Hope enterprise corporation

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Management Discussion and Analysis

Independent Auditors' Report

The Independent Auditors' Report contains a qualified opinion as it relates to the fair value of the assets of ECD New Markets 4, LLC and ECD New Markets 5, LLC, two of Hope Enterprise Corporation's (HEC's) New Market Tax Credit (NMTC) entities as of December 31, 2016. ECDNM4 holds a loan receivable from Quitman Investment Fund II (Quitman) and has net assets of $8.3 million. ECDNM5 has an investment accounted for on the equity method, Hickory Holdings, LLC (Hickory), which is related to and through a subsidiary, and leases equipment to a subsidiary of Quitman, and has net assets of $5.8 million. Both Quitman and Hickory incurred recurring operating losses and in 2016, the Quitman operating subsidiary terminated its agreement with the entity, which was its primary source of revenue. Quitman is in negotiations with its various lenders for a forbearance agreements and is developing new sources of revenue. The success of these efforts cannot be determined at this time. In the event that Quitman is unable to satisfy its obligations and the loan from ECDNM4 is not repaid, and the ECDNM5 investment in Hickory has no value, consolidated loans receivable would be reduced by $8.2 million, consolidated investments in affiliated companies would be reduced by $5.7 million, consolidated non-controlling interests would be reduced by $14.1 million dollars and consolidated unrestricted net assets would be reduced by $1,600, which is the sum of HEC's investment in the two NMTC entities. The effect on the statement of activities would be to decrease the change in net assets before non-controlling interests from a $2.5 million increase to a $11.6 million dollar decrease in net assets, all but $1,600 of which would be attributable to non-controlling interests. This would have no effect on cash and does not change our outlook on the performance of Hope Enterprise Corporation.

Balance Sheet Analysis

HEC's total assets stood at $106.3 million at December 31, 2016, down $5.6 million from December 31, 2015. This change in total assets is primarily the result of the successful wind down of ECD Central City, LLC, an HEC NMTC entity with total assets of $5.0 million in 2016. We successfully retired another HEC NMTC entity in 2015, ECD Plus, LLC, with total assets at wind down of approximately $7.7 million.

Also, our initial NMTC entities, ECD Associates, LLC and ECD New Markets, LLC, created to fund secondary capital transactions to Hope Credit Union, continued to receive repayments of that secondary capital and pay off NMTC related debt, and so continue to decline in size. During 2016, the total consolidated assets of ECD Associates, LLC fell by $1.4 million, reducing HEC's consolidated total assets by an equal amount.

The effect of these transactions on HEC's net worth position as a percentage of total assets is detailed in the following schedule:

	2016	2015
Unrestricted	9.7%	12.8%
Non-controlling interests	45.6%	52.7%
Total unrestricted	55.3%	65.4%
Temporarily restricted	18.4%	8.8%
Permanently restricted	2.0%	1.8%
Total net assets	**75.7%**	**76.0%**

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:

	2016	2015
Loans receivable – net of allowance for loan losses	55,812,341	63,809,168
Loan guarantees receivable	139,032	358,708
Investments in affiliated companies	6,757,047	8,883,489
Investment in secondary capital of HCU	11,725,000	12,725,000
Foreclosed property	316,120	244,556
Total	**74,749,540**	**86,020,921**
Percent of total assets	**70%**	**77%**

Notes payable decreased from $27.0 million at December 31, 2015 to $24.8 million at December 31, 2016, a decrease of $2.2 million.

Earnings Analysis

Total revenue for 2016 was $20.7 million as compared to $20.8 million for 2015, and expenses were $15.2 million in 2016 as compared to $12.6 million for 2015. This represents a decrease in change in net assets before non-controlling interests of $4.5 million. Non-controlling interests in subsidiaries' losses increased from $774,000 in 2015 to $4.3 million in 2016 with the change in net assets attributable to controlling interest decreasing from $7.7 million in 2015 to $6.8 million in 2016.

The year ending December 31, 2016 was very good financially for HEC, as was the prior year. However, the financial performance should be placed in context. A huge driver for HEC's revenues in 2016 was the recognition of $8 million in grants from a bank in the fourth quarter. The proceeds of these grants are restricted for use as specified in the grant agreements for re-granting and developing of low income housing.

When these grants are taken into account, HEC's 2016 performance resulted in a reduction in net assets of $1.4 million. This performance largely resulted from expense increases, with total expenses increasing by $2.6 million, from $12.6 million in 2015 to $15.2 million in 2016. HEC support to Hope Credit Union increased to $3.7 million in 2016 from $615,000 in 2015. The provision for loan losses in 2016 was $800,000 compared to $2.3 million in 2015.

With regard to earned revenue, differences between 2016 and 2015 are summarized in the following schedule:

	2016	2015
Interest, dividends and related fees:		
Loans and other investments	1,344,150	1,996,780
Debt securities and cash equivalents	299,887	107,843
Gain (loss) on sale of assets		628,920
Contract services revenues	354,629	624,467
Total earned revenue	**1,998,666**	**3,358,010**

The reduction in interest, dividends and related fees from loans and other investments is related to the reduction in loans receivable in 2016.

Richard Campbell
Chief Financial Officer

William Bynum
Chief Executive Officer

Hope Enterprise Corporation

CONSOLIDATED FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

Years Ended December 31, 2016 and 2015

Hope Enterprise Corporation
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December 31, 2016 and 2015

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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, 2016 and 2015, and the related consolidated statements of activities and changes in net assets and of cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

Consolidated subsidiaries of the Company hold a loan receivable from Quitman Investment Fund II (Quitman), and an investment accounted for on the equity method, Hickory Holdings, LLC, which is related to and, through a subsidiary, leases equipment to a subsidiary of Quitman. These entities have incurred recurring operating losses, and, further, in 2016 the Quitman subsidiary terminated its agreement with the entity which was its primary source of revenue. As a result the Company's loan receivable is considered collateral dependent, and the Company is unable to provide sufficient audit evidence related to the fair value of that collateral. Similarly, the Company is unable to provide sufficient audit evidence related to any potential impairment of the equity method investment it holds in Hickory Holdings, LLC. The loan receivable, net of the related allowance for loan losses, is carried at $8.2 million and the equity method investment is carried at $5.7 million in the Company's 2016 consolidated balance sheet. Consequently, we were unable to determine whether any adjustments to these amounts were necessary. The 2016 consolidated statement of activities includes a provision for loan loss of $2.3 million related to this loan and a charge of $3.0 million for the Company's share of Hickory Holdings, LLC's losses incurred in 2016.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hope Enterprise Corporation and entities under its control as of December 31, 2016 and 2015, 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 2016 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 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 2016 consolidated financial statements as a whole.

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

CARR, RIGGS & INGRAM, LLC
Ridgeland, Mississippi
April 28, 2017

December 31,	**2016**	2015
Assets		
Cash and cash equivalents	**$ 8,914,806**	12,985,166
Restricted cash	**5,000,169**	-
Grants receivable	**4,829,402**	1,523,736
Contract revenue receivable	**181,659**	298,166
Receivable from Hope Federal Credit Union	**1,418,172**	2,410,597
Consumer mortgage loans held for sale	**804,017**	846,683
Loans receivable - net of allowance for loan losses of approximately $3,855,000 (2016) and $4,418,000 (2015)	**55,812,341**	63,809,168
Loan guarantees receivable from Small Business Administration	**139,032**	358,708
Investment securities	**7,983,612**	5,803,936
Investment in affiliated companies	**6,757,047**	8,883,489
Investment in secondary capital of Hope Federal Credit Union	**11,725,000**	12,725,000
Property and equipment, net	**1,883,827**	1,748,056
Foreclosed property	**316,120**	244,556
Other assets	**557,096**	322,237
Total assets	**$ 106,322,300**	$ 111,959,498
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 1,007,650**	700,316
Funds held in escrow	**23,097**	23,097
Notes payable	**24,775,559**	27,048,116
Total liabilities	**25,806,306**	27,771,529
Commitments and contingencies (Note 5, 12 and 13)		
Net assets:		
Unrestricted	**10,367,152**	14,310,827
Non-controlling interests (Note 12)	**48,486,345**	58,947,574
Total unrestricted	**58,853,497**	73,258,401
Temporarily restricted	**19,533,185**	8,941,056
Permanently restricted	**2,129,312**	1,988,512
Total net assets	**80,515,994**	84,187,969
Total liabilities and net assets	**$ 106,322,300**	$ 111,959,498

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

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

Year ended December 31, 2016

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

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

Consolidated Statements of Activities and Changes in Net Assets

Year ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and gains				
Grants and contributions	$ 5,679,136	$ 10,517,369	$ 400,000	$ 16,596,505
In-kind contributions	828,024	-	-	828,024
Interest, dividends and related fees:				
Loans and other investments	1,996,780	-	-	1,996,780
Debt securities and cash equivalents	107,843	-	-	107,843
Net realized and unrealized losses on debt securities held as investments	(19,344)	-	-	(19,344)
Gain on sale of assets	628,920	-	-	628,920
Contract services revenue	624,467	-	-	624,467
	9,845,826	10,517,369	400,000	20,763,195
Net assets released from restrictions:				
Expiration of time restrictions	93,010	(93,010)	-	-
Satisfaction of program restrictions	3,718,343	(3,718,343)	-	
Transfers from changes in program restrictions	189,000	-	(189,000)	-
Total revenues and gains	13,846,179	6,706,016	211,000	20,763,195
Expenses				
Program expenses:				
Development finance	6,889,955	-	-	6,889,955
Housing initiative	797,895	-	-	797,895
Policy and advocacy	707,145	-	-	707,145
Other programs	1,830,553	-	-	1,830,553
	10,225,548	-	-	10,225,548
General administration:				
General and administration expense	2,045,652	-	-	2,045,652
Fund-raising and communication	283,514	-	-	283,514
Total expenses	12,554,714	-	-	12,554,714
Equity in loss of affiliated company	(1,257,460)	-	-	(1,257,460)
Change in net assets before non-controlling interest	34,005	6,706,016	211,000	6,951,021
Non-controlling interests in subsidiaries' loss	774,097	-	-	774,097
Change in net assets attributable to controlling interest	808,102	6,706,016	211,000	7,725,118
Net assets attributable to controlling interests:				
At beginning of year	13,502,753	2,235,040	1,777,512	17,515,305
Dividends paid to controlling interests	(28)	-	-	(28)
At end of year	14,310,827	8,941,056	1,988,512	25,240,395
Net assets of non-controlling interests (Note 12)	58,947,574	-	-	58,947,574
Total net assets at end of year	$ 73,258,401	$ 8,941,056	$ 1,988,512	$ 84,187,969

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

Consolidated Statements of Cash Flows

Years ended December 31,	**2016**	2015
Operating activities		
Change in net assets attributable to controlling interests	**$ 6,789,254**	$ 7,725,118
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Non-controlling interests in subsidiaries' loss	**(4,311,059)**	(774,097)
Depreciation and amortization	**282,244**	265,103
Uncollectible loan guarantees receivables	**-**	520,843
Provision for loan losses	**779,387**	2,255,587
Forgiveness of mortgage loan debt	**885,843**	846,993
Gain on sale of assets	**-**	(628,920)
Equity in loss in excess of cash distribution from affiliate	**3,163,000**	1,683,460
Impairment losses on foreclosed property	**58,031**	-
Realized and unrealized loss on investments	**45,553**	19,344
Proceeds from sales of mortgage loans held for sale	**42,666**	210,328
Changes in operating assets and liabilities:		
Contract revenue receivable	**116,507**	(91,944)
Grants receivable	**(3,305,666)**	(1,156,856)
Other receivables and prepaid expenses	**977,242**	(2,042,956)
Accounts payable and other liabilities	**307,334**	119,440
Net cash provided by operating activities	**5,830,336**	8,951,443
Investing activities		
Net decrease in loans held for investment	**5,153,347**	5,155,623
Purchase of investments	**(4,084,281)**	(5,873,977)
Proceeds from maturities and sales of investments	**1,865,441**	50,000
Increase in restricted cash held in escrow	**(5,000,169)**	-
Proceeds from repayment of secondary capital loans	**1,000,000**	102,500
Proceeds from sales of foreclosed property	**12,097**	1,855,171
Purchase of property and equipment	**(424,404)**	(341,630)
Net cash provided by (used in) investing activities	**(1,477,969)**	947,687
Financing activities		
Cash dividends paid to controlling interests	**-**	(28)
Cash dividends paid to non-controlling interests	**(6,150,170)**	(9,247,534)
Long-term borrowings	**3,400,000**	6,920,641
Payments on long-term borrowings	**(5,672,557)**	(4,415,133)
Net cash used in financing activities	**(8,422,727)**	(6,742,054)
Net increase (decrease) in cash and cash equivalents	**(4,070,360)**	3,157,076
Cash and cash equivalents, beginning of year	**12,985,166**	9,828,090
Cash and cash equivalents, end of year	**$ 8,914,806**	$ 12,985,166
Supplemental disclosure of noncash investing and financing activities:		
Property received upon foreclosure on loans	**$ 144,000**	$ 68,657
Transfers to loan guarantees receivable	**$ -**	$ 315,744
Loan receivable from affiliate exchanged for non-controlling interest	**$ 1,036,558**	$ 315,744

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

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

Description of the Company

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

Basis of Presentation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and include the accounts of the Company and entities under its control which include, ECD Investments, LLC (ECDI), ECD Investments BIDCO, Inc. (BIDCO), Home Again, Inc. (Home Again), ECD Associates, LLC (ECDA), ECD New Markets, LLC (ECDNM), ECD Central City, LLC (ECD Central), ECD New Markets 3, LLC (ECDNM3) ECD New Markets 4, LLC (ECDNM4), ECD New Markets 5, LLC (ECDNM5), Hope New Markets 1, LLC (HNM1), Hope New Markets 2, LLC (HNM2), Hope New Markets 3, LLC (HNM3) and Hope New Markets 4, LLC (HNM4). 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.

There are also nine additional limited liability companies included in the consolidated financial statements of the Company which include ECDA, ECDNM, ECDNM3, ECDNM4, ECDNM5, HNM1, HNM2, HNM3 and HNM4. The Company serves as the Managing Member of all nine entities. Debt and equity funding into ECDA and ECDNM is used for secondary capital loans and contributions to Hope Federal Credit Union (HFCU). The remaining seven 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. Accordingly, ECD Central was dissolved in 2016.

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 monthly net income of more than $20,000. HFCU and the Company share the same members of management and certain HFCU members are also borrowers from the Company and its affiliates.

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

In connection with the preparation of the consolidated financial statements, management of the Company evaluated subsequent events through April 28, 2017, 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 for similar assets in active markets, or other inputs that are observable or can be corroborated by market data.

Level 3 Valuations derived from unobservable (supported by little or no market activity) inputs that reflect an entity's best estimate of what hypothetical market participants would use to determine a transaction price at the reporting date.

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

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

independent third party valuation information are unavailable, the Company produces an estimate of fair value based on internally developed valuation techniques, which, depending on the level of observable market inputs, will render the fair value estimate as Level 2 or Level 3.

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

Cash Equivalents

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

Grants Receivable

Unconditional grants are recognized as revenue in the period the commitment is received. Unconditional grants to be received over a period of time in excess of one year are recorded at fair value at the date of the grant based upon the present value of payments to be received.

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 market value and are primarily fixed-rate single-family residential loans originated and held under contract to be sold in the secondary market to a permanent investor. Such loans are generally sold within 30 days and mortgage servicing rights are released at point of sale. Although investors have limited recourse to return a purchased loan, no such returns occurred in 2016 or 2015. 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.

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

Loans Receivable

Loans receivable are stated at the amount of unpaid principal less an allowance for loan losses and consist of commercial loans, consumer mortgage loans not held for sale and forgivable mortgage loans. The commercial loans are typically collateralized by property, equipment, inventories, and/or receivables with loan-to-value ratios from 50 percent to 100 percent and are generally guaranteed by the principals of the borrowing business entity. Interest income is computed on the loan balance outstanding and is accrued as earned. Loans are considered past due if the required principal and interest payments have not been received as of the date such payments are due. For all loans 90 days or more past due, the Company generally discontinues the accrual of interest and recognizes income only as received. A loan may also be placed in non-accrual status when, in management's judgment, the collection of interest is doubtful. All interest accrued but not collected for loans that are placed in non-accrual status or charged off is reversed through interest income unless management believes the accrued interest is recoverable through the liquidation of collateral. Interest received on non-accrual loans is either applied against principal or reported as interest income, based on management's assessment regarding the recovery of principal. When material, the net amount of nonrefundable loan origination fees and direct costs associated with the lending process is deferred and accreted to interest income over the lives 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, 2016, the Company had 2 commercial real estate loan and 6 other business asset loans classified as TDRs which totaled approximately $219,000. At December 31, 2015, the Company had 3 commercial real estate loan and 4 other business asset loans classified as TDRs which totaled approximately $5,207,000. For these TDRs, the Company had a related loan loss allowance of approximately $75,000 and $2,843,000 at December 31, 2016 and 2015,

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

respectively. These loans were modified by changing certain interest terms. No accrued interest which was forgiven in 2016 or 2015. There were no specific charge-offs of principal related to TDRs during 2016 or 2015. Collateral dependent loans that are TDRs are charged down to the most likely fair value estimate less a cost to sell estimate, which would approximate net realizable value. During 2016 and 2015, there were no TDRs that subsequently defaulted within twelve months of loan modification.

Loans receivable also include forgivable mortgage loans that are made to accommodate the financial needs of qualifying customers. The terms of these loans differ significantly from traditional mortgage loans since they are forgivable over a stated period of time, typically from five to ten years, and become due only on the sale or transfer of the residence. No principal or interest payments are therefore received for loans made under the forgivable loan programs. Persons receiving loans under the programs must meet certain eligibility requirements and agree to occupy the residence for a stated period of time. The Company holds a secured interest in certain of the property funded until the occupancy period is met. At such time, the interest in the property is transferred to the borrower. No allowance for credit losses has been deemed necessary based on the forgivable nature of the loans and management's evaluation of the excess of the value of the collateral securing the loans over the unforgiven portion of the mortgage loans. The Company recorded approximately $886,000 and $847,000 in debt forgiveness during 2016 and 2015, respectively, related to these mortgage loans. As of December 31, 2016, the Company has a conditional promise to forgive the following amounts over the next five years:

2017	$ 666,000
2018	666,000
2019	481,000
2020	47,000
2021	3,000

Allowance for Loan Losses

The allowance for loan losses is determined based on various components for individually impaired loans and for homogeneous pools of loans. The allowance for loan losses is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries by portfolio segment. The methodology for determining charge-offs is consistently applied to each segment. The allowance for loan losses is maintained at a level that, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, and changes in its risk profile, credit concentrations, historical trends and economic conditions. This evaluation also considers the balance of impaired loans. The Company evaluates the allowance for loan losses on an individual loan basis for impaired loans. All other loans are evaluated on a collective basis. Losses on individually identified impaired loans are measured based on the present value of expected future cash flows discounted at each loan's original effective

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

market interest rate. As a practical expedient, impairment may be measured based on the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through the provision added to the allowance for loan losses. Though management believes the allowance for loan losses to be adequate, ultimate losses may vary from their estimates. However, estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the change in net assets during periods in which they become known.

Investment Securities

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

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

Investment in Affiliated Companies

The Company has 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 it management. The principal business activity of Hickory is the acquisition, ownership, financing and holding of lease equipment and other personal property.

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

Property and Equipment

Property and equipment are stated at cost, if purchased, and estimated fair value at the date received, if donated to the Company. Depreciation on property and equipment is calculated principally by the straight-line method over the estimated useful lives of the assets which generally range from three to 39 years.

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

The carrying value of long-lived assets is reviewed if facts and circumstances indicate a potential impairment of carrying value may have occurred utilizing relevant cash flow and profitability information. Impairment losses are recorded when the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts.

Foreclosed Property

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

Income Taxes

The Company and Home Again have received rulings from the Internal Revenue Service for exemption from income taxes as public charities under Internal Revenue Code Sections 501(c)(3) and 509 (a)(2). Since ECDI, ECDA, ECDNM, ECD Central, ECDNM3, ECDNM4, ECDNM5, HNM1, HNM2, HNM3 and HNM4 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 $2,537,000 and $2,439,000, respectively, was recorded at December 31, 2016 and 2015, 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, 2016, BIDCO had net operating loss carryforwards of approximately $6,772,000 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 2013.

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

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, 2018. The Company is still evaluating the potential impact on its financial statements.

In January 2016, the FASB issued ASU 2016-01, *"Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities"*, which requires that all equity investments (except those accounted for under the equity method of accounting) be measured at fair value with changes in fair value recognized in net income. This guidance eliminates the available-for-sale classification for equity securities with readily determinable fair values. It also amends certain disclosure requirements associated with the fair value of financial instruments. However, companies may elect to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. ASU 2016-01 is effective for annual periods, and interim periods within those 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, 2018, including interim periods therein. Early adoption is permitted.

In June 2016, the FASB issued ASU 2016-13, *"Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments (ASU 2016-13)"*, which introduces the current expected credit losses methodology. Among other things, ASU 2016-13 requires the measurement of all expected credit losses for financial assets, including available-for-sale debt securities, held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The new model will require institutions to calculate all probable and estimable losses that are expected to be incurred through the loan's entire life. ASU 2016-13 also requires the allowance for credit losses for purchased financial assets with credit deterioration since origination to be determined in a manner similar to

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

that of other financial assets measured at amortized cost; however, the initial allowance will be added to the purchase price rather than recorded as credit loss expense. The disclosure of credit quality indicators related to the amortized cost of financing receivables will be further disaggregated by year of origination (or vintage). Institutions are to apply the changes through a cumulative-effect adjustment to their net assets as of the beginning of the first reporting period in which the standard is effective. The amendments are effective for fiscal years beginning after December 15, 2020. Early application will be permitted for fiscal years beginning after December 15, 2018.

On August 26, 2016, the FASB issued ASU 2016-15, *"Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15)"* which amends guidance in FASB ASC 230 on the classification of certain cash receipts and payments in the statement of cash flows, in order to reduce inconsistent application. The amendments address eight cash flow issues including debt repayment and extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments following a business combination, proceeds from the settlement of insurance claims and corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows. ASU 2016-15 is effective for the Company for annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years. 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.

Reclassifications

Certain reclassifications have been made in the 2015 consolidated financial statements to conform to the method of presentation used in 2016.

NOTE 2: FAIR VALUE MEASUREMENTS

At December 31, 2016 and 2015, 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.

NOTE 2: FAIR VALUE MEASUREMENTS (Continued)

The fair value measurements by input level follow:

December 31, 2016	Total	Level 1	Level 2	Level 3
Impaired loans	**$ 8,825,589**	**$ -**	**$ -**	**$ 8,825,589**
Foreclosed property	**85,969**	**-**	**-**	**85,969**
Investment securities	**7,983,613**	**-**	**7,983,613**	**-**

December 31, 2015	Total	Level 1	Level 2	Level 3
Impaired loans	$ 3,181,929	$ -	$ -	$ 3,181,929
Foreclosed property	68,657	-	-	68,657
Investment securities	5,803,936	2,944	5,800,992	-

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,	2016	2015
Receivable in less than one year	**$ 3,802,627**	$ 1,386,500
Receivable in one to five years	**1,063,016**	100,000
Receivable in six to seven years	**40,000**	60,000
	4,905,643	1,546,500
Less adjustment to reflect grants receivable at fair value at the date of grant, based on 1.88% discount rate in 2016 and 1.25% in 2015	**(76,241)**	(22,764)
	$ 4,829,402	$ 1,523,736

NOTE 4: INVESTMENT SECURITIES

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

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

NOTE 4: INVESTMENT SECURITIES (Continued)

December 31, 2015	**Amortized Cost**	**Fair Value**
Government agencies	$ 2,510,527	$ 2,499,203
Residential mortgage-backed securities	2,505,242	2,492,837
Municipal bonds	804,622	809,007
Equity securities	2,889	2,889
Total	$ 5,823,280	$ 5,803,936

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

December 31, 2016	**Amortized Cost**	**Fair Value**
Due within one year	$ 750,060	$ 749,656
Due after one year through five years	3,990,999	3,983,705
Due after five years through ten years	2,187,899	2,173,470
Due after ten years through fifteen years	1,048,991	1,035,901
Due after twenty years	41,775	40,880
	$ 8,019,724	$ 7,983,612

NOTE 5: LOANS AND COMMITMENTS

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

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

December 31,	**2016**	2015
Commercial loans	**$57,720,630**	$65,399,936
Forgivable mortgage loans	**1,941,938**	2,821,781
Other consumer mortgage loans not held for sale	**4,798**	5,049
Allowance for loan losses	**(3,855,025)**	(4,417,598)
	$ 55,812,341	$ 63,809,168

NOTE 5: LOANS AND COMMITMENTS (Continued)

Included in commercial loans are New Market Tax Credit program loans originated by community development entities which aggregated approximately $44,025,000 and $49,025,000 at December 31, 2016 and 2015, respectively. These loans typically have seven year repayment terms and include interest-only loans of approximately $44,025,000 and $49,025,000 at December 31, 2016 and 2015, respectively, which will begin to mature in 2017.

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, 2016	**Individually**	**Collectively**	**Individually**	**Collectively**	**Net**
Commercial loans secured by:					
Commercial real estate	**$ 313,554**	**$ 18,892,223**	**$ 76,024**	**$ 406,700**	**$ 18,723,053**
Single family real estate	**62,622**	**5,655,679**	**-**	**185,753**	**5,532,548**
Multi-family real estate	**640,718**	**4,307,453**	**152,384**	**56,038**	**4,739,749**
Other business assets	**11,082,704**	**10,087,361**	**2,765,781**	**104,483**	**18,299,801**
Construction	**52,197**	**6,152,579**	**42,801**	**35,752**	**6,126,223**
Unsecured commercial loans	**-**	**473,540**	**-**	**29,309**	**444,231**
Totals	**$ 12,151,795**	**$ 45,568,835**	**$ 3,036,990**	**$ 818,035**	**$ 53,865,605**
December 31, 2015					
Commercial loans secured by:					
Commercial real estate	$ 5,575,919	$ 17,124,285	$ 2,945,488	$ 200,991	$ 19,553,725
Single family real estate	79,569	10,221,871	-	307,754	9,993,686
Multi-family real estate	644,451	1,642,331	109,557	29,210	2,148,015
Other business assets	370,033	23,183,457	88,303	651,951	22,813,236
Construction	-	6,220,872	-	38,395	6,182,477
Unsecured commercial loans	24,057	313,091	16,970	28,979	291,199
Totals	$ 6,694,029	$ 58,705,907	$ 3,160,318	$ 1,257,280	$ 60,982,338

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

December 31,	**2016**	2015
Balance at beginning of year	**$ 4,417,598**	$ 2,170,702
Provisions charged to program expense	**779,387**	2,255,587
Loans charged off and foreclosed	**(1,341,960)**	(50,601)
Loan recoveries	**-**	41,910
Balance at end of year	**$ 3,855,025**	$ 4,417,598

NOTE 5: LOANS AND COMMITMENTS (Continued)

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

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

Year ended December 31, 2015	Balance at Beginning of Year	Charge-offs	Recoveries	Provision for Loan Losses	Balance at End of Year
Commercial loans secured by:					
Commercial real estate	$ 769,124	$ -	$ 41,910	$ 2,335,445	$ 3,146,479
Single family real estate	307,895	(19,650)	-	19,509	307,754
Multi-family real estate	172,402	-	-	(33,635)	138,767
Other business assets	765,986	(17,794)	-	(7,938)	740,254
Construction	86,308	-	-	(47,913)	38,395
Unsecured commercial loans	68,987	(13,157)	-	(9,881)	45,949
	$ 2,170,702	$ (50,601)	$ 41,910	$ 2,255,587	$ 4,417,598

Loan commitments are made to accommodate the financial needs of the Company's customers. These arrangements have credit risk essentially the same as that involved in extending loans to customers of commercial banks and are subject to the Company's normal credit practices. The Company uses the same credit policies in making these commitments and conditional obligations as it does for on-balance sheet instruments. The Company's maximum exposure to credit loss in the event of nonperformance by the other party for loan commitments (including unused lines of credit) was approximately $1,840,000 and $295,000 at December 31, 2016 and 2015, respectively.

Approximately $3,052,000 and $329,000 of the allowance for loan losses relates to non-accrual loans at December 31, 2016 and 2015, respectively. The Company had non-accrual loans with 14 customers totaling approximately $12,361,000 at December 31, 2016. The Company had non-accrual loans with 14 customers totaling approximately $1,613,000 at December 31, 2015. There were no loans past due 90 days or more and still accruing interest at December 31, 2016 and 2015.

The Company had impaired loans of approximately $12,152,000 and $6,694,000 as of December 31, 2016 and 2015, respectively. There was approximately $3,037,000 and $3,160,000 in the allowance for loan losses specifically allocated to these impaired loans at December 31, 2016 and 2015,

NOTE 5: LOANS AND COMMITMENTS (Continued)

respectively. Impaired loans with no allowance for loan losses specifically allocated to these loans approximated $289,000 and $352,000 at December 31, 2016 and 2015, respectively, have no allowance for loan losses specifically allocated to these loans. The average balance of impaired loans was approximately $4,085,000 in 2016 and $6,856,000 in 2015. Income recognized on impaired loans was approximately $120,000 in 2016 and $84,000 in 2015.

Information relative to impaired loans is as follows:

December 31, 2016	Unpaid Principal Balance	Total Loans with No Specific Allowance	Total Loans with a Specific Allowance	Specific Allowance
Commercial loans secured by:				
Commercial real estate	**$ 313,554**	**$ 189,220**	**$ 124,334**	**$ 76,024**
Single family real estate	**62,622**	**62,622**	**-**	**-**
Multi-family real estate	**640,718**	**-**	**640,718**	**152,384**
Other business assets	**11,082,704**	**37,374**	**11,045,330**	**2,765,781**
Construction	**52,197**	**-**	**52,197**	**42,801**
Total impaired loans	**$12,151,795**	**$ 289,216**	**$11,862,579**	**$ 3,036,990**
December 31, 2015				
Commercial loans secured by:				
Commercial real estate	$ 5,575,919	$ 191,362	$ 5,384,557	$ 2,945,488
Single family real estate	79,569	79,569		-
Multi-family real estate	644,451	-	644,451	109,557
Other business assets	370,033	80,851	289,182	88,303
Unsecured commercial loans	24,057	-	24,057	16,970
Total impaired loans	$ 6,694,029	$ 351,782	$ 6,342,247	$ 3,160,318

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

December 31, 2015	Current	Past Due 30-89 Days	Past Due Greater Than 90 Days	Nonaccrual	Total
Commercial loans secured by:					
Commercial real estate	$ 22,064,285	$ -	$ -	$ 635,919	$ 22,700,204
Single family real estate	10,232,281	-	-	69,159	10,301,440
Multi-family real estate	1,642,331	-	-	644,451	2,286,782
Other business assets	23,264,308	35,597	-	253,585	23,553,490
Construction	6,220,872	-	-	-	6,220,872
Unsecured commercial loans	327,267	-	-	9,881	337,148
Commercial loans	$ 63,751,344	$ 35,597	$ -	$1,612,995	$ 65,399,936

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 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.

NOTE 5: LOANS AND COMMITMENTS (Continued)

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

December 31, 2016	Pass Categories	Special Mention Category	Substandard Category	Doubtful Category	Total
Commercial loans secured by:					
Commercial real estate	$ 16,142,829	$ 2,749,394	$ 71,026	$ 242,528	$ 19,205,777
Single family real estate	5,293,452	362,226	40,856	21,766	5,718,300
Multi-family real estate	4,242,590	64,864	-	640,718	4,948,172
Other business assets	9,876,428	210,933	11,082,704	-	21,170,065
Construction	6,152,579	-	52,197	-	6,204,776
Unsecured commercial loans	153,557	319,983	-	-	473,540
Totals	$ 41,861,435	$ 3,707,400	$ 11,246,783	$ 905,012	$ 57,720,630
December 31, 2015					
Commercial loans secured by:					
Commercial real estate	$ 16,647,290	$ 476,995	$ -	$ 5,575,919	$ 22,700,204
Single family real estate	10,221,871	-	-	79,569	10,301,440
Multi-family real estate	1,642,331	-	-	644,451	2,286,782
Other business assets	22,589,142	594,315	35,597	334,436	23,553,490
Construction	6,220,872	-	-	-	6,220,872
Unsecured commercial loans	303,396	9,695	14,176	9,881	337,148
Totals	$ 57,624,902	$ 1,081,005	$ 49,773	$ 6,644,256	$ 65,399,936

NOTE 6: INVESTMENT IN AFFILIATED COMPANIES

Summarized, unaudited financial information of Hickory Holdings, LLC (Hickory) is as follows:

December 31,	2016	2015
Assets		
Current assets	$ 930,326	$ 1,391,633
Machinery and equipment	44,921,020	48,248,503
Deferred loan costs	653,934	696,582
	$ 46,505,280	$ 50,336,718
Liabilities and Members' Equity		
Current liabilities	$ 475,433	$ 994,217
Long-term debt	40,369,000	40,369,000
Equity of preferred unitholders	5,570,835	8,883,489
Equity of common unitholders	90,012	90,012
	$ 46,505,280	$ 50,336,718

NOTE 6: INVESTMENT IN AFFILIATED COMPANIES (Continued)

Years ended December 31,	**2016**	2015
Results of Operations		
Rental revenue	**$ 1,407,500**	$ 1,407,500
Interest expense	**950,866**	950,866
Depreciation	**3,327,483**	1,663,741
Other expenses	**78,370**	63,210
Net earnings (loss)	**$ (2,949,219)**	$ (1,270,317)

During 2016 and 2015, ECDNM5 received cash dividends of approximately $213,000 and $426,000, respectively, from Hickory.

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

December 31, 2016	
Assets	
Cash	**$ 25,601**
Property and equipment	**3,153,897**
Other assets	**42,761**
	$ 3,222,259
Liabilities and Members' Equity	
Accounts payable	**$ 8,859**
Deposits	**13,403**
Notes payable	**3,551,575**
Capital and retained deficit	**(351,578)**
	$ 3,222,259

Year ended December 31, 2016	
Results of Operations	
Revenue	**$ 488,433**
Interest expense	**100,808**
Depreciation	**85,273**
Other expenses	**388,992**
Net earnings (loss)	**$ (86,640)**

NOTE 7: SECONDARY CAPITAL OF HOPE FEDERAL CREDIT UNION

Secondary capital of HFCU are loans that require principal repayments, unless HFCU (i) is unable to fully service existing senior indebtedness, (ii) is unable to satisfy its operating expenses, or (iii) does not have available cash flows for the withdrawals of funds for the account. If such loans are not required to be repaid, they will be recognized as expense in the period the losses are incurred. The advances include a fixed rate loan at 5.45% for $2,800,000 with quarterly principal payments of

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

$250,000, two fixed rate loans at 1.00% for $5,000,000 and $2,000,000 maturing on December 31, 2020, a fixed rate loan a 1.00% for $1,000,000 maturing on April 29, 2025, and three variable rate loans aggregating $1,925,000 with interest floors and caps from 5.00% - 10.90% (with effective rates of 5.00% - 5.45% at December 31, 2016), maturing in 2024 – 2025, with principal payments required each year until maturity. Interest income received from HFCU relative to the secondary capital loans approximated $312,000 and $405,000 for the years ended December 31, 2016 and 2015, respectively.

Maturities of secondary capital loans at December 31, 2016 are scheduled as follows:

2017	$ 750,000
2020	7,000,000
Thereafter	3,975,000
	$ 11,725,000

The Company incurred expenses approximating $3,705,000 and $615,000 relative to its obligation to reimburse certain operating expenses of HFCU in 2016 and 2015, respectively. The Company incurred approximately $1,651,000 and $900,000 in 2016 and 2015, respectively, for grants to HFCU which are included in development finance expense in the accompanying consolidated statements of activities.

Accounts receivable for certain expenses paid on behalf of HFCU approximated $1,418,000 at December 31, 2016. Accounts receivable to HFCU for grants and contractual services aggregated approximated $2,411,000 at December 31, 2015. The Company had deposit accounts with HFCU as of December 31, 2016 and 2015, totaling approximately $10,736,000 and $4,581,000, respectively.

NOTE 8: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

December 31,	**2016**	2015
Computer equipment	**$ 3,390,518**	3,106,008
Office equipment and other	**687,114**	751,384
Building and improvements	**1,833,703**	1,629,539
	5,911,335	5,486,931
Accumulated depreciation	**(4,027,508)**	(3,738,875)
	$ 1,883,827	$ 1,748,056

NOTE 9: FORECLOSED PROPERTY

An analysis of foreclosed property follows:

December 31,	**2016**	2015
Balance at beginning of year	**$ 244,556**	$ 1,402,150
Transfer from loans	**144,000**	68,657
Transfer to loan guarantees receivable	**-**	(315,744)
Carrying value of foreclosed property sold	**(14,405)**	(910,507)
Impairments recognized	**(58,031)**	-
Balance at end of year	**$ 316,120**	$ 244,556

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 $71,000 in 2016 and $69,000 in 2015.

NOTE 11: NOTES PAYABLE

The Company has entered into two loan facilities with banks 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 facilities 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, 2016, were approximately $4,751,000 and $1,500,000, respectively. The outstanding balances under these loan facilities at December 31, 2015, were approximately $4,217,000 and $3,000,000, 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 on all notes payable approximated $684,000 and $769,000 in 2016 and 2015, respectively. The Company recognized interest expense of approximately $49,000 and $52,000 during 2016 and 2015, respectively, related to its mortgage and note payable to HFCU.

NOTE 11: NOTES PAYABLE (Continued)

Notes payable consisted of the following:

December 31,	**2016**	2015
1% notes payable:		
interest due annually and maturing 2020 through 2024	**$ 6,500,000**	$ 6,500,000
interest due quarterly and maturing from 2017 through 2025	**3,499,417**	3,499,528
interest due at maturity, January 2025	**2,000,000**	2,000,000
Notes payable to banks with interest due quarterly:		
interest payable at 3.25%, maturing from 2022 through 2025	**1,000,000**	1,000,000
interest payable at 6.875%, maturing in December 2017	**1,000,000**	2,000,000
1.35% note payable to bank with interest due at maturity	**999,944**	999,944
4.30% note payable with interest due monthly, maturing in 2018	**1,500,000**	3,000,000
Note payable bearing interest at 4% annually, maturing from 2018 through 2022	**4,751,191**	2,371,050
4.25% mortgage payable to HFCU with monthly installments of $7,773, including interest at prime plus 1.5%, payable until final ballon in December 2020	**955,007**	999,352
6% note payable to HFCU, payable in monthly installments of $5,849	**-**	22,224
3% notes payable:		
interest due quarterly and maturing 2014 through 2017	**1,000,000**	1,000,000
interest due annually and maturing in 2017	**-**	400,000
Notes payable to non-profit foundations bearing interest at 2.5% with interest due quarterly, maturing 2017-2021	**750,000**	750,000
Note payable to non-profit foundation bearing interest at 2% with interest due at maturity in December 2028	**500,000**	-
Interest free note payable maturing in April 2016	**-**	340,000
Other notes payable, with interest at 1% to 3%	**320,000**	320,000
Total notes payable	**$ 24,775,559**	$ 25,202,098

Notes payable maturities at December 31, 2016, are as follows:

2017	$ 5,066,663
2018	3,386,884
2019	1,086,911
2020	4,244,652
2021	490,504
Thereafter	10,499,945
	$ 24,775,559

NOTE 12: NON-CONTROLLING INTEREST AND NET ASSETS

ECDI has issued 220 Class A units at $25,000 per unit. The owners of the Class A units may elect three of the seven members of the management committee of ECDI. The other four members are appointed by the Company, the sole Class B unit holder. The Company is the sole managing member of ECDA and elects three of the five board of directors of ECDNM. ECDA is the primary investing member of ECDNM. The Company is the sole managing member of ECDNM3, ECDNM4, ECDNM5, HNM1, HNM2, HNM3 and HNM4 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 2016 and 2015.

Dividends in arrears relative to the ECDI Class A units totaled $114,775 at December 31, 2016, and 2015, respectively. Temporarily restricted net assets include approximately $3,087,000 and $196,000 of net assets of Home Again at December 31, 2016 and 2015, respectively, and approximately $16,446,000 (2016) and $8,745,000 (2015) for financial assistance programs offered by the Company. Permanently restricted net assets include approximately $2,129,000 and $1,989,000 at December 31, 2016 and 2015, respectively, of revolving loan funds available to customers of the Company.

The changes in non-controlling interest are as follows:

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

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

	Balance January 1, 2015	Dividends Paid	Net Earnings (Loss)	Balance December 31, 2015
ECDI	$ 1,355,015	$ -	$ (607,790)	$ 747,225
ECDA	1,103,199	(221,532)	212,334	1,094,001
ECD Plus	7,675,938	(7,909,762)	233,824	-
ECD Central	4,850,000	(29,047)	29,047	4,850,000
ECDNM3	8,705,614	(353,427)	353,427	8,705,614
ECDNM4	10,562,380	(85,899)	53,403	10,529,884
ECDNM5	10,699,462	(406,000)	(1,280,211)	9,013,251
HNM1	5,790,922	(43,646)	43,648	5,790,924
HNM2	7,721,229	(77,747)	77,747	7,721,229
HNM3	4,714,526	(35,012)	25,012	4,704,526
HNM4	5,790,920	(85,462)	85,462	5,790,920
	$ 68,969,205	$ (9,247,534)	$ (774,097)	$ 58,947,574

NOTE 13: COMMITMENTS AND CONTENGENCIES

Concentration of Credit Risk

The Company maintains cash balances at a financial institution in excess of insured limits by approximately $10,328,000 at December 31, 2016. The Company periodically assesses the financial condition of the institutions and believes that the risk of any loss is minimal.

Litigation

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

NOTE 14: NATURAL CLASSIFICATION OF EXPENSES

A summary of expenses presented by natural classification follows:

Years ended December 31,	**2016**	2015
Salaries, employee taxes and benefits	**$ 3,288,361**	3,012,518
Bank and payroll fees	**225,913**	219,227
Conferences and employee training	**46,980**	22,818
Contractual services	**3,418,853**	2,595,992
Dues, fees and memberships	**57,163**	53,905
Equipment, furniture and fixtures maintenance	**179,564**	162,235
Forgiveness of mortgage loan debt	**885,843**	846,993
HFCU operational support	**3,705,278**	615,000
Insurance	**165,170**	169,563
Miscellaneous	**9,372**	5,599
Office supplies	**169,726**	181,221
Rent and employee parking	**21,851**	10,234
Repairs and maintenance	**127,880**	137,960
Service fees	**28,129**	11,562
Staff recruitment and relocation	**7,151**	5,688
Telephone and utilities	**898,079**	538,680
Travel	**239,935**	168,462
Interest	**645,910**	755,524
Provision for loan losses	**779,387**	2,255,587
Impairment loss on foreclosed assets	**58,031**	-
Uncollectible loan guarantee receivables	**-**	520,843
Depreciation and amortization	**282,244**	265,103
Totals	**$ 15,240,820**	$ 12,554,714

Schedule 1 – Consolidating Statement of Financial Position

As of December 31, 2016

	ECD Investments, LLC Consolidated	Home Again, Inc.	Hope Enterprise Corporation	New Markets Tax Credit Companies	Eliminations	Consolidated
Assets						
Cash and cash equivalents	$ 768,679	$ 1,531,449	$ 5,790,682	$ 823,996	$ -	$ 8,914,806
Restricted cash	-	-	5,000,169	-	-	5,000,169
Grants receivable	-	1,546,264	3,283,138	-	-	4,829,402
Contract revenue receivable	3,557	-	105,343	72,759	-	181,659
Loan receivable from affiliate	532,253	-	1,946,132	-	(2,478,385)	-
Receivable from Hope Federal Credit Union	8,851	-	1,409,321	-	-	1,418,172
Consumer mortgage loans held for sale	-	-	804,017	-	-	804,017
Other loans	900,350	80,938	13,886,403	40,944,650	-	55,812,341
Loan guarantees receivable	139,032	-	-	-	-	139,032
Investment securities	-	-	7,983,612	-	-	7,983,612
Investment in affiliated company	-	1,036,558	-	5,720,489	-	6,757,047
Investment in subsidiary	-	-	3,307,665	-	(3,307,665)	-
Investment in secondary capital of HFCU	-	-	8,000,000	3,725,000	-	11,725,000
Property and equipment, net	-	-	1,883,827	-	-	1,883,827
Foreclosed property	78,268	-	237,852	-	-	316,120
Other assets	8,420	25,000	503,676	20,000	-	557,096
Total assets	$ 2,439,410	$ 4,220,209	$ 54,141,837	$ 51,306,894	$ (5,786,050)	$ 106,322,300
Liabilities and net assets						
Liabilities:						
Accounts payable and accrued expenses	$ 241,446	$ -	$ 994,727	$ 212,333	$ (440,856)	$ 1,007,650
Funds held in escrow	-	23,097	-	-	-	23,097
Due to affiliates	-	1,036,152	508,173	450,000	(1,994,325)	-
Notes payable	1,500,000	-	23,275,559	-	-	24,775,559
Total liabilities	1,741,446	1,059,249	24,778,459	662,333	(2,435,181)	25,806,306
Total non-controlling interests	621,796	-	-	47,864,549	-	48,486,345
Other unrestricted net assets	76,168	74,011	10,787,830	2,780,012	(3,350,869)	10,367,152
Temporarily restricted	-	3,086,949	16,446,236	-	-	19,533,185
Permanently restricted	-	-	2,129,312	-	-	2,129,312
Total net assets	697,964	3,160,960	29,363,378	50,644,561	(3,350,869)	80,515,994
Total liabilities and net assets	$ 2,439,410	$ 4,220,209	$ 54,141,837	$ 51,306,894	$ (5,786,050)	$ 106,322,300

Hope Enterprise Corporation
Schedule 2 – Consolidating Statement of Activities and Changes in Net Assets

Year ending December 31, 2016

	ECD Investments, LLC Consolidated	Home Again, Inc.	Hope Enterprise Corporation	New Markets Tax Credit Companies	Eliminations	Consolidated
Revenues and gains						
Grants and contributions	$ -	$ 3,046,264	$ 14,625,252	$ -	$ -	$ 17,671,516
In-kind contributions	-	-	1,044,386	-	-	1,044,386
Interest, dividends and related fees:						
Loans and other investments	43,397	-	297,661	1,023,035	(19,943)	1,344,150
Investment securities and cash equivalents	-	145	299,742	-	-	299,887
Net realized and unrealized losses on investment securities	-	(29,052)	(16,501)	-	-	(45,553)
Gain on sale of assets	-	-	-	-	-	-
Contract services revenue	-	-	478,682	64,764	(188,817)	354,629
Total revenues and gains	43,397	3,017,357	16,729,222	1,087,799	(208,760)	20,669,015
Expenses						
Program expenses:						
Development finance	184,192	-	4,994,421	2,301,352	(198,760)	7,281,205
Housing initiative	-	218,594	653,689	-	-	872,283
Policy and advocacy	-	-	825,994	-	-	825,994
Other programs	-	-	2,563,124	-	-	2,563,124
	184,192	218,594	9,037,228	2,301,352	(198,760)	11,542,606
General and administration expense	-	47,027	2,265,809	-	-	2,312,836
Fund-raising and communication	-	-	1,385,378	-	-	1,385,378
Total expenses	184,192	265,621	12,688,415	2,301,352	(198,760)	15,240,820
Equity in loss of affiliated company	-	-	-	(2,950,000)	-	(2,950,000)
Change in net assets before non-controlling interests	(140,795)	2,751,736	4,040,807	(4,163,553)	(10,000)	2,478,195
Non-controlling interests in subsidiaries' losses	125,429	-	-	4,185,630	-	4,311,059
Change in net assets attributable to controlling interest	(15,366)	2,751,736	4,040,807	22,077	(10,000)	6,789,254
Net assets attributable to controlling interest:						
At beginning of year	91,534	409,224	25,322,571	4,018,453	(4,601,387)	25,240,395
Dividends paid to controlling interests	-	-	-	(1,260,518)	1,260,518	-
At end of year	76,168	3,160,960	29,363,378	2,780,012	(3,350,869)	32,029,649
Net assets of non-controlling interests (Note 12)	621,796	-	-	47,864,549	-	48,486,345
Total net assets at end of year	$ 697,964	$ 3,160,960	$ 29,363,378	$ 50,644,561	$ (3,350,869)	$ 80,515,994

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

As of December 31, 2016 (Continued)

	ECDA and Subsidiary	ECD Central	ECDNM3	ECDNM4	ECDNM5	HNM1
Assets						
Cash and cash equivalents	$ 668,490	$ -	$ 1,090	$ 90,488	$ 61,422	$ 606
Contract revenue receivable	-	-	27,759	45,000	-	-
Other loans	-	-	8,687,250	8,249,900	-	5,790,900
Investment in subsidiary	-	-	-	-	-	-
Investment in affiliated company	-	-	-	-	5,720,489	-
Secondary capital of HFCU	3,725,000	-	-	-	-	-
Other assets	-	-	-	-	-	-
Total assets	$ 4,393,490	$ -	$ 8,716,099	$ 8,385,388	$ 5,781,911	$ 5,791,506
Liabilities and net assets						
Liabilities:						
Accounts payable and accrued expenses	$ 34,996	$ -	$ 8,436	$ 126,249	$ 22,647	$ 4
Due to affiliates	450,000	-	-	-	-	-
Total liabilities	484,996	-	8,436	126,249	22,647	4
Total non-controlling interests	1,133,422	-	8,706,622	8,258,236	5,758,693	5,790,923
Other unrestricted net assets	2,775,072	-	1,041	903	571	579
Total net assets	3,908,494	-	8,707,663	8,259,139	5,759,264	5,791,502
Total liabilities and net assets	$ 4,393,490	$ -	$ 8,716,099	$ 8,385,388	$ 5,781,911	$ 5,791,506

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

As of December 31, 2016 (Concluded)

	HNM2	HNM3	HNM4	Combined
Assets				
Cash and cash equivalents	$ 800	$ 500	$ 600	$ 823,996
Contract revenue receivable	-	-	-	72,759
Other loans	7,721,200	4,704,500	5,790,900	40,944,650
Investment in subsidiary	-	-	-	-
Investment in affiliated company	-	-	-	5,720,489
Secondary capital of HFCU	-	-	-	3,725,000
Other assets	10,000	10,000	-	20,000
Total assets	$ 7,732,000	$ 4,715,000	$ 5,791,500	$ 51,306,894
Liabilities and net assets				
Liabilities:				
Accounts payable and accrued expenses	$ 10,000	$ 10,001	$ -	$ 212,333
Due to affiliates	-	-	-	450,000
Total liabilities	10,000	10,001	-	662,333
Total non-controlling interests	7,721,221	4,704,521	5,790,911	47,864,549
Other unrestricted net assets	779	478	589	2,780,012
Total net assets	7,722,000	4,704,999	5,791,500	50,644,561
Total liabilities and net assets	$ 7,732,000	$ 4,715,000	$ 5,791,500	$ 51,306,894

Schedule 4 – Details of New Markets Tax Credit Companies – Combining Statement of Activities and Changes in Net Assets

Year ending December 31, 2016 (Continued)

	ECDA and Subsidiary	ECD Central	ECDNM3	ECDNM4	ECDNM5	HNM1
Revenues and gains						
Interest, dividends and related fees:						
Loans and other investments	$ 231,445	$ 56,757	$ 387,447	$ 68,809	$ -	$ 68,200
Total revenues and gains	231,445	56,757	387,447	68,809	-	68,200
Expenses						
Program expenses:						
Development finance	9,710	(118,500)	31,937	2,276,254	500	24,551
Total expenses	9,710	(118,500)	31,937	2,276,254	500	24,551
Equity in loss of affiliated company	-	-	-	-	(2,950,000)	-
Change in net assets before non-controlling interests	221,735	175,257	355,510	(2,207,445)	(2,950,500)	43,649
Non-controlling interests in subsidiaries' income	(199,070)	(175,239)	(355,474)	2,207,224	2,950,058	(43,649)
Change in net assets attributable to controlling interest	22,665	18	36	(221)	(442)	-
Net assets attributable to controlling interest:						
At beginning of year	4,012,407	500	1,005	1,124	1,013	579
Dividends paid to controlling interests	(1,260,000)	(518)	-	-	-	-
At end of year	2,775,072	-	1,041	903	571	579
Net assets of non-controlling interests (Note 12)	1,133,422	-	8,706,622	8,258,236	5,758,693	5,790,923
Total net assets at end of year	$ 3,908,494	$ -	$8,707,663	$ 8,259,139	$ 5,759,264	$5,791,502

Schedule 4 – Details of New Markets Tax Credit Companies – Combining Statement of Activities and Changes in Net Assets

Year ending December 31, 2016 (Concluded)

	HNM2	HNM3	HNM4	Combined
Revenues and gains				
Interest, dividends and related service fees:				
Loans and other investments	$ 107,155	$ 57,515	$ 110,471	$ 1,087,799
Total revenues and gains	107,155	57,515	110,471	1,087,799
Expenses				
Program expenses:				
Development finance	29,400	22,500	25,000	2,301,352
Total expenses	29,400	22,500	25,000	2,301,352
Equity in loss of affiliated company	-	-	-	(2,950,000)
Change in net assets before non-controlling interests	77,755	35,015	85,471	(4,163,553)
Non-controlling interests in subsidiaries' income	(77,747)	(35,011)	(85,462)	4,185,630
Change in net assets attributable to controlling interest	8	4	9	22,077
Net assets attributable to controlling interest:				
At beginning of year	771	474	580	4,018,453
Dividends paid to controlling interests	-	-	-	(1,260,518)
At end of year	779	478	589	2,780,012
Net assets of non-controlling interests (Note 12)	7,721,221	4,704,521	5,790,911	47,864,549
Total net assets at end of year	$ 7,722,000	$ 4,704,999	$ 5,791,500	$ 50,644,561

Hope Enterprise Corporation
Schedule 5 – ECD Investments, LLC Consolidating Balance Sheet

December 31, 2016

	ECD Investments, BIDCO, Inc.	ECD Investments, LLC	Eliminations	ECD Investments, LLC Consolidated
Assets				
Cash and cash equivalents	$ 147,346	$ 621,333	$ -	$ 768,679
Receivable from Hope Federal Credit Union	8,851	-	-	8,851
Loans, net of allowance for loan losses of $56,982	444,129	456,221	-	900,350
Due from Parent	491,426	3,676,599	(3,635,772)	532,253
Other receivables	3,290	570,298	(570,031)	3,557
Investment in subsidiary	-	1,000,000	(1,000,000)	-
Foreclosed property	78,268	-	-	78,268
Loan guarantees receivable from Small Business Administration	139,032	-	-	139,032
Other assets	8,420	-	-	8,420
Total assets	$ 1,320,762	$ 6,324,451	$(5,205,803)	$ 2,439,410
Liabilities and capital				
Liabilities:				
Accounts payable and accrued expenses	$ 788,024	$ -	$ (546,578)	$ 241,446
Intercompany debt	3,835,600	-	(3,835,600)	-
Other long-term debt	1,500,000	-	-	1,500,000
Total liabilities	6,123,624	-	(4,382,178)	1,741,446
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	-	(4,707,591)	(76,658)	(4,784,249)
Accumulated losses - Class B Member's capital	-	-	(424,829)	(424,829)
Accumulated losses - Class C Members' capital	-	-	(5,125,000)	(5,125,000)
Retained earnings (deficit)	(6,802,862)	-	6,802,862	-
Total capital	(4,802,862)	6,324,451	(823,625)	697,964
Total liabilities and capital	$ 1,320,762	$ 6,324,451	$(5,205,803)	$ 2,439,410

Hope Enterprise Corporation
Schedule 6 – ECD Investments, LLC Consolidating Statement of Operations

Year ended December 31, 2016

	ECD Investments, BIDCO, Inc.	ECD Investments, LLC	Eliminations	ECD Investments, LLC Consolidated
Revenues				
Interest, dividends and related fees:				
Loans and other investments	$ 35,736	$ 223,948	$ (216,287)	$ 43,397
Total revenues and gains	35,736	223,948	(216,287)	43,397
Expenses				
Salaries, employee taxes and benefits	47,974	39,278	-	87,252
Contractual services	(9,132)	22,713	-	13,581
Dues, fees and memberships	739	-	-	739
Foreclosed asset expenses	1,063	-	-	1,063
Insurance	14,925	19,403	-	34,328
Miscellaneous	750	596	-	1,346
Office supplies	312	249	-	561
Rent and employee parking	126	104	-	230
Repairs and maintenance	2,916	372	-	3,288
Service fees	8,019	4,344	-	12,363
Telephone and utilities	4,005	3,373	-	7,378
Interest	236,718	-	(216,287)	20,431
Loss (gain) on foreclosed asset sales	(9,484)	2,308	-	(7,176)
Provision (reduction in reserve) for loan losses	(2,524)	11,332	-	8,808
Total expenses	296,407	104,072	(216,287)	184,192
Change in net assets before non-controlling interests	$ (260,671)	$ 119,876	$ -	$ (140,795)