HOPE ENTERPRISE CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2023 AND 2022

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Hope Enterprise Corporation
Jackson, Mississippi

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Hope Enterprise Corporation and entities under its control (the Company), which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hope Enterprise Corporation and entities under its control as of December 31, 2023 and 2022, and the changes in its consolidated net assets and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Change in Accounting Principle

As discussed in Note 1 to the financial statements, effective January 1, 2023, the Company adopted new accounting guidance for the measurement of credit losses on financial instruments. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Board of Directors
Hope Enterprise Corporation

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2024, on our consideration of Hope Enterprise Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Hope Enterprise Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hope Enterprise Corporation's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Dallas, Texas
March 28, 2024

HOPE ENTERPRISE CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2023 AND 2022

	2023	2022
ASSETS		
Cash and Cash Equivalents	$ 32,775,012	$ 36,596,423
Restricted Cash	7,430,172	4,136,758
Grant and Other Receivables	2,015,058	1,395,646
Contract Revenue Receivable	166,985	468,840
Due from Affiliates	-	2,575,199
Loans Receivable	190,089,798	163,466,828
Allowance for Credit Losses	(3,486,097)	(3,870,122)
Investment Securities	29,060,416	28,147,278
Investment in Secondary Capital of HFCU	38,035,775	38,035,775
Property and Equipment, Net	1,667,546	2,010,707
Other Assets	542,694	446,942
Right-of-Use Asset	144,451	84,341
Total Assets	$ 298,441,810	$ 273,494,615
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	$ 3,502,917	$ 2,787,306
Payable to Hope Federal Credit Union	1,008,457	-
Deferred Revenue	7,441,799	4,894,146
Notes Payable	64,114,197	65,856,391
Lease Liability	171,584	86,052
Total Liabilities	76,238,954	73,623,895
NET ASSETS		
Without Donor Restrictions	32,350,450	39,063,096
Noncontrolling Interests	171,220,109	143,293,561
Total Without Donor Restrictions	203,570,559	182,356,657
With Donor Restrictions	18,632,297	17,514,063
Total Net Assets	222,202,856	199,870,720
Total Liabilities and Net Assets	$ 298,441,810	$ 273,494,615

See accompanying Notes to Consolidated Financial Statements.

HOPE ENTERPRISE CORPORATION
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND GAINS (LOSSES)			
Grants and Contributions	$ 13,296,215	$ 1,473,000	$ 14,769,215
Interest, Dividends, and Related Fees:			
Loans and Other Investments	2,665,074	-	2,665,074
Investment Income, Net	2,034,100	-	2,034,100
Other Gains	79,876	-	79,876
Contract Services Revenue	1,283,341	-	1,283,341
Miscellaneous Loss	(163,085)	-	(163,085)
Subtotal	19,195,521	1,473,000	20,668,521
Net Assets Release from Restrictions:			
Satisfaction of Program Restrictions	354,766	(354,766)	-
Total Revenues and Gains	19,550,287	1,118,234	20,668,521
EXPENSES			
Program Expenses:			
Development Finance	10,968,461	-	10,968,461
Housing Initiative	601,157	-	601,157
Policy and Advocacy	708,728	-	708,728
Other Programs	5,958,952	-	5,958,952
Total Program Expenses	18,237,298	-	18,237,298
Supporting Services:			
General and Administration	6,703,623	-	6,703,623
Fundraising and Communication	476,718	-	476,718
Total Expenses	25,417,639	-	25,417,639
CHANGE IN NET ASSETS BEFORE NONCONTROLLING INTEREST	(5,867,352)	1,118,234	(4,749,118)
Noncontrolling Interests in Subsidiaries' Net Income	(845,294)	-	(845,294)
CHANGE IN NET ASSETS ATTRIBUTABLE TO CONTROLLING INTEREST	(6,712,646)	1,118,234	(5,594,412)
Net Assets Attributable to Controlling Interests - Beginning of Year	39,063,096	17,514,063	56,577,159
NET ASSETS ATTRIBUTABLE TO CONTROLLING INTERESTS - END OF YEAR	32,350,450	18,632,297	50,982,747
Net Assets of Noncontrolling Interests	171,220,109	-	171,220,109
NET ASSETS - END OF YEAR	$ 203,570,559	$ 18,632,297	$ 222,202,856

See accompanying Notes to Consolidated Financial Statements.

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

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

See accompanying Notes to Consolidated Financial Statements.

HOPE ENTERPRISE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets Attributable to Controlling Interests	$ (5,594,412)	$ (998,010)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Noncontrolling Interests in Subsidiaries' Net Income	845,294	536,340
Depreciation and Amortization	411,342	410,692
Loss on Extinguishment of Debt	-	445,289
Noncash Lease Expense	25,422	1,711
Provision for Credit Losses	(69,739)	480,095
Forgiveness of Mortgage Loan Debt	714,439	620,137
Equity in Affiliate	-	1,187,725
Realized and Unrealized Net (Gains) Losses on Investments	(729,193)	3,261,512
Changes in Operating Assets and Liabilities:		
Contract Revenue Receivable	301,855	(360,650)
Grants Receivable	(619,412)	(509,541)
Due from Affiliate	2,575,199	(1,044,771)
Other Receivables and Prepaid Expenses	(95,752)	(6,767)
Accounts Payable and Other Liabilities	715,611	221,760
Payable to HFCU	1,008,457	-
Deferred Revenue	2,547,653	(2,152,068)
Net Cash Provided by Operating Activities	2,036,764	2,093,454
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) Decrease in Loans Held for Investment	(27,267,670)	(2,429,184)
Increase (Decrease) in Allowance for Credit Losses	(384,025)	32,344
Purchases of Investments	(682,897)	(5,004,248)
Proceeds from Maturities and Sales of Investments	498,952	4,050,096
Purchase of Property and Equipment	(68,181)	(466,675)
Net Cash Used by Investing Activities	(27,903,821)	(3,817,667)
CASH FLOWS FROM FINANCING ACTIVITIES		
Return of Capital Contributions to Noncontrolling Interests	28,950,000	35,000,000
Cash Dividends Paid to Noncontrolling Interests	(1,868,746)	(1,587,949)
Proceeds from Issuance of Notes Payable	7,116,519	7,647,509
Payments on Long-Term Borrowings	(8,858,713)	(30,247,156)
Net Cash Provided by Financing Activities	25,339,060	10,812,404
NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(527,997)	9,088,191
Cash, Cash Equivalents, Restricted Cash - Beginning of Year	40,733,181	31,644,990
CASH, CASH EQUIVALENTS, RESTRICTED CASH - END OF YEAR	$ 40,205,184	$ 40,733,181
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	$ 1,287,710	$ 1,146,425

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Company

Hope Enterprise Corporation (the Company) is a nonprofit community development financial institution (CDFI) primarily serving Alabama, Arkansas, Louisiana, Mississippi, and Tennessee. The goal of the Company is to improve the regional economy through investment, jobs, and growth. The services of the Company include financing, management assistance, financial counseling, and market development and are designed to support business creation and expansion, homeownership, and community development.

Principles of Consolidation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and include the accounts of the Company and entities under its control which include, ECD Investments, LLC (ECDI), Home Again, Inc. (Home Again), and twenty-two additional limited liability companies. All significant intercompany transactions and balances have been eliminated in consolidation. The preparation of such consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The allowance for loan losses and the valuation of foreclosed property and investments are determined utilizing material estimates that are particularly susceptible to change in the near term.

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

There are also twenty-two additional limited liability companies included in the consolidated financial statements of the Company. The Company serves as the Managing Member of all twenty-two 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 twenty 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)

Cash and Cash Equivalents

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

At December 31, 2023, the Company's cash accounts exceeded federally insured limits. Although balances at each institution are insured up to $250,000, management believes cash held in excess of these limits subjects the Company to minimal risk.

Restricted Cash

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

Cash and cash equivalents at December 31, 2023 totaling $32,775,012, and restricted cash totaling $7,430,172, as included on the consolidated statement of financial position, equal total cash, cash equivalents, and restricted cash shown of the consolidated statement of cash flows of $40,205,184. Cash and cash equivalents at December 31, 2022 totaling $36,596,423, and restricted cash totaling $4,136,758, as included on the consolidated statement of financial position, equal total cash, cash equivalents, and restricted cash shown of the consolidated statement of cash flows of $40,733,181.

Grants and Contributions Receivable and Revenue

Unconditional grants and contributions are recognized as revenue in the period the commitment is received. Unconditional grants and contributions to be received over a period of time in excess of one year are recorded at fair value at the date of the grant based upon the present value of payments to be received. Conditional grants and contributions are those with a measurable performance or other barrier and a right of return and are not recognized until the conditions have been met. Contributions received totaling $7,441,799 and $4,894,146 at December 31, 2023 and 2022, respectively, have been recognized in the accompanying consolidated statement of financial position as deferred revenue because the conditions on which they depend have not yet been met. Management considers all grants and contributions receivable to be fully collectible and therefore no allowance for uncollectible amounts is necessary. The Company has received $4,284,317 of conditional grants that have not been recognized because the conditions have not been met as of year-end.

Donated Goods and Services

During the year ended December 31, 2023 and 2022 Home Again received donated gift cards totaling $-0- and $5,000, respectively.

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

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

Donated Goods and Services (Continued)

Contributed gift cards were utilized by Home Again's program. There were no donor-imposed restrictions associated with the donated items. During the years ended December 31, 2023 and 2022 Home Again did not monetize any donated goods.

During the years ended December 31, 2023 and 2022, the Company did not receive any donated services.

Contract Services Revenue and Related Receivables

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

The Company receives New Markets Tax Credit (NMTC) allocations as a Community Development Entity (CDE). Revenue from the allocation service fee is recognized when the sub-CDE created by the Company obtains a qualified low-income community investment (QLICI). These fees are included in contract services revenue on the consolidated statements of activities. During the years ended December 31, 2023 and 2022, revenue from these fees totaled $715,550 and $550,001, respectively.

The Company receives fees from the Small Business Administration for originating loans under the Paycheck Protection Program (PPP). Revenue from the origination service fees is recognized when the loan is originated. These fees are included in contract services revenue on the consolidated statement of activities. During the years ended December 31, 2023 and 2022, revenue from these fees totaled $225 and $27,000, respectively.

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.

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

Fair Value Measurements (Continued)

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

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

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

Loans Receivable

Loans receivable are stated at the amount of unpaid principal, less an allowance for credit losses, and consist of commercial loans, consumer mortgage loans, and forgivable mortgage loans. The commercial loans are typically collateralized by property, equipment, inventories, and/or receivables and are generally guaranteed by the principals of the borrowing business entity.

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

Loans Receivable (Continued)

Interest income is computed on the loan balance outstanding and is accrued as earned. Loans are considered past due if the required principal and interest payments have not been received as of the date such payments are due. Unless collection of interest is reasonably certain, as in the case of a government guarantee, the Company generally discontinues the accrual of interest and recognizes income only as received for loans 90 days or more past due. A loan may also be placed in nonaccrual status when, in management's judgment, the collection of interest is doubtful. All interest accrued but not collected for loans that are placed in nonaccrual status or charged off is reversed through interest income unless management believes the accrued interest is recoverable through the liquidation of collateral. Interest received on nonaccrual loans is either applied against principal or reported as interest income, based on management's assessment regarding the recovery of principal. The Company has determined that the impact of capitalizing nonrefundable fees and other costs is not significant. These costs have been expensed as incurred. Management has also issued loans at below-market rates. Interest income from these loans is imputed based on the market rate offered to those of a similar type. Imputed interest is approximately $41,000 as of December 31, 2023 and 2022.

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

Loans receivable also include forgivable mortgage loans that are made to accommodate the financial needs of qualifying customers. The terms of these loans differ significantly from traditional mortgage loans since they are forgivable over a stated period of time, typically from 5 to 15 years, and only become due upon on the sale or transfer of the residence. No principal or interest payments are received for loans made under the forgivable mortgage loan programs. Persons receiving loans under the forgivable mortgage loan programs must meet certain eligibility requirements and agree to occupy the residence for a stated period of time. The Company holds a secured interest in the property until the occupancy period is met. At such time, the interest in the property is transferred to the borrower. No allowance for credit losses has been deemed necessary based on the forgivable nature of the loans and management's evaluation of the excess of the value of the collateral securing the loans over the unforgiven portion of the mortgage loans. The Company recorded approximately $714,000 and $620,000 in debt forgiveness during 2023 and 2022, respectively, related to these mortgage loans.

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

Loans Receivable (Continued)

As of December 31, 2023, the Company has a conditional promise to forgive the following amounts over the next five years:

Years Ending December 31,	Amount
2024	$ 395,207
2025	227,915
2026	200,832
2027	191,457
2028	186,082
Thereafter	1,009,927
Total	$ 2,211,420

Allowance for Loan Losses

Effective, January 1, 2023, the allowance for credit losses on loans is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected. The allowance for credit losses on loans is adjusted through the provision for credit losses to the amount of amortized cost basis not expected to be collected at the balance sheet date. Loan losses are charged off against the allowance for credit losses on loans when the Company determines the loan balance to be uncollectible. Cash received on previously charged off amounts is recorded as a recovery to the allowance for credit losses on loans.

The measurement of expected credit losses encompasses information about historical events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Qualitative adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, or delinquencies, as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors.

Expected credit losses are estimated on a collective basis for groups of loans that share similar risk characteristics. Factors that may be considered in aggregating loans for this purpose include but are not necessarily limited to, product or collateral type and internal risk ratings. For loans that do not share similar risk characteristics with other loans such as collateral dependent loans, expected credit losses are estimated on an individual basis.

Expected credit losses are estimated over the contractual terms of the loans, adjusted for expected prepayments. The contractual term excludes expected extensions, renewals, and modifications unless the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

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

Allowance for Loan Losses (Continued)

Loans are charged off against the allowance for credit losses on loans in the period in which they are deemed uncollectible and recoveries are credited to the allowance for credit losses on loans when received. Expected recoveries on loans previously charged off and expected to be charged-off are included in the allowance for credit losses on loans estimate. Once loans are downgraded to substandard, an assessment of collateral value is made; any outstanding loan balance in excess of fair value less cost to sell is charged off at no later than 180 days delinquency. Additionally, any outstanding balance in excess of fair value of collateral less cost to sell is charged off when the asset is foreclosed by the Company. Commercial and other mortgage loans are charged off when, in management's judgment, they are considered to be uncollectible.

The Company utilized the weighted average remaining maturity (WARM) method in determining expected future credit losses for each of the loan categories. The WARM method considers an estimate of expected credit losses over the remaining life of the financial assets and uses average annual charge-off rates to estimate the allowance for credit losses. For amortizing assets, the remaining contractual life is adjusted by the expected scheduled payments and prepayments. The average annual charge-off rate is applied to the amortization-adjusted remaining life to determine the unadjusted lifetime historical charge-off rate.

The Company’s expected loss estimate is anchored in historical credit loss experience, with an emphasis on all available portfolio data. The Company’s historical look–back period annual loss rates vary for each loan segment but extend back to 2020 through the current period. When historical credit loss experience is not sufficient for a specific portfolio, the entity may supplement its own portfolio data with external models or data.

Qualitative reserves reflect management’s overall estimate of the extent to which current expected credit losses on collectively evaluated loans will differ from historical loss experience. The analysis takes into consideration other analytics performed within the organization, such as enterprise and concentration management, along with other credit–related analytics as deemed appropriate. Management attempts to quantify qualitative reserves whenever possible. The CECL methodology applied focuses on evaluation of qualitative and environmental factors, including but not limited to: (i) evaluation of facts and issues related to specific loans; (ii) management’s ongoing review and grading of the loan portfolio; (iii) consideration of historical loan loss and delinquency experience on each portfolio segment; (iv) trends in past due and nonperforming loans; (v) the risk characteristics of the various loan segments; (vi) changes in the size and character of the loan portfolio; (vii) concentrations of loans to specific borrowers or industries; (viii) existing economic conditions; (ix) the fair value of underlying collateral; and (x) other qualitative and quantitative factors which could affect expected credit losses.

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

Allowance for Loan Losses (Continued)

The Company's CECL estimate applies a forecast that incorporates macroeconomic trends and other environmental factors. Management utilized national, regional, and local leading economic indexes, as well as management judgment, as the basis for the forecast period. The historical loss rate was utilized as the base rate, and qualitative adjustments were utilized to reflect the forecast and other relevant factors.

The Company establishes a specific reserve for individually evaluated loans which do not share similar risk characteristics with the loans evaluated from a collective or pooled basis. These individually evaluated loans are removed from the pooling approach discussed above for the quantitative baseline and include nonaccrual loans and other loans deemed appropriate by management.

Although management believes the allowance for credit losses on loans to be adequate, ultimate losses may vary from its estimates. At least quarterly, the board of directors reviews the adequacy of the allowance for credit losses on loans, including consideration of the relevant risks in the portfolio, current economic conditions, and other factors.

Prior to the adoption of ASC 326, the Company used an incurred loss model to measure an allowance for loan losses.

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

Allowance for Loan Losses (Continued)

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

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

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

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

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

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

Investment Securities

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

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

Investment Securities (Continued)

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

Investment in Affiliated Companies

The Company held a 47.63% equity interest in Homestead Development, LLC (Homestead). The investment is accounted for using the equity method of accounting since the Company does not have a controlling interest. Homestead Development, LLC was liquidated during the year ended December 31, 2022.

Property and Equipment

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

Foreclosed Property

Property acquired through, or in lieu of, loan foreclosure is held for sale and is initially recorded at the fair value of the property acquired at the date of foreclosure net of estimated selling costs, which establishes a new cost basis. Loan balances in excess of the fair value of the property acquired at the date of foreclosure are charged to the allowance for loan losses.

A valuation allowance and a corresponding charge to operations is established to reflect declines in value subsequent to acquisition, if any, below the new basis. Required developmental costs associated with foreclosed property under construction are capitalized and considered in determining the fair value of the property. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in program expenses.

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

Net Assets

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

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

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

Income Taxes

The Company and Home Again have received rulings from the Internal Revenue Service for exemption from income taxes as public charities under Internal Revenue Code Sections 501(c)(3) and 509 (a)(2). Since ECDI, ECDA, ECDNM, and the eighteen New Market Tax Credit entities are limited liability companies, no income taxes are provided. Additionally, two New Market Tax Credit entities are taxed as a C corporation and are subject to income taxes.

Potential exposures involving tax positions taken that may be challenged by taxing authorities contain assumptions based upon past experiences and judgments about potential actions by taxing jurisdictions. Management does not believe that the ultimate settlement of these items will result in a material amount. With minimum exceptions, the Company is no longer subject to income tax examinations prior to 2018.

Change in Accounting Principles

On January 1, 2023, the Company adopted ASU 2016-03, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended (ASC 326), which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss methodology (CECL). The measurement of expected credit losses under CECL is applicable to financial assets measured at amortized cost, including loan receivables and held to maturity securities. It also applies to off-balance sheet credit exposures such as loan commitments and standby letters of credit

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

Change in Accounting Principles (Continued)

The Company adopted the standard using the modified retrospective method for all financial assets measured at amortized cost and for off-balance sheet credit exposures. Results for annual periods beginning after January 1, 2023 are presented under the new CECL model while prior reporting periods continue to be reported in accordance with previously applicable GAAP. The Company recorded an immaterial entry to retained earnings as of January 1, 2023 representing the cumulative effect of adopting this standard.

On March 31, 2022, FASB issued ASU 2022-02, *Financial Instruments—Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures*, which eliminates the troubled debt restructuring ("TDR"), accounting model for creditors that have adopted Topic 326, *Financial Instruments – Credit Losses*. In addition, on a prospective basis, entities will be subject to new disclosure requirements covering modifications of receivables to borrowers experiencing financial difficulty. Upon adoption of this guidance, the Company no longer establishes a specific reserve for modifications made on or after January 1, 2023 to borrowers experiencing financial difficulty. Instead, these modifications are included in their respective loan segment in the allowance for credit losses on loans. The Company has adopted ASU 2022-02 effective on January 1, 2023. The adoption of this standard did not have a material effect on the Company's operating results or financial condition

Subsequent Events

In connection with the preparation of the consolidated financial statements, management of the Company evaluated subsequent events through June 28, 2024, which was the date the consolidated financial statements were available to be issued.

NOTE 2 GRANT AND OTHER RECEIVABLES

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

	2023	2022
Grant Receivable in Less Than One Year	$ 1,403,043	$ 677,500
Grant Receivable in One to Five Years	257,750	535,000
Subtotal	1,660,793	1,212,500
Less: Adjustment to Reflect Grant Receivables at Fair Value at the Date of Grant, Based on 2.5% Discount Rate in 2023 and 2022	(13,712)	(25,990)
Total Grant Receivables	1,647,081	1,186,510
Other Receivables Due in Less Than One Year	367,977	209,136
Total Grant and Other Receivables	$ 2,015,058	$ 1,395,646

NOTE 3 FAIR VALUE MEASUREMENTS

At December 31, 2023 and 2022, the only items carried at fair value in the accompanying consolidated statements of financial position were investment securities, certain collateral-dependent impaired loans, and certain foreclosed property. Investment securities are measured at fair value on a recurring basis with changes in fair value recognized as a change in net assets, whereas impaired loans and foreclosed property are carried at the lower of cost or fair value on a nonrecurring basis and are written down to fair value upon initial recognition or subsequent impairment. Fair value amounts for collateral-dependent loans are generally based on internally developed collateral valuations. These valuations incorporate measures such as recent sales prices for comparable properties or customized discounting criteria.

The fair value measurements by input level follow:

	December 31, 2023			
	Level 1	Level 2	Level 3	Total
Investment Securities	$ -	$ 29,060,416	$ -	$ 29,060,416

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

NOTE 4 INVESTMENT SECURITIES

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

	December 31, 2023	
	Amortized Cost	Fair Value
Government Agencies	$ 2,152,475	$ 1,979,030
Residential Mortgage-Backed Securities	17,633,958	15,942,166
Treasuries	1,275,484	1,199,877
US Treasury Bonds	4,424,451	4,165,580
Municipal Bonds	6,325,671	5,773,763
Total	$ 31,812,039	$ 29,060,416

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

NOTE 4 INVESTMENT SECURITIES (CONTINUED)

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

	December 31, 2023	
	Amortized Cost	Fair Value
US Treasury and Municipal Bonds and Government Agency Securities:		
Due Within One Year	$ 400,625	$ 385,736
Due After One Year Through Five Years	7,977,589	7,365,090
Due After Five Years Through Ten Years	5,799,867	5,367,424
Subtotal	14,178,081	13,118,250
Residential Mortgage-Backed Securities	17,633,958	15,942,166
Total	$ 31,812,039	$ 29,060,416

NOTE 5 LOANS, NET

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

Included in commercial loans is a concentration in New Market Tax Credit program loans originated by community development entities which aggregated approximately $173,975,984 and $139,680,000 at December 31, 2023 and 2022, respectively. These interest-only loans have seven-year repayment terms.

The Coronavirus Aid, Relief and Economic Security Act (CARES Act) was signed into law on March 27, 2020. The CARES Act provided economic relief to individuals and businesses through the Payroll Protection Program (PPP), which allowed financial institutions to grant forgivable, guaranteed Small Business Administration (SBA) loans. The PPP loans do not require payments until six months after funding, mature at 24 or 60 months and bear interest at 1.00%. During the years ended December 31, 2023 and 2022, the Company had approximately $4,843,556 and $13,593,047, respectively, of PPP loans outstanding reported in commercial loans. Management determined that the impact of deferring origination fees associated with the loans was not significant.

NOTE 5 LOANS, NET (CONTINUED)

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

	2023	2022
Commercial Loans	$ 186,613,968	$ 159,492,212
Forgivable Mortgage Loans	3,192,190	3,611,034
Other Consumer Mortgage Loans	283,640	366,788
Subtotal	190,089,798	163,470,034
Allowance for Credit Losses	3,486,097	3,873,328
Total	$ 186,603,701	$ 159,596,706

The Company has sold loan participations to various other companies, which are secured by commercial property. These loan participations were sold without recourse and the Company performs all loan servicing functions on these loans. Loan participations sold and excluded from the commercial loan segment above, totaled approximately $3,478,746 and $5,127,869 at December 31, 2023 and 2022, respectively.

A summary of the activity in the allowance is for credit losses on loans and loan losses for the years ended December 31, 2023 and 2022, respectively, are as follows. The Company adopted CECL as of January 1, 2023. The prior year amounts presented are calculated under the prior accounting standard.

	December 31, 2023				
	Balance - Beginning of Year	Charge-Offs	Recoveries	Credit for Loan Losses	Balance - End of Year
Commercial	$ 3,871,725	$ (330,807)	$ 13,500	$ (69,739)	$ 3,484,679
Other Consumer Mortgage Loans	1,603	(185)	-	-	1,418
Total	$ 3,873,328	$ (330,992)	$ 13,500	$ (69,739)	$ 3,486,097

	December 31, 2022				
	Balance - Beginning of Year	Charge-Offs	Recoveries	Provision for Loan Losses	Balance - End of Year
Commercial	$ 3,838,874	$ (466,167)	$ 18,923	$ 480,095	$ 3,871,725
Other Consumer Mortgage Loans	2,110	(507)	-	-	1,603
Total	$ 3,840,984	$ (466,674)	$ 18,923	$ 480,095	$ 3,873,328

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

The Company has determined an allowance for credit losses on unfunded commitments was not material to the consolidated financial statements as of December 31, 2023.

NOTE 5 LOANS, NET (CONTINUED)

The provision for credit losses is determined by the Credit Union as the amount to be added to the allowance for credit losses for various types of financial instruments including loans, investment securities, and unfunded commitments after net charge-offs have been deducted to bring the allowance for credit losses to a level that, in management's judgment, is necessary to absorb expected credit losses over the lives of the respective financial instruments. The components of the provision for credit losses included in the statements of income for the years ended December 31, 2023 and 2022 related entirely to loans.

A loan is considered to be collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. For collateral dependent loans, expected credit losses are based on the estimated fair value of the collateral at the balance sheet date, with consideration for estimated selling costs if satisfaction of the loan depends on the sale of the collateral. The following tables present collateral dependent loans by portfolio segment and collateral type, including those loans with and without a related allowance allocation.

The allowance for credit losses for loans considered to be collateral dependent as of December 31, 2023 is as follows:

	Commercial	Other Consumer Mortgage Loans	Total
Allowance for Credit Losses:			
Ending Balance: Collateral Dependent	$ 2,287,200	$ -	$ 2,287,200
Loans:			
Ending Balance: Collateral Dependent	$ 6,075,851	$ -	$ 6,075,851

Collateral dependent commercial real estate loans, both owner occupied and non-owner occupied are valued by independent external appraisals. These external appraisals are prepared using the sales comparison approach and income approach valuation techniques. Estimated fair values are reduced to account for sales commissions, broker fees, unpaid property taxes and additional selling expenses to arrive at an estimated net realizable value. Management may make subsequent unobservable adjustments to the collateral dependent loan appraisals.

The allowance for loan losses for loans evaluated individually and collectively for impairment by collateral class as of year ended December 31, 2022.

	December 31, 2022				
	Loans		Allowance		
	Individually	Collectively	Individually	Collectively	Net
Commercial	$ 6,112,127	$ 153,380,085	$ 2,226,390	$ 1,645,335	$ 155,620,487
Other Consumer Mortgage Loans	-	366,788	-	1,603	365,185
Total	$ 6,112,127	$ 153,746,873	$ 2,226,390	$ 1,646,938	$ 155,985,672

NOTE 5 LOANS, NET (CONTINUED)

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

	December 31, 2023				
	Pass Categories	Special Mention Category	Substandard Category	Doubtful Category	Total
Commercial Loans	$ 179,465,045	$ 494,682	$ 6,589,643	$ 64,598	$ 186,613,968

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

As of December 31, 2023 and 2022, all other consumer and forgivable mortgage loans were performing.

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

	December 31, 2023				
	Current	Past Due 30-89 Days	Past Due Greater Than 90 Days and Accruing Interest	Nonaccrual	Total
Commercial Loans	$ 186,613,968	$ -	$ -	$ -	$ 186,613,968
Forgivable Mortgage Loans	3,192,190	-	-	-	3,192,190
Other Consumer Mortgage Loans	283,640	-	-	-	283,640
Total	$ 190,089,798	$ -	$ -	$ -	$ 190,089,798

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

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

	December 31, 2022				
	Average Principal Balance	Unpaid Principal Balance	Total Loans with No Specific Allowance	Total Loans with a Specific Allowance	Specific Allowance
Commercial Loans	$ 7,145,367	$ 6,112,127	$ 113,424	$ 5,998,703	$ 2,226,390

Modifications to borrowers experiencing financial difficulties may include interest rate reductions, principal or interest forgiveness, forbearance, term extensions, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. The Company did not enter into any modifications during the year ended December 31, 2023.

NOTE 5 LOANS, NET (CONTINUED)

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

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

NOTE 6 RELATED PARTY TRANSACTIONS

Under the terms of its contractual arrangements with HFCU, the Company has agreed to reimburse HFCU for certain operating expenses and losses incurred on loans considered to be higher risk than typically underwritten by regulated financial institutions such as HFCU. Such obligations are limited so as to not provide HFCU with annual net income of more than $240,000. HFCU and the Company share the same members of management and certain HFCU members are also borrowers from the Company and its affiliates. The Company incurred expenses of $7,338,845 and $494,300 relative to its obligation to reimburse certain operating expenses of HFCU in 2023 and 2022, respectively.

Secondary capital of HFCU are loans that require principal repayments, unless HFCU (i) is unable to fully service existing senior indebtedness, (ii) is unable to satisfy its operating expenses, or (iii) does not have available cash flows for the withdrawals of funds for the account. If such loans are not required to be repaid, they will be recognized as expense in the period the losses are incurred.

NOTE 6 RELATED PARTY TRANSACTIONS (CONTINUED)

The following table present information related to Secondary capital of HFCU as of December 31, 2023:

		Amount
Fixed Rate Note from ECD New Markets, LLC at an interest rate of 1.00%, maturing on September 30, 2027	$	550,000
Fixed Rate Note from ECD New Markets, LLC at an interest rate of 1.00%, maturing on December 20, 2027		550,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on January 13, 2028		2,000,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on January 13, 2028		3,000,000
Fixed Rate Note from ECD New Markets, LLC at an interest rate of 1.00%, maturing on June 22, 2028		825,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on April 29, 2028		1,000,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on December 31, 2028		5,000,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on December 31, 2028		1,500,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on December 31, 2028		14,560,775
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on December 31, 2028		3,000,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on December 31, 2028		2,000,000
Fixed Rate Note from ECD New Markets, LLC at an interest rate of 1.00%, maturing on January 1, 2030		1,050,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 3.00%, maturing on December 17, 2030		3,000,000
Total Secondary Capital of HFCU	$	38,035,775

Interest income received from HFCU relative to the secondary capital loans was $410,608 and $440,358 for the years ended December 31, 2023 and 2022, respectively. No repayments are due on the above secondary capital loans until 2027 and thereafter.

The Company incurred $100,000 and $-0- in 2023 and 2022, respectively for grants to HFCU which are included in development finance expense in the accompanying consolidated statements of activities.

NOTE 6 RELATED PARTY TRANSACTIONS (CONTINUED)

Accounts payable to HFCU for grants and contractual services totaled $1,008,457 and $-0- as of December 31, 2023 and 2022, respectively. The Company had deposit accounts with HFCU as of December 31, 2023 and 2022, totaling $35,769,677 and $20,112,099, respectively.

The Company has a mortgage and note payable to HFCU with an outstanding principal balance of $729,001 and $744,013, respectively at December 31, 2023 and 2022. See terms of note at Note 8.

NOTE 7 PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2023	2022
Computer Equipment	$ 5,373,135	$ 5,306,394
Office Equipment and Other	932,831	931,773
Buildings and Improvements	2,027,655	2,027,655
Construction in Progress	6,000	6,000
Subtotal	8,339,621	8,271,822
Less: Accumulated Depreciation	(6,672,075)	(6,261,115)
Total	$ 1,667,546	$ 2,010,707

NOTE 8 NOTES PAYABLE

The Company also entered into one loan facility with the bank to provide funding in amounts up to $85,000,000. The outstanding balance under this loan facility at December 31, 2023 and 2022 are $4,872,747 and $12,040,731, respectively. The proceeds of this facility are to be used to provide Paycheck Protection Program Loans (see Note 5) and are secured by such outstanding loans. All remaining notes payable of the Company are unsecured except for collateral consisting of a first real estate mortgage on the corporate office facilities relative to the note payable to HFCU.

The Company recognized interest expense of $44,131 and $44,344 during 2023 and 2022, respectively, related to its mortgage and note payable to HFCU.

NOTE 8 NOTES PAYABLE (CONTINUED)

Notes payable consist of the following as of December 31:

	2023	2022
1% Notes Payable:		
Interest Due Quarterly and Maturing from 2020 through 2025	$ 6,999,417	$ 6,999,417
Interest Due Quarterly and Maturing from 2025 through 2027	1,000,000	1,000,000
Interest Due Annually and Maturing from 2023 through 2030	300,000	1,800,000
Interest Due Quarterly and at Maturity, March 2031	5,000,000	5,000,000
1.5% Note Payable, Interest Due Quarterly and Maturing in 2026	560,775	560,775
1.5% Note Payable, Interest Due Quarterly and Maturing in 2027	141,605	141,605
1.5% Note Payable, Interest Due Quarterly and Maturing in 2028	110,000	-
2.4% Note Payable, Interest Due Quarterly and Maturing in 2031	4,000,000	2,000,000
Notes Payable to Banks with Interest Due Quarterly:		
Interest Payable at 3% and Maturing in 2025	173,708	307,906
Interest Payable at 3% and Maturing in 2030	5,000,000	-
Interest Payable at 3.25% and Maturing from 2025 through 2028	1,000,000	1,000,000
0.35% Note Payable Secured by Pledged PPP Loans, Maturing as the Pledged Loans Mature	4,872,747	12,040,731
1.35% Note Payable with Interest Due Monthly, Maturing in 2024	999,944	999,944
2% Note Payable:		
Interest Due Quarterly and Maturing from 2031 to 2033	5,000,000	5,000,000
Interest Due Semi-Annually and Maturing in 2026	3,000,000	3,000,000
Interest Due Quarterly and Maturing in 2027	1,500,000	1,500,000
3% Notes Payable:		
Interest Due Quarterly and Maturing in 2026	4,000,000	4,000,000
Interest Due Quarterly and Maturing in 2028	3,000,000	3,000,000
Interest Due Quarterly and Maturing in 2030	10,000,000	10,000,000
4.75% Mortgage Payable to HFCU with Monthly Installments of $5,099, Including Interest at Prime Plus 1.5%, Payable Until Final Balloon in February 2031	729,001	744,013
Note Payable to Nonprofit Foundation Bearing Interest at 2% with Interest Due Quarterly, Maturing in 2026	250,000	250,000
Note Payable to Nonprofit Foundation Bearing Interest at 2% with Interest Due Quarterly and Maturing from 2026 through 2028	752,000	752,000
Interest Free Notes Payable:		
Nonprofit Foundation Maturing in 2024	400,000	400,000
Nonprofit Foundation Maturing in 2025	250,000	250,000
Other Notes Payable, with Interest at 1% to 2.5%	75,000	110,000
2% Line of Credit with Interest Due Monthly, Maturing in 2029	5,000,000	5,000,000
Total Notes Payable	$ 64,114,197	$ 65,856,391

NOTE 8 NOTES PAYABLE (CONTINUED)

All notes payable without collateral described above represent unsecured notes.

Notes payable maturities at December 31, 2023, are as follows:

Years Ending December 31,	Amount
2024	$ 2,583,529
2025	1,114,617
2026	13,500,352
2027	2,667,062
2028	636,949
Thereafter	43,611,688
Total	$ 64,114,197

NOTE 9 NET ASSETS

Net Assets With Donor Restrictions

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

	2023	2022
Net Assets Subject to Expenditures for Specified Purpose:		
Development Finance Activities	$ 17,473,001	$ 16,024,218
Housing Initiative Activities	242,185	369,500
Other Program Activities	262,533	387,833
Subtotal	17,977,719	16,781,551
Net Assets Subject to Passage of Time:		
For Periods after December 31	40,000	40,000
Net Assets to be Maintained in Perpetuity:		
Revolving Loan Funds	614,578	692,512
Total Net Assets with Donor Restrictions	$ 18,632,297	$ 17,514,063

Noncontrolling Interests

ECDI has issued 220 Class A units at $25,000 per unit. The owners of the Class A units may elect three of the seven members of the management committee of ECDI. The Company, the sole Class B unit holder, appoints the other four members. The Company is the sole managing member of ECDA and elects three of the five board of directors of ECDNM. ECDA is the primary investing member of ECDNM. The Company is the sole managing member of twenty additional New Market Tax Credit entities and elects two of the three board of directors of each company. Although the Company controls the board of directors of these entities, the Company has only a minor investment in these entities and thus receives minimal allocations of earnings or losses. Further, the Company received minimal distributions from these entities during 2023 and 2022. Dividends in arrears relative to the ECDI Class A units totaled $114,775 at December 31, 2023 and 2022,.

NOTE 9 NET ASSETS (CONTINUED)

Noncontrolling Interests (Continued)

The changes in noncontrolling interest are as follows:

	Balance - January 1, 2023	Equity Investment	Dividends Paid	Net Earnings (Loss)	Balance - December 31, 2023
ECD Investments Consolidated	$ (405,483)	$ -	$ -	$ (7)	$ (405,490)
ECD Associates Consolidated	1,159,082	-	(25,862)	(16,898)	1,116,322
Hope New Markets 5	3,530,914	-	(98,172)	(155,254)	3,277,488
Hope New Markets 6	10,846,664	-	(18,482)	45,812	10,873,994
Hope New Markets 7	7,721,228	-	(77,592)	63,626	7,707,262
Hope New Markets 8	7,699,607	-	(217,783)	242,613	7,724,437
Hope New Markets 9	8,686,377	-	(310,237)	294,525	8,670,665
Hope New Markets 10	7,779,326	-	(212,399)	198,432	7,765,359
Hope New Markets 11	8,495,764	-	(6,938)	388,067	8,876,893
Hope New Markets 12	9,659,262	-	(81,333)	63,901	9,641,830
Hope New Markets 13	7,690,838	-	(96,390)	121,220	7,715,668
Hope New Markets 14	6,694,621	-	(59,791)	115,463	6,750,293
Hope New Markets 15	13,387,896	-	(100,790)	212,135	13,499,241
Hope New Markets 16	6,688,182	-	(50,652)	106,324	6,743,854
Hope New Markets 17	9,661,974	-	(96,240)	78,782	9,644,516
Hope New Markets 18	6,755,915	-	(44,569)	32,348	6,743,694
Hope New Markets 19	13,512,149	-	(101,246)	76,804	13,487,707
Hope New Markets 20	7,729,245	-	(64,706)	50,740	7,715,279
Hope New Markets 21	6,000,000	-	(66,469)	(153,085)	5,780,446
Hope New Markets 23	-	7,500,000	(33,435)	(241,008)	7,225,557
Hope New Markets 24	-	14,450,000	(100,562)	(428,197)	13,921,241
Hope New Markets 25	-	7,000,000	(5,098)	(251,049)	6,743,853
Total	$ 143,293,561	$ 28,950,000	$ (1,868,746)	$ 845,294	$ 171,220,109

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

NOTE 10 LIQUIDITY AND AVAILABILITY

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

	2023	2022
Cash and Cash Equivalents	$ 32,775,012	$ 36,596,423
Grants Receivables	1,403,043	677,500
Investment Securities	29,060,416	28,147,278
Loans Receivable	2,324,907	724,229
Loan Guarantees Receivable from SBA	1,398,446	6,488,902
Interest Receivable	166,985	468,840
Financial Assets, at Year End	67,128,809	73,103,172
Less Those Not Available for General Expenditures within One Year, Due to:		
Restricted by Donors	(18,632,297)	(17,514,063)
Lines of Credit Secured by Loan Guarantees Receivable from SBA	(1,398,446)	(6,488,902)
Financial Assets Available to Meet Cash Needs for General Expenditure within One Year	$ 47,098,066	$ 49,100,207

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 8.

NOTE 11 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 $118,006 in 2023 and $94,937 in 2022.

NOTE 12 COMMITMENTS AND CONTINGENCIES

Off-Consolidated Statement of Financial Condition Activities

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

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

NOTE 12 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Off-Consolidated Statement of Financial Condition Activities (Continued)

The Company's maximum exposure to credit loss in the event of nonperformance by the other party for loan commitments (including unused lines of credit) was approximately $195,000 and $4,102,000 at December 31, 2023 and 2022, respectively.

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

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

Credit Enhancement Loans

As of December 31, 2023, HFCU has loans outstanding that are partially collateralized by credit enhancement guarantees from the Company through a charter school credit enhancement program. Total credit enhancement guarantees from the Company for these loans aggregated approximately $11,195,223 and $11,276,000 as of December 31, 2023 and 2022, respectively.

Deferred Compensation Plan

The Company has an executive employment agreement with its principal executive which entitles the principal executive to receive certain benefits based upon years of service and attainment of certain incentives. The Company accrued a liability for past services relative to this deferred compensation arrangement, which was $389,799 and $657,994 as of December 31, 2023 and 2022, respectively.

Concentrations

Contributions totaling $7,125,000 and $5,633,457 were received from three donors and two donors in years ended December 31, 2023 and 2022, respectively, representing 48% and 38% of total revenue, respectively. Should these contribution levels decrease, the Company may be adversely affected.

NOTE 13 FUNCTIONAL CLASSIFICATION OF EXPENSES

A summary of 2023 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			
	Development Finance	Housing Initiative	Policy and Advocacy	Other Programs	Programs Subtotal	General and Administration	Fundraising and Communication	Supporting Subtotal	Total Expenses
Salaries, Employee Taxes, and Benefits	$ 551,245	$ 14,678	$ 496,845	$ 1,433,726	$ 2,496,494	$ 2,366,860	$ 367,395	$ 2,734,255	$ 5,230,749
Bank Fees	15,675	-	-	-	15,675	23,758	-	23,758	39,433
Conferences and Employee Training	4,374	0	26,212	214,077	244,663	36,810	21,310	58,120	302,783
Contractual Services	823,020	-	7,900	3,269,179	4,100,099	652,738	40,704	693,442	4,793,541
Dues, Fees, and Memberships	6,394	1,000	32,621	6,381	46,396	89,069	1,633	90,702	137,098
Equipment, Furniture, and Fixtures	80,481	11	2,378	405,279	488,149	336,518	2,933	339,451	827,600
Forgiveness of Mortgage Loan Debt	219,386	495,053	-	-	714,439	-	-	-	714,439
HFCU Operational Support	7,438,845	-	-	-	7,438,845	-	-	-	7,438,845
Insurance	-	-	-	-	-	244,505	-	244,505	244,505
Miscellaneous	18,305	9,813	7,872	100,036	136,026	190,223	4,153	194,376	330,402
Office Supplies	3,603	850	7,772	229,437	241,662	91,035	7,079	98,114	339,776
Pass Through Grants	1,606,310	-	-	21,900	1,628,210	200,000	-	200,000	1,828,210
Professional Fees	9,271	-	-	31,594	40,865	217,778	-	217,778	258,643
Rent and Employee Parking	7,584	-	-	2,250	9,834	12,153	-	12,153	21,987
Repairs and Maintenance	8,708	-	-	2,658	11,366	122,334	-	122,334	133,700
Service Fees	159,023	53,855	29,637	40,272	282,787	98,438	506	98,944	381,731
Staff Recruitment and	-	-	-	-	-	-	-	-	-
Relocation	20,400	-	-	-	20,400	32,800	-	32,800	53,200
Telephone and Utilities	7,030	5	1,071	45,966	54,072	97,748	821	98,569	152,641
Travel	34,071	8,708	96,420	155,732	294,931	146,415	30,184	176,599	471,530
Interest	41,659	-	-	-	41,659	1,237,643	-	1,237,643	1,279,302
Provision for Credit Losses	(86,923)	17,184	-	-	(69,739)	-	-	-	(69,739)
Depreciation and Amortization	-	-	-	465	465	410,878	-	410,878	411,343
Lease Expense	-	-	-	-	-	95,920	-	95,920	95,920
Total	$ 10,968,461	$ 601,157	$ 708,728	$ 5,958,952	$ 18,237,298	$ 6,703,623	$ 476,718	$ 7,180,341	$ 25,417,639

NOTE 13 FUNCTIONAL CLASSIFICATION OF EXPENSES (CONTINUED)

A summary of 2022 expenses summarized by functional and natural classification follows.

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

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

Supervisory Committee and Board of Directors
Hope Enterprise Corporation
Jackson, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Hope Enterprise Corporation, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Hope Enterprise Corporation's basic financial statements, and have issued our report thereon dated March 28, 2024.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Dallas, Texas
March 28, 2024

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

Board of Directors
Hope Enterprise Corporation
Jackson, Mississippi

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Hope Enterprise Corporation's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Hope Enterprise Corporation's major federal programs for the year ended December 31, 2023. Hope Enterprise Corporation's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Hope Enterprise Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditors' Responsibilities for the Audit of Compliance

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Hope Enterprise Corporation's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of Hope Enterprise Corporation's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Hope Enterprise Corporation's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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

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

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

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

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

We have audited the financial statements of Hope Enterprise Corporation as of and for the year ended December 31, 2023, and have issued our report thereon dated March 28, 2024, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Dallas, Texas
June 28, 2024

HOPE ENTERPRISE CORPORATION
STATEMENT OF FINANCIAL POSITION – NEIGHBORWORKS AMERICA FUNDS
DECEMBER 31, 2023

ASSETS

Loans Receivable	$ -
Total Assets	$ -

LIABILITIES AND NET ASSETS

NET ASSETS	
With Donor Restrictions	-
Total Net Assets	$ -

See accompanying Notes to Schedule of Expenditures of Federal Awards.

HOPE ENTERPRISE CORPORATION
STATEMENT OF ACTIVITIES – NEIGHBORWORKS AMERICA FUNDS
YEAR ENDED DECEMBER 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND GAINS			
Expendable Grants	$ 667,650	$ -	$ 667,650
Net Assets Released from Restrictions:			
Transfer from Changes in Program Restrictions	-		-
Total Revenues and Gains	667,650	-	667,650
EXPENSES			
Other Programs	667,650	-	667,650
Total Expenses	667,650	-	667,650
CHANGE IN NET ASSETS	-	-	-
Net Assets - Beginning of Year	-	-	-
NET ASSETS - END OF YEAR	$ -	$ -	$ -

See accompanying Notes to Schedule of Expenditures of Federal Awards.

HOPE ENTERPRISE CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2023

Federal Grantor/Program Title	Pass-Through Entity Identifying Number	Federal Assistance Listing Number	Total Federal Expenditures
U.S. Department of the Treasury			
NeighborWorks America		99.U01	$ 667,650
Community Development Financial Institutions Program - Equitable Recovery Program		21.033	25,000
Hinds County, Mississippi:			
Coronavirus State and Local Fiscal Recovery Funds	N/A	21.027	1,454,650
Total U.S. Department of the Treasury			2,147,300
U.S. Department of Education			
Credit Enhancement for Charter School Facilities Program		84.354	86,642
Total U.S. Department of Education			86,642
U.S. Department of Housing and Urban Developmen			
City of New Orleans:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	N/A	14.228	1,000,000
Louisiana Agricultural Finance Authority:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	N/A	14.228	465,000
Total U.S. Department of Housing and Urban Developmen			1,465,000
Total Expenditures of Federal Awards			$ 3,698,942

See accompanying Notes to Schedule of Expenditures of Federal Awards.

HOPE ENTERPRISE CORPORATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2023

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal activity of Hope Enterprise Corporation under programs of the federal government for the year ended December 31, 2023. The information in the Schedule is presented in accordance with the requirements of 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Hope Enterprise Corporation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Hope Enterprise Corporation.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 NEIGHBORWORKS AMERICA FUNDS

The Company has a grant agreement with NeighborWorks America which is structured in accordance with Section 607(e) of the Neighborhood Reinvestment Corporation Act, as amended (42 U.S.C. 8101, et. seq.). The agreement provides for the funding of certain ongoing community lending and support projects in the form of capital funds grants. During 2023 and 2022, the Company was awarded NeighborWorks America capital funds grants totaling $556,000 and $559,000, respectively, which is included in revenue. Expenditures relative to these awards are shown in detail in the accompanying schedule of expenditures of federal awards. Of the amounts received from NeighborWorks America, all were considered expendable grants and no amounts were received with donor restrictions. The unexpended portion of donor-restricted grants relates to grant funds held in perpetuity and amounted to $-0- at December 31, 2023 and 2022. As of December 31, 2023, the Company was in compliance with the bonding and insurance requirements of the grant agreement.

NOTE 4 SUBRECIPIENTS

The Company did not provide any federal awards to subrecipients during the year ended December 31, 2023.

NOTE 5 NONCASH ASSISTANCE

The Company did not receive any federal assistance in noncash form during the year ended December 31, 2023.

HOPE ENTERPRISE CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2023

Section I – Summary of Auditors' Results

Financial Statements

1. Type of auditors' report issued: Unmodified

2. Internal control over financial reporting:

   - Material weakness(es) identified? ______ yes __x__ no

   - Significant deficiency(ies) identified? ______ yes __x__ none reported

3. Noncompliance material to financial statements noted? ______ yes __x__ no

Federal Awards

1. Internal control over major federal programs:

   - Material weakness(es) identified? ______ yes __x__ no

   - Significant deficiency(ies) identified? ______ yes __x__ none reported

2. Type of auditors' report issued on compliance for major federal programs: Unmodified

3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR Part 200, Uniform Administrative Requirements, Cost Principals, and Audit Requirements for Federal Award? ______ yes __x__ no

Identification of Major Federal Programs

Assistance Listing Number(s) (ALN)	Name of Federal Program or Cluster
21.027	Coronavirus State and Local Fiscal Recovery Funds
14.228	Community Development Block Grants/ State's Program and Non-Entitlement Grants in Hawaii

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

Auditee qualified as low-risk auditee? __x__ yes ______ no

Section II – Financial Statement Findings

None.

Section III – Findings and Questioned Costs – Federal Awards

None.

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

None.

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

None.

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT ACCOUNTANTS' REPORT

Hope Enterprise Corporation
Jackson, Mississippi

We have performed the procedures enumerated in Exhibit A related to Hope Enterprise Corporation's compliance with areas identified in the Louisiana Legislative Auditor (LLA) Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period January 1, 2023, through December 31, 2023. Hope Enterprise Corporation's management is responsible for compliance with areas identified in SAUPs.

Hope Enterprise Corporation has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of applying procedures and reporting associated findings related to Hope Enterprise Corporation's compliance with specified requirements. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and the associated findings are described in the attached exhibit to this report.

We were engaged by Hope Enterprise Corporation to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the AICPA and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on Hope Enterprise Corporation's compliance with specified requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of Hope Enterprise Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

The purpose of this report is solely to describe the procedures and findings related to Hope Enterprise Corporation's compliance with specified requirements. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the LLA as a public document.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Addison, Texas
August 19, 2024

EXHIBIT A

The procedures and the associated findings are as follows:

1) Written Policies and Procedures

A. Obtain and inspect the entity's written policies and procedures and observe whether they address each of the following categories and subcategories if applicable to public funds and the entity's operations:

i. ***Budgeting***, including preparing, adopting, monitoring, and amending the budget.

ii. ***Purchasing***, including (1) how purchases are initiated, (2) how vendors are added to the vendor list, (3) the preparation and approval process of purchase requisitions and purchase orders, (4) controls to ensure compliance with the Public Bid Law, and (5) documentation required to be maintained for all bids and price quotes.

iii. ***Disbursements***, including processing, reviewing, and approving.

iv. ***Receipts/Collections***, including receiving, recording, and preparing deposits. Also, policies and procedures should include management's actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g., periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation).

v. ***Payroll/Personnel***, including (1) payroll processing, (2) reviewing and approving time and attendance records, including leave and overtime worked, and (3) approval process for employee rates of pay or approval and maintenance of pay rate schedules.

vi. ***Contracting***, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.

vii. ***Travel and Expense Reimbursement***, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers.

viii. ***Credit Cards (and debit cards, fuel cards, purchase cards, if applicable)***, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases).

ix. ***Ethics***, including (1) the prohibitions as defined in Louisiana Revised Statute (R.S.) 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) a requirement that documentation is maintained to demonstrate that all employees and officials were notified of any changes to the entity's ethics policy.

x. ***Debt Service***, including (1) debt issuance approval, (2) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

xi. ***Information Technology Disaster Recovery/Business Continuity***, including (1) identification of critical data and frequency of data backups, (2) storage of backups in a separate physical location isolated from the network, (3) periodic testing/verification that backups can be restored, (4) use of antivirus software on all systems, (5) timely application of all available system and software patches/updates, and (6) identification of personnel, processes, and tools needed to recover operations after a critical event.

xii. ***Prevention of Sexual Harassment***, including R.S. 42:342-344 requirements for (1) agency responsibilities and prohibitions, (2) annual employee training, and (3) annual reporting.

No exceptions noted in the procedures performed.

2) Board or Finance Committee

A. Obtain and inspect the board/finance committee minutes for the fiscal period, as well as the board's enabling legislation, charter, bylaws, or equivalent document in effect during the fiscal period, and

i. Observe that the board/finance committee met with a quorum at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, bylaws, or other equivalent document.

ii. For those entities reporting on the governmental accounting model, observe whether the minutes referenced or included monthly budget-to-actual comparisons on the general fund, quarterly budget-to-actual comparisons, at a minimum, on all proprietary funds, and semi-annual budget-to-actual comparisons, at a minimum, on all special revenue funds. Alternatively, for those entities reporting on the not-for-profit accounting model, observe that the minutes referenced or included financial activity relating to public funds if those public funds comprised more than 10% of the entity's collections during the fiscal period.

iii. For governmental entities, obtain the prior year audit report and observe the unassigned fund balance in the general fund. If the general fund had a negative ending unassigned fund balance in the prior year audit report, observe that the minutes for at least one meeting during the fiscal period referenced or included a formal plan to eliminate the negative unassigned fund balance in the general fund.

iv. Observe whether the board/finance committee received written updates of the progress of resolving audit finding(s), according to management's corrective action plan at each meeting until the findings are considered fully resolved.

No exceptions noted in the procedures performed

3) Bank Reconciliations

A. Obtain a listing of entity bank accounts for the fiscal period from management and management's representation that the listing is complete. Ask management to identify the entity's main operating account. Select the entity's main operating account and randomly select 4 additional accounts (or all accounts if less than 5). Randomly select one month from the fiscal period, obtain and inspect the corresponding bank statement and reconciliation for each selected account, and observe that:

i. Bank reconciliations include evidence that they were prepared within 2 months of the related statement closing date (e.g., initialed and dated or electronically logged);

ii. Bank reconciliations include written evidence that a member of management or a board member who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation within 1 month of the date the reconciliation was prepared (e.g., initialed and dated or electronically logged); and

iii. Management has documentation reflecting it has researched reconciling items that have been outstanding for more than 12 months from the statement closing date, if applicable.

No exceptions noted in the procedures performed.

4) Collections (excluding electronic funds transfers)

A. Obtain a listing of deposit sites for the fiscal period where deposits for cash/checks/money orders (cash) are prepared and management's representation that the listing is complete. Randomly select 5 deposit sites (or all deposit sites if less than 5).

B. For each deposit site selected, obtain a listing of collection locations and management's representation that the listing is complete. Randomly select one collection location for each deposit site (e.g., 5 collection locations for 5 deposit sites), obtain and inspect written policies and procedures relating to employee job duties (if there are no written policies or procedures, then inquire of employees about their job duties) at each collection location, and observe that job duties are properly segregated at each collection location such that

i. Employees responsible for cash collections do not share cash drawers/registers;

ii. Each employee responsible for collecting cash is not also responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (e.g., pre-numbered receipts) to the deposit;

iii. Each employee responsible for collecting cash is not also responsible for posting collection entries to the general ledger or subsidiary ledgers, unless another employee/official is responsible for reconciling ledger postings to each other and to the deposit; and

iv. The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or custodial fund additions, is (are) not also responsible for collecting cash, unless another employee/official verifies the reconciliation.

C. Obtain from management a copy of the bond or insurance policy for theft covering all employees who have access to cash. Observe that the bond or insurance policy for theft was in force during the fiscal period.

D. Randomly select two deposit dates for each of the 5 bank accounts selected for Bank Reconciliations procedure #3A (select the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly select a deposit if multiple deposits are made on the same day). *Alternatively, the practitioner may use a source document other than bank statements when selecting the deposit dates for testing, such as a cash collection log, daily revenue report, receipt book, etc.* Obtain supporting documentation for each of the 10 deposits and

i. Observe that receipts are sequentially pre-numbered.

ii. Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.

iii. Trace the deposit slip total to the actual deposit per the bank statement.

iv. Observe that the deposit was made within one business day of receipt[1] at the collection location (within one week if the depository is more than 10 miles from the collection location or the deposit is less than $100 and the cash is stored securely in a locked safe or drawer).

v. Trace the actual deposit per the bank statement to the general ledger.

No exceptions noted in the procedures performed.

5) Non-Payroll Disbursements (excluding card purchases, travel reimbursements, and petty cash purchases)

A. Obtain a listing of locations that process payments for the fiscal period and management's representation that the listing is complete. Randomly select 5 locations (or all locations if less than 5).

B. For each location selected under procedure #5A above, obtain a listing of those employees involved with non-payroll purchasing and payment functions. Obtain written policies and procedures relating to employee job duties (if the agency has no written policies and procedures, then inquire of employees about their job duties), and observe that job duties are properly segregated such that

i. At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order or making the purchase;

ii. At least two employees are involved in processing and approving payments to vendors;

iii. The employee responsible for processing payments is prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files;

iv. Either the employee/official responsible for signing checks mails the payment or gives the signed checks to an employee to mail who is not responsible for processing payments; and

v. Only employees/officials authorized to sign checks approve the electronic disbursement (release) of funds, whether through automated clearinghouse (ACH), electronic funds transfer (EFT), wire transfer, or some other electronic means.

C. For each location selected under procedure #5A above, obtain the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtain management's representation that the population is complete. Randomly select 5 disbursements for each location, obtain supporting documentation for each transaction, and

i. Observe whether the disbursement, whether by paper or electronic means, matched the related original itemized invoice and supporting documentation indicates that deliverables included on the invoice were received by the entity, and

ii. Observe whether the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under procedure #5B above, as applicable.

D. Using the entity’s main operating account and the month selected in Bank Reconciliations procedure #3A, randomly select 5 non-payroll-related electronic disbursements (or all electronic disbursements if less than 5) and observe that each electronic disbursement was (a) approved by only those persons authorized to disburse funds (e.g., sign checks) per the entity’s policy, and (b) approved by the required number of authorized signers per the entity’s policy. *Note: If no electronic payments were made from the main operating account during the month selected the practitioner should select an alternative month and/or account for testing that does include electronic disbursements.*

No exceptions noted in the procedures performed.

6) Credit Cards/Debit Cards/Fuel Cards/Purchase Cards (Cards)

A. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and purchase cards (cards) for the fiscal period, including the card numbers and the names of the persons who maintained possession of the cards. Obtain management’s representation that the listing is complete.

B. Using the listing prepared by management, randomly select 5 cards (or all cards if less than 5) that were used during the fiscal period. Randomly select one monthly statement or combined statement for each card (for a debit card, randomly select one monthly bank statement). Obtain supporting documentation, and

   i. Observe whether there is evidence that the monthly statement or combined statement and supporting documentation (e.g., original receipts for credit/debit card purchases, exception reports for excessive fuel card usage) were reviewed and approved, in writing (or electronically approved) by someone other than the authorized card holder (those instances requiring such approval that may constrain the legal authority of certain public officials, such as the mayor of a Lawrason Act municipality, should not be reported); and

   ii. Observe that finance charges and late fees were not assessed on the selected statements.

C. Using the monthly statements or combined statements selected under procedure #7B above, <u>excluding fuel cards</u>, randomly select 10 transactions (or all transactions if less than 10) from each statement, and obtain supporting documentation for the transactions (e.g., each card should have 10 transactions subject to inspection). For each transaction, observe that it is supported by (1) an original itemized receipt that identifies precisely what was purchased, (2) written documentation of the business/public purpose, and (3) documentation of the individuals participating in meals (for meal charges only). For missing receipts, the practitioner should describe the nature of the transaction and observe whether management had a compensating control to address missing receipts, such as a “missing receipt statement” that is subject to increased scrutiny.

No exceptions noted in the procedures performed.

7) Travel and Travel-Related Expense Reimbursements (excluding card transactions)

A. Obtain from management a listing of all travel and travel-related expense reimbursements during the fiscal period and management's representation that the listing or general ledger is complete. Randomly select 5 reimbursements and obtain the related expense reimbursement forms/prepaid expense documentation of each selected reimbursement, as well as the supporting documentation. For each of the 5 reimbursements selected

i. If reimbursed using a per diem, observe that the approved reimbursement rate is no more than those rates established either by the State of Louisiana or the U.S. General Services Administration (www.gsa.gov);

ii. If reimbursed using actual costs, observe that the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased;

iii. Observe that each reimbursement is supported by documentation of the business/public purpose (for meal charges, observe that the documentation includes the names of those individuals participating) and other documentation required by Written Policies and Procedures procedure #1A(vii); and

iv. Observe that each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

No exceptions noted in the procedures performed.

8) Contracts

A. Obtain from management a listing of all agreements/contracts for professional services, materials and supplies, leases, and construction activities that were initiated or renewed during the fiscal period. Alternatively, the practitioner may use an equivalent selection source, such as an active vendor list. Obtain management's representation that the listing is complete. Randomly select 5 contracts (or all contracts if less than 5) from the listing, excluding the practitioner's contract, and

i. Observe whether the contract was bid in accordance with the Louisiana Public Bid Law (e.g., solicited quotes or bids, advertised), if required by law;

ii. Observe whether the contract was approved by the governing body/board, if required by policy or law (e.g., Lawrason Act, Home Rule Charter);

iii. If the contract was amended (e.g., change order), observe that the original contract terms provided for such an amendment and that amendments were made in compliance with the contract terms (e.g., if approval is required for any amendment, the documented approval); and

iv. Randomly select one payment from the fiscal period for each of the 5 contracts, obtain the supporting invoice, agree the invoice to the contract terms, and observe that the invoice and related payment agreed to the terms and conditions of the contract.

No exceptions noted in the procedures performed.

9) Payroll and Personnel

A. Obtain a listing of employees and officials employed during the fiscal period and management's representation that the listing is complete. Randomly select 5 employees or officials, obtain related paid salaries and personnel files, and agree paid salaries to authorized salaries/pay rates in the personnel files.

B. Randomly select one pay period during the fiscal period. For the 5 employees or officials selected under procedure #9A above, obtain attendance records and leave documentation for the pay period, and

i. Observe that all selected employees or officials documented their daily attendance and leave (e.g., vacation, sick, compensatory);

ii. Observe whether supervisors approved the attendance and leave of the selected employees or officials;

iii. Observe that any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records; and

iv. Observe the rate paid to the employees or officials agrees to the authorized salary/pay rate found within the personnel file.

C. Obtain a listing of those employees or officials that received termination payments during the fiscal period and management's representation that the list is complete. Randomly select two employees or officials and obtain related documentation of the hours and pay rates used in management's termination payment calculations and the entity's policy on termination payments. Agree the hours to the employee's or official's cumulative leave records, agree the pay rates to the employee's or official's authorized pay rates in the employee's or official's personnel files, and agree the termination payment to entity policy.

D. Obtain management's representation that employer and employee portions of third-party payroll related amounts (e.g., payroll taxes, retirement contributions, health insurance premiums, garnishments, workers' compensation premiums, etc.) have been paid, and any associated forms have been filed, by required deadlines.

No exceptions noted in the procedures performed.

10) *Ethics*

A. Using the 5 randomly selected employees/officials from Payroll and Personnel procedure #9A obtain ethics documentation from management, and

  i. Observe whether the documentation demonstrates that each employee/official completed one hour of ethics training during the calendar year as required by R.S. 42:1170; and

  ii. Observe whether the entity maintains documentation which demonstrates that each employee and official were notified of any changes to the entity's ethics policy during the fiscal period, as applicable.

B. Inquire and/or observe whether the agency has appointed an ethics designee as required by R.S. 42:1170.

No exceptions noted in the procedures performed.

11) Debt Service

A. Obtain a listing of bonds/notes and other debt instruments issued during the fiscal period and management's representation that the listing is complete. Select all debt instruments on the listing, obtain supporting documentation, and observe that State Bond Commission approval was obtained for each debt instrument issued as required by Article VII, Section 8 of the Louisiana Constitution.

B. Obtain a listing of bonds/notes outstanding at the end of the fiscal period and management's representation that the listing is complete. Randomly select one bond/note, inspect debt covenants, obtain supporting documentation for the reserve balance and payments, and agree actual reserve balances and payments to those required by debt covenants (including contingency funds, short-lived asset funds, or other funds required by the debt covenants).

No exceptions noted in the procedures performed.

12) Fraud Notice

A. Obtain a listing of misappropriations of public funds and assets during the fiscal period and management's representation that the listing is complete. Select all misappropriations on the listing, obtain supporting documentation, and observe that the entity reported the misappropriation(s) to the legislative auditor and the district attorney of the parish in which the entity is domiciled as required by R.S. 24:523.

B. Observe that the entity has posted, on its premises and website, the notice required by R.S. 24:523.1 concerning the reporting of misappropriation, fraud, waste, or abuse of public funds.

No exceptions noted in the procedures performed.

13) Information Technology Disaster Recovery/Business Continuity

A. Perform the following procedures, verbally discuss the results with management, and report "We performed the procedure and discussed the results with management."

i. Obtain and inspect the entity's most recent documentation that it has backed up its critical data (if there is no written documentation, then inquire of personnel responsible for backing up critical data) and observe evidence that such backup (a) occurred within the past week, (b) was not stored on the government's local server or network, and (c) was encrypted.

ii. Obtain and inspect the entity's most recent documentation that it has tested/verified that its backups can be restored (if there is no written documentation, then inquire of personnel responsible for testing/verifying backup restoration) and observe evidence that the test/verification was successfully performed within the past 3 months.

iii. Obtain a listing of the entity's computers currently in use and their related locations, and management's representation that the listing is complete. Randomly select 5 computers and observe while management demonstrates that the selected computers have current and active antivirus software and that the operating system and accounting system software in use are currently supported by the vendor.

B. Randomly select 5 terminated employees (or all terminated employees if less than 5) using the list of terminated employees obtained in Payroll and Personnel procedure #9C. Observe evidence that the selected terminated employees have been removed or disabled from the network.

C. Using the 5 randomly selected employees/officials from Payroll and Personnel procedure #9A, obtain cybersecurity training documentation from management, and observe that the documentation demonstrates that the following employees/officials with access to the agency's information technology assets have completed cybersecurity training as required by R.S. 42:1267. The requirements are as follows:

- Hired before June 9, 2020 - completed the training; and
- Hired on or after June 9, 2020 - completed the training within 30 days of initial service or employment.

No exceptions noted in the procedures performed.

14) Prevention of Sexual Harassment

A. Using the 5 randomly selected employees/officials from Payroll and Personnel procedure #9A, obtain sexual harassment training documentation from management, and observe that the documentation demonstrates each employee/official completed at least one hour of sexual harassment training during the calendar year as required by R.S. 42:343.

B. Observe that the entity has posted its sexual harassment policy and complaint procedure on its website (or in a conspicuous location on the entity's premises if the entity does not have a website).

C. Obtain the entity's annual sexual harassment report for the current fiscal period, observe that the report was dated on or before February 1, and observe that the report includes the applicable requirements of R.S. 42:344:

i. Number and percentage of public servants in the agency who have completed the training requirements;

ii. Number of sexual harassment complaints received by the agency;

iii. Number of complaints which resulted in a finding that sexual harassment occurred;

iv. Number of complaints in which the finding of sexual harassment resulted in discipline or corrective action; and

v. Amount of time it took to resolve each complaint.

No exceptions noted in the procedures performed.