the FASB issued ASU 2016-15, "*Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15)*" which amends guidance in FASB ASC 230 on the classification of certain cash receipts and payments in the statement of cash flows, in order to reduce inconsistent application. The amendments address eight cash flow issues including debt repayment and extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments following a business combination, proceeds from the settlement of insurance claims and corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows. ASU 2016-15 is effective for the Company for annual reporting periods beginning after December 15, 2018. Entities must apply the guidance retrospectively to all periods presented but may apply it prospectively from the earliest date practicable if retrospective application would be impracticable.

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

In August 2018, the FASB issued ASU 2018-13, *"Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement"* which improves the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. This guidance is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted.

The Company is still evaluating the potential impact these updates may have on the Company's consolidated financial statements.

NOTE 2: FAIR VALUE MEASUREMENTS

At December 31, 2018 and 2017, the only items carried at fair value in the accompanying consolidated statements of financial position were investment securities, certain collateral-dependent impaired loans and certain foreclosed property. Investment securities are measured at fair value on a recurring basis with changes in fair value recognized as a change in net assets, whereas impaired loans and foreclosed property are carried at the lower of cost or fair value on a non-recurring basis and are written down to fair value upon initial recognition or subsequent impairment. Fair value amounts for collateral-dependent loans are generally based on internally developed collateral valuations. These valuations incorporate measures such as recent sales prices for comparable properties or customized discounting criteria.

The fair value measurements by input level follow:

December 31, 2018	**Total**	**Level 1**	**Level 2**	**Level 3**
Impaired loans	**$ 250,838**	**$ -**	**$ -**	**$ 250,838**
Foreclosed property	**132,520**	**-**	**-**	**132,520**
Investment securities	**8,147,855**	**742,970**	**7,404,885**	**-**

December 31, 2017	Total	Level 1	Level 2	Level 3
Impaired loans	$ 525,698	$ -	$ -	$ 525,698
Foreclosed property	132,520	-	-	132,520
Investment securities	7,865,604	1,246,450	6,619,154	-

NOTE 3: GRANTS RECEIVABLE

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

December 31,	**2018**	2017
Receivable in less than one year	**$ 10,818,086**	$ 10,283,016
Receivable in one to five years	**2,954,371**	1,150,000
Receivable in six years	**-**	20,000
	13,772,457	11,453,016
Less adjustment to reflect grants receivable at fair value at the date of grant, based on 2.49% discount rate in 2018 and 2.11% discount rate in 2017	**(121,785)**	(224,473)
	$ 13,650,672	$ 11,228,543

NOTE 4: INVESTMENT SECURITIES

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

December 31, 2018	**Amortized Cost**	**Fair Value**
Government agencies	**$ 4,307,278**	**$ 4,253,791**
Residential mortgage-backed securities	**2,567,918**	**2,489,716**
Municipal bonds	**1,429,672**	**1,404,348**
Total	**$ 8,304,868**	**$ 8,147,855**

December 31, 2017		
Government agencies	$ 3,631,487	$ 3,600,078
Residential mortgage-backed securities	2,469,104	2,428,287
Municipal bonds	1,844,186	1,836,286
Equity securities	953	953
Total	$ 7,945,730	$ 7,865,604

NOTE 4: INVESTMENT SECURITIES (Continued)

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

December 31, 2018	Amortized Cost	Fair Value
Due within one year	$ 416,934	$ 404,212
Due after one year through five years	5,293,968	5,229,518
Due after five years through ten years	1,890,982	1,833,366
Due after ten years through twenty years	675,276	654,574
Due after twenty years	27,709	26,185
	$ 8,304,868	$ 8,147,855

NOTE 5: LOANS AND COMMITMENTS

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 $81,480,000 and $74,095,000 at December 31, 2018 and 2017, respectively. These interest-only loans have seven-year repayment terms.

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

December 31,	**2018**	2017
Commercial loans	**$ 96,292,209**	$ 88,649,944
Forgivable mortgage loans	**2,373,347**	1,828,877
Other consumer mortgage loans not held for sale	**3,576**	3,661
Allowance for loan losses	**(2,496,836)**	(12,302,735)
	$ 96,172,296	$ 78,179,747

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

Year ended December 31,	**2018**	2017
Balance at beginning of year	**$ 12,302,735**	$ 3,855,025
Provisions charged to program expense	**1,490,863**	8,872,459
Recoveries	**165,593**	-
Loans charged off and foreclosed	**(11,462,355)**	(424,749)
Balance at end of year	**$ 2,496,836**	$ 12,302,735

NOTE 5: LOANS AND COMMITMENTS (Continued)

The Company has divided the commercial loan portfolio into six portfolio segments, each with different risk characteristics described as follows:

Commercial real estate - This portfolio segment includes real estate loans secured by commercial and industrial properties, office or mixed-use facilities, strip shopping centers or other commercial property. This segment may also include loans to commercial customers for use in the normal course of business.

Single family real estate - These loans include commercial loans secured by single family residential properties. These properties may serve as the borrower's primary residence, vacation home or investment property. These loans are secured in whole or in part by the underlying real estate collateral and may have a personal guaranty from another individual(s).

Multi-family real estate - These loans include commercial loans secured by two-to-four family residential properties. These properties may serve as the borrower's primary residence, vacation home or investment property. These loans are secured in whole or in part by the underlying real estate collateral and may have a personal guaranty from another individual(s).

Other business assets - These loans are secured by inventories, equipment or receivables. These loans are generally guaranteed by the principals of the borrowing entity.

Construction - Commercial and residential construction include the development of residential housing projects loans for the development of commercial and industrial use property, and loans for the purchase and improvement of raw land. These loans are secured in whole or in part by the underlying real estate collateral and are general guaranteed by the principals of the borrowing entity.

Unsecured commercial loans - This portfolio segment includes a variety of small unsecured loans.

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

	Loans		Allowance		
December 31, 2018	Individually	Collectively	Individually	Collectively	Net
Commercial loans secured by:					
Commercial real estate	$ 378,186	$ 25,040,700	$ 257,205	$ 575,973	$ 24,585,708
Single family real estate	38,678	5,989,942	-	180,601	5,848,019
Multi-family real estate	176,810	3,321,305	22,029	150,707	3,325,379
Other business assets	8,451,749	2,744,858	573,033	107,384	10,516,190
Construction	-	49,765,987	-	604,939	49,161,048
Unsecured commercial loans	-	383,994	-	24,965	359,029
Totals	$ 9,045,423	$ 87,246,786	$ 852,267	$ 1,644,569	$ 93,795,373

NOTE 5: LOANS AND COMMITMENTS (Continued)

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

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

Year ended December 31, 2018	**Balance at Beginning of Year**	**Charge-offs**	**Recoveries**	**Provision for Loan Losses**	**Balance at End of Year**
Commercial loans secured by:					
Commercial real estate	**$ 764,150**	**$ (462,455)**	**$ 165,593**	**$ 365,890**	**$ 833,178**
Single family real estate	**183,186**	-	-	**(2,585)**	**180,601**
Multi-family real estate	**65,284**	-	-	**107,452**	**172,736**
Other business assets	**11,226,071**	**(10,999,900)**	-	**454,246**	**680,417**
Construction	**37,582**	-	-	**567,357**	**604,939**
Unsecured commercial loans	**26,462**	-	-	**(1,497)**	**24,965**
	$ 12,302,735	**$ (11,462,355)**	**$ 165,593**	**$ 1,490,863**	**$ 2,496,836**

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

Loan commitments are made to accommodate the financial needs of the Company's customers. These arrangements have credit risk essentially the same as that involved in extending loans to customers of commercial banks and are subject to the Company's normal credit practices. The Company uses the same credit policies in making these commitments and conditional obligations as

NOTE 5: LOANS AND COMMITMENTS (Continued)

it does for on-balance sheet instruments. The Company's maximum exposure to credit loss in the event of nonperformance by the other party for loan commitments (including unused lines of credit) was approximately $2,300,000 and $2,497,000 at December 31, 2018 and 2017, respectively.

Approximately $295,000 and $260,000 of the allowance for loan losses relates to non-accrual loans at December 31, 2018 and 2017, respectively. The Company had non-accrual loans with 10 customers totaling approximately $1,109,000 at December 31, 2018. The Company had non-accrual loans with 17 customers totaling approximately $1,653,000 at December 31, 2017. There were no loans past due 90 days or more and still accruing interest at December 31, 2018 and 2017.

The Company had impaired loans of approximately $1,285,000 and $12,653,000 as of December 31, 2018 and 2017, respectively. There was approximately $355,000 and $11,266,000 in the allowance for loan losses specifically allocated to these impaired loans at December 31, 2018 and 2017, respectively.

Impaired loans with no allowance for loan losses specifically allocated to these loans approximated $182,000 and $861,000 at December 31, 2018 and 2017, respectively. The average balance of impaired loans was approximately $6,969,000 in 2018 and $12,403,000 in 2017. Income recognized on impaired loans was approximately $148,000 in 2018 and $57,000 in 2017.

Information relative to impaired loans is as follows:

December 31, 2018	Average Principal Balance	Unpaid Principal Balance	Total Loans with No Specific Allowance	Total Loans with a Specific Allowance	Specific Allowance
Commercial loans secured by:					
Commercial real estate	**$ 540,315**	**$ 378,186**	**$ 56,631**	**$ 321,555**	**$ 257,205**
Single family real estate	**39,081**	**38,678**	**38,678**	**-**	**-**
Multi-family real estate	**178,850**	**176,810**	**87,008**	**89,802**	**22,029**
Other business assets	**6,211,123**	**691,749**	**-**	**691,749**	**573,033**
Total impaired loans	**$ 6,969,369**	**$ 1,285,423**	**$ 182,317**	**$ 1,103,106**	**$ 852,267**
December 31, 2017					
Commercial loans secured by:					
Commercial real estate	$ 507,999	$ 702,443	$ 236,398	$ 466,045	$ 150,129
Single family real estate	51,053	39,484	39,484	-	-
Multi-family real estate	410,804	180,891	88,520	92,371	22,501
Other business assets	11,432,699	11,730,496	496,778	11,233,718	11,093,806
Total impaired loans	$ 12,402,555	$ 12,653,314	$ 861,180	$ 11,792,134	$ 11,266,436

NOTE 5: LOANS AND COMMITMENTS (Continued)

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

December 31, 2018	Current	Past Due 30-89 Days	Past Due Greater Than 90 Days	Nonaccrual	Total
Commercial loans secured by:					
Commercial real estate	**$ 25,040,700**	**$ -**	**$ -**	**$ 378,186**	**$ 25,418,886**
Single family real estate	**5,989,942**	**-**	**-**	**38,678**	**6,028,620**
Multi-family real estate	**3,321,305**	**176,810**	**-**	**-**	**3,498,115**
Other business assets	**10,504,858**	**-**	**-**	**691,749**	**11,196,607**
Construction	**49,765,987**	**-**	**-**	**-**	**49,765,987**
Unsecured commercial loans	**383,994**	**-**	**-**	**-**	**383,994**
Commercial loans	**$ 95,006,786**	**$ 176,810**	**$ -**	**$ 1,108,613**	**$ 96,292,209**
December 31, 2017					
Commercial loans secured by:					
Commercial real estate	$ 33,584,353	$ -	$ -	$ 698,249	$ 34,282,602
Single family real estate	5,282,110	318,255	-	39,484	5,639,849
Multi-family real estate	3,384,803	92,372	-	-	3,477,175
Other business assets	21,218,018	80,442	-	915,219	22,213,679
Construction	22,624,347	-	-	-	22,624,347
Unsecured commercial loans	412,292	-	-	-	412,292
Commercial loans	$ 86,505,923	$ 491,069	$ -	$ 1,652,952	$ 88,649,944

Credit Quality Indicators

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

NOTE 5: LOANS AND COMMITMENTS (Continued)

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

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

December 31, 2018	Pass Categories	Special Mention Category	Substandard Category	Doubtful Category	Total
Commercial loans secured by:					
Commercial real estate	**$ 22,233,427**	**$ 2,880,238**	**$ 56,631**	**$ 248,590**	**$ 25,418,886**
Single family real estate	**5,989,942**	**-**	**38,677**	**-**	**6,028,619**
Multi-family real estate	**3,259,668**	**61,637**	**176,810**	**-**	**3,498,115**
Other business assets	**10,274,001**	**402,215**	**23,613**	**496,778**	**11,196,607**
Construction	**49,765,987**	**-**	**-**	**-**	**49,765,987**
Unsecured commercial loans	**96,494**	**287,501**	**-**	**-**	**383,995**
Totals	**$ 91,619,519**	**$ 3,631,591**	**$ 295,731**	**$ 745,368**	**$ 96,292,209**
December 31, 2017					
Commercial loans secured by:					
Commercial real estate	$ 17,073,377	$ 16,308,695	$ 658,002	$ 242,528	$ 34,282,602
Single family real estate	432,109	5,168,257	39,483	-	5,639,849
Multi-family real estate	3,232,941	63,343	180,891	-	3,477,175
Other business assets	13,538,461	7,944,622	730,596	-	22,213,679
Construction	16,804,347	5,820,000	-	-	22,624,347
Unsecured commercial loans	108,489	303,803	-	-	412,292
Totals	$ 51,189,724	$ 35,608,720	$ 1,608,972	$ 242,528	$ 88,649,944

NOTE 6: INVESTMENT IN AFFILIATED COMPANIES

Hickory Holdings, LLC (Hickory) was an investment held at December 31, 2016. Hickory filed for bankruptcy protection from its creditors in 2017 and the investment carrying value ($5.7 million) at December 31, 2016 was charged to expense in 2017.

NOTE 6: INVESTMENT IN AFFILIATED COMPANIES (Continued)

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

December 31,	**2018**	2017
Assets		
Cash	**$ 71,607**	$ 103,937
Property and equipment, net	**2,963,928**	3,038,686
Other assets	**28,772**	34,874
	$ 3,064,307	$ 3,177,497
Liabilities and Members' Equity		
Accounts payable	**$ 8,859**	$ 8,859
Deposits	**19,106**	13,437
Notes payable to related entities	**3,236,997**	3,375,007
Capital and retained deficit	**(200,655)**	(219,806)
	$ 3,064,307	$ 3,177,497

Years ended December 31,	**2018**	2017
Results of Operations		
Revenue	**$ 491,849**	$ 496,157
Interest expense	**10,254**	13,640
Depreciation	**113,437**	66,404
Other expenses	**381,709**	284,341
Net earnings (loss)	**$ (13,551)**	$ 131,772

NOTE 7: SECONDARY CAPITAL OF HOPE FEDERAL CREDIT UNION

Secondary capital of HFCU are loans that require principal repayments, unless HFCU (i) is unable to fully service existing senior indebtedness, (ii) is unable to satisfy its operating expenses, or (iii) does not have available cash flows for the withdrawals of funds for the account. If such loans are not required to be repaid, they will be recognized as expense in the period the losses are incurred. The advances include two fixed rate loans at 5.45% for $1,050,000 and $550,000 maturing in 2027 and 2024, two fixed rate loans at 1.00% for $5,000,000 and $2,000,000 maturing on December 13, 2023, a fixed rate loan at 1.50% for $1,500,000 maturing on December 22, 2023, a fixed rate loan at 1.00% for $1,000,000 maturing on April 29, 2025, and three variable rate loans aggregating $1,375,000 with interest floors and caps from 5.00% - 10.90% (with effective rates of 5.00% - 5.45% at December 31, 2018), maturing in 2024 – 2025, with principal payments required each year until maturity. Interest income received from HFCU relative to the secondary capital loans approximated $258,000 and $265,000 for the years ended December 31, 2018 and 2017, respectively. No repayments are due on the above secondary capital loans until 2023 and thereafter.

NOTE 7: SECONDARY CAPITAL OF HOPE FEDERAL CREDIT UNION (Continued)

The Company incurred expenses approximating $3,261,000 and $2,432,000 relative to its obligation to reimburse certain operating expenses of HFCU in 2018 and 2017, respectively. The Company incurred approximately $505,000 and $300,000 in 2018 and 2017, respectively, for grants to HFCU which are included in development finance expense in the accompanying consolidated statements of activities.

Accounts payable to HFCU for grants and contractual services aggregated approximately $1,278,000 and $867,000 in 2018 and 2017, respectively. The Company had deposit accounts with HFCU as of December 31, 2018 and 2017, totaling approximately $3,135,000 and $4,331,000, respectively.

NOTE 8: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

December 31,	**2018**	2017
Computer equipment	**$ 4,112,881**	$ 3,818,415
Office equipment and other	**846,411**	819,004
Building and improvements	**2,339,711**	2,226,047
	7,299,003	6,863,466
Accumulated depreciation	**(4,812,074)**	(4,389,883)
	$ 2,486,929	$ 2,473,583

NOTE 9: FORECLOSED PROPERTY

An analysis of foreclosed property follows:

December 31,	**2018**	2017
Balance at beginning of year	**$ 132,520**	$ 316,120
Transfer from loans	**-**	240,903
Carrying value of foreclosed property sold	**-**	(365,167)
Impairments recognized	**-**	(59,336)
Balance at end of year	**$ 132,520**	$ 132,520

NOTE 10: EMPLOYEE BENEFIT PLAN

The Company sponsors a defined contribution 401(k) plan (the "Plan") for all employees. The Company contributes 100% of the first 4% contributed by each employee. Expenses of the Plan were approximately $87,000 in 2018 and $82,000 in 2017.

NOTE 11: NOTES PAYABLE

The Company has entered into one loan facility with a bank and one loan facility with a non-bank lender to provide funding in amounts up to $20,000,000 and $3,000,000, respectively. The bank facility may be increased and extended at the discretion of the lender and subject to certain terms of that agreement. The outstanding balances under these loan facilities at December 31, 2018, were approximately $3,901,000 and $1,500,000, respectively. The outstanding balances under these loan facilities at December 31, 2017, were approximately $2,892,000 and $1,500,000, respectively. The proceeds of both facilities are to be used for small business lending activities of the Company. The agreements contain certain financial covenants, including but not limited to, net assets ratios, delinquent loan ratios, a current ratio, a liquidity reserve and restrictions on the amount of support which may be provided to its affiliates. All remaining notes payable of the Company are unsecured except for collateral consisting of a first real estate mortgage on the corporate office facilities relative to the note payable to HFCU.

Total interest paid approximated $571,000 and $596,000 in 2018 and 2017, respectively. The Company recognized interest expense of approximately $51,000 and $47,000 during 2018 and 2017, respectively, related to its mortgage and note payable to HFCU.

Notes payable consisted of the following:

December 31,	**2018**	2017
1% notes payable:		
interest due quarterly and maturing from 2020 through 2025	**$ 6,999,417**	$ 6,999,417
interest due annually and maturing from 2019 through 2023	**1,650,000**	1,675,000
interest due at maturity, January 2025	**2,000,000**	2,000,000
Notes payable to banks with interest due quarterly:		
interest payable at 3%, maturing in 2022	**500,000**	-
interest payable at 3.25%, maturing from 2022 through 2028	**1,000,000**	1,000,000
interest payable at 5.5%, maturing in June 2020	**1,500,300**	1,500,300
1.35% note payable with interest due monthly, maturing in 2024	**999,944**	999,944
4.30% note payable with interest due monthly, maturing in 2019	**1,500,000**	1,500,000
Note payable bearing interest at 4% monthly, maturing in 2022	**3,901,055**	2,892,469
4.75% mortgage payable to HFCU with monthly installments of $7,773, including interest at prime plus 1.5%, payable until final balloon in December 2020	**864,812**	911,768
6% note payable to bank with interest due at maturity in 2019	**1,100,000**	1,101,000
3% notes payable with interest due quarterly and maturing in 2022	**1,000,000**	1,000,000
Notes payable to non-profit foundations bearing interest at 2.5% with interest due quarterly, maturing from 2019 through 2021	**750,000**	750,000
Note payable to non-profit foundation bearing interest at 2% with interest due at maturity in December 2028	**1,500,000**	1,000,000
Other notes payable, with interest at 1% to 2.5%	**160,000**	145,000
Total notes payable	**$ 25,425,528**	$ 23,474,898

NOTE 11: NOTES PAYABLE (Continued)

Notes payable maturities at December 31, 2018, are as follows:

2019	$ 5,492,531
2020	4,851,341
2021	1,375,264
2022	4,156,448
2023	2,050,000
Thereafter	7,499,944
	$ 25,425,528

NOTE 12: NON-CONTROLLING INTERESTS AND NET ASSETS

Net Assets With Donor Restrictions

Net assets with donor restrictions include approximately $1,147,000 (2018) and $2,456,000 (2017) of net assets of Home Again, approximately $26,693,000 (2018) and $20,503,000 (2017) for financial assistance programs offered by the Company, and approximately $1,397,000 (2018) and $1,698,000 (2017) of revolving loan funds available to customers of the Company.

December 31,	**2018**	2017
Net assets subject to expenditure for specified purpose		
Development finance activities	**$ 20,777,848**	$ 18,196,695
Housing initiative activities	**3,723,770**	2,555,589
Policy and advocacy activities	**1,110,959**	1,700,000
Other program activities	**2,107,828**	366,315
	27,720,405	22,818,599
Net assets subject to passage of time		
For periods after December 31,	**120,000**	140,000
Net assets to be maintained in perpetuity		
Revolving loan funds	**1,396,544**	1,698,272
Total net assets with donor restrictions	**$ 29,236,949**	$ 24,656,871

Non-controlling 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 17 additional New Market Tax Credit entities

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

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 2018 and 2017.

Dividends in arrears relative to the ECDI Class A units totaled $114,775 at December 31, 2018, and 2017, respectively.

The changes in non-controlling interest are as follows:

	Balance January 1, 2018	Equity Investment	Dividends Paid	Net Earnings (Loss)	Balance December 31, 2018
ECDI	$ 501,883	$ -	$ -	$ (211,599)	$ 290,284
ECDA	1,199,836	-	(82,224)	154,373	1,271,985
ECDNM3	8,706,589	-	(8,825,345)	118,756	-
ECDNM4	9,161	-	-	(9,161)	-
ECDNM5	38,577	-	-	(17,845)	20,732
HNM1	5,795,128	-	(43,646)	43,652	5,795,134
HNM2	7,729,316	-	(77,747)	77,747	7,729,316
HNM3	4,704,520	-	(35,012)	38,971	4,708,479
HNM4	5,790,911	-	(85,462)	85,462	5,790,911
HNM5	5,762,767	-	(90,851)	98,079	5,769,995
HNM6	-	11,000,000	(555)	(370,658)	10,628,787
HNM7	7,759,636	-	(77,592)	39,184	7,721,228
HNM8	7,699,605	-	(217,783)	217,783	7,699,605
HNM9	8,729,588	-	(284,384)	267,027	8,712,231
HNM10	-	8,000,000	-	(227,774)	7,772,226
HNM11	-	9,000,000	-	(657,934)	8,342,066
HNM12	-	6,000,000	-	-	6,000,000
	$ 64,427,517	$ 34,000,000	$ (9,820,601)	$ (353,937)	$ 88,252,979

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

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

NOTE 13: LIQUIDITY INFORMATION

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 11.

December 31, 2018	
Financial assets, at year end	$ 149,104,885
Less those not available for general expenditures within one year, due to:	
Restricted by donors	29,236,949
Loans receivable not available for expenditure	10,366,841
Non-liquid investments	13,511,558
Non-controlling interests not available for expenditure	88,359,093
Financial assets available to meet cash needs for general expenditure within one year	$ 7,630,444

NOTE 13: LIQUIDITY INFORMATION (Continued)

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:

December 31, 2018	
Cash and cash equivalents	$ 5,369,892
Grants and other receivables	474,883
Investment securities	184,233
Loans receivable	945,642
Interest receivable	148,865
Consumer mortgage loans held for sale	506,929
Financial assets available within one year	$ 7,630,444

NOTE 14: COMMITMENTS AND CONTENGENCIES

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

As of December 31, 2018, 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 $4,955,000 as of December 31, 2018.

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 approximated $325,000 and $281,000 as of December 31, 2018 and 2017, respectively.

NOTE 15: FUNCTIONAL CLASSIFICATION OF EXPENSES

A summary of 2018 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			
Year ended December 31, 2018	Development Finance	Housing Initiative	Policy and Advocacy	Other Programs	Programs Subtotal	General and Administration	Fund-raising and Communication	Supporting Subtotal	Total Expenses
Salaries, employee taxes and benefits	$ 1,011,277	$ 73,462	$ 309,542	$ 730,768	$ 2,125,049	$ 1,778,598	$ 320,360	$ 2,098,958	$ 4,224,007
Bank fees	12,974	347	-	12,178	25,499	184	-	184	25,683
Conferences and employee training	3,776	1,960	9,050	4,501	19,287	58,451	2,855	61,306	80,593
Contractual services	228,737	675	28,211	165,294	422,917	199,900	1,013,774	1,213,674	1,636,591
Dues, fees and memberships	18,348	8	3,420	18,062	39,838	31,856	13,602	45,458	85,296
Equipment, furniture and fixtures	372,449	3,940	11,967	28,018	416,374	130,356	12,295	142,651	559,025
Forgiveness of mortgage loan debt	-	693,470	-	-	693,470	-	-	-	693,470
HFCU operational support	3,261,000	-	-	-	3,261,000	-	-	-	3,261,000
Insurance	41,610	-	-	-	41,610	114,244	-	114,244	155,854
Miscellaneous	25,629	2,106	501	-	28,236	16,514	-	16,514	44,750
Office supplies	98,425	725	2,688	15,455	117,293	37,552	20,901	58,453	175,746
Pass thru grants	505,000	-	2,200	147,850	655,050	-	-	-	655,050
Professional fees	58,305	58,400	-	46,521	163,226	172,351	-	172,351	335,577
Rent and employee parking	17,350	-	-	9,086	26,436	-	-	-	26,436
Repairs and maintenance	126,707	3,835	3,640	8,689	142,871	44,305	3,840	48,145	191,016
Service fees	-	65,762	18,997	167,922	252,681	144,362	37,895	182,257	434,938
Staff recruitment and relocation	-	-	-	-	-	8,250	-	8,250	8,250
Telephone and utilities	719,788	9,224	19,258	45,805	794,075	79,155	20,798	99,953	894,028
Travel	56,482	12,991	29,475	56,523	155,471	129,543	13,254	142,797	298,268
Interest	284,251	-	-	-	284,251	309,861	-	309,861	594,112
Provision for loan losses	1,491,018	(155)	-	-	1,490,863	-	-	-	1,490,863
Depreciation and amortization	-	-	-	-	-	445,606	-	445,606	445,606
Total	$ 8,333,126	$ 926,750	$ 438,949	$ 1,456,672	$ 11,155,497	$ 3,701,088	$ 1,459,574	$ 5,160,662	$ 16,316,159

NOTE 15: FUNCTIONAL CLASSIFICATION OF EXPENSES (Continued)

A summary of 2017 expenses presented by natural classification follows:

Year ended December 31, 2017	
Salaries, employee taxes and benefits	$ 3,856,357
Bank fees	29,419
Conferences and employee training	38,491
Contractual services	7,409,224
Dues, fees and memberships	59,482
Equipment, furniture and fixtures maintenance	355,249
Forgiveness of mortgage loan debt	740,814
HFCU operational support	2,432,316
Insurance	162,545
Miscellaneous	6,390
Office supplies	160,792
Rent and employee parking	20,371
Repairs and maintenance	156,185
Service fees	254,594
Staff recruitment and relocation	5,777
Telephone and utilities	903,370
Travel	236,372
Interest	652,782
Provision for loan losses	8,872,459
Impairment loss on foreclosed assets	59,336
Depreciation and amortization	362,374
Totals	$ 26,774,699

Schedule 1 – Consolidating Statement of Financial Position

As of December 31, 2018

	ECD Investments, LLC Consolidated	Home Again, Inc.	Hope Enterprise Corporation	New Markets Tax Credit Companies	Eliminations	Consolidated
Assets						
Cash and cash equivalents	$ 93,413	$ 1,080,228	$ 3,320,234	$ 6,876,023	$ -	$ 11,369,898
Restricted cash	-	-	5,124,098	-	-	5,124,098
Grants receivable	-	-	13,650,672	-	-	13,650,672
Contract revenue receivable	3,469	-	135,706	133,043	-	272,218
Loan receivable from affiliate	1,319,710	11,050	1,787,672	-	(3,118,432)	-
Consumer mortgage loans held for sale	-	-	503,354	-	-	503,354
Other loans	434,886	1,695,429	13,507,731	80,534,250	-	96,172,296
Loan guarantees receivable	119,139	-	-	-	-	119,139
Investment securities	-	-	8,147,855	-	-	8,147,855
Investment in affiliated company	-	1,036,558	-	-	-	1,036,558
Investment in subsidiary	-	-	2,561,102	-	(2,561,102)	-
Investment in secondary capital of HFCU	-	-	9,500,000	2,975,000	-	12,475,000
Property and equipment, net	-	311,281	2,175,648	-	-	2,486,929
Foreclosed property	78,268	-	54,252	-	-	132,520
Other assets	4,341	50,000	562,533	20,000	-	636,874
Total assets	$ 2,053,226	$ 4,184,546	$ 61,030,857	$ 90,538,316	$ (5,679,534)	$ 152,127,411
Liabilities and net assets						
Liabilities:						
Accounts payable and accrued expenses	$ 233,103	$ -	$ 2,909,742	$ 122,479	(1,486,446)	$ 1,778,878
Funds held in escrow	-	21,522	-	-	-	21,522
Payable to Hope Federal Credit Union	(855)	-	1,279,280	-	-	1,278,425
Due to affiliates	-	1,037,727	-	450,000	(1,487,727)	-
Notes payable	1,500,000	-	23,925,528	-	-	25,425,528
Total liabilities	1,732,248	1,059,249	28,114,550	572,479	(2,974,173)	28,504,353
Total non-controlling interests	290,284	-	-	87,962,695	-	88,252,979
Without donor restrictions	30,694	1,978,027	4,826,628	2,003,142	(2,705,361)	6,133,130
With donor restrictions	-	1,147,270	28,089,679	-	-	29,236,949
Total net assets	320,978	3,125,297	32,916,307	89,965,837	(2,705,361)	123,623,058
Total liabilities and net assets	$ 2,053,226	$ 4,184,546	$ 61,030,857	$ 90,538,316	$ (5,679,534)	$ 152,127,411

See independent auditors' report.

Schedule 2 – Consolidating Statement of Activities

Year ended December 31, 2018

	ECD Investments, LLC Consolidated	Home Again, Inc.	Hope Enterprise Corporation	New Markets Tax Credit Companies	Eliminations	Consolidated
Revenues and gains						
Grants and contributions	$ -	$ -	12,760,953	$ -	$ -	$ 12,760,953
In-kind contributions	-	16,593	478,605	-	-	495,198
Interest, dividends and related fees:						
Loans and other investments	11,912	-	537,731	1,303,321	(1,128,504)	724,460
Investment securities and cash equivalents	-	-	527,945	-	-	527,945
Net realized and unrealized losses on investment securities	-	-	(26,841)	-	-	(26,841)
Less: Investment expenses	-	-	(12,187)	-	-	(12,187)
Loss on sale of assets	-	17,891	(38,969)	-	-	(21,078)
Contract services revenue	747	-	1,787,971	139,088	(35,532)	1,892,274
Total revenues and gains	12,659	34,484	16,015,208	1,442,409	(1,164,036)	16,340,724
Expenses						
Program expenses:						
Development finance	269,738	-	7,681,970	1,593,077	(1,211,659)	8,333,126
Housing initiative	-	132,597	794,153	-	-	926,750
Policy and advocacy	-	-	438,949	-	-	438,949
Other programs	-	-	1,456,672	-	-	1,456,672
	269,738	132,597	10,371,744	1,593,077	(1,211,659)	11,155,497
General and administration expense	-	-	3,701,088	-	-	3,701,088
Fund-raising and communication	-	-	1,459,574	-	-	1,459,574
Total expenses	269,738	132,597	15,532,406	1,593,077	(1,211,659)	16,316,159
Change in net assets before non-controlling interests	(257,079)	(98,113)	482,802	(150,668)	47,623	24,565
Non-controlling interests in subsidiaries' losses	211,599	-	-	142,338	-	353,937
Change in net assets attributable to controlling interest	(45,480)	(98,113)	482,802	(8,330)	47,623	378,502
Net assets attributable to controlling interest:						
At beginning of year	76,174	3,223,410	32,433,505	2,019,251	(2,760,763)	34,991,577
Capital contribution	-	-	-	3,400	(3,400)	-
Dividends paid to controlling interests	-	-	-	(11,179)	11,179	-
At end of year	30,694	3,125,297	32,916,307	2,003,142	(2,705,361)	35,370,079
Net assets of non-controlling interests (Note 12)	290,284	-	-	87,962,695	-	88,252,979
Total net assets at end of year	$ 320,978	$ 3,125,297	$ 32,916,307	$ 89,965,837	$ (2,705,361)	$ 123,623,058

See independent auditors' report.

Schedule 3 – Details of New Markets Tax Credit Companies – Combining Statement of Financial Position

As of December 31, 2018

Assets	ECDA and Subsidiary	ECDNM3	ECDNM4	ECDNM5	HNM1	HNM2	HNM3
Cash and cash equivalents	$ 790,843	$ -	$ -	$ 60,734	$ 615	$ 800	$ 500
Contract revenue receivable	-	-	-	-	4,203	8,096	3,960
Other loans	-	-	-	-	5,790,900	7,721,200	4,704,500
Secondary capital of HFCU	2,975,000	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	20,000
Total assets	$ 3,765,843	$ -	$ -	$ 60,734	$ 5,795,718	$ 7,730,096	$ 4,728,960
Liabilities and net assets							
Liabilities:							
Accounts payable and accrued expenses	$ 49,420	$ -	$ -	$ 40,000	$ -	$ -	$ 20,000
Due to affiliates	450,000	-	-	-	-	-	-
Total liabilities	499,420	-	-	40,000	-	-	20,000
Total non-controlling interests	1,271,985	-	-	20,732	5,795,134	7,729,316	4,708,479
Other unrestricted net assets	1,994,438	-	-	2	584	780	481
Total net assets	3,266,423	-	-	20,734	5,795,718	7,730,096	4,708,960
Total liabilities and net assets	$ 3,765,843	$ -	$ -	$ 60,734	$ 5,795,718	$ 7,730,096	$ 4,728,960

See independent auditors' report.

Schedule 3 – Details of New Markets Tax Credit Companies – Combining Statement of Financial Position

As of December 31, 2018

	HNM4	HNM5	HNM6	HNM7	HNM8	HNM9	HNM10
Assets							
Cash and cash equivalents	$ 600	$ 600	$ 11,526	$ 800	$ 5,805	$ 900	$ 800
Contract revenue receivable	-	8,173	9,727	-	17,175	25,856	51,003
Other loans	5,790,900	5,761,800	10,616,650	7,721,200	7,682,400	8,686,350	7,721,200
Secondary capital of HFCU	-	-		-	-	-	-
Other assets	-	-	-	-	-	-	-
Total assets	$ 5,791,500	$ 5,770,573	$ 10,637,903	$ 7,722,000	$ 7,705,380	$ 8,713,106	$ 7,773,003
Liabilities and net assets							
Liabilities:							
Accounts payable and accrued expenses	$ -	$ -	$ 8,054	$ -	$ 5,005	$ -	$ -
Due to affiliates	-	-	-	-	-	-	-
Total liabilities	-	-	8,054	-	5,005	-	-
Total non-controlling interests	5,790,911	5,769,995	10,628,787	7,721,228	7,699,605	8,712,231	7,772,226
Other unrestricted net assets	589	578	1,062	772	770	875	777
Total net assets	5,791,500	5,770,573	10,629,849	7,722,000	7,700,375	8,713,106	7,773,003
Total liabilities and net assets	$ 5,791,500	$ 5,770,573	$ 10,637,903	$ 7,722,000	$ 7,705,380	$ 8,713,106	$ 7,773,003

See independent auditors' report.

Schedule 3 – Details of New Markets Tax Credit Companies – Combining Statement of Financial Position

As of December 31, 2018

	HNM11	HNM12	Combined
Assets			
Cash and cash equivalents	$ 900	$ 6,000,600	$ 6,876,023
Contract revenue receivable	4,850	-	133,043
Other loans	8,337,150	-	80,534,250
Secondary capital of HFCU	-	-	2,975,000
Other assets	-	-	20,000
Total assets	$ 8,342,900	$ 6,000,600	$ 90,538,316
Liabilities and net assets			
Liabilities:			
Accounts payable and accrued expenses	$ -	$ -	$ 122,479
Due to affiliates	-	-	450,000
Total liabilities	-	-	572,479
Total non-controlling interests	8,342,066	6,000,000	87,962,695
Other unrestricted net assets	834	600	2,003,142
Total net assets	8,342,900	6,000,600	89,965,837
Total liabilities and net assets	$ 8,342,900	$ 6,000,600	$ 90,538,316

See independent auditors' report.

Hope Enterprise Corporation
Schedule 4 – Details of New Markets Tax Credit Companies – Combining Statement of Activities

Year ended December 31, 2018

	ECDA and Subsidiary	ECDNM3	ECDNM4	ECDNM5	HNM1	HNM2	HNM3
Revenues and gains							
Interest, dividends and related fees:							
Loans and other investments	$ 155,950	$ 25,754		$ 153	$ 58,206	$ 97,155	$ 51,475
Contract services revenue	-	16,444	35,769	-	10,000	10,000	10,000
Total revenues and gains	155,950	42,198	35,769	153	68,206	107,155	61,475
Expenses							
Program expenses:							
Development finance	9,808	(76,569)	45,000	18,000	24,550	29,400	22,500
Total expenses	9,808	(76,569)	45,000	18,000	24,550	29,400	22,500
Equity in loss of affiliated company	-	-	-	-	-	-	-
Change in net assets before non-controlling interests	146,142	118,767	(9,231)	(17,847)	43,656	77,755	38,975
Non-controlling interests in subsidiaries' income	(154,374)	(118,755)	9,161	17,845	(43,652)	(77,747)	(38,971)
Change in net assets attributable to controlling interest	(8,232)	12	(70)	(2)	4	8	4
Net assets attributable to controlling interest:							
At beginning of year	2,012,670	1,076	70	4	584	780	480
Capital contribution	-	-	-	-	-	-	-
Dividends paid to controlling interests	(10,000)	(1,088)	-	-	(4)	(8)	(3)
At end of year	1,994,438	-	-	2	584	780	481
Net assets of non-controlling interests (Note 12)	1,271,985	-	-	20,732	5,795,134	7,729,316	4,708,479
Total net assets at end of year	$ 3,266,423	$ -	$ -	$ 20,734	$ 5,795,718	$ 7,730,096	$ 4,708,960

See independent auditors' report.

Hope Enterprise Corporation
Schedule 4 – Details of New Markets Tax Credit Companies – Combining Statement of Activities

Year ended December 31, 2018

	HNM4	HNM5	HNM6	HNM7	HNM8	HNM9	HNM10
Revenues and gains							
Interest, dividends and related service fees:							
Loans and other investments	$ 100,471	$ 111,923	$ 20,708	$ 77,600	$ 237,805	$ 310,268	$ 51,003
Contract services revenue	10,000	-	-	30,000	-	16,875	-
Total revenues and gains	110,471	111,923	20,708	107,600	237,805	327,143	51,003
Expenses							
Program expenses:							
Development finance	25,000	13,833	391,404	68,412	20,000	60,089	278,800
Total expenses	25,000	13,833	391,404	68,412	20,000	60,089	278,800
Equity in loss of affiliated company	-	-	-	-	-	-	-
Change in net assets before non-controlling interests	85,471	98,090	(370,696)	39,188	217,805	267,054	(227,797)
Non-controlling interests in subsidiaries' income	(85,461)	(98,080)	370,658	(39,184)	(217,783)	(267,027)	227,774
Change in net assets attributable to controlling interest	10	10	(38)	4	22	27	(23)
Net assets attributable to controlling interest:							
At beginning of year	589	576	-	776	770	876	-
Capital contribution	-	-	1,100	-	-	-	800
Dividends paid to controlling interests	(10)	(8)	-	(8)	(22)	(28)	-
At end of year	589	578	1,062	772	770	875	777
Net assets of non-controlling interests (Note 12)	5,790,911	5,769,995	10,628,787	7,721,228	7,699,605	8,712,231	7,772,226
Total net assets at end of year	$ 5,791,500	$ 5,770,573	$ 10,629,849	$ 7,722,000	$ 7,700,375	$ 8,713,106	$ 7,773,003

See independent auditors' report.

Schedule 4 – Details of New Markets Tax Credit Companies – Combining Statement of Activities

Year ended December 31, 2018

	HNM11	HNM12	Combined
Revenues and gains			
Interest, dividends and related service fees:			
Loans and other investments	$ 4,850	$ -	$ 1,303,321
Contract services revenue	-	-	139,088
Total revenues and gains	4,850	-	1,442,409
Expenses			
Program expenses:			
Development finance	662,850	-	1,593,077
Total expenses	662,850	-	1,593,077
Equity in loss of affiliated company	-	-	-
Change in net assets before non-controlling interests	(658,000)	-	(150,668)
Non-controlling interests in subsidiaries' income	657,934	-	142,338
Change in net assets attributable to controlling interest	(66)	-	(8,330)
Net assets attributable to controlling interest:			
At beginning of year	-	-	2,019,251
Capital contribution	900	600	3,400
Dividends paid to controlling interests	-	-	(11,179)
At end of year	834	600	2,003,142
Net assets of non-controlling interests (Note 12)	8,342,066	6,000,000	87,962,695
Total net assets at end of year	$ 8,342,900	$ 6,000,600	$ 89,965,837

See independent auditors' report.

Schedule 5 – ECD Investments, LLC Consolidating Balance Sheet

December 31, 2018

	ECD Investments, BIDCO, Inc.	ECD Investments, LLC	Eliminations	ECD Investments, LLC Consolidated
Assets				
Cash and cash equivalents	$ 25,845	$ 67,568	$ -	$ 93,413
Loans, net of allowance for loan losses of $27,870	57,724	377,162	-	434,886
Due from Parent	553,030	4,446,304	(3,679,624)	1,319,710
Other receivables	3,213	750,287	(750,031)	3,469
Investment in subsidiary	-	1,000,000	(1,000,000)	-
Foreclosed property	78,268	-	-	78,268
Loan guarantees receivable from Small Business Administration	119,139	-	-	119,139
Other assets	4,341	-	-	4,341
Total assets	$ 841,560	$ 6,641,321	$ (5,429,655)	$ 2,053,226
Liabilities and capital				
Liabilities:				
Accounts payable and accrued expenses	$ 1,003,533	$ -	$ (770,430)	$ 233,103
Receivable from Hope Federal Credit Union	(855)	-	-	(855)
Intercompany debt	3,835,600	-	(3,835,600)	-
Other long-term debt	1,500,000	-	-	1,500,000
Total liabilities	6,338,278	-	(4,606,030)	1,732,248
Capital:				
Class A Members' capital	1,000,000	5,406,042	(1,000,000)	5,406,042
Class B Member's capital	-	501,000	-	501,000
Class C Members' capital	1,000,000	5,125,000	(1,000,000)	5,125,000
Accumulated losses - Class A Members' capital	-	(4,390,721)	(725,039)	(5,115,760)
Accumulated losses - Class B Member's capital	-	-	(470,304)	(470,304)
Accumulated losses - Class C Members' capital	-	-	(5,125,000)	(5,125,000)
Retained earnings (deficit)	(7,496,718)	-	7,496,718	-
Total capital	(5,496,718)	6,641,321	(823,625)	320,978
Total liabilities and capital	$ 841,560	$ 6,641,321	$ (5,429,655)	$ 2,053,226

See independent auditors' report.

Year ended December 31, 2018

	ECD Investments, BIDCO, Inc.	ECD Investments, LLC	Eliminations	ECD Investments, LLC Consolidated
Revenues				
Interest, dividends and related fees:				
Loans and other investments	$ 5,994	$ 259,639	$ (253,721)	$ 11,912
Contract services revenue	747	-	-	747
Total revenues and gains	6,741	259,639	(253,721)	12,659
Expenses				
Salaries, employee taxes and benefits	30,070	35,348	-	65,418
Contractual services	5,938	8,160	-	14,098
Dues, fees and memberships	6	8	-	14
Foreclosed asset expenses	596	-	-	596
Insurance	14,093	18,321	-	32,414
Miscellaneous	21,880	1,402	-	23,282
Office supplies	255	301	-	556
Repairs and maintenance	424	422	-	846
Service fees	18,101	3,939	-	22,040
Telephone and utilities	1,884	2,222	-	4,106
Interest	273,981	-	(253,721)	20,260
Provision (reduction in reserve) for loan losses	47,897	38,211	-	86,108
Total expenses	415,125	108,334	(253,721)	269,738
Change in net assets before non-controlling interests	$ (408,384)	$ 151,305	$ -	$ (257,079)

See independent auditors' report.

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June 4, 2019

Attn: Board of Directors and Management
Hope Enterprise Corporation
#4 Old River Place
Jackson, MS 39202

Dear Board Members and Management:

During the presentation to the Board of Directors of the audit report of Hope Federal Credit Union for the year ended December 31, 2018, we were asked specifically to address the cause of delays in the issuance of the Hope Enterprise Corporation audit report. In response to this request, below we have summarized matters contributing to the delays and our action plans in an attempt to mitigate or avoid these types of delays in the future.

Further, we want to express to you our desire to continue our long-term relationship in serving both Hope Enterprise Corporation and Hope Federal Credit Union ("Hope"). We consider Hope a valued client and respect the mission and impact it has in transforming lives in its service areas.

We are committed to strengthening this relationship with the timely service you deserve and expect, and which we have continually provided in prior years. We genuinely believe the delays incurred in the recent audits are an aberration. We have developed a plan of action and time schedule to meet your required timelines, barring any unforeseen matters beyond our Firm's control; one which includes:

- substantial interim audit procedures prior to year-end,
- increased team members assigned with a seasoned manager on-site weekly throughout the field work, and
- more focus on non-attest report preparation prior to the completion of the audit field work.

Factors contributing to the delays this year included among others, the following:

- Hope has experienced rapid expansion in recent years, reflected in its 2-year increase in total assets of more than 43%. Along with this growth, the volume and complexity of Hope's transactions and accounts have significantly increased. As a result of this increased growth, the financial statements of HEC now include twenty-one (21) entities that require consolidation. This has resulted in the need to focus more time and effort in the assessment of internal controls and the design of audit procedures that appropriately address the risks with such rapid growth and complexities. We have incorporated a future audit plan to reflect the timing and effort needed to achieve our objectives while meeting Hope's expectations for audit completion and report release given the increased complexities. This includes designing audit procedures to be employed on an interim basis prior to year-end that will substantially reduce the amount of time and effort required after year end.

- During the current year, a new accounting pronouncement became effective for HEC resulting in significant changes affecting how not-for-profit entities report net asset classes, expenses, investment return and liquidity in the financial statements. These changes resulted additional time and effort to change the financial statements of HEC in order to properly present the financial statements in conformity with the new accounting pronouncement changes. Now that the financial statements have been adjusted to comply with these new standards, the additional time and effort required in future audits will be substantially shortened.

- Our normal processes require workflow and review procedures from out-of-state partners that may take an additional two weeks to complete.

- Just prior to the audit, our office experienced unexpected professional staff turnovers which resulted in scheduling conflicts and which contributed to initial audit procedures being started at a date later than anticipated for Hope. Since March 2019, we have hired five full-time professionals and do not expect future turnover to result in delays in the start of Hope's audits.

Yours truly,

Elton Sims
Audit Partner for HEC and Partner-in-Charge of the Jackson, MS practice unit