

HOPE ENTERPRISE CORPORATION

**Consolidated Financial Statements
with Supplementary Information**
Years Ended December 31, 2013 and 2012

Hope Enterprise Corporation

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CRI CARR
RIGGS &
INGRAM
CPAs and Advisors

Carr Riggs & Ingram, LLC
282 Commerce Park Drive
Ridgeland, Mississippi 39157

Mailing Address:
P.O. Box 2418
Ridgeland, Mississippi 39158-2418

(601) 853-7050
(601) 853-9331 (fax)
www.cricpa.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Hope Enterprise Corporation and entities under its control, which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the related consolidated statements of activities and changes in net assets and of cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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, 2013 and 2012, 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 2013 audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Schedules 1 - 4 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Car, Riggs & Ingram, LLC

Ridgeland, Mississippi
April 11, 2014

Hope Enterprise Corporation

Consolidated Statements of Financial Position

<i>December 31,</i>	2013	2012
Assets		
Cash and cash equivalents	\$ 11,127,740	\$ 12,788,105
Grants receivable	1,039,288	805,367
Contract revenue receivable	497,655	193,125
Loan receivable from affiliate	3,215,000	3,215,000
Consumer mortgage loans held for sale	1,087,604	3,000,990
Other loans - net of allowance for loan losses of approximately \$2,030,000 (2013) and \$1,706,000 (2012)	73,216,034	50,999,519
Loan guarantees receivable from Small Business Administration	788,645	776,307
Debt securities held as investments	13,031	774,415
Investment in affiliated company	10,612,388	10,650,000
Cash restricted for collateral on subsidiary's note payable	2,744,452	2,743,380
Investment in secondary capital of Hope Federal Credit Union	15,206,000	16,311,549
Property and equipment, net	1,848,725	2,022,093
Foreclosed property	1,864,141	631,936
Other assets	569,557	585,315
Total assets	\$ 123,830,260	\$ 105,497,101
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 611,559	\$ 551,801
Payable to Hope Federal Credit Union	649,943	2,388,871
Funds held in escrow	3,187,790	3,187,790
Notes payable	32,054,149	32,219,902
Total liabilities	36,503,441	38,348,364
Commitments and contingencies (Note 5 and 12)		
Net assets:		
Unrestricted	8,256,736	10,500,808
Non-controlling interests (Note 12)	75,567,760	51,686,172
Total unrestricted	83,824,496	62,186,980
Temporarily restricted	2,084,811	3,619,245
Permanently restricted	1,417,512	1,342,512
Total net assets	87,326,819	67,148,737
Total liabilities and net assets	\$ 123,830,260	\$ 105,497,101

See notes to consolidated financial statements.

Hope Enterprise Corporation

Consolidated Statement of Activities and Changes in Net Assets

Year ended December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and gains				
Grants and contributions	\$ 1,261,303	\$ 1,691,000	\$ 75,000	\$ 3,027,303
In-kind contributions	456,875	-	-	456,875
Interest, dividends and related fees:				
Loans and other investments	2,618,442	-	-	2,618,442
Debt securities and cash equivalents	97,251	-	-	97,251
Net realized and unrealized losses on debt securities held as investments	(9,175)	-	-	(9,175)
Loss on sale of assets	(896)	-	-	(896)
Contract services revenue	997,270	-	-	997,270
	5,421,070	1,691,000	75,000	7,187,070
Net assets released from restrictions:				
Expiration of time restrictions	726,000	(726,000)	-	-
Satisfaction of program restrictions	2,499,434	(2,499,434)	-	-
Total revenues and gains	8,646,504	(1,534,434)	75,000	7,187,070
Expenses				
Program expenses:				
Development finance	5,600,966	-	-	5,600,966
Housing initiative	328,015	-	-	328,015
Hope Federal Credit Union	700,000	-	-	700,000
Policy and advocacy	649,634	-	-	649,634
Other programs	1,667,642	-	-	1,667,642
	8,946,257	-	-	8,946,257
General administration:				
General and administration expense	1,839,094	-	-	1,839,094
Fund-raising and communication	183,213	-	-	183,213
Total expenses	10,968,564	-	-	10,968,564
Equity in earnings of affiliated company	388,388	-	-	388,388
Change in net assets before non-controlling interest	(1,933,672)	(1,534,434)	75,000	(3,393,106)
Non-controlling interests in subsidiaries' income	(310,400)	-	-	(310,400)
Change in net assets attributable to controlling interest	(2,244,072)	(1,534,434)	75,000	(3,703,506)
Net assets attributable to controlling interests:				
At beginning of year	10,500,808	3,619,245	1,342,512	15,462,565
At end of year	8,256,736	2,084,811	1,417,512	11,759,059
Net assets of non-controlling interests (Note 12)	75,567,760	-	-	75,567,760
Total net assets at end of year	\$ 83,824,496	\$ 2,084,811	\$ 1,417,512	\$ 87,326,819

See notes to consolidated financial statements.

Hope Enterprise Corporation

Consolidated Statement of Activities and Changes in Net Assets

Year ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and gains				
Grants and contributions	\$ 964,467	\$ 1,535,824	\$ 200,000	\$ 2,700,291
In-kind contributions	99,900	-	-	99,900
Interest, dividends and related fees:				
Loans and other investments	2,699,388	-	-	2,699,388
Debt securities and cash equivalents	65,452	-	-	65,452
Net realized and unrealized losses on debt securities held as investments	(20,295)	-	-	(20,295)
Gain on sale of assets	27,237	-	-	27,237
Contract services revenue	256,835	-	-	256,835
Other income	16,293	-	-	16,293
	4,109,277	1,535,824	200,000	5,845,101
Net assets released from restrictions:				
Satisfaction of program restrictions	4,175,916	(4,175,916)	-	-
Total revenues and gains	8,285,193	(2,640,092)	200,000	5,845,101
Expenses				
Program expenses:				
Development finance	5,806,735	-	-	5,806,735
Housing initiative	530,858	-	-	530,858
Hope Federal Credit Union	1,448,000	-	-	1,448,000
Policy and advocacy	678,256	-	-	678,256
Other programs	1,191,291	-	-	1,191,291
	9,655,140	-	-	9,655,140
General administration:				
General and administration expense	1,735,348	-	-	1,735,348
Fund-raising and communication	262,353	-	-	262,353
Total expenses	11,652,841	-	-	11,652,841
Change in net assets before non-controlling interest	(3,367,648)	(2,640,092)	200,000	(5,807,740)
Non-controlling interests in subsidiaries' income	(805,168)	-	-	(805,168)
Change in net assets attributable to controlling interest	(4,172,816)	(2,640,092)	200,000	(6,612,908)
Acquisition of non-controlling interest	790,558	-	-	790,558
Net assets attributable to controlling interests:				
At beginning of year	13,883,066	6,259,337	1,142,512	21,284,915
At end of year	10,500,808	3,619,245	1,342,512	15,462,565
Net assets of non-controlling interests (Note 12)	51,686,172	-	-	51,686,172
Total net assets at end of year	\$ 62,186,980	\$ 3,619,245	\$ 1,342,512	\$ 67,148,737

See notes to consolidated financial statements.

Hope Enterprise Corporation

Consolidated Statements of Cash Flows

<i>Years ended December 31,</i>	2013	2012
Operating activities		
Change in net assets attributable to controlling interest	\$ (3,703,506)	\$ (6,612,908)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Non-controlling interests in subsidiaries' income	310,400	805,168
Depreciation, amortization and accretion	445,591	468,814
Provision for loan losses	1,611,236	261,159
Forgiveness of mortgage loan debt	223,742	223,742
Loss (gain) on sale of assets	896	(27,237)
Cash distribution from affiliate in excess of equity in earnings	37,612	-
Impairment losses and loss on sale of foreclosed property	23,944	29,686
Realized and unrealized loss on investments	9,175	20,295
Proceeds from sales of mortgage loans held for sale	1,820,782	206,391
Changes in operating assets and liabilities:		
Contract revenue receivable	(304,530)	289,782
Grants receivable	(233,921)	160,586
Other receivables and prepaid expenses	7,764	1,439,758
Accounts payable and other liabilities	(1,679,170)	770,068
Net cash used in operating activities	(1,429,985)	(1,964,696)
Investing activities		
Net decrease (increase) in loans held for investment	(25,292,143)	1,758,571
Proceeds from maturities and sales of investments	752,466	251,823
Increase in restricted cash held in escrow	(1,072)	(1,089)
Investment in affiliated company	-	(10,650,000)
Investment in secondary capital of Hope Federal Credit Union	-	(3,949,500)
Proceeds from repayment of secondary capital loans	1,105,549	86,381
Proceeds from sales of foreclosed property	64,767	10,709
Purchase of property and equipment	(265,382)	(296,292)
Net cash used in investing activities	(23,635,815)	(12,789,397)
Financing activities		
Capital contributions by non-controlling interests	25,000,000	10,650,000
Cash dividends paid to non-controlling interests	(1,428,812)	(1,381,804)
Payments on borrowings under agreements to repurchase	-	(213,000)
Acquisition of non-controlling interest in subsidiary	-	(200,000)
Long-term borrowings	5,251,000	11,400,000
Payments on long-term borrowings	(5,416,753)	(3,153,825)
Net cash provided by financing activities	23,405,435	17,101,371
Net increase (decrease) in cash and cash equivalents	(1,660,365)	2,347,278
Cash and cash equivalents, beginning of year	12,788,105	10,440,827
Cash and cash equivalents, end of year	\$ 11,127,740	\$ 12,788,105
Supplemental disclosure of noncash investing and financing activities:		
Property received upon foreclosure on loans	\$ 1,333,254	\$ 293,760
Transfers to loan guarantees receivable	\$ 12,338	\$ -

Hope Enterprise Corporation

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

Basis of Presentation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and include the accounts of the Company and entities under its control which include, ECD Investments, LLC (ECDI), ECD Investments BIDCO, Inc. (BIDCO), Home Again, Inc. (Home Again), Mid-Delta Community and Individual Investment Corporation (MDCIIC), ECD Associates, LLC (ECDA), ECD New Markets, LLC (ECDNM), ECD First Commercial, LLC (ECD First), ECD Plus, LLC (ECD Plus), ECD Central City, LLC (ECD Central), ECD New Markets 3, LLC (ECDNM3) ECD New Markets 4, LLC (ECDNM4), ECD New Markets 5, LLC (ECDNM5), Hope New Markets 1, LLC (HNM1), Hope New Markets 2, LLC (HNM2), Hope New Markets 3, LLC (HNM3) and Hope New Markets 4, LLC (HNM4). All significant intercompany transactions and balances have been eliminated in consolidation. The preparation of such consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The allowance for loan losses and the valuation of foreclosed property and investments are determined utilizing material estimates that are particularly susceptible to change in the near term.

ECDI is a limited liability company subsidiary of the Company and owns the corporate stock of BIDCO. The purpose of ECDI and BIDCO is the same as that of the Company. Home Again is a non-profit organization in which the Company serves as the primary sponsor and also controls the Board of Directors. Home Again provides mortgage financing and recovery consultation services to eligible people in the coastal region of Mississippi in the aftermath of Hurricane Katrina. MDCIIC is a Mississippi corporation that provides loans and technical assistance to small businesses in a six county service area in the delta region of Mississippi.

There are also 12 additional limited liability companies included in the consolidated financial statements of the Company which include ECDA, ECDNM, ECD First, ECD Plus, ECD Central, ECDNM3, ECDNM4, ECDNM5, HNM1, HNM2, HNM3 and HNM4. The Company serves as the Managing Member of all 12 entities. Debt and equity funding into ECDA and ECDNM is used for secondary capital loans and contributions to Hope Federal Credit Union (HFCU). The remaining 10 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.

Hope Enterprise Corporation

Notes to Consolidated Financial Statements

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

Although not included in the consolidated financial statements, the Company is also the primary sponsor of HFCU. Under the terms of its contractual arrangements, the Company has agreed to reimburse HFCU for certain operating expenses and losses incurred on loans considered to be higher risk than typically underwritten by regulated financial institutions such as HFCU. Such obligations are limited so as to not provide HFCU monthly net income of more than \$20,000. HFCU and the Company share the same members of management and certain HFCU members are also borrowers from the Company and its affiliates.

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

In connection with the preparation of the consolidated financial statements, management of the Company evaluated subsequent events through April 11, 2014, which was the date the consolidated financial statements were available to be issued.

Fair Value Measurements

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

- Level 1** Valuations based on unadjusted quoted prices for identical assets in active markets accessible at the measurement date.
- Level 2** Valuations derived for similar assets in active markets, or other inputs that are observable or can be corroborated by market data.
- Level 3** Valuations derived from unobservable (supported by little or no market activity) inputs that reflect an entity's best estimate of what hypothetical market participants would use to determine a transaction price at the reporting date.

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

Hope Enterprise Corporation

Notes to Consolidated Financial Statements

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

price verification process, valuations based on quotes are corroborated by comparison both to other quotes and to recent trading activity in the same or similar instruments. To the extent the Company determines a price or quote is inconsistent with actual trading activity observed in that investment or similar investments, or if the Company does not believe the quote is reflective of the market value for the investment, the Company would internally develop a fair value using this observable market information.

Cash Equivalents

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

Grants Receivable

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

Contract Services Revenue and Related Receivables

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

Loan Receivable from Affiliate

The Company entered into a loan with ECD Chase, LLC (Chase), a company that began operations in 2007. The loan matures in 2027 with quarterly principal payments of \$250,000 scheduled to begin in January 2015. Interest at a fixed rate of 6.25 percent is due quarterly. The Company does not control this entity and serves as the non-member manager of Chase. Chase does not have a board of directors and has only one investor member. No allowance for loan loss was deemed necessary for this loan.

Consumer Mortgage Loans Held-for-Sale

Mortgage loans held-for-sale are carried at the lower of aggregate cost or market value and are primarily fixed-rate single-family residential loans originated and held under contract to be sold in the secondary market to a permanent investor. Such loans are generally sold within 30 days and mortgage servicing rights are released at point of sale. Although investors have limited recourse to return a purchased loan, no such returns occurred in 2013 or 2012. All mortgage loans are collateralized by the related residence of the borrower. Net unrealized losses, if any, are recognized through a valuation allowance by a charge to expense.

Other Loans

Other loans are stated at the amount of unpaid principal less an allowance for loan losses and consist of commercial loans, consumer mortgage loans not held for sale and forgivable mortgage loans. The commercial loans are typically collateralized by property, equipment, inventories, and/or receivables with loan-to-value ratios from 50 percent to 100 percent and are generally guaranteed by the principals of the borrower. Interest income is computed on the

Hope Enterprise Corporation

Notes to Consolidated Financial Statements

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

loan balance outstanding and is accrued as earned. Loans are considered past due if the required principal and interest payments have not been received as of the date such payments are due. For all loans 90 days or more past due, the Company generally discontinues the accrual of interest and recognizes income only as received. A loan may also be placed in non-accrual status when, in management's judgment, the collection of interest is doubtful. All interest accrued but not collected for loans that are placed in non-accrual status or charged off is reversed through interest income unless management believes the accrued interest is recoverable through the liquidation of collateral. Interest received on non-accrual loans is either applied against principal or reported as interest income, based on management's assessment regarding the recovery of principal. When material, the net amount of nonrefundable loan origination fees and direct costs associated with the lending process is deferred and accreted to interest income over the lives of the loans using a method that approximates the interest method.

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

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

At December 31, 2013, the Company had one commercial real estate loan and one other business assets loan classified as TDRs which totaled approximately \$5,376,000. For these TDRs, the Company had a related loan loss allowance of approximately \$531,000 at December 31, 2013. There were no loans of the Company classified as TDRs at December 31, 2012. These loans were modified by changing certain interest terms. As a result, there was approximately \$50,000 of accrued interest which was forgiven. There were no specific charge-offs of principal related to TDRs during 2013 or 2012. Collateral dependent loans that are TDRs are charged down to the most likely fair value estimate less a cost to sell estimate, which would approximate net realizable value. During 2013 and 2012, there were no TDRs that subsequently defaulted.

Other loans also include forgivable mortgage loans that are made to accommodate the financial needs of Home Again's customers. The terms of these loans differ significantly from traditional mortgage loans since they are forgivable over a stated period of time, typically ten years, and become due only on the sale or transfer of the residence. No principal or interest payments are therefore received for loans made under the Home Again program. Persons receiving loans under the program offered by Home Again must meet certain eligibility requirements and agree

Hope Enterprise Corporation

Notes to Consolidated Financial Statements

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

to occupy the residence for a stated period of time. Home Again holds a secured interest in the property funded until the occupancy period is met. At such time, the interest in the property is transferred to the borrower. No allowance for credit losses has been deemed necessary based on the forgivable nature of the loans and management's evaluation of the excess of the value of the collateral securing the loans over the unforgiven portion of the mortgage loans. Home Again recorded approximately \$224,000 in debt forgiveness during 2013 and 2012 related to these mortgage loans. As of December 31, 2013, Home Again has a conditional promise to forgive approximately \$224,000 under the program each year for the next three years, with the remaining loan balance scheduled to be forgiven in 2017.

Allowance for Loan Losses

The allowance for loan losses is determined based on various components for individually impaired loans and for homogeneous pools of loans. The allowance for loan losses is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries by portfolio segment. The methodology for determining charge-offs is consistently applied to each segment. The allowance for loan losses is maintained at a level that, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, and changes in its risk profile, credit concentrations, historical trends and economic conditions. This evaluation also considers the balance of impaired loans. The Company evaluates the allowance for loan losses on an individual loan basis for impaired loans. All other loans are evaluated on a collective basis. Losses on individually identified impaired loans are measured based on the present value of expected future cash flows discounted at each loan's original effective market interest rate. As a practical expedient, impairment may be measured based on the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through the provision added to the allowance for loan losses. Though management believes the allowance for loan losses to be adequate, ultimate losses may vary from their estimates. However, estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the change in net assets during periods in which they become known.

Debt Securities Held as Investments

Debt 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. Realized gains and losses on sales are computed based on the cost of specific securities sold.

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 gains or losses on the sale of these assets. Security purchases and sales are accounted for on the trade date.

Hope Enterprise Corporation

Notes to Consolidated Financial Statements

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

Investment in Affiliated Company

The Company purchased a 98.91% non-controlling equity interest in Hickory Holdings, LLC (Hickory) on December 24, 2012, and began receiving its allocation of the operating results of Hickory on January 1, 2013. The investment in affiliated company is accounted for using the equity method of accounting. Hickory is not consolidated since the Company has a preferred unit interest, does not control the operations of Hickory, and does not control the election or termination of Hickory's managing members or its management. The principal business activity of Hickory is the acquisition, ownership, financing and holding of lease equipment and other personal property.

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

Foreclosed property consists of properties repossessed by the Company on foreclosed loans. These assets are stated at the lower of the outstanding loan amount (including accrued interest, if any) or fair value at the date acquired less estimated costs to sell. Losses arising from the acquisition of such property are charged against the allowance for loan losses. An additional charge to expenses is made to reflect declines in value resulting from subsequent valuations of the property. Gains and losses resulting from disposition of such property are recognized currently in the change in net assets.

Funds Held in Escrow

Funds held in escrow are required to be held in accordance with provisions of the MIDCIIC note. Any funds received but not loaned to eligible borrowers are subject to being returned to the Federal Department of Housing and Urban Development.

Income Taxes

The Company and Home Again have received rulings from the Internal Revenue Service for exemption from income taxes as public charities under Internal Revenue Code Sections 501(c)(3) and 509 (a)(2). Since ECDI, ECDA, ECDNM, ECD Plus, ECD Central, ECD First, ECDNM3, ECDNM4, ECDNM5, HNM1, HNM2, HNM3 and HNM4 are limited liability companies, no income taxes are provided. The results of operations are reportable by the LLC members on their individual income tax returns. BIDCO and MDCIIC are subject to income taxes at the corporate level. As such, deferred income taxes relate to temporary differences between assets and liabilities of BIDCO and MDCIIC that are recognized differently for financial reporting purposes and income tax purposes. Deferred tax assets and liabilities pertain to net operating loss carryforwards, the allowance for loan losses and unrealized gains on securities. A valuation allowance of approximately \$3,036,000 and \$2,661,000, respectively, was recorded at December 31, 2013 and 2012, to offset all of the net deferred tax assets. The valuation

Hope Enterprise Corporation

Notes to Consolidated Financial Statements

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

allowance is established to provide for amounts that management considers may not be realized as a result of income limitations. At December 31, 2013, BIDCO and MDCIIC have net operating loss carryforwards of approximately \$8,109,000 that will begin to expire in 2021.

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 2010.

Effects of Recent Accounting Guidance

In July 2013, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*, to eliminate diversity in practice. This ASU requires that companies net their unrecognized tax benefits against all same-jurisdiction net operating losses or tax credit carryforwards that would be used to settle the position with a tax authority. This guidance is effective prospectively for annual reporting periods beginning on or after December 31, 2013. The Company is in the process of evaluating the impact, if any, the adoption of this accounting standard update will have on its financial statements.

Reclassifications

Certain reclassifications have been made in the 2012 consolidated financial statements to conform to the method of presentation used in 2013.

NOTE 2 – FAIR VALUE MEASUREMENTS

At December 31, 2013 and 2012, the only items carried at fair value in the accompanying consolidated statements of financial position were debt securities held as investments, certain collateral-dependent impaired loans and certain foreclosed property. Debt securities held as investments are measured at fair value on a recurring basis with changes in fair value recognized as a change in net assets, whereas impaired loans and foreclosed property are carried at the lower of cost or fair value on a non-recurring basis and are written down to fair value upon initial recognition or subsequent impairment. Fair value amounts for collateral-dependent loans are generally based on internally developed collateral valuations. These valuations incorporate measures such as recent sales prices for comparable properties or customized discounting criteria.

The fair value measurements by input level follow:

<i>December 31, 2013</i>	Total	Level 1	Level 2	Level 3
Debt securities	\$ 13,031		\$ 13,031	
Impaired loans	\$ 6,168,070			\$ 6,168,070
Foreclosed property	\$ 1,705,728			\$ 1,705,728

Hope Enterprise Corporation

Notes to Consolidated Financial Statements

NOTE 2 – FAIR VALUE MEASUREMENTS (Continued)

<i>December 31, 2012</i>	Total	Level 1	Level 2	Level 3
Debt securities	\$ 774,415		\$ 774,415	
Impaired loans	\$ 1,141,378			\$ 1,141,378
Foreclosed property	\$ 365,865			\$ 365,865

NOTE 3 – GRANTS RECEIVABLE

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

<i>December 31,</i>	2013	2012
Receivable in less than one year	\$ 909,000	\$ 525,000
Receivable in one to five years	150,000	300,000
	1,059,000	825,000
Less adjustment to reflect grants receivable at fair value at the date of grant, based on 1.25% discount rate in 2013 and 2012	(19,712)	(19,633)
	\$ 1,039,288	\$ 805,367

NOTE 4 – DEBT SECURITIES HELD AS INVESTMENTS

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

<i>December 31,</i>	Cost 2013	Fair Value 2013	Cost 2012	Fair Value 2012
Residential mortgage-backed securities	13,251	13,031	15,750	15,619
Municipal bonds	-	-	749,743	758,796
	\$ 13,251	\$ 13,031	\$ 765,493	\$ 774,415

NOTE 5 – LOANS AND COMMITMENTS

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

Hope Enterprise Corporation

Notes to Consolidated Financial Statements

NOTE 5 – LOANS AND COMMITMENTS (Continued)

Loans other than consumer mortgage loans held for sale and the loan receivable from affiliate consisted of the following:

<i>December 31,</i>	2013	2012
Commercial loans	\$ 74,487,355	\$ 51,719,369
Forgivable mortgage loans held by Home Again	752,172	975,914
Other consumer mortgage loans not held for sale	6,233	9,904
Allowance for loan losses	(2,029,726)	(1,705,668)
	\$ 73,216,034	\$ 50,999,519

Included in commercial loans are New Market Tax Credit program loans originated by community development entities which aggregated approximately \$58,407,000 and \$33,350,000 at December 31, 2013 and 2012, respectively. These loans typically have seven year repayment terms but include interest-only loans of approximately \$53,041,000 and \$28,791,000 at December 31, 2013 and 2012, respectively, which will begin to mature in 2017.

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

<i>December 31, 2013</i>	Loans		Allowance		Net
	Individually	Collectively	Individually	Collectively	
Commercial loans secured by:					
Commercial real estate	\$ 428,924	\$ 23,257,305	\$ 7,365	\$ 264,179	\$ 23,414,685
Single family real estate	12,410	10,686,779	-	323,767	10,375,422
Multi-family real estate	5,965,632	946,671	560,782	22,990	6,328,531
Other business assets	542,026	24,996,401	47,485	676,389	24,814,553
Construction	-	5,831,718	-	29,627	5,802,091
Unsecured commercial loans	68,730	1,750,759	47,475	49,667	1,722,347
Totals	\$ 7,017,722	\$ 67,469,633	\$ 663,107	\$ 1,366,619	\$ 72,457,629

<i>December 31, 2012</i>					
Commercial loans secured by:					
Commercial real estate	\$ 939,850	\$ 18,434,449	\$ 45,026	\$ 299,927	\$ 19,029,346
Single family real estate	13,117	5,787,438	-	200,729	5,599,826
Multi-family real estate	-	6,854,803	-	291,998	6,562,805
Other business assets	559,346	14,936,090	34,632	568,831	14,891,973
Construction	-	1,482,959	-	96,392	1,386,567
Unsecured commercial loans	95,042	2,616,275	42,937	125,196	2,543,184
Totals	\$ 1,607,355	\$ 50,112,014	\$ 122,595	\$ 1,583,073	\$ 50,013,701

Hope Enterprise Corporation

Notes to Consolidated Financial Statements

NOTE 5 – LOANS AND COMMITMENTS (Continued)

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

<i>December 31,</i>	2013	2012
Balance at beginning of year	\$ 1,705,668	\$ 1,670,659
Provisions charged to program expense	1,611,236	261,159
Loans charged off and foreclosed	(1,351,847)	(281,125)
Loan recoveries	64,669	54,975
Balance at end of year	\$ 2,029,726	\$ 1,705,668

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

<i>Year ended</i> <i>December 31, 2013</i>	Balance at Beginning of Year	Charge-offs	Recoveries	Provision for Loan Losses	Balance at End of Year
Commercial loans secured by:					
Commercial real estate	\$ 344,953	\$ (93,572)	\$ 64,669	\$ (44,506)	\$ 271,544
Single family real estate	200,729	(91,992)	-	215,030	323,767
Multi-family real estate	291,998	-	-	291,774	583,772
Other business assets	603,463	-	-	120,411	723,874
Construction	96,392	(1,062,452)	-	995,687	29,627
Unsecured commercial loans	168,133	(103,831)	-	32,840	97,142
	\$ 1,705,668	\$ (1,351,847)	\$ 64,669	\$ 1,611,236	\$ 2,029,726

<i>Year ended</i> <i>December 31, 2012</i>	Balance at Beginning of Year	Charge-offs	Recoveries	Provision for Loan Losses	Balance at End of Year
Commercial loans secured by:					
Commercial real estate	\$ 297,575	\$ (25,747)	\$ 52,965	\$ 20,160	\$ 344,953
Single family real estate	203,050	(64,825)	-	62,504	200,729
Multi-family real estate	317,209	-	-	(25,211)	291,998
Other business assets	575,913	-	-	27,550	603,463
Construction	-	-	-	96,392	96,392
Unsecured commercial loans	276,912	(190,553)	2,010	79,764	168,133
	\$ 1,670,659	\$ (281,125)	\$ 54,975	\$ 261,159	\$ 1,705,668

Charge-offs for 2013 include a charge-off of approximately \$1,062,000 related to one construction loan that became impaired during the year due to nonperformance.

Loan commitments are made to accommodate the financial needs of the Company's customers. These arrangements have credit risk essentially the same as that involved in extending loans to customers of commercial banks and are subject to the Company's normal credit practices. The Company uses the same credit policies in making these commitments and conditional obligations as it does for on-balance sheet instruments. The Company's maximum exposure to credit loss in the event of nonperformance by the other party for loan commitments (including unused lines of credit) was approximately \$2,633,000 and \$1,629,000 at December 31, 2013 and 2012, respectively.

Hope Enterprise Corporation

Notes to Consolidated Financial Statements

NOTE 5 – LOANS AND COMMITMENTS (Continued)

Impaired Loans

Approximately \$33,000 and \$56,000 of the allowance for loan losses relates to non-accrual loans at December 31, 2013 and 2012, respectively. The Company had non-accrual loans with six customers totaling approximately \$558,000 at December 31, 2013, and non-accrual loans with 7 customers totaling approximately \$903,000 at December 31, 2012. Loans which were past due 90 days or more and still accruing interest approximated \$1,083,000 and \$87,000 at December 31, 2013 and 2012, respectively.

The Company had impaired loans of approximately \$7,018,000 and \$1,607,000 as of December 31, 2013 and 2012, respectively. There was approximately \$663,000 and \$123,000 in the allowance for loan losses specifically allocated to these impaired loans at December 31, 2013 and 2012, respectively. Impaired loans approximating \$187,000 and \$343,000 at December 31, 2013 and 2012, respectively, have no allowance for loan losses specifically allocated to these loans. The average balance of impaired loans was approximately \$4,313,000 in 2013 and \$2,081,000 in 2012. Income recognized on impaired loans was approximately \$64,000 in 2013 and \$21,000 in 2012.

Information relative to impaired loans is as follows:

	Unpaid Principal Balance	Total Loans with No Specific Allowance	Total Loans with a Specific Allowance	Specific Allowance
<i>December 31, 2013</i>				
Commercial loans secured by:				
Commercial real estate	\$ 428,924	\$ 174,135	\$ 254,789	\$ 7,365
Single family real estate	12,410	12,410	-	-
Multi-family real estate	5,965,632	-	5,965,632	560,782
Other business assets	542,026	-	542,026	47,485
Unsecured commercial loans	68,730	-	68,730	47,475
Total impaired loans	\$7,017,722	\$ 186,545	\$6,831,177	\$ 663,107
<i>December 31, 2012</i>				
Commercial loans secured by:				
Commercial real estate	\$ 939,850	\$ 330,265	\$ 609,585	\$ 45,026
Single family real estate	13,117	13,117	-	-
Other business assets	559,346	-	559,346	34,632
Unsecured commercial loans	95,042	-	95,042	42,937
Total impaired loans	\$1,607,355	\$ 343,382	\$1,263,973	\$ 122,595

Hope Enterprise Corporation

Notes to Consolidated Financial Statements

NOTE 5 – LOANS AND COMMITMENTS (Continued)

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

<i>December 31, 2013</i>	Current	Past Due 30-89 Days	Past Due Greater Than 90 Days	Nonaccrual	Total
Commercial loans secured by:					
Commercial real estate	\$ 23,173,768	\$ 83,537	\$ 255,090	\$ 173,834	\$ 23,686,229
Single family real estate	10,635,896	50,883	12,410	-	10,699,189
Multi-family real estate	6,196,671	-	715,632	-	6,912,303
Other business assets	25,089,491	32,926	40,680	375,330	25,538,427
Construction	5,831,718	-	-	-	5,831,718
Unsecured commercial loans	1,750,759	-	59,501	9,229	1,819,489
Commercial loans	\$ 72,678,303	\$ 167,346	\$ 1,083,313	\$ 558,393	\$ 74,487,355
<i>December 31, 2012</i>					
Commercial loans secured by:					
Commercial real estate	\$ 18,605,206	\$ 212,352	\$ 87,456	\$ 469,285	\$ 19,374,299
Single family real estate	5,787,438	13,117	-	-	5,800,555
Multi-family real estate	6,131,388	723,415	-	-	6,854,803
Other business assets	14,891,018	182,088	-	422,330	15,495,436
Construction	1,482,959	-	-	-	1,482,959
Unsecured commercial loans	2,542,396	157,476	-	11,445	2,711,317
Commercial loans	\$ 49,440,405	\$ 1,288,448	\$ 87,456	\$ 903,060	\$ 51,719,369

Credit Quality Indicators

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

Hope Enterprise Corporation

Notes to Consolidated Financial Statements

NOTE 5 – LOANS AND COMMITMENTS (Continued)

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

	Pass Categories	Special Mention Category	Substandard Category	Doubtful Category	Total
<i>December 31, 2013</i>					
Commercial loans secured by:					
Commercial real estate	\$ 23,076,408	\$ 354,731	\$ -	\$ 255,090	\$ 23,686,229
Single family real estate	10,686,779	-	-	12,410	10,699,189
Multi-family real estate	946,671	-	-	5,965,632	6,912,303
Other business assets	25,122,417	329,250	-	86,760	25,538,427
Construction	5,831,718	-	-	-	5,831,718
Unsecured commercial loans	1,746,863	13,125	-	59,501	1,819,489
Totals	\$ 67,410,856	\$ 697,106	\$ -	\$ 6,379,393	\$ 74,487,355
<i>December 31, 2012</i>					
Commercial loans secured by:					
Commercial real estate	\$ 18,434,449	\$ 383,109	\$ -	\$ 556,741	\$ 19,374,299
Single family real estate	5,787,438	-	13,117	-	5,800,555
Multi-family real estate	6,854,803	-	-	-	6,854,803
Other business assets	14,936,090	376,250	-	183,096	15,495,436
Construction	1,482,959	-	-	-	1,482,959
Unsecured commercial loans	2,616,275	46,863	36,734	11,445	2,711,317
Totals	\$ 50,112,014	\$ 806,222	\$ 49,851	\$ 751,282	\$ 51,719,369

NOTE 6 – INVESTMENT IN AFFILIATED COMPANY

Summarized, unaudited financial information of Hickory Holdings, LLC (Hickory) as of December 31, 2013, is as follows (operations were minimal in 2012):

<i>December 31, 2013</i>	
Assets	
Current assets	\$ 1,263,901
Construction in progress	49,912,244
Deferred loan costs	781,878
	\$ 51,958,023
Liabilities and Members' Equity	
Current liabilities	\$ 886,623
Long-term debt	40,369,000
Equity of preferred unitholders	10,612,388
Equity of common unitholders	90,012
	\$ 51,958,023

Hope Enterprise Corporation

Notes to Consolidated Financial Statements

NOTE 6 – INVESTMENT IN AFFILIATED COMPANY (Continued)

Year ended December 31, 2013

Results of Operations	
Rental revenue	\$ 977,500
Interest expense	520,487
Other expenses	68,625
Net earnings	\$ 388,388

During 2013, ECDNM5 received cash dividends of approximately \$426,000 from Hickory.

NOTE 7 – SECONDARY CAPITAL OF HOPE FEDERAL CREDIT UNION

Secondary capital of HFCU are loans that require principal repayments, unless HFCU (i) is unable to fully service existing senior indebtedness, (ii) is unable to satisfy its operating expenses, or (iii) does not have available cash flows for the withdrawals of funds for the account. If such loans are not required to be repaid, they will be recognized as expense in the period the losses are incurred. The advances include a fixed rate loan at 5.45% for \$4,050,000 with quarterly principal payments of \$250,000 beginning in 2015 and three variable rate loans aggregating \$8,925,000 with interest floors and caps from 5% - 10.9%, maturing in 2024 – 2025, with principal payments required each year until maturity. An additional loan with a fixed rate of 3% totaling approximately \$55,000 matures in 2013. Interest income received from HFCU relative to the secondary capital loans approximated \$626,000 and \$634,000 for the years ended December 31, 2013 and 2012, respectively.

Maturities of secondary capital loans at December 31, 2013 are scheduled as follows:

2014	\$ 2,378,500
2015	2,852,500
2016	1,000,000
2017	1,000,000
2018	1,000,000
Thereafter	6,975,000
	\$ 15,206,000

In addition, the Company incurred expenses approximating \$700,000 and \$1,448,000 relative to its obligation to reimburse certain operating expenses of HFCU and incurred approximately \$1,506,000 and \$2,817,000 in 2013 and 2012, respectively, for grants to HFCU which are included in development finance expense in the accompanying consolidated statements of activities. Accounts payable to HFCU for grants and contractual services aggregated approximately \$650,000 and \$2,389,000 at December 31, 2013 and 2012, respectively.

Hope Enterprise Corporation

Notes to Consolidated Financial Statements

NOTE 8 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

<i>December 31,</i>	2013	2012
Computer equipment	\$ 2,719,257	\$ 2,484,292
Office equipment and other	600,008	576,177
Building and improvements	1,678,033	1,671,447
	4,997,298	4,731,916
Accumulated depreciation	(3,148,573)	(2,709,823)
	\$ 1,848,725	\$ 2,022,093

NOTE 9 – FORECLOSED PROPERTY

An analysis of foreclosed property follows:

<i>December 31,</i>	2013	2012
Balance at beginning of year	\$ 631,936	\$ 378,571
Transfer from loans	1,333,254	293,760
Transfer to loan guarantees receivable	(12,338)	-
Carrying value of foreclosed property sold	(64,767)	(10,709)
Impairments recognized	(23,944)	(29,686)
Balance at end of year	\$ 1,864,141	\$ 631,936

NOTE 10 – EMPLOYEE BENEFIT PLAN

The Company sponsors a defined contribution 401(k) plan (the “Plan”) for all employees. The Company contributes 100% of the first 4% contributed by each employee. Expenses of the Plan were approximately \$69,000 in 2013 and \$64,000 in 2012.

NOTE 11 – NOTES PAYABLE

In a prior year, the Company entered into two loan facilities with a bank and a non-bank lender to provide funding in amounts up to \$10,000,000 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, 2013, were \$5,323,000 and \$3,000,000, respectively. The proceeds of both facilities are to be used for small business lending activities of the Company. The outstanding balances under these loan facilities at December 31, 2012, were \$4,094,000 and \$3,000,000, respectively. 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. Notes payable to a bank with an outstanding balance of \$250,000 at December 31, 2013, is secured by all business assets of the Company. 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 and restricted cash of approximately \$2,744,000 on the note payable to MDCIIC. Interest paid approximated \$1,202,000 and \$1,010,000 in 2013 and 2012, respectively.

Hope Enterprise Corporation

Notes to Consolidated Financial Statements

NOTE 11 – NOTES PAYABLE (Continued)

Notes payable consisted of the following:

<i>December 31,</i>	2013	2012
1% notes payable:		
interest due annually and maturing 2020 through 2024	\$ 6,500,000	\$ 6,500,000
interest due quarterly and maturing from 2012 through 2017	2,000,000	2,500,000
Notes payable to banks with interest due quarterly:		
interest payable at 5.61 - 5.75%, maturing in 2011-2015	1,949,000	2,516,000
interest payable at 5.2%, maturing in September 2014	121,639	186,534
interest payable at 6.875%, maturing in December 2017	3,000,000	3,000,000
Note payable bearing interest at 4 - 4.30% with interest due monthly:		
maturing in December 2016	3,000,000	3,000,000
maturing in January 2018	5,323,268	4,094,303
Note payable to Local Initiative Support Corp. bearing		
interest at 6% with interest due quarterly, maturing 2012-2015	800,000	900,000
4.25% mortgage payable to HFCU with monthly installments of		
\$7,773, including interest at prime plus 1.5%, payable until final		
ballon in December 2020	1,086,600	1,127,219
6% note payable to HFCU, payable in monthly installments of		
\$5,849 through May 2016	151,699	210,846
MDCIIC note payable to Leflore County bearing interest at a		
blended fixed rate of 5.48%, \$250,000 principal paid annually,		
maturing August 2023	3,750,000	4,000,000
Note payable bearing interest at 6%, maturing June 2014	750,000	-
Note payable bearing interest at 4.25%, maturing March 2014	250,000	250,000
3% notes payable:		
interest due quarterly and maturing 2014 through 2017	2,000,000	2,000,000
interest due annually and maturing in December 2015	425,000	450,000
Note payable to non-profit foundation bearing interest at 2.5%		
with interest due quarterly, maturing August 2016	500,000	500,000
Interest free note payable maturing in May 2014	111,943	650,000
Other notes payable, with interest at 1% to 3%	335,000	335,000
Total notes payable	\$ 32,054,149	\$ 32,219,902

Notes payable maturities at December 31, 2013 are as follows:

2014	\$ 4,632,094
2015	4,925,520
2016	5,060,140
2017	3,929,222
2018	3,655,208
Thereafter	9,851,965
	\$ 32,054,149

Hope Enterprise Corporation

Notes to Consolidated Financial Statements

NOTE 12 – NON-CONTROLLING INTEREST AND NET ASSETS

ECDI has issued 220 Class A units at \$25,000 per unit. The owners of the Class A units may elect three of the seven members of the management committee of ECDI. The other four members are appointed by the Company, the sole Class B unit holder. The Company is the sole managing member of ECDA and elects three of the five board of directors of ECDNM. ECDA is the primary investing member of ECDNM. The Company is the sole managing member of ECD Plus, ECD First, ECD Central, ECDNM3, ECDNM4, ECDNM5, HNM1, HNM2, HNM3 and HNM4 and elects two of the three board of directors of each company. Although the Company controls the board of directors of these entities, the Company has only a minor investment in these entities and thus receives minimal allocations of earnings or losses. Further, the Company received no distributions from these entities during 2013 and 2012.

Dividends in arrears relative to the ECDI Class A units totaled \$114,775 at December 31, 2013 and 2012, respectively. Temporarily restricted net assets include approximately \$420,000 of net assets of Home Again at December 31, 2013 and 2012 and approximately \$1,665,000 (2013) and \$3,199,000 (2012) for financial assistance programs offered by the Company. Permanently restricted net assets include approximately \$1,418,000 and \$1,343,000 at December 31, 2013 and 2012, respectively, of revolving loan funds available to customers of the Company.

The changes in non-controlling interest are as follows:

	Balance January 1, 2013	Investor Contributions	Dividends Paid	Net Earnings (Loss)	Net Unrealized Losses	Balance December 31, 2013
ECDI	\$ 1,637,433	\$ -	\$ -	\$ (181,742)	\$ (69)	\$ 1,455,622
ECDA	5,231,877	-	(255,725)	217,276	-	5,193,428
ECD Plus	7,687,202	-	(346,886)	334,271	-	7,674,587
ECD First	2,370,662	-	-	(1,825)	-	2,368,837
ECD Central	4,850,000	-	(29,050)	29,050	-	4,850,000
ECDNM3	8,708,466	-	(353,427)	351,602	-	8,706,641
ECDNM4	10,550,532	-	(85,899)	116,570	-	10,581,203
ECDNM5	10,650,000	-	(304,500)	379,873	-	10,725,373
HNM1	-	6,000,000	(8,245)	(200,835)	-	5,790,920
HNM2	-	8,000,000	(17,925)	(256,374)	-	7,725,701
HNM3	-	5,000,000	(13,859)	(281,613)	-	4,704,528
HNM4	-	6,000,000	(13,296)	(195,784)	-	5,790,920
	\$ 51,686,172	\$ 25,000,000	\$ (1,428,812)	\$ 310,469	\$ (69)	\$ 75,567,760

Hope Enterprise Corporation

Notes to Consolidated Financial Statements

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

	Balance January 1, 2012	Investor Contributions	Dividends Paid	Net Earnings (Loss)	Acquisition by Controlling Interest	Net Unrealized Gains	Balance December 31, 2012
ECDI	\$ 1,846,267	\$ -	\$ -	\$ (210,128)	\$ -	\$ 1,294	\$ 1,637,433
ECDA	6,237,941	-	(256,329)	240,825	(990,560)	-	5,231,877
ECD Plus	7,989,662	-	(655,098)	352,638	-	-	7,687,202
ECD First	2,372,462	-	-	(1,800)	-	-	2,370,662
ECD Central	4,850,000	-	(29,050)	29,050	-	-	4,850,000
ECDNM3	8,777,015	-	(355,428)	286,879	-	-	8,708,466
ECDNM4	10,530,021	-	(85,899)	106,410	-	-	10,550,532
ECDNM5	-	10,650,000	-	-	-	-	10,650,000
	<u>\$ 42,603,368</u>	<u>\$ 10,650,000</u>	<u>\$ (1,381,804)</u>	<u>\$ 803,874</u>	<u>\$ (990,560)</u>	<u>\$ 1,294</u>	<u>\$ 51,686,172</u>

In June 2012, HEC acquired a 28.57% interest in ECDA as a result of the exercise by one of its non-controlling interest members of a put option allowing the non-controlling member to put their interest to the managing member (Hope Enterprise Corporation). Such option allowed the non-controlling member to liquidate their interest, subsequent to the required seven-year holding period, to the Company for \$200,000. The transaction has been reflected in the accompanying consolidated financial statements as an equity transaction. Therefore, no gain or loss was recognized in the consolidated statement of activities. The carrying amount of the non-controlling interest was adjusted to reflect the liquidation of its ownership interest in the subsidiary and the difference between the consideration received (\$200,000) and the amount by which the non-controlling interest was adjusted was recognized in equity attributable to the Company.

NOTE 13 – CONCENTRATION OF CREDIT RISK

The Company maintains cash balances at a financial institution in excess of insured limits by approximately \$3,517,000 at December 31, 2013. The Company also maintains cash balances at a security brokerage firm where no amounts were in excess of insured limits at December 31, 2013. The Company periodically assesses the financial condition of the institutions and believes that the risk of any loss is minimal.

Hope Enterprise Corporation

Notes to Consolidated Financial Statements

NOTE 14 – NATURAL CLASSIFICATION OF EXPENSES

A summary of expenses presented by natural classification follows:

<i>Years ended December 31,</i>	2013	2012
Salaries, employee taxes and benefits	\$ 3,020,154	\$ 3,021,475
Bank and payroll fees	241,095	298,331
Conferences and employee training	60,629	50,713
Contractual services	1,851,920	3,134,060
Dues, fees and memberships	36,670	28,198
Equipment, furniture and fixtures maintenance	128,540	192,324
Foreclosed property expense	98,746	48,993
Forgiveness of mortgage loan debt	223,742	223,742
HFCU operational support	700,000	1,448,000
Insurance	192,631	180,375
Miscellaneous	28,253	19,922
Office supplies	162,796	243,134
Rent and employee parking	41,966	85,610
Repairs and maintenance	146,366	114,940
Service fees	24,386	38,929
Staff recruitment and relocation	15,901	6,283
Taxes and licenses	2,875	8,087
Telephone and utilities	580,600	563,193
Travel	157,683	157,868
Interest	1,172,583	1,028,214
Provision for loan losses	1,611,236	261,159
Impairment loss on foreclosed assets	23,944	29,686
Depreciation and amortization	445,848	469,605
Totals	\$ 10,968,564	\$ 11,652,841

Hope Enterprise Corporation

Schedule 1 - Consolidating Statement of Financial Position

As of December 31, 2013

	ECD Investments, LLC Consolidated	Mid Delta Community & Individual Investment Corp.	Home Again, Inc.	Hope Enterprise Corporation	New Markets Tax Credit Companies	Eliminations	Consolidated
Assets							
Cash and cash equivalents	\$ 428,899	\$ 990,968	\$ 22,150	\$ 7,445,699	\$ 2,240,024	\$ -	\$ 11,127,740
Grants receivable	-	-	-	1,039,288	-	-	1,039,288
Contract revenue receivable	7,663	3,092	145	316,244	170,511	-	497,655
Loan receivable from affiliate	593,631	1,397	-	7,780,083	-	(5,160,111)	3,215,000
Consumer mortgage loans held for sale	-	-	-	1,087,604	-	-	1,087,604
Other loans	1,258,744	710,693	752,172	13,171,213	57,323,212	-	73,216,034
Loan guarantees receivable	788,645	-	-	-	-	-	788,645
Debt securities held as investments	9,773	-	-	3,258	-	-	13,031
Investment in affiliate	-	-	-	-	10,612,388	-	10,612,388
Cash restricted for collateral on note payable	-	2,744,452	-	-	-	-	2,744,452
Investment in subsidiary	-	-	-	1,508,373	10,505,000	(12,013,373)	-
Secondary capital of Hope Federal Credit Union	-	-	-	5,000,000	10,206,000	-	15,206,000
Property and equipment, net	-	-	-	1,848,725	-	-	1,848,725
Foreclosed property	506,279	-	-	1,357,862	-	-	1,864,141
Other assets	11,603	61,874	109,052	485,023	-	(97,995)	569,557
Total assets	\$ 3,605,237	\$ 4,512,476	\$ 883,519	\$ 41,043,372	\$ 91,057,135	\$ (17,271,479)	\$ 123,830,260
Liabilities and net assets							
Liabilities:							
Accounts payable and accrued expenses	\$ 370,184	\$ 339,897	\$ 61,003	\$ 919,919	\$ 65,643	\$ (1,145,087)	\$ 611,559
Payable to Hope Federal Credit Union	351	-	-	649,592	-	-	649,943
Funds held in escrow	-	3,164,693	23,097	-	-	-	3,187,790
Due to affiliates	112,621	-	-	-	3,957,175	(4,069,796)	-
Notes payable	1,500,000	3,750,000	-	25,255,149	1,549,000	-	32,054,149
Total liabilities	1,983,156	7,254,590	84,100	26,824,660	5,571,818	(5,214,883)	36,503,441
Total non-controlling interests	1,455,622	-	-	-	74,112,138	-	75,567,760
Other unrestricted net assets	166,459	(2,742,114)	379,634	11,136,174	11,373,179	(12,056,596)	8,256,736
Temporarily restricted	-	-	419,785	1,665,026	-	-	2,084,811
Permanently restricted	-	-	-	1,417,512	-	-	1,417,512
Total net assets	1,622,081	(2,742,114)	799,419	14,218,712	85,485,317	(12,056,596)	87,326,819
Total liabilities and net assets	\$ 3,605,237	\$ 4,512,476	\$ 883,519	\$ 41,043,372	\$ 91,057,135	\$ (17,271,479)	\$ 123,830,260

Hope Enterprise Corporation

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

Year ending December 31, 2013

	ECD Investments, LLC Consolidated	Mid Delta Community & Individual Investment Corp.	Home Again, Inc.	Hope Enterprise Corporation	New Markets Tax Credit Companies	Eliminations	Consolidated
Revenues and gains							
Grants and contributions	\$ -	\$ -	\$ -	\$ 3,027,303	\$ -	\$ -	\$ 3,027,303
In-kind contributions	-	-	80,000	376,875	-	-	456,875
Interest, dividends and related fees:							
Loans and other investments	47,948	54,632	20,000	1,137,068	1,550,028	(191,234)	2,618,442
Debt securities and cash equivalents	279	2,011	291	94,669	1	-	97,251
Net realized and unrealized losses on debt securities available for sale	(91)	-	-	(9,084)	-	-	(9,175)
Loss on sale of assets	-	-	-	(896)	-	-	(896)
Contract services revenue	-	-	-	1,957,719	-	(960,449)	997,270
Total revenues and gains	48,136	56,643	100,291	6,583,654	1,550,029	(1,151,683)	7,187,070
Expenses							
Program expenses:							
Development finance	249,163	674,097	-	4,435,114	1,394,275	(1,151,683)	5,600,966
Housing initiative	-	-	230,188	97,827	-	-	328,015
Hope Federal Credit Union	-	-	-	700,000	-	-	700,000
Policy and advocacy	-	-	-	649,634	-	-	649,634
Other programs	-	-	-	1,667,642	-	-	1,667,642
	249,163	674,097	230,188	7,550,217	1,394,275	(1,151,683)	8,946,257
General and administration expense	-	-	-	1,839,094	-	-	1,839,094
Fund-raising and communication	-	-	-	183,213	-	-	183,213
Total expenses	249,163	674,097	230,188	9,572,524	1,394,275	(1,151,683)	10,968,564
Equity in earnings of affiliated company	-	-	-	-	388,388	-	388,388
Change in net assets before non-controlling interests	(201,027)	(617,454)	(129,897)	(2,988,870)	544,142	-	(3,393,106)
Non-controlling interests in subsidiaries' income	181,811	-	-	-	(492,211)	-	(310,400)
Change in net assets attributable to controlling interest	(19,216)	(617,454)	(129,897)	(2,988,870)	51,931	-	(3,703,506)
Capital contributions - controlling interest	-	-	-	-	2,500	(2,500)	-
Net assets attributable to controlling interest:							
At beginning of year	185,675	(2,124,660)	929,316	17,207,582	11,318,748	(12,054,096)	15,462,565
At end of year	166,459	(2,742,114)	799,419	14,218,712	11,373,179	(12,056,596)	11,759,059
Net assets of non-controlling interests (Note 12)	1,455,622	-	-	-	74,112,138	-	75,567,760
Total net assets at end of year	\$ 1,622,081	\$ (2,742,114)	\$ 799,419	\$ 14,218,712	\$ 85,485,317	\$ (12,056,596)	\$ 87,326,819

Hope Enterprise Corporation

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

As of December 31, 2013

(Continued)

	ECDA and Subsidiary	ECD Plus	ECD First	ECD Central	ECDNM3	ECDNM4	ECDNM5	HNM1
Assets								
Cash and cash equivalents	\$ 1,361,064	\$ 765,884	\$ 112	\$ 7	\$ 993	\$ 89,401	\$ 15,588	\$ 600
Contract revenue receivable	-	11,245	-	-	27,769	24,997	106,500	-
Other loans	-	6,897,558	2,376,000	4,850,000	8,687,250	10,504,904	-	5,790,900
Investment in subsidiary	10,505,000	-	-	-	-	-	-	-
Investment in affiliate	-	-	-	-	-	-	10,612,388	-
Secondary capital of HFCU	10,206,000	-	-	-	-	-	-	-
Total assets	\$ 22,072,064	\$ 7,674,687	\$ 2,376,112	\$ 4,850,007	\$ 8,716,012	\$ 10,619,302	\$ 10,734,476	\$ 5,791,500
Liabilities and net assets								
Liabilities:								
Accounts payable and accrued expenses	\$ 12,713	\$ -	\$ -	\$ (493)	\$ 8,436	\$ 36,987	\$ 8,000	\$ -
Due to affiliates	3,950,000	-	7,175	-	-	-	-	-
Notes payable	1,549,000	-	-	-	-	-	-	-
Total liabilities	5,511,713	-	7,175	(493)	8,436	36,987	8,000	-
Total non-controlling interests	5,193,428	7,674,587	2,368,837	4,850,000	8,706,641	10,581,203	10,725,373	5,790,920
Other unrestricted net assets	11,366,923	100	100	500	935	1,112	1,103	580
Total net assets	16,560,351	7,674,687	2,368,937	4,850,500	8,707,576	10,582,315	10,726,476	5,791,500
Total liabilities and net assets	\$ 22,072,064	\$ 7,674,687	\$ 2,376,112	\$ 4,850,007	\$ 8,716,012	\$ 10,619,302	\$ 10,734,476	\$ 5,791,500

Hope Enterprise Corporation

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

As of December 31, 2013

(Concluded)

	HNM2	HNM3	HNM4	Combined
Assets				
Cash and cash equivalents	\$ 5,275	\$ 500	\$ 600	\$ 2,240,024
Contract revenue receivable	-	-	-	170,511
Other loans	7,721,200	4,704,500	5,790,900	57,323,212
Investment in subsidiary	-	-	-	10,505,000
Investment in affiliate	-	-	-	10,612,388
Secondary capital of HFCU	-	-	-	10,206,000
Total assets	\$ 7,726,475	\$ 4,705,000	\$ 5,791,500	\$ 91,057,135
Liabilities and net assets				
Liabilities:				
Accounts payable and accrued expenses	\$ -	\$ -	\$ -	\$ 65,643
Due to affiliates	-	-	-	3,957,175
Notes payable	-	-	-	1,549,000
Total liabilities	-	-	-	5,571,818
Total non-controlling interests	7,725,701	4,704,528	5,790,920	74,112,138
Other unrestricted net assets	774	472	580	11,373,179
Total net assets	7,726,475	4,705,000	5,791,500	85,485,317
Total liabilities and net assets	\$ 7,726,475	\$ 4,705,000	\$ 5,791,500	\$ 91,057,135

Hope Enterprise Corporation

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

Year ending December 31, 2013

(Continued)

	ECDA and Subsidiary	ECD Plus	ECD First	ECD Central	ECDNM3	ECDNM4	ECDNM5	HNM1
Revenues and gains								
Interest, dividends and related fees:								
Loans and other investments	\$ 574,367	\$ 354,900	\$ -	\$ 54,050	\$ 385,400	\$ 118,407	\$ 23	\$ 10,993
Debt securities and cash equivalents	1	-	-	-	-	-	-	-
Total revenues and gains	574,368	354,900	-	54,050	385,400	118,407	23	10,993
Expenses								
Program expenses:								
Development finance	305,151	20,629	1,825	25,000	33,763	1,825	8,500	211,848
Total expenses	305,151	20,629	1,825	25,000	33,763	1,825	8,500	211,848
Equity in earnings of affiliated company	-	-	-	-	-	-	388,388	-
Change in net assets before non-controlling interests	269,217	334,271	(1,825)	29,050	351,637	116,582	379,911	(200,855)
Non-controlling interests in subsidiaries' income	(217,276)	(334,271)	1,825	(29,050)	(351,602)	(116,570)	(379,873)	200,835
Change in net assets attributable to controlling interest	51,941	-	-	-	35	12	38	(20)
Capital contributions - controlling interest	-	-	-	-	-	-	-	600
Net assets attributable to controlling interest:								
At beginning of year	11,314,982	100	100	500	900	1,100	1,065	-
At end of year	11,366,923	100	100	500	935	1,112	1,103	580
Net assets of non-controlling interests (Note 12)	5,193,428	7,674,587	2,368,837	4,850,000	8,706,641	10,581,203	10,725,373	5,790,920
Total net assets at end of year	\$ 16,560,351	\$ 7,674,687	\$ 2,368,937	\$ 4,850,500	\$ 8,707,576	\$ 10,582,315	\$ 10,726,476	\$ 5,791,500

Hope Enterprise Corporation

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

Year ending December 31, 2013

	HN2	HN3	HN4	Combined
Revenues and gains				
Interest, dividends and related fees:				
Loans and other investments	\$ 22,400	\$ 13,859	\$ 15,629	\$ 1,550,028
Debt securities and cash equivalents	-	-	-	1
Total revenues and gains	22,400	13,859	15,629	1,550,029
Expenses				
Program expenses:				
Development finance	278,800	295,500	211,433	1,394,275
Total expenses	278,800	295,500	211,433	1,394,275
Equity in earnings of affiliated company	-	-	-	388,388
Change in net assets before non-controlling interests	(256,400)	(281,641)	(195,804)	544,142
Non-controlling interests in subsidiaries' income	256,374	281,613	195,784	(492,211)
Change in net assets attributable to controlling interest	(26)	(28)	(20)	51,931
Capital contributions - controlling interest	800	500	600	2,500
Net assets attributable to controlling interest:				
At beginning of year	-	-	-	11,318,748
At end of year	774	472	580	11,373,179
Net assets of non-controlling interests (Note 12)	7,725,701	4,704,528	5,790,920	74,112,138
Total net assets at end of year	\$ 7,726,475	\$ 4,705,000	\$ 5,791,500	\$ 85,485,317