HOPE ENTERPRISE CORPORATION

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION WITH INDEPENDENT AUDITORS' REPORT

YEARS ENDED DECEMBER 31, 2020 AND 2019

HOPE ENTERPRISE CORPORATION
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Hope Enterprise Corporation
Jackson, Mississippi

Report on the Financial Statements

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, 2020 and 2019, and the related consolidated statements of activities and of cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Hope Enterprise Corporation and entities under its control as of December 31, 2020 and 2019, and the changes in their consolidated net assets and their consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our 2020 audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in the Statement of Financial Position-NeighborWorks America Funds and Statement of Activities-NeighborWorks America Funds are presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the 2020 consolidated financial statements as a whole.

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

Our audit was conducted 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. 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 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
March 30, 2021

HOPE ENTERPRISE CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019

	2020	2019
ASSETS		
Cash and Cash Equivalents	$ 24,446,074	$ 1,830,170
Restricted Cash	6,981,652	4,792,707
Grant and Other Receivables	2,013,287	3,175,499
Contract Revenue Receivable	219,877	158,065
Loans Receivable, Net of Allowance for Loan Losses of Approximately $2,031,000 and $2,149,000 in 2020 and 2019, Respectively	208,644,234	135,577,901
Investment Securities	21,200,478	15,815,535
Investment in Affiliated Companies - Note 6	1,107,608	1,036,558
Investment in Secondary Capital of Hope Federal Credit Union - Note 7	15,475,000	12,475,000
Property and Equipment, Net	2,179,606	2,309,327
Other Assets	332,001	359,385
Total Assets	$ 282,599,817	$ 177,530,147
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	$ 2,051,574	$ 1,472,584
Funds Held in Escrow	-	23,097
Payable to Hope Federal Credit Union	3,077,312	2,317,019
Deferred Revenue	1,124,729	2,125,566
Notes Payable	107,622,143	23,931,483
Total Liabilities	113,875,758	29,869,749
NET ASSETS		
Without Donor Restrictions	37,831,395	8,591,433
Noncontrolling Interests	111,402,779	119,554,915
Total Without Donor Restrictions	149,234,174	128,146,348
With Donor Restrictions	19,489,885	19,514,050
Total Net Assets	168,724,059	147,660,398
Total Liabilities and Net Assets	$ 282,599,817	$ 177,530,147

See accompanying Notes to Consolidated Financial Statements.

HOPE ENTERPRISE CORPORATION
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND GAINS			
Grants and Contributions	$ 31,562,983	$ 6,542,232	$ 38,105,215
In-Kind Contributions	2,610	-	2,610
Interest, Dividends, and Related Fees:			
Loans and Other Investments	3,251,835	-	3,251,835
Investment Income, Net	1,103,868	-	1,103,868
Other Losses	(370,855)	-	(370,855)
Contract Services Revenue	4,269,424	-	4,269,424
Subtotal	39,819,865	6,542,232	46,362,097
Net Assets Release from Restrictions:			
Satisfaction of Program Restrictions	6,566,397	(6,566,397)	-
Total Revenues and Gains	46,386,262	(24,165)	46,362,097
EXPENSES			
Program Expenses.			
Development Finance	9,100,547	-	9,100,547
Housing Initiative	557,368	-	557,368
Policy and Advocacy	814,897	-	814,897
Other Programs	1,997,000	-	1,997,000
Total Program Expenses	12,469,812	-	12,469,812
Supporting Services:			
General and Administration	4,547,516	-	4,547,516
Fundraising and Communication	422,329	-	422,329
Total Expenses	17,439,657	-	17,439,657
CHANGE IN NET ASSETS BEFORE NONCONTROLLING INTEREST	28,946,605	(24,165)	28,922,440
Noncontrolling Interests in Subsidiaries' Net Income	(706,643)	-	(706,643)
CHANGE IN NET ASSETS ATTRIBUTABLE TO CONTROLLING INTEREST	28,239,962	(24,165)	28,215,797
Net Assets Contributable to Controlling Interests - Beginning of Year	8,591,433	19,514,050	28,105,483
Liquidation of BIDCO Preferred Stock	1,000,000	-	1,000,000
NET ASSETS ATTRIBUTABLE TO CONTROLLING INTERESTS - END OF YEAR	37,831,395	19,489,885	57,321 280
Net Assets of Noncontrolling Interests	111,402,779	-	111,402,779
NET ASSETS - END OF YEAR	$ 149,234,174	$ 19,489,885	$ 168,724,059

See accompanying Notes to Consolidated Financial Statements.

HOPE ENTERPRISE CORPORATION
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND GAINS			
Grants and Contributions	$ 8,154,229	$ 3,910,788	$ 12,065,017
In-Kind Contributions	32,725	-	32,725
Interest, Dividends, and Related Fees:			
Loans and Other Investments	2,349,517	-	2,349,517
Investment Income, Net	894,491	-	894,491
Other Losses	(40,390)	-	(40,390)
Contract Services Revenue	1,675,768	-	1,675,768
Subtotal	13,066,340	3,910,788	16,977,128
Net Assets Release from Restrictions:			
Satisfaction of Program Restrictions	5,692,870	(5,692,870)	-
Total Revenues and Gains	18,759,210	(1,782,082)	16,977,128
EXPENSES			
Program Expenses:			
Development Finance	8,898,249	-	8,898,249
Housing Initiative	1,245,708	-	1,245,708
Policy and Advocacy	428,646	-	428,646
Other Programs	1,355,876	-	1,355,876
Total Program Expenses	11,928,479	-	11,928,479
Supporting Services:			
General and Administration Expense	4,255,362	-	4,255,362
Fundraising and Communication	609,612	-	609,612
Total Expenses	16,793,453	-	16,793,453
CHANGE IN NET ASSETS BEFORE NONCONTROLLING INTEREST	1,965,757	(1,782,082)	183,675
Noncontrolling Interests in Subsidiaries' Net Loss	492,546	-	492,546
CHANGE IN NET ASSETS ATTRIBUTABLE TO CONTROLLING INTEREST	2,458,303	(1,782,082)	676,221
Net Assets Contributable to Controlling Interests - Beginning of Year	6,133,130	21,296,132	27,429,262
NET ASSETS ATTRIBUTABLE TO CONTROLLING INTERESTS - END OF YEAR	8,591,433	19,514,050	28,105,483
Net Assets of Noncontrolling Interests	119,554,915	-	119,554,915
NET ASSETS - END OF YEAR	$ 128,146,348	$ 19,514,050	$ 147,660,398

See accompanying Notes to Consolidated Financial Statements.

HOPE ENTERPRISE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets Attributable to Controlling Interests	$ 28,215,797	$ 676,221
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Noncontrolling Interests in Subsidiaries' Loss	706,643	(492,546)
Depreciation and Amortization	370,551	413,179
Loss on Sale of Assets	-	78,268
Loss on Extinguishment of Debt	-	156,776
Provision for Loan Losses	(64,648)	355,838
Forgiveness of Mortgage Loan Debt	567,255	799,044
Forgiveness of Debt	(100,000)	-
Equity in Affiliate	(71,050)	-
Realized and Unrealized Net Gains on Investments	(447,262)	(272,853)
Changes in Operating Assets and Liabilities:		
Contract Revenue Receivable	(61,812)	114,153
Grants Receivable	1,162,212	6,904,716
Other Receivables and Prepaid Expenses	27,384	396,628
Accounts Payable and Other Liabilities	1,316,186	733,875
Deferred Revenue	(1,000,837)	(2,244,794)
Net Cash Provided by Operating Activities	30,620,419	7,618,505
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Increase in Loans Held for Investment	(73,568,940)	(40,057,133)
Purchases of Investments	(10,096,984)	(11,593,160)
Proceeds from Maturities and Sales of Investments	5,159,303	4,198,333
Issuance of Secondary Capital Loan	(3,000,000)	-
Proceeds from Sales of Foreclosed Property	-	132,520
Purchase of Property and Equipment	(240,830)	(313,845)
Liquidation of BIDCO Preferred Stock	1,000,000	-
Net Cash Used by Investing Activities	(80,747,451)	(47,633,285)
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital Contributions from Noncontrolling Interests	17,000,000	33,000,000
Return of Capital Contributions to Noncontrolling Interests	(24,250,000)	-
Cash Dividends Paid to Noncontrolling Interests	(1,608,779)	(1,362,294)
Proceeds from Issuance of Notes Payable	171,759,675	2,000,000
Payments on Long-Term Borrowings	(87,969,015)	(3,494,045)
Net Cash Provided by Financing Activities	74,931,881	30,143,661
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, RESTRICTED CASH	24,804,849	(9,871,119)
Cash, Cash Equivalents, Restricted Cash - Beginning of Year	6,622,877	16,493,996
CASH, CASH EQUIVALENTS, RESTRICTED CASH - END OF YEAR	$ 31,427,726	$ 6,622,877
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Cash Paid for Interest	$ 426,006	$ 647,902

See accompanying Notes to Consolidated Financial Statements.

HOPE ENTERPRISE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Company

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

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), ECD Investments BIDCO, Inc. (BIDCO), Home Again, Inc. (Home Again), and seventeen additional New Markets Tax Credit entities, as described in further detail below. All significant intercompany transactions and balances have been eliminated in consolidation. The preparation of such consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The allowance for loan losses and the valuation of foreclosed property and investments are determined utilizing material estimates that are particularly susceptible to change in the near term.

ECDI is a limited liability company subsidiary of the Company and owns the corporate stock of BIDCO. The purpose of ECDI and BIDCO is the same as that of the Company. Home Again is a 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 15 additional limited liability companies included in the consolidated financial statements of the Company. The Company serves as the Managing Member of all thirteen 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 13 limited liability companies are Community Development Entities (CDEs) created for investors to benefit from the New Markets Tax Credit program administered by the U.S. Department of the Treasury. Substantially all of the qualified equity investments must be in turn used to provide available investment capital to low-income communities. The CDEs will dissolve after the loans provided by the CDEs mature, in accordance with the terms of the COE operating agreements.

BIDCO has not had any activity since 2016 and was liquidated effective August 31, 2020.

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, 2020, the Company's cash accounts exceeded federally insured limits. Although balances at each institution are insured up to $250.000, management believes cash held in excess of these limits subjects the Company to minimal risk.

Restricted Cash

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

Cash and cash equivalents at December 31, 2020 totaling $24,446,074, and restricted cash totaling $6,981,652, as included on the consolidated statement of financial position, equal total cash, cash equivalents, and restricted cash shown of the consolidated statement of cash flows of $31,427,726. Cash and cash equivalents at December 31, 2019 totaling $1,830,170, and restricted cash totaling $4,792,707, 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 $6,622,877.

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 $1,124,729 and $2,125,566 at December 31, 2020 and 2019. 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 $4,000,000 of conditional grants that have not been recognized because the conditions have not been met as of year-end.

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.

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

Contract Services Revenue and Related Receivables (continued)

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 statement of activities. During the years ended December 31, 2020 and 2019, revenue from these fees totaled $457,969 and $802,673, 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, 2020 and 2019, revenue from these fees totaled $2,747,833 and $-0-, 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.

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.

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

Fair Value Measurements (continued)

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 loan losses, and consist of commercial loans, consumer mortgage loans. and forgivable mortgage loans. The commercial loans are typically collateralized by property, equipment, inventories, and/or receivables and are generally guaranteed by the principals of the borrowing business entity.

Interest income is computed on the loan balance outstanding and is accrued as earned. Loans are considered past due if the required principal and interest payments have not been received as of the date such payments are due. For all loans 90 days or more past due, the Company generally discontinues the accrual of interest and recognizes income only as received. A loan may also be placed in nonaccrual status when, in management's judgment, the collection of interest is doubtful. All interest accrued but not collected for loans that are placed in nonaccrual status or charged off is reversed through interest income unless management believes the accrued interest is recoverable through the liquidation of collateral. Interest received on nonaccrual loans is either applied against principal or reported as interest income, based on management's assessment regarding the recovery of principal. The Company has determined that the impact of capitalizing nonrefundable fees and other costs is not significant. These costs have been expensed as incurred. Management has also issued loans at below-market rates. Interest income from these loans is imputed based on the market rate offered to those of a similar type. Imputed interest is approximately $41,000 and $33,000 as of December 31. 2020 and 2019, respectively.

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

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

Loans Receivable (continued)

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

The Company has no material TDRs or impaired loans as of and for the years ended December 31, 2020 and 2019.

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 $567.000 and $799,000 in debt forgiveness during 2020 and 2019, respectively, related to these mortgage loans.

As of December 31, 2020, the Company has a conditional promise to forgive the following amounts over the next five years:

Years Ending December 31,	Amount
2021	$ 602,662
2022	602,662
2023	602,662
2024	577,162
2025	197,162
Thereafter	1,949,981
Total	$ 4,532,291

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

Allowance for Loan Losses

The allowance for loan losses is determined based on homogeneous pools of loans. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. The allowance for loan losses is increased by a provision for loan losses which is charged to expense and reduced by charge-offs, net of recoveries, by portfolio segment. The allowance for loan losses is maintained at a level that, in management's judgment, is adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectability of loans. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, and changes in its risk profile, and credit concentrations. This evaluation also considers the balance of impaired loans. Though management believes the allowance for loan losses to be adequate, ultimate losses may vary from their estimates. However, estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the change in net assets during periods in which they become known.

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.

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

Allowance for Loan Losses (continued)

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

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

Investment Securities

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

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

Investment in Affiliated Companies

The Company holds 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.

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.

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

Foreclosed Property (continued)

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.

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 13 New Market Tax Credit entities are limited liability companies, no income taxes are provided. The results of operations are reportable by the LLC members on their individual income tax returns. BIDCO is subject to income taxes at the corporate level. As such, deferred income taxes relate to temporary differences between assets and liabilities of BIDCO that are recognized differently for financial reporting purposes and income tax purposes. Deferred tax assets and liabilities pertain to net operating loss carryforwards and the allowance for loan losses. A valuation allowance of approximately $638,000 and $1,901,000 was recorded at liquidation on August 31, 2020 and December 31, 2019, respectively, to offset the net deferred tax assets of BIDCO. The valuation allowance is established to provide for amounts that management considers may not be realized as a result of income limitations. At liquidation, BIDCO utilized net operating loss carryforwards of $6,228,681, resulting in ending net operating losses of $2,001,698 being written off as of August 31, 2020.

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

Income Taxes (continued)

Potential exposures involving tax positions taken that may be challenged by taxing authorities contain assumptions based upon past experiences and judgments about potential actions by taxing jurisdictions. Management does not believe that the ultimate settlement of these items will result in a material amount. With minimum exceptions, the Company is no longer subject to income tax examinations prior to 2017.

Subsequent Events

In connection with the preparation of the consolidated financial statements, management of the Company evaluated subsequent events through March 30, 2021, which was the date the consolidated financial statements were available to be issued.

During February and March 2021, the Company drew on its loan facilities in the total amount of $40,000,000 to provide liquid capacity for additional lending under the second round of Paycheck Protection Program Loans.

NOTE 2 GRANTS RECEIVABLE

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

	2020	2019
Grant Receivable in Less Than One Year	$ 992,002	$ 1,793,919
Grant Receivable in One to Five Years	520,388	1,492,390
Subtotal	1,512,390	3,286,309
Less: Adjustment to Reflect Grant Receivables at Fair Value at the Date of Grant, Based on 2.5% Discount Rate in 2020 and 2019	(29,441)	(110,810)
Total Grant Receivables	1,482,949	3,175,499
Other Receivables Due in Less Than One Year	530,338	-
Total Grant and Other Receivables	$ 2,013,287	$ 3,175,499

NOTE 3 FAIR VALUE MEASUREMENTS

At December 31, 2020 and 2019, 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, 2020			
	Level 1	Level 2	Level 3	Total
Investment Securities	$ -	$ 21,200,478	$ -	$ 21,200,478

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Investment Securities	$ -	$ 15,815,535	$ -	$ 15,815,535

NOTE 4 INVESTMENT SECURITIES

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

	December 31, 2020	
	Amortized Cost	Fair Value
Government Agencies	$ 1,666,485	$ 1,669,450
Residential Mortgage-Backed Securities	12,192,125	12,556,873
US Treasury Bonds	2,242,829	2,312,766
Municipal Bonds	4,593,087	4,661,389
Total	$ 20,694,526	$ 21,200,478

	December 31, 2019	
	Amortized Cost	Fair Value
Government Agencies	$ 3,975,840	$ 4,013,370
Residential Mortgage-Backed Securities	8,509,865	8,551,573
US Treasury Bonds	1,743,770	1,759,842
Municipal Bonds	1,481,768	1,490,750
Total	$ 15,711,243	$ 15,815,535

NOTE 4 INVESTMENT SECURITIES (CONTINUED)

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

	December 31, 2020	
	Amortized Cost	Fair Value
US Government, Municipal Bonds and Federal Agency Securities:		
Due Within One Year	$ 1,199,584	$ 1,212,673
Due After One Year Through Five Years	958,201	993,942
Due After Five Years Through Ten Years	5,947,037	6,032,564
Due After Ten Years	397,579	404,426
Subtotal	8,502,401	8,643,605
Residential Mortgage-Backed Securities	12,192,125	12,556,873
Total	$ 20,694,526	$ 21,200,478

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 $111,912,000 and $119,693,000 at December 31, 2020 and 2019, respectively. These interest-only loans have seven-year repayment terms.

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

	2020	2019
Commercial Loans	$ 205,876,669	$ 132,933,854
Forgivable Mortgage Loans	4,351,583	4,311,581
Other Consumer Mortgage Loans	447,473	481,776
Subtotal	210,675,725	137,727,211
Allowance for Loan Losses	2,031,491	2,149,310
Total	$ 208,644,234	$ 135,577,901

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 $24,966,000 and $25,868,000 at December 31, 2020 and 2019, respectively.

NOTE 5 LOANS, NET (CONTINUED)

The allowance for loan losses is as follows:

	December 31, 2020				
	Balance - Beginning of Year	Charge-Offs	Recoveries	Credit for Loan Loan Losses	Balance - End of Year
Commercial	$ 2,146,821	$ (70,000)	$ 16,829	$ (64,397)	$ 2,029,253
Other Consumer Mortgage Loans	2,489	-	-	(251)	2,238
Total	$ 2,149,310	$ (70,000)	$ 16,829	$ (64,648)	$ 2,031,491

	December 31, 2019				
	Balance - Beginning of Year	Charge-Offs	Recoveries	Provision (Credit) for Loan Losses	Balance - End of Year
Commercial	$ 2,494,301	$ (763,802)	$ 60,438	$ 355,884	$ 2,146,821
Other Consumer Mortgage Loans	2,535	-	-	(46)	2,489
Total	$ 2,496,836	$ (763,802)	$ 60,438	$ 355,838	$ 2,149,310

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

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

	December 31, 2020				
	Loans		Allowance		
	Individually	Collectively	Individually	Collectively	Net
Commercial	$ 882,934	$ 204,993,735	$ 126,284	$ 1,902,969	$ 203,847,416
Other Consumer Mortgage Loans	-	447,473	-	2,238	445,235
Total	$ 882,934	$ 205,441,208	$ 126,284	$ 1,905,207	$ 204,292,651

	December 31, 2019				
	Loans		Allowance		
	Individually	Collectively	Individually	Collectively	Net
Commercial	$ -	$ 132,933,854	$ -	$ 2,146,821	$ 130,787,033
Other Consumer Mortgage Loans	-	481,776	-	2,489	479,287
Total	$ -	$ 133,415,630	$ -	$ 2,149,310	$ 131,266,320

The following tables show the commercial loan portfolio allocated by management's internal risk ratings as of December 31:

	December 31, 2020				
	Pass Categories	Special Mention Category	Substandard Category	Doubtful Category	Total
Commercial Loans	$ 190,032,063	$ 9,795,275	$ 5,927,854	$ 121,477	$ 205,876,669

	December 31, 2019				
	Pass Categories	Special Mention Category	Substandard Category	Doubtful Category	Total
Commercial Loans	$ 128,697,523	$ 3,937,578	$ 298,753	$ -	$ 132,933,854

As of December 31, 2019, all mortgage loans were performing.

NOTE 5 LOANS, NET (CONTINUED)

The following table shows the classes within the mortgage loan segments allocated by payment activity as of December 31, 2019. Loans are deemed performing if they are less than 90 days delinquent and still accruing interest:

	Payment Activity		
	Forgivable Mortgage Loans	Other Consumer Mortgage Loans	Total
Performing	$ 4,311,581	$ 305,946	$ 4,617,527
Non-Performing	-	175,830	175,830
Total	$ 4,311,581	$ 481,776	$ 4,793,357

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

	December 31, 2020				
	Current	Past Due 30-89 Days	Past Due Greater Than 90 Days and Accruing Interest	Nonaccrual	Total
Commercial Loans	$ 205,507,082	$ 149,905	$ -	$ 219,682	$ 205,876,669
Forgivable Mortgage Loans	4,351,583	-	-	-	4,351,583
Other Consumer Mortgage Loans	447,473	-	-	-	447,473
Total	$ 210,306,138	$ 149,905	$ -	$ 219,682	$ 210,675,725

	December 31, 2019				
	Current	Past Due 30-89 Days	Past Due Greater Than 90 Days and Accruing Interest	Nonaccrual	Total
Commercial Loans	$ 132,188,189	$ 451,665	$ -	$ 294,000	$ 132,933,854
Forgivable Mortgage Loans	4,311,581	-	-	-	4,311,581
Other Consumer Mortgage Loans	243,991	61,955	-	175,830	481,776
Total	$ 136,743,761	$ 513,620	$ -	$ 469,830	$ 137,727,211

All loans on nonaccrual were greater than 90 days. Interest income foregone on nonaccrual loans was immaterial for the years ended December 31, 2020 and 2019.

The following tables present information related to impaired loans as of December 31, 2020:

	December 31, 2020				
	Average Principal Balance	Unpaid Principal Balance	Total Loans with No Specific Allowance	Total Loans with a Specific Allowance	Specific Allowance
Commercial Loans	$ 882,934	$ 882,934	$ 189,105	$ 693,829	$ 126,284

There were no material impaired loans as of December 31, 2020.

NOTE 5 LOANS, NET (CONTINUED)

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.

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 year ended December 31, 2020, the Company has approximately $80,970,000 of PPP loans outstanding. Management determined that the impact of deferring origination fees associated with the loans was not significant.

NOTE 6 INVESTMENT IN AFFILIATED COMPANIES

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

	2020	2019
Assets:		
Cash	$ 249,131	$ 94,984
Property and Equipment	2,882,837	2,963,928
Other Assets	21,438	27,227
Total Assets	$ 3,153,406	$ 3,086,139
Liabilities and Members' Equity:		
Accounts Payable	$ 8,859	$ 8,859
Deposits	30,256	26,225
Notes Payable to Related Entities	3,005,774	3,109,338
Retained Earnings (Deficit)	108,517	(58,283)
Total Liabilities and Members Equity	$ 3,153,406	$ 3,086,139

	2020	2019
Results of Operations:		
Revenue	$ 608,036	$ 541,491
Interest Expense	2,383	13,639
Other Expenses	353,391	385,377
Net Earnings	$ 252,262	$ 142,475

NOTE 7 RELATED PARTY TRANSACTIONS

Under the terms of its contractual arrangements with HFCU, the Company has agreed to reimburse HFCU for certain operating expenses and losses incurred on loans considered to be higher risk than typically underwritten by regulated financial institutions such as HFCU. Such obligations are limited so as to not provide HFCU with annual net income of more than $240,000. HFCU and the Company share the same members of management and certain HFCU members are also borrowers from the Company and its affiliates. The Company incurred expenses of $5,627,500 and $5,051,000 relative to its obligation to reimburse certain operating expenses of HFCU in 2020 and 2019, respectively.

Secondary capital of HFCU are loans that require principal repayments, unless HFCU (i) is unable to fully service existing senior indebtedness, (ii) is unable to satisfy its operating expenses, or (iii) does not have available cash flows for the withdrawals of funds for the account. If such loans are not required to be repaid, they will be recognized as expense in the period the losses are incurred. The advances include two fixed rate loans at 5.45% for $1,050,000 and $550,000 maturing in 2027 and 2024, two fixed rate loans at 1.00% for $5,000,000 and $2,000,000 maturing on December 13, 2025, a fixed rate loan at 1.50% for $1,500,000 maturing on December 22, 2025, a fixed rate loan at 1.00% for $1,000,000 maturing on April 29, 2025, a fixed rate loan at 1.00% for $3,000,000 maturing on December 30, 2025, and three variable rate loans aggregating $1,375,000 with interest floors and caps from 5.00% – 10.90% (with effective rates of 5.00% – 5.45% at December 31, 2020), maturing in 2024 – 2025, with principal payments required each year until maturity. Interest income received from HFCU relative to the secondary capital loans was $102,781 and $102,500 for the years ended December 31, 2020 and 2019, respectively. No repayments are due on the above secondary capital loans until 2024 and thereafter.

The Company incurred $50,000 in both 2020 and 2019 for grants to HFCU which are included in development finance expense in the accompanying consolidated statements of activities.

Accounts payable to HFCU for grants and contractual services totaled $3,077,312 and $2,326,769 in 2020 and 2019, respectively. The Company had deposit accounts with HFCU as of December 31, 2020 and 2019, totaling $5,825,453 and $3,578,401, respectively.

The Company has a mortgage and note payable to HFCU with an outstanding principal balance of $765,183 and $816,740, respectively at December 31, 2020 and 2019. See terms of note at Note 9.

The Company purchased from HFCU Paycheck Protection Program loans originated by HFCU totaling $12,148,958 and $-0- during the years ended December 31, 2020 and 2019, respectively.

NOTE 8 PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2020	2019
Computer Equipment	$ 4,518,109	$ 4,319,177
Office Equipemnt and Other	992,433	988,299
Buildings and Improvements	2,027,655	2,027,655
Construction in Progress	171,625	140,545
Subtotal	7,709,822	7,475,676
Less: Accmulated Depreciation	(5,530,216)	(5,166,349)
Total	$ 2,179,606	$ 2,309,327

NOTE 9 NOTES PAYABLE

The Company has entered into one loan facility with a bank and one loan facility with a nonbank lender to provide funding in amounts up to $20,000,000 and $3,000,000, respectively. The bank facility may be increased and extended at the discretion of the lender and subject to certain terms of that agreement. The outstanding balances under these loan facilities at December 31, 2020, were $1,960,102 and $-0-, respectively. The outstanding balances under these loan facilities at December 31, 2019, were $2,805,082 and $750,300, respectively. The proceeds of both facilities are to be used for small business lending activities of the Company. The agreements contain certain financial covenants, including but not limited to, net assets ratios, delinquent loan ratios, a current ratio, a liquidity reserve, and restrictions on the amount of support which may be provided to its affiliates.

The Company also entered into two loan facilities with banks to provide funding in amounts up to $85,000,000 for each. The outstanding balances under these loan facilities at December 31, 2020 are $1,646,704 and $80,146,793. The proceeds of both facilities are to be used to provide Paycheck Protection Program Loans (see Note 5) and are secured by such outstanding loans. All remaining notes payable of the Company are unsecured except for collateral consisting of a first real estate mortgage on the corporate office facilities relative to the note payable to HFCU.

The Company recognized interest expense of $50,990 and $48,582 during 2020 and 2019, respectively, related to its mortgage and note payable to HFCU.

NOTE 9 NOTES PAYABLE (CONTINUED)

Notes payable consist of the following as of December 31:

		2020	2019
1% Notes Payable:			
Interest Due Quarterly and Maturing from 2020 through 2025	[a]	$ 6,999,417	$ 6,999,417
Interest Due Quarterly and Maturing from 2025 through 2027		1,000,000	-
Interest Due Annually and Maturing from 2023 through 2030	[b]	1,800,000	1,550,000
Interest Due at Maturity, January 2025	[c]	2,000,000	2,000,000
Notes Payable to Banks with Interest Due Quarterly:			
Interest Payable at 3% and Maturing in 2022		500,000	500,000
Interest Payable at 3.25% and Maturing from 2022 through 2025	[d]	1,000,000	1,000,000
Interest Payable at 5.5%, Matured in September 2020	[e]	-	750,300
0.35% Note Payable Secured by Pledged PPP Loans, Maturing as the Pledged Loans Mature		80,146,793	-
1.35% Note Payable with Interest Due Monthly, Maturing in 2024		999,944	999,944
3% Notes Payable:			
Interest Due Monthly and Maturing in 2022		1,960,102	2,805,082
Interest Due Quarterly and Maturing in 2022	[f]	1,000,000	1,000,000
Interest Due Quarterly and Maturing in 2026		4,000,000	-
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		765,183	816,740
Note Payable to Nonprofit Foundation Bearing Interest at 2% with Interest Due Quarterly, Maturing in 2026	[g]	250,000	250,000
Note Payable to Nonprofit Foundation Bearing Interest at 2% with Interest Due Quarterly and Maturing from 2026 through 2028	[h]	594,000	1,500,000
Interest Free Notes Payable:			
Nonprofit Foundation Maturing in 2021		150,000	-
Nonprofit Foundation Maturing in 2024	[i]	400,000	500,000
Nonprofit Foundation Maturing in 2025		250,000	-
Maturing in 2022 Secured by Pledged PPP Loans		1,646,704	-
Other Notes Payable, with Interest at 1% to 2.5%	[j]	160,000	160,000
3% Line of Credit with Interest Due Monthly, Maturing in 2026		2,000,000	2,000,000
6% Line of Credit to Bank with Interest Due at Maturity in 2021		-	1,100,000
Total Notes Payable		$ 107,622,143	$ 23,931,483

All notes payable without collateral described above represent unsecured notes.

NOTE 9 NOTES PAYABLE (CONTINUED)

During 2020, multiple bank and nonbank lenders modified their loan terms with the Company.

[a] – Quarterly interest payments on $1,000,000 were waived from April 1, 2020 to March 31, 2022 and the maturity date was extended 5 years to March 31, 2030.
[b] – Maturity date on $1,500,000 was extended 10 years to January 27, 2030
[c] – Interest payments were waived and cancelled for 6 months
[d] – Interest payments were deferred from April 28 – June 28, 2020 and maturity date was extended three months to December 3, 2025
[e] – Maturity date extended three months to September 2020
[f] – Interest payments deferred for 90 days
[g] – Interest rate was reduced from 2.5% to 2% and interest payments waived from July 1, 2020 to January 1, 2021 and maturity date extended 5 years to January 1, 2026
[h] – Interest payments were deferred from March to December 2020
[i] – Interest rate was reduced from 2.5% to 0% and $100,000 was converted to a grant
[j] – Maturity date on $25,000 was extended to October 31, 2023 and interest rate was reduced from 2% to 1%

Notes payable maturities at December 31, 2020, are as follows:

Years Ending December 31,	Amount
2021	$ 84,255,049
2022	4,365,237
2023	2,171,184
2024	2,461,128
2025	3,061,184
Thereafter	11,308,361
Total	$ 107,622,143

NOTE 10 NET ASSETS

Net Assets With Donor Restrictions

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

	2020	2019
Net Assets Subject to Expenditures for Specified Purpose:		
Development Finance Activities	$ 18,033,938	$ 17,291,890
Housing Initiative Activities	288,274	508,900
Other Program Activities	395,161	427,926
Subtotal	18,717,373	18,228,716
Net Assets Subject to Passage of Time:		
For Periods after December 31	80,000	100,000
Net Assets to be Maintained in Perpetuity:		
Revolving Loan Funds	692,512	1,185,334
Total Net Assets with Donor Restrictions	$ 19,489,885	$ 19,514,050

NOTE 10 NET ASSETS (CONTINUED)

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 13 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 2020 and 2019. Dividends in arrears relative to the ECDI Class A units totaled $114,775 at December 31, 2020 and 2019.

The changes in noncontrolling interest are as follows:

	Balance - January 1, 2020	Equity Investment	Dividends Paid	Net Earnings (Loss)	Balance - December 31, 2020
ECD Investments Consolidated	$ 165,759	$ -	$ -	$ (533,226)	$ (367,467)
ECD Associates Consolidated	1,239,010	-	(81,954)	51,711	1,208,767
Hope New Markets 1	5,795,137	(5,820,000)	(36,046)	60,909	-
Hope New Markets 2	7,729,316	(7,760,000)	(59,596)	90,280	-
Hope New Markets 3	4,708,478	(4,850,000)	(24,878)	166,400	-
Hope New Markets 4	5,790,911	(5,820,000)	(72,405)	101,494	-
Hope New Markets 5	5,769,995	-	(98,172)	69,879	5,741,702
Hope New Markets 6	10,662,714	-	-	58,527	10,721,241
Hope New Markets 7	7,721,228	-	(77,592)	77,592	7,721,228
Hope New Markets 8	7,699,605	-	(217,783)	217,783	7,699,605
Hope New Markets 9	8,712,231	-	(310,237)	310,237	8,712,231
Hope New Markets 10	7,779,327	-	(212,399)	212,399	7,779,327
Hope New Markets 11	8,360,166	-	-	43,242	8,403,408
Hope New Markets 12	9,659,216	-	(81,333)	81,344	9,659,227
Hope New Markets 13	7,690,838	-	(96,390)	96,390	7,690,838
Hope New Markets 14	6,694,622	-	(59,791)	59,791	6,694,622
Hope New Markets 15	13,376,362	-	(100,790)	112,324	13,387,896
Hope New Markets 16	-	7,000,000	(14,916)	(296,904)	6,688,180
Hope New Markets 17	-	10,000,000	(64,497)	(273,529)	9,661,974
Total	$ 119,564,915	$ (7,250,000)	$ (1,608,779)	$ 706,643	$ 111,402,779

NOTE 10 NET ASSETS (CONTINUED)

	Balance - January 1, 2019	Equity Investment	Dividends Paid	Net Earnings (Loss)	Balance - December 31, 2019
ECD Investments Consolidated	$ 290,284	$ -	$ 156,778	$ (281,303)	$ 165,759
ECD Associates Consolidated	1,271,985	-	(82,225)	49,250	1,239,010
ECD New Markets 4	-	-	(456)	456	-
ECD New Markets 5	20,732	-	(13,783)	(6,949)	-
Hope New Markets 1	5,795,134	-	(43,646)	43,649	5,795,137
Hope New Markets 2	7,729,316	-	(77,747)	77,747	7,729,316
Hope New Markets 3	4,708,479	-	(35,012)	35,011	4,708,478
Hope New Markets 4	5,790,911	-	(85,462)	85,462	5,790,911
Hope New Markets 5	5,769,995	-	(98,172)	98,172	5,769,995
Hope New Markets 6	10,628,787	-	555	33,372	10,662,714
Hope New Markets 7	7,721,228	-	(77,592)	77,592	7,721,228
Hope New Markets 8	7,699,605	-	(217,783)	217,783	7,699,605
Hope New Markets 9	8,712,231	-	(310,237)	310,237	8,712,231
Hope New Markets 10	7,772,226	-	(205,909)	213,010	7,779,327
Hope New Markets 11	8,342,066	-	(916)	19,016	8,360,166
Hope New Markets 12	6,000,000	4,000,000	(57,159)	(283,625)	9,659,216
Hope New Markets 13	-	8,000,000	(43,376)	(265,786)	7,690,838
Hope New Markets 14	-	7,000,000	(10,297)	(295,081)	6,694,622
Hope New Markets 15	-	14,000,000	(3,080)	(620,558)	13,376,362
Total	$ 88,252,979	$ 33,000,000	$ (1,205,519)	$ (492,545)	$ 119,554,915

NOTE 11 LIQUIDITY AND AVAILABILITY

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

	2020	2019
Cash and Cash Equivalents	$ 24,446,074	$ 1,830,170
Grants Receivables	992,002	1,793,919
Investment Securities	21,200,478	15,815,535
Loans Receivable	968,223	862,531
Loan Guarantees Receivable from SBA	80,970,308	-
Interest Receivable	219,877	158,065
Financial Assets, at Year End	$ 128,796,962	$ 20,460,220
Less Those Not Available for General Expenditures within One Year, Due to:		
Restricted by Donors	(19,489,885)	(19,514,050)
Lines of Credit Secured by Loan Guarantees Receivable from SBA	(80,970,308)	-
Financinal Assets Available to Meet Cash Needs for General Expenditure within One Year	$ 28,336,769	$ 946,170

NOTE 11 LIQUIDITY AND AVAILABILITY

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

NOTE 12 EMPLOYEE BENEFIT PLAN

The Company sponsors a defined contribution 401(k) plan (the Plan) for all employees. The Company contributes 100% of the first 4% contributed by each employee. Expenses of the Plan were $116,078 in 2020 and $111,558 in 2019.

NOTE 13 COMMITMENTS AND CONTINGENCIES

Off-Consolidated Statement of Financial Condition Activities

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

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

The Company's maximum exposure to credit loss in the event of nonperformance by the other party for loan commitments (including unused lines of credit) was approximately $1,620,000 and $1,141,000 at December 31, 2020 and 2019, 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.

NOTE 14 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Credit Enhancement Loans

As of December 31, 2020, 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 $6,779,000 as of December 31, 2020 and 2019.

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 $385,309 and $334,545 as of December 31, 2020 and 2019, respectively.

Concentrations

Contributions totaling $20,200,000 and $7,135,000 were received from two donors in each of the years ended December 31, 2020 and 2019, representing 45% and 42% of total revenue, respectively. Should these contribution levels decrease, the Company may be adversely affected.

NOTE 14 FUNCTIONAL CLASSIFICATION OF EXPENSES

A summary of 2020 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	$ 1,249,024	$ 21,401	$ 531,991	$ 669,195	$ 2,471,611	$ 1,773,798	$ 320,559	$ 2,094,357	$ 4,565,968
Bank Fees	326	-	-	-	326	14,986	-	14,986	15,312
Conferences and Employee Training	960	-	75	5,828	6,863	8,123	584	8,707	15,570
Contractual Services	986,122	218	106,774	987,228	2,080,442	409,081	3,247	412,328	2,492,770
Dues, Fees, and Memberships	4,727	-	13,805	8,815	27,347	32,258	2,237	34,495	61,842
Equipment, Furnitures, and Fixtures	109,740	2,940	48,544	72,747	233,971	303,060	29,099	332,159	566,130
Forgiveness of Mortgage Loan Debt	133,797	433,458	-	-	567,255	-	-	-	567,255
HFCU Operational Support	5,677,500	-	-	-	5,677,500	-	-	-	5,677,500
Insurance	41,309	-	-	-	41,309	137,886	-	137,886	179,195
Miscellaneous	257,418	-	-	632	258,050	656,416	-	656,416	914,466
Office Supplies	51,645	1,167	8,155	22,816	83,783	50,664	5,356	56,020	139,803
Pass Through Grants	149,109	-	-	6,100	155,209	-	-	-	155,209
Professional Fees	1,655	31	1,999	-	3,685	6,922	-	6,922	10,607
Rent and Employee Parking	11,142	-	-	7,656	18,798	1,271	-	1,271	20,069
Repairs and Maintenance	57,592	1,273	24,834	32,781	116,480	81,690	14,464	96,154	212,634
Service Fees	107,901	93,535	5,641	88,010	295,087	108,840	2,715	111,555	406,642
Staff Recruitment and Relocation	-	-	-	-	-	9,238	-	9,238	9,238
Telephone and Utilities	170,277	2,881	68,748	83,795	325,701	214,853	41,675	256,528	582,229
Travel	36,890	615	4,331	11,397	53,233	30,916	2,393	33,309	86,542
Interest	117,809	-	-	-	117,809	336,963	-	336,963	454,772
Provision for Loan Losses	(64,396)	(251)	-	-	(64,647)	-	-	-	(64,647)
Depreciation and Amortization	-	-	-	-	-	370,551	-	370,551	370,551
Total	$ 9,100,547	$ 557,369	$ 814,897	$ 1,997,000	$ 12,469,812	$ 4,547,516	$ 422,329	$ 4,969,845	$ 17,439,657

HOPE ENTERPRISE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 14 FUNCTIONAL CLASSIFICATION OF EXPENSES (CONTINUED)

A summary of 2019 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	$ 948,017	$ 97,021	$ 316,039	$ 654,227	$ 2,015,304	$ 2,042,840	$ 331,909	$ 2,374,749	$ 4,390,053
Bank Fees	6,653	-	-	-	6,653	8,443	-	8,443	15,096
Conferences and Employee Training	11,109	1,423	1,875	12,393	26,800	37,025	648	37,673	64,473
Contractual Services	268,911	1,449	10,005	194,491	474,856	447,147	152,938	630,085	1,104,941
Dues, Fees, and Memberships	4,651	2,005	5,652	20,776	33,094	25,163	7,970	33,133	66,217
Equipment, Furnitures, and Fixtures	313,685	3,936	10,285	20,251	348,157	156,719	11,427	168,156	516,313
Forgiveness of Mortgage Loan Debt	114,751	684,293	-		799,044	-	-	-	799,044
HFCU Operational Support	5,051,000	-	-	-	5,051,000	-	-	-	5,051,000
Insurance	35,416	-	-	-	35,416	116,662	-	116,662	152,078
Miscellaneous	283,905	28,840	500	1,550	314,795	7,197	750	7,947	322,742
Office Supplies	66,930	555	11,731	19,293	98,509	75,969	17,385	93,354	191,863
Pass Through Grants	231,000	-	250	147,908	379,158	-	-	-	379,158
Professional Fees	41,410	-	-	32,034	73,444	19,000	-	19,000	92,444
Rent and Employee Parking	19,300	-	-	10,585	29,885		-	-	29,885
Repairs and Maintenance	118,706	947	3,292	6,738	129,683	40,149	3,711	43,860	173,543
Service Fees	198,913	411,015	14,628	138,776	763,332	109,565	24,996	134,561	897,893
Staff Recruitment and Retreation	1,390	2,151	-	-	3,541	10,457	-	10,457	13,998
Telephone and Utilities	554,924	4,555	17,211	41,994	618,684	126,353	19,520	145,873	764,557
Travel	64,058	7,584	37,178	54,860	163,660	150,460	8,348	158,808	322,468
Interest	207,635	-	-	-	207,635	469,034	-	469,034	676,669
Provision for Loan Losses	355,885	(46)	-	-	355,839	-	-	-	355,839
Depreciation and Amortization	-	-	-	-	-	413,179	-	413,179	413,179
Total	$ 8,898,249	$ 1,245,708	$ 428,646	$ 1,355,876	$ 11,928,479	$ 4,255,362	$ 609,612	$ 4,864,974	$ 16,793,453

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*

Board of Directors
Hope Enterprise Corporation
Jackson, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Hope Enterprise Corporation (the Company), which comprise the consolidated statement of financial position as of December 31, 2020, and the related consolidated statements of activities and cash flows for the year then ended and the related notes to the consolidated financial statements and have issued our report thereon dated March 30, 2021.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated 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*.

Hope Enterprise Corporation's Response to Findings

Hope Enterprise Corporation's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Company's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Dallas, Texas
March 30, 2021

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

We have audited Hope Enterprise Corporation's (the Company) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Company's major federal programs for the year ended December 31, 2020. The Company's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Company's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Company complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2020.

Report on Internal Control Over Compliance

Management of the Company is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Company's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Dallas, Texas
March 30, 2021

HOPE ENTERPRISE CORPORATION
STATEMENT OF FINANCIAL POSITION – NEIGHBORWORKS AMERICA FUNDS
DECEMBER 31, 2020

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, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND GAINS			
Expendable Grants	$ 722,678	$ -	$ 722,678
Net Assets Released from Restrictions:			
Transfer from Changes in Program Restrictions	492,822	(492,822)	-
Total Revenues and Gains	1,215,500	(492,822)	722,678
EXPENSES			
Other Programs	1,215,500	-	1,215,500
Total Expenses	1,215,500	-	1,215,500
CHANGE IN NET ASSETS	-	(492,822)	(492,822)
Net Assets - Beginning of Year	-	492,822	492,822
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, 2020

Federal Grantor/Program Title	Federal CFDA Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Housing and Urban Development			
Capacity Building for Community Development and Affordable Housing	14.252	$ -	$ 150,000
Congressional Appropriation - NeighborWorks System Program	21.116	-	1,195,500
COVID-19 Relief Funds Appropriated from Public Law #116-94	21.116	-	20,000
Total Expenditures of Federal Awards			$ 1,365,500

See accompanying Notes to Schedule of Expenditures of Federal Awards

HOPE ENTERPRISE CORPORATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2020

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, 2020. 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 2020 and 2019, the Company was awarded NeighborWorks America capital funds grants totaling $695,500 and $645,320, 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- and $492,822 at December 31, 2020 and 2019, respectively. As of December 31, 2020, the Company was in compliance with the bonding and insurance requirements of the grant agreement.

NOTE 3 SUBRECIPIENTS

The Company did not provide any federal awards to subrecipients during the year ended December 31, 2020.

NOTE 4 NON-CASH ASSISTANCE

The Company did not receive any federal assistance in non-cash form during the year ended December 31, 2020.

HOPE ENTERPRISE CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2020

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? __x__ yes ______ 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 200.516(a)? ______ yes __x__ no

Identification of Major Federal Programs

CFDA Number(s)	Name of Federal Program or Cluster
21.116	NeighborWorks System Program

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

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

Section II – Financial Statement Findings

2020 – 001

Type of Finding:

- Significant Deficiency in Internal Control over Financial Reporting

Condition: Exceptions noted in commercial credit file review

Criterial or specific requirement: In order to properly value and recognize loan receivables according to AU-C 942-310, an entity must have sufficient, up-to-date records of such receivables.

Context: Exceptions in multiple credit files reviewed include missing documentation, stale reviews, among others. In 2020, the COVID-19 pandemic and subsequent stay at home orders impacted the Company's ability to continue it's review procedures on manual documents as designed.

Effect: Management's risk ratings are incorrect.

Cause: All loan documentation is maintained in paper format, there is no cohesive system of organization of the files, and there does not appear to be an effective, consistent methodology for monitoring existing credit relationships.

Repeat Finding: Not a repeat finding.

Recommendation: CLA recommends that management either adopt a consistent filing methodology or move to an electronic system to facilitate visibility and review of credit relationships and develop an appropriate monitoring system to ensure problem credits are identified timely.

Views of responsible officials and planned corrective action: Management is aware and has already made changes to the organizational chart to better segregate responsibilities, has begun and will continue to digitize credit files, and has hired a Chief Credit Officer to oversee it all.

2020 – 002

Type of Finding:

- Significant Deficiency in Internal Control over Financial Reporting

Condition: Pervasive lack of accurate and timely review of financial support

Criterial or specific requirement: Management must maintain an effective system of internal controls over financial reporting.

Context: Multiple instances noted in which management review and approval of various reconciliations, timesheets, or other financial support, was not documented timely or at all. In 2020, the COVID-19 pandemic and subsequent stay at home orders impacted the Company's ability to continue it's review procedures on manual documents as designed. Additionally, the Company dealt with significant turnover in personnel, including the retirement of the long-time Deputy CFO, and extended medical leave of both the newly promoted Controller and Assistant Controller.

Effect: Lack of review or timely review provides opportunity for fraud to be perpetuated or errors to compound that may materially impact the financial statements.

Cause: Many of management's reconciliation processes are manual or rely on paper documentation.

Repeat Finding: Not a repeat finding.

Recommendation: CLA recommends that management carefully review its process for reviewing financial support as reported internally and in the call report to ensure it is complete, accurate and timely. We also recommend that management retain appropriate documentation to support balances and reconciling items. Finally, we recommend that management review and properly leverage the capabilities of its existing data processing system, which can improve the reliability of information and reduce management's reliance on manually-prepared support.

Views of responsible officials and planned corrective action: Management is aware and has plans to implement an accounting system change to better leverage electronic processes for accurate and timely review.

Section III – Findings and Questioned Costs – Major Federal Programs

None