

**Enterprise Community Partners, Inc.
and its Subsidiaries and Affiliates**

**Consolidated Financial Statements
and Independent Auditor's Report**

December 31, 2016 and 2015

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

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Independent Auditor's Report

To the Board of Trustees
Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Enterprise Community Partners, Inc. ("Partners") and its Subsidiaries and Affiliates, which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities, changes in net assets and 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.

Auditor's 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 from material misstatement. The financial statements of certain subsidiaries and affiliates of Enterprise Community Partners, Inc. were not audited in accordance with *Government Auditing Standards* as discussed at Note 1 in the Notes to Schedule of Expenditures of Federal Awards.

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 auditor's 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 Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates as of December 31, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of indirect costs is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2017 on our consideration of Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates' internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Cohn Reznick LLP". The signature is written in a cursive, flowing style.

Bethesda, Maryland
September 29, 2017

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

**Consolidated Statements of Financial Position
December 31, 2016 and 2015**

(\$ in thousands)

	<u>Assets</u>	
	2016	2015
Cash, cash equivalents and investments	\$ 96,395	\$ 110,415
Restricted cash, cash equivalents and investments	109,042	84,058
Contributions receivable, net	20,076	16,858
Accounts and other receivables, net	109,009	123,363
Loans receivable, net	148,290	117,753
Mortgage loans held for sale	126,867	119,762
Derivative assets	17,800	10,031
Real estate held for sale	1,841	6,009
Investments in operating properties	-	15,569
Investments in unconsolidated partnerships	92,790	19,376
Other assets, net	18,284	14,488
Deferred tax assets, net	5,421	8,447
Mortgage servicing rights, net	41,847	30,574
Property and equipment, net	17,499	17,959
Goodwill	9,543	9,543
Total assets	\$ 814,704	\$ 704,205
	<u>Liabilities and Net Assets</u>	
Liabilities		
Accounts payable and accrued expenses	\$ 49,390	\$ 44,798
Capital contributions payable	81,713	15,658
Funds held for others	7,050	11,157
Derivative liabilities	9,840	6,289
Indebtedness	334,406	331,475
Losses in excess of investments in unconsolidated partnership	3,985	3,902
Mortgage servicing obligations, net	67	56
Deferred revenue and other liabilities	22,172	25,864
Total liabilities	508,623	439,199
Commitments and contingencies	-	-
Net assets		
Unrestricted, controlling interest	175,750	170,221
Unrestricted, noncontrolling interest	29,590	26,365
Temporarily restricted	100,741	68,420
Total net assets	306,081	265,006
Total liabilities and net assets	\$ 814,704	\$ 704,205

See Notes to Consolidated Financial Statements.

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

**Consolidated Statements of Activities
Years Ended December 31, 2016 and 2015**

(\$ in thousands)

	2016			2015		
	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total
Revenue and support						
Gains from mortgage banking activities	\$ 72,210	\$ -	\$ 72,210	\$ 47,469	\$ -	\$ 47,469
Contributions	1,578	51,032	52,610	1,154	23,620	24,774
Syndication and consulting fees	39,077	-	39,077	37,406	-	37,406
Grants and contracts	25,544	3,300	28,844	30,036	3,653	33,689
Asset management fees	21,899	-	21,899	22,457	-	22,457
Interest income	15,924	-	15,924	13,610	-	13,610
Loan servicing fees	6,398	-	6,398	4,687	-	4,687
Sales of real estate	4,340	-	4,340	15,647	-	15,647
Development and construction management fees	3,884	-	3,884	4,637	-	4,637
Investment income	561	341	902	434	348	782
Operating properties rents	-	-	-	1,240	-	1,240
Other revenue	14,473	-	14,473	5,384	-	5,384
	<u>205,888</u>	<u>54,673</u>	<u>260,561</u>	<u>184,161</u>	<u>27,621</u>	<u>211,782</u>
Net assets released from restrictions	<u>23,194</u>	<u>(23,194)</u>	<u>-</u>	<u>18,997</u>	<u>(18,997)</u>	<u>-</u>
Total revenue and support	<u>229,082</u>	<u>31,479</u>	<u>260,561</u>	<u>203,158</u>	<u>8,624</u>	<u>211,782</u>
Expenses						
Program activities	181,078	-	181,078	162,467	-	162,467
General and administrative	13,064	-	13,064	11,077	-	11,077
Interest	7,897	-	7,897	7,069	-	7,069
Fundraising	4,913	-	4,913	5,430	-	5,430
Cost of real estate sold	4,188	-	4,188	3,685	-	3,685
Operating properties activities	104	-	104	949	-	949
Income tax expense (benefit)	3,310	-	3,310	(4,540)	-	(4,540)
Total expenses	<u>214,554</u>	<u>-</u>	<u>214,554</u>	<u>186,137</u>	<u>-</u>	<u>186,137</u>
Net realized and unrealized gain (loss) on investments	<u>419</u>	<u>842</u>	<u>1,261</u>	<u>(390)</u>	<u>(427)</u>	<u>(817)</u>
Changes in net assets	14,947	32,321	47,268	16,631	8,197	24,828
Changes in net assets, attributable to noncontrolling interest	<u>(9,418)</u>	<u>-</u>	<u>(9,418)</u>	<u>(3,221)</u>	<u>-</u>	<u>(3,221)</u>
Changes in net assets, attributable to controlling interest	<u>\$ 5,529</u>	<u>\$ 32,321</u>	<u>\$ 37,850</u>	<u>\$ 13,410</u>	<u>\$ 8,197</u>	<u>\$ 21,607</u>

See Notes to Consolidated Financial Statements.

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

**Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2016 and 2015**

(\$ in thousands)

	Unrestricted			Temporarily restricted				Consolidated net assets
	Controlling	Noncontrolling	Total	Program activities	Cullman Challenge Grant	Terwilliger Fund	Total	
Balance, December 31, 2014	\$ 156,077	\$ 17,957	\$ 174,034	\$ 42,278	\$ 13,635	\$ 4,310	\$ 60,223	\$ 234,257
Distributions	-	(4,300)	(4,300)	-	-	-	-	(4,300)
Contribution related to Spyglass	-	4,289	4,289	-	-	-	-	4,289
Acquisition of Capital Advisors	734	5,198	5,932	-	-	-	-	5,932
Change in net assets	<u>13,410</u>	<u>3,221</u>	<u>16,631</u>	<u>8,948</u>	<u>(753)</u>	<u>2</u>	<u>8,197</u>	<u>24,828</u>
Balance, December 31, 2015	170,221	26,365	196,586	51,226	12,882	4,312	68,420	265,006
Distributions	-	(4,960)	(4,960)	-	-	-	-	(4,960)
Contributions	-	2,516	2,516	-	-	-	-	2,516
Transfer of net assets upon deconsolidation of Spyglass	-	(3,749)	(3,749)	-	-	-	-	(3,749)
Change in net assets	<u>5,529</u>	<u>9,418</u>	<u>14,947</u>	<u>31,814</u>	<u>505</u>	<u>2</u>	<u>32,321</u>	<u>47,268</u>
Balance, December 31, 2016	<u>\$ 175,750</u>	<u>\$ 29,590</u>	<u>\$ 205,340</u>	<u>\$ 83,040</u>	<u>\$ 13,387</u>	<u>\$ 4,314</u>	<u>\$ 100,741</u>	<u>\$ 306,081</u>

See Notes to Consolidated Financial Statements.

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015

(\$ in thousands)

	2016	2015
Cash flows from operating activities		
Changes in net assets	\$ 47,268	\$ 24,828
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	7,020	6,538
Amortization of debt issuance costs	561	347
Deferred tax expense	3,026	1,941
Contribution income upon acquisition of EHC	(9,307)	-
Equity in net loss (income) from unconsolidated partnerships	364	(604)
Gain on sale of real estate held for sale	(31)	-
Loss on disposition of property and equipment, net	80	-
Net change in allowance for loan losses	628	(310)
Impairment of property and equipment, net	864	-
Impairment of held for sale investments	8,081	-
Net realized and unrealized (gain) loss on investments	(1,261)	817
Trading gains on mortgage loans held for sale	(947)	(1,010)
Origination of mortgage servicing rights	(18,881)	(9,037)
Amortization of mortgage servicing rights	7,435	6,323
Changes in operating assets and liabilities:		
Increase in contributions receivable	(3,218)	(1,793)
Decrease in accounts and other receivables	13,856	7,850
Increase in mortgage loans held for sale	(5,974)	(87,232)
(Increase) decrease in derivative assets	(7,769)	348
Decrease in real estate held for sale	900	529
(Increase) decrease in investments in unconsolidated partnerships	(13,494)	4,409
(Increase) decrease in other assets	(6,040)	781
(Decrease) increase in accounts payable, accrued expenses, and other liabilities	(356)	831
(Decrease) increase in funds held for others	(4,107)	3,484
Increase in derivative liabilities	3,551	2,108
Net cash provided by (used in) operating activities	22,249	(38,852)
Cash flows from investing activities		
Advances on loans receivable	(106,261)	(60,293)
Repayments of loans receivable	74,835	64,482
Advances on notes receivable	(24,324)	(38,731)
Repayments of notes receivable	31,003	14,699
Net sales of investments	4,183	1,363
Purchases of property and equipment	(5,896)	(5,574)
Purchase of limited partner interests in unconsolidated partnerships	(692)	(263)
Cash acquired from EHC upon gaining control	3,805	-
Purchase of Capital Advisors	-	(3,661)
Net cash from Spyglass purchase	-	982
Cash transferred out upon deconsolidation of Spyglass	(1,498)	-
Cash proceeds from sale of real estate held for sale	3,299	-
Capital contributions to unconsolidated partnerships	(699)	(666)
Distributions from investments in unconsolidated partnerships	340	1,097
Net cash used in investing activities	(21,905)	(26,565)

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015

(\$ in thousands)

	2016	2015
Cash flows from financing activities		
Proceeds from indebtedness	78,319	186,947
Indebtedness repayments	(62,096)	(82,865)
Payment of debt issuance costs	(461)	(458)
Contributions from noncontrolling interest holders	2,516	-
Distributions to noncontrolling interest holders	(4,960)	(4,300)
Net cash provided by financing activities	<u>13,318</u>	<u>99,324</u>
Net increase in cash and cash equivalents	13,662	33,907
Cash and cash equivalents, beginning of year	<u>144,096</u>	<u>110,189</u>
Cash and cash equivalents, end of year	<u><u>\$ 157,758</u></u>	<u><u>\$ 144,096</u></u>
Supplementary disclosure of cash flow information:		
Cash paid for interest during the year	<u><u>\$ 7,108</u></u>	<u><u>\$ 6,678</u></u>
Income taxes paid (refunded), net	<u><u>\$ 228</u></u>	<u><u>\$ (6,048)</u></u>
Supplementary disclosure of significant noncash investing and financing activities:		
Commitments to make capital contributions to unconsolidated partnerships	<u><u>\$ 81,713</u></u>	<u><u>\$ 15,658</u></u>
Transfers of investments in unconsolidated partnerships	<u><u>\$ 15,658</u></u>	<u><u>\$ 35,536</u></u>
Transfer of assets from investments in operating properties to real estate held for sale	<u><u>\$ -</u></u>	<u><u>\$ 3,268</u></u>
Disposal of fully depreciated property and equipment	<u><u>\$ 496</u></u>	<u><u>\$ 3,095</u></u>
Fully reserved loans and notes receivable written off	<u><u>\$ 27</u></u>	<u><u>\$ 262</u></u>
Recovery of loans presented as a loan repayment	<u><u>\$ -</u></u>	<u><u>\$ 555</u></u>
Transfer of net assets upon deconsolidation of Spyglass	<u><u>\$ 3,749</u></u>	<u><u>\$ -</u></u>

See Notes to Consolidated Financial Statements.

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

Notes to Consolidated Financial Statements December 31, 2016 and 2015

Note 1 - Organization and nature of operations

Basis of presentation

The consolidated financial statements include the accounts and transactions of Enterprise Community Partners, Inc. ("Partners"), our subsidiaries and affiliates (collectively, "we", "Enterprise", or "us") in which we have a majority voting interest and control, including Enterprise Community Investment, Inc. ("Investment"), Enterprise Community Loan Fund ("Loan Fund") and Bellwether Enterprise Real Estate Capital, LLC and Subsidiaries ("Bellwether"), among others. Our consolidated financial statements have been prepared on an accrual basis and include the accounts of Partners and all for-profit subsidiaries and not-for-profit affiliates it controls. The ownership interests of other parties in entities we consolidate are presented as noncontrolling interest in our consolidated financial statements. We use the equity method to account for the interests in entities we do not control. Significant intercompany balances and transactions are eliminated in consolidation.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") require management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and revenue and expenses recognized during the reporting period. Significant estimates are inherent in the preparation of these consolidated financial statements in a number of areas, including revenue recognition, determination of the fair value of certain restricted contributions, evaluation of the collectability of accounts and other receivables and contributions receivable, assessment of the value of investments and real estate held for sale, estimation of the cost of real estate sold, valuation of mortgage loans held for sale ("MLHS"), derivative assets, deferred revenue and liabilities and mortgage servicing rights ("MSRs"), estimation of potential losses relating to loans and development cost overruns, measurement of uncertain tax provisions and determination of certain income tax assets and liabilities and associated valuation allowances for our taxable entities, and evaluation of guarantee obligations. Actual results could differ from our estimates.

Organization and business

Partners is a 501(c)(3) and 509(a)(1) publicly supported not-for-profit charitable foundation. Our mission is to create opportunities for low and moderate-income people through fit, affordable housing and diverse, thriving communities. Partners and its subsidiaries and affiliates, primarily Investment, Loan Fund and Bellwether accomplish this mission by providing local communities technical assistance, training and financial resources. Our support comes principally from fees for services, contributions, grants and contracts, interest income from loans and sales of real estate.

Investment is a stock based, 501(c)(4) social welfare organization. Investment supports Partners' mission by providing investment capital and development services for affordable housing and community revitalization efforts. Investment's core business strategy involves working in partnership with developers and corporate investors to invest and manage equity and debt investments in affordable housing and catalytic commercial projects in low-income and emerging communities throughout the United States. These investments may qualify for low-income housing tax credits ("LIHTC"), historic tax credits, and/or new markets tax credits ("NMTC"). In support of our core strategy, Investment provides asset management and consulting services, offers debt financing products to affordable residential and commercial projects, and provides development and management expertise relating to the construction of affordable housing projects.

Loan Fund is a 501(c)(3) publicly supported not-for-profit and a 509(a)(3) supporting organization to Partners. Loan Fund is also a community development financial institution ("CDFI"). Loan Fund

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

Notes to Consolidated Financial Statements December 31, 2016 and 2015

provides innovative financial products and technical assistance to support community organizations in the acquisition, development and rehabilitation of decent, affordable housing for low-and moderate-income families and to assist in the revitalization of their communities. Loan Fund's support comes principally from interest income on loans, contributions, grants and investment income.

Bellwether originates permanent loan opportunities for a wide range of institutional investors, including life insurance companies, pension funds, government agencies and banks. Bellwether also manages mortgage loan servicing for these institutional investors. Bellwether is a Federal Housing Administration ("FHA") Title II Non-supervised Mortgagee and is an approved Government National Mortgage Association ("Ginnie Mae") issuer of mortgage-backed securities. Bellwether is also an approved Freddie Mac Program Plus lender, and an approved seller/servicer under the Freddie Mac Targeted Affordable Housing ("TAH") program. Through April 30, 2015, Bellwether was a Special Affordable Housing Lender in the Federal National Mortgage Association ("Fannie Mae") Delegated Underwriting and Servicing ("DUS") program. Effective May 1, 2015, Bellwether was named a full DUS Lender. Accordingly, Bellwether is now authorized by Fannie Mae to underwrite, close and deliver most loans without Fannie Mae pre-review. Bellwether and its subsidiaries are required to maintain financial eligibility and adhere to financial reporting requirements under these programs (see Note 21).

Donor restrictions

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

- Unrestricted net assets - Net assets not subject to donor-imposed restrictions.
- Temporarily restricted net assets - Net assets subject to donor-imposed restrictions that will be met by our actions and/or the passage of time.
- Permanently restricted net assets - Net assets subject to donor-imposed restrictions that must be maintained permanently by us.

Revenue is reported as increases in unrestricted net assets unless the uses of the related assets are limited by donor-imposed restrictions. Investment proceeds and realized/unrealized gains and losses (investment returns) are reported as changes in unrestricted net assets unless specifically restricted by donor-imposed restrictions. Both the Cullman Challenge Grant and the Terwilliger Fund investment returns have this restriction. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Acquisition of Capital Advisors

On July 1, 2015, we acquired Capital Advisors, Inc. ("Capital Advisors"), a privately held mortgage company that specializes in securing and servicing long-term, nonrecourse debt for commercial real estate with operations based in the southeast United States. We accounted for this transaction in accordance with business combinations accounting guidance.

As a result of the Bellwether merger that occurred in 2012 and the acquisition of Towle Acquisition Partners, LLC ("Towle"), a privately held commercial real estate mortgage banking company headquartered in Minneapolis, Minnesota that occurred in 2014, we owned 61.05% of the combined operations of Bellwether and our previously wholly-owned mortgage business. The former principals of Bellwether and Towle owned the remaining 38.95% interest in the combined operations. As consideration for the Capital Advisors acquisition, a 4.58% ownership interest in the combined

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

Notes to Consolidated Financial Statements December 31, 2016 and 2015

mortgage business of Bellwether, Towle and Capital Advisors was provided to the former owners of Capital Advisors, along with a cash payment of \$6.0 million (our share was \$3.7 million). This acquisition was dilutive to our ownership interest in Bellwether, which was 58.25% as of December 31, 2016 and 2015. In accordance with a proration agreement entered into at the time of the acquisition, profits, losses and cash flow are allocated 58.25% to us, 31.37% to the former principals of Bellwether, 5.8% to the former principals of Towle and 4.58% to the former principals of Capital Advisors. In 2015, disproportionate distributions were made to members, and as a result, corrective distributions were made in 2016. After these corrective distributions were made, the ending equity account balance of each member was in proportion to their ownership interest.

The combined operations are conducted under the existing Bellwether name, and the combined results are consolidated in our financial statements. The acquisition had a significant impact on our consolidated financial statements. The initial purchase price entries recorded in 2015, including acquisition related expenses incurred and various noncash assets and liabilities acquired and assumed as part of the acquisition are summarized as follows (\$ in thousands):

Cash paid	\$	(3,896)
Accounts receivable		76
Prepaid expenses		52
Security deposits		20
Fixed assets		39
Mortgage servicing rights		1,677
Intangible assets - borrower relationships		2,300
Intangible assets - non-compete agreements		370
Intangible assets - goodwill		5,665
Other obligations		(200)
Deferred tax liabilities		(406)
Acquisition related expenses		235
Change to our share of equity		(734)
Noncontrolling interest		(5,198)

Acquisition of Enterprise Housing Corporation

On July 15, 2016, Enterprise obtained control of Enterprise Housing Corporation ("EHC"), a 501c(3) not-for-profit organization, through amendments to EHC's governance documents which provided Enterprise with control of EHC's board of directors. EHC engages in housing and community development activities of low-income housing and the provision of decent and affordable rental housing and homeownership opportunities for low-income people. We accounted for this transaction in accordance with business combinations accounting guidance. As there was no consideration paid by Enterprise when control was obtained, and the fair value of assets acquired exceeded the fair value of liabilities acquired, contribution income was recognized upon acquisition. Subsequent to obtaining control of EHC, we contributed the assets and liabilities of our existing development business line, a for-profit wholly-owned subsidiary of Investment, to EHC. EHC's legal name was then changed to Enterprise Homes, Inc. ("EHI"). As a result of this reorganization, our development activities are now tax-exempt.

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

Notes to Consolidated Financial Statements December 31, 2016 and 2015

The results of EHC subsequent to the acquisition date are consolidated in our financial statements. The acquisition has had a significant impact on our consolidated financial statements. The initial purchase price entries are summarized as follows (\$ in thousands):

Cash acquired	\$	3,805
Accounts receivable		129
Loans receivable		5,773
Prepaid expenses		64
Investments in unconsolidated partnerships		653
Land		247
Accounts payable and accrued expenses		(1,364)
Contribution income		(9,307)

The total gross contractual amounts due to us under the loans receivable agreements was \$29.5 million at the acquisition date, of which approximately \$16.8 million was not expected to be collected and was therefore not factored into the fair value of loans receivable recorded as part of the purchase price entries. Subsequent to the acquisition date, \$0.4 million of principal payments were made on these loans receivable, and accordingly, \$29.1 million of gross contractual amounts remain due as of December 31, 2016.

Acquisition of Spyglass

On September 3, 2015, Spyglass at Cedar Cove, LLC ("Spyglass") was formed for the sole purpose of acquiring and operating a 152-unit multifamily rental housing project located in Lexington Park, Maryland. We hold a 0.01% Class A Administrative Member interest and a 14.99% Class B Member interest in Spyglass, while an unconsolidated related party owns the remaining 85% Class B Member interest. We have a \$0.9 million capital commitment and the related party Class B Member has a \$5.0 million capital commitment to Spyglass.

On October 30, 2015, Spyglass acquired the aforementioned rental housing project. At settlement of the rental housing project, we made a contribution to Spyglass in the amount of \$0.8 million and the other owner made a cash contribution to Spyglass of \$4.3 million. Spyglass entered into a note agreement with a lender whereby it borrowed \$13.4 million in conjunction with the settlement on the property acquired. The proceeds of the loan were used, among other things, to pay off the seller's existing note.

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Notes to Consolidated Financial Statements December 31, 2016 and 2015

In 2015, we accounted for this transaction in accordance with business combinations accounting guidance, and accordingly, the results of Spyglass were consolidated in our financial statements as of December 31, 2015. The acquisition had a significant impact on our consolidated financial statements. The initial purchase price entries, including acquisition related expenses incurred through December 31, 2015, are summarized as follows (\$ in thousands):

Cash paid, net of operating cash acquired	\$	201
Restricted cash (escrow accounts)		335
Prepaid expenses		141
Property and equipment		15,656
Deferred financing costs		194
Intangible assets - in-place leases		774
Note payable		(13,392)
Miscellaneous liabilities		(66)
Noncontrolling interest		(4,289)
Acquisition related expenses		446

As previously discussed, the reorganization of our development business lines during 2016 resulted in the 0.01% Class A Administrative Member interest and 14.99% Class B Member interest in Spyglass being held directly by our not-for-profit subsidiary, EHC, rather than by a for-profit subsidiary. Accordingly, management evaluated our consolidation of Spyglass in accordance with guidelines set forth for not-for-profit entities. Under these guidelines, management has determined that effective July 15, 2016, we should no longer consolidate Spyglass, as the 85% Class B Member interest holders hold substantive participating rights over the significant operating activities of Spyglass. As a result of the deconsolidation, Enterprise transferred assets and liabilities summarized as follows:

Cash and cash equivalents	\$	(1,095)
Accounts and other receivables, net		(5)
Prepaid expenses and other assets		(947)
Restricted assets		(403)
Property and equipment, net		(15,569)
Accounts payable and accrued expenses		162
Notes payable, net		13,392
Deferred revenue		55
Unrestricted net assets, noncontrolling interest		3,749

As Enterprise continues to hold a 15% interest in Spyglass after the deconsolidation, which is accounted for under the equity method, the deconsolidation resulted in us recording an investment of approximately \$0.7 million in Spyglass. This investment is included in investments in unconsolidated partnerships on the consolidated statement of financial position.

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Note 2 - Significant accounting policies

Revenue recognition and related matters

Revenue is recognized when earned and realized pursuant to the following:

Gains from mortgage banking activities

Gains from mortgage banking activities are recognized when we enter into a commitment to originate a loan with a borrower and when we enter into a corresponding commitment to sell that loan to an investor. We do not enter into commitments to make loans to borrowers until we have the corresponding commitment from an investor to purchase the loans. The commitments are recognized at their fair values, which reflect the fair value of the contractual loan origination related fees and sale premiums, net of co-broker fees, and the estimated fair value of the expected net cash flows associated with the servicing of the loan. Also included in gains from mortgage banking activities are changes to the fair value of loan commitments, forward sale commitments, and loans held for sale that occur during their respective holding periods. Upon sale of the loans, no gains or losses are recognized as such loans are recorded at fair value during their holding periods. MSRs are recognized as assets upon the sale of the loans. Additionally, placement fees are recorded as gains from mortgage banking activities when we directly arrange commitments between a permanent investor and a borrower. Placement fees are recognized as revenue when all significant services have been performed.

Gains from mortgage banking activities were approximately 28% and 23% of total revenue and support for 2016 and 2015, respectively.

Contributions

Contributions that are unconditional promises to give are recognized as revenue in the period received. Contributions with donor-imposed restrictions and unconditional promises to give with payments due in future periods are recorded as increases to temporarily or permanently restricted net assets and are reclassified to unrestricted net assets at the time the condition for release of restriction is met. Unconditional promises to give with payments due in future periods where the donor has explicitly permitted for their use in the current period and the promise to give is otherwise free of a donor-imposed restriction are recorded as increases in unrestricted net assets. Conditional promises to give are not recognized as revenue until the conditions on which they depend are substantially met.

Contributions recognized that are to be received after one year are recorded at their fair value based on the income approach whereby future amounts expected to be collected are discounted to their present value at a rate commensurate with the risk involved. This rate is based on management's assessment of current market expectations plus a reasonable risk premium. The average discount rate for 2016 and 2015 was 3.42% and 3.32%, respectively. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions. Contributions of assets other than cash are recorded at estimated fair value at the date of the gift.

An allowance for uncollectible contributions receivable is made based upon management's judgment, based on factors such as prior collection history, the type of contribution and other relevant factors. Contributions were 20% and 12% of total revenue and support for 2016 and 2015, respectively.

Restricted contributions from the top five contributors comprise approximately 52% and 29% of total contributions for 2016 and 2015, respectively.

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Syndication and consulting fees

We earn syndication fees for services relating to forming limited partnership investment funds, particularly LIHTC funds ("Investment Funds"), selling interests in the Investment Funds to investors and acquiring interests in affordable housing partnerships that are expected to generate a stream of low-income housing tax credits. Syndication fees from the sale of partnership interests to investors and related acquisitions of interests in partnerships are recognized as the partnerships acquire property interests, provided that various criteria relating to the terms of the transactions and any subsequent involvement by us with the interests sold are met. Revenue relating to transactions that do not meet the established criteria is deferred and recognized when the criteria are met. All syndication fees earned represent market rates.

We may elect to defer the collection of a portion of the fees earned for syndication services. If deferral is elected, we record the related revenue and receivables based on the estimated date of collection using appropriate discount rates. Accretion of interest is included in syndication and consulting fees in the consolidated statements of activities.

Consulting fee revenue is recognized under the terms of the related agreements, when services are performed and collectability is reasonably assured. A liability is recognized for advance payments received under multi-year agreements, and revenue is recognized when services are performed.

Syndication and consulting fees were approximately 15% and 18% of total revenue and support for 2016 and 2015, respectively.

Grants and contracts

Grants and contracts funded from government sources are generally cost reimbursement contracts where revenue is recognized at the time costs are incurred. Additionally, certain grants and contracts provide for reimbursement of indirect costs, generally based on a specific percentage of direct costs. The revenue related to direct and indirect costs are recorded as an addition to unrestricted net assets.

Grants and contracts were approximately 11% and 16% of total revenue and support for 2016 and 2015, respectively. Approximately 83% and 93% of the grants and contract revenue was derived from federal funding in 2016 and 2015, respectively.

Approximately 45% and 69% of the federal expenditures, which include grants, contracts and loans, were provided by the U.S. Department of Housing and Urban Development ("HUD") in 2016 and 2015, respectively.

Asset management fees

We earn asset management in providing oversight and management services relating to the investments held by the Investment Funds. Revenue is recognized under the terms of the related agreements, when services are performed and collectability is reasonably assured. Fees for such services are generally billed and recognized as services are provided. However, certain syndication fees are associated with asset management services to be performed throughout the life of the partnerships and these fees are deferred and recognized as a component of asset management fees over the periods that the services are performed. Advance payments received under multi-year agreements are recorded as deferred revenue and recognized as revenue when services are performed.

Asset management fees were approximately 8% and 11% of total revenue and support for 2016 and 2015, respectively.

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Interest income

Interest income on loans is accrued on the principal balance outstanding at the contractual interest rate. Interest income on cash balances is accrued when earned. Direct loan origination costs are offset against related origination fees and the net amount is amortized over the life of the loan as a component of interest income.

Loan servicing fees

Loan servicing fees represent income earned for servicing loan portfolios owned by permanent investors, net of amortization of capitalized MSR. Loan servicing fees are generally calculated on the outstanding principal balance of the loan serviced and recognized as income when received. Loan servicing costs are charged to expense as incurred.

Sales of real estate

We build single family and townhouse residences that we sell to the ultimate home owners. Revenue relating to such sales is recognized at the time title to the completed units is transferred to the customer. Additionally, we may sell operating properties that we own. Income related to such sales is recognized upon transfer of legal ownership of the real estate.

Development and construction management fees

We recognize development and construction management fees primarily relating to low-income housing rental projects that we assist in developing. For low-income housing rental projects where we are not the general partner, we initially recognize a portion of our fee equal to our deferred internal effort in connection with an executed developer services agreement. The remainder of the developer fee, net of any deferral for anticipated support obligations, is recognized using the percentage of completion method. The percentage of completion method is measured by the percentage of direct general contractor costs incurred to date to management's estimated total general contractor costs to be incurred. Any deferred fee is recognized after all support obligations have been relieved. We review the contract price and cost estimates periodically as the work progresses, and reflect adjustments proportionate to the percentage of completion in revenue in the period when estimates are revised. Billings recorded and cash received in excess of revenue recognized under the percentage of completion method are accounted for as deferred revenue and revenue recognized in excess of billings recorded and cash received are accounted for as unbilled receivables.

For projects in which we are the general partner, profits on development fees are deferred until construction is complete and a specified percentage of lease-up is attained, at which time profits are recognized net of any deferral for anticipated support obligations. Any deferred fee is recognized after all support obligations have been relieved.

Under certain of our development fee agreements, we are responsible for costs that are in excess of an agreed maximum amount. In these cases, we recognize revenue under the percentage of completion method, as described above. However, if a current estimate of total contract costs indicates that costs are expected to be incurred in excess of the agreed upon maximum amount, a loss is recognized in full in the period such excess costs are determined.

Investment income

Investment proceeds with donor-imposed restrictions are reported as investment income and added to temporarily or permanently restricted net assets. Changes in market value on investments with donor-imposed restrictions are reported as net realized and unrealized gains and losses and added to or deducted from temporarily or permanently restricted net assets.

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Operating properties rents

Operating properties rents relate primarily to short-term leases with individual tenants in housing units. Rental income is recognized as rents become due. Rental payments received in advance are deferred until earned.

Cash, cash equivalents and investments

Our investment policies define authorized investments and establish various limitations on the credit quality, amounts and maturities of investments held. Authorized investments include money market funds, certificates of deposit, banker's acceptances, repurchase agreements, corporate and U.S. agency bonds and notes, corporate debt and equity securities, all with an equivalent rating of A2/P2 or higher. The carrying value of such investments approximates their fair value. Investments with maturities at dates of purchase of three months or less are considered to be cash equivalents.

Investments consist primarily of marketable securities and alternative investments. Investments in marketable securities consist of certificates of deposit, fixed income securities and corporate and foreign equity securities, which are classified as trading and carried at fair value, and U.S. Treasury and agency securities, which are classified as held to maturity and carried at amortized cost. The original basis of such investments is the purchase price. Investment income is recorded when earned as an addition to unrestricted net assets unless restricted by donor. Realized and unrealized gains and losses are recorded in the accompanying consolidated statements of activities as an increase or decrease in unrestricted net assets unless restricted by donor. Alternative investments consist primarily of investments in limited partnerships. These investments are carried at fair value, which is the monthly net asset value made available by the fund manager or administrator prior to the valuation date.

We also invest in mutual funds selected by the participants in our nonqualified deferred compensation plan. The investments in such mutual funds are classified as trading securities and are measured at fair value with changes in value recorded as an offset to the corresponding liability at the end of each reporting period.

Restricted cash, cash equivalents and investments

Restricted cash, cash equivalents and investments consist of funds held for lending activity, restricted contributions and funds held for others under escrow, partnership and fiscal agent agreements.

Accounts and other receivables and related allowance

Accounts and other receivables, which are comprised of fees receivable, contracts receivable, and notes receivable, are reported net of an allowance for doubtful accounts. We routinely evaluate our accounts and other receivables balances and allow for anticipated losses based on our best estimate of probable losses.

Loans receivable

We make loans to community-based not-for-profit and for-profit mission aligned affordable housing developers, community organizations and certain affiliates for the purpose of supporting low-income communities. We have two segments of loans in our portfolio - housing loans and other loans. Housing loans are primarily for the purpose of acquiring, renovating and/or constructing multi-family residential housing. Our other loans generally provide financing for a variety of community development needs, including community facilities, such as charter schools and health care centers, as well as loans that encourage community development through the support of growth and operating needs of organizations in low-income communities. Our loans are generally collateralized by real estate. The majority of the loans have repayment terms requiring a balloon payment when construction or permanent financing on the underlying property is secured, the property is sold, or at the stated maturity date.

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Notes to Consolidated Financial Statements December 31, 2016 and 2015

We may modify loans for a variety of reasons. Modifications include changes to interest rates, principal and interest payment terms, loan maturity dates, and collateral. Some modifications are in conjunction with a troubled debt restructure when a loan is no longer performing under the current loan terms. These modifications may include the types of modifications noted above and/or a forbearance agreement. We also enter into loan participation agreements with other organizations as the lead lender. If certain conditions are met, these loan participations are accounted for as sales by derecognizing the participation interest sold. No gain or loss on sale is incurred. If the conditions are not met, we continue to carry the full loan receivable in our consolidated financial statements and reflect the participation component of the loan as a secured borrowing with a pledge of collateral. We had \$5.7 million and \$0 in loan participation that did not meet the conditions for sale accounting treatment as of December 31, 2016 and 2015. These loan participations were recorded in loans receivable, offset in loans payable, and represent no risk to us (see Note 16). We retain the servicing rights on participations and provide loan servicing on other loan arrangements as well. Since the benefits of servicing approximate the costs, no servicing asset or liability is recognized.

During the loan approval process, underwriting criteria is fairly consistent regardless of the portfolio segment. Criteria considered for housing loans includes an analysis of the market, sponsor primary repayment sources, loan takeout options, and collateral. For other loans, more attention is focused on additional criteria, such as the borrower's business plan and cash flows from operations. Once loans are approved, our monitoring processes are consistently applied across portfolio segments. As a result of these monitoring processes, we generally group our loans into three categories:

- Performing - Loans are performing and borrower is expected to fully repay future obligations.
- Monitored - Loans are performing but require monitoring due to change in market, sponsor or other factors that has the potential to impact the borrower's ability to repay future obligations.
- Impaired - The primary source of repayment is questionable and the value of the underlying collateral has declined, increasing the probability that we will be unable to collect all principal and interest due.

For impaired loans, we discontinue the recognition of interest income in our consolidated statements of activities. Interest payments received on these loans are recognized as either a reduction of principal, or if it is determined that principal can be fully repaid irrespective of collateral value, as interest income. Interest accrual is resumed when the quality of the loan improves sufficiently to warrant interest recognition.

Loans are carried at their unpaid principal balance, less an allowance for loan losses to reflect potentially uncollectable balances including potential losses relating to impaired loans. The allowance for loan losses is based upon management's periodic evaluation of the underwriting criteria used to initially underwrite the loan as well as other credit factors, economic conditions, historic loss trends and other risks inherent in the overall portfolio such as geographic or sponsor concentration risks. The allowance is increased through a provision for loan losses which is charged to expense and reduced by charge-offs, net of recoveries. Loans are charged off when repayment is not expected to occur. When a third party guarantees loss coverage on a loan and a charge-off occurs, the amount received is netted against the charge-off for reporting purposes.

Mortgage loans held for sale

We originate or acquire MLHS to investors. Our holding period for these MLHS is generally one month, and the MLHS are sold to investors at an amount equal to their carrying basis. We generally obtain the MSRs or obligations upon sale. We measure our MLHS at fair value. The fair value is estimated by

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using current investor commitments to purchase loans, adjusted for the value attributable to obtained MSRs or obligations to approximate the value of a whole loan.

Derivative assets and liabilities

We enter into interest rate lock commitments with borrowers on loans intended to be held for sale and enter into forward sale commitments with investors. These commitments are not entered into on a speculative basis as each commitment to lend has a corresponding commitment from an investor to purchase. These commitments are considered freestanding derivative instruments and, as such, must be reflected at fair value within our consolidated financial statements. Fair value of derivatives related to these loan commitments includes the effects of interest rate movements between the time of the commitment and the time of the loan funding and investor purchase, any loan origination fees and premiums on the anticipated sale of the loan, net of co-broker fees, and the fair value of the expected net cash flows associated with the servicing of the loan as part of the fair value of the underlying commitments.

Real estate held for sale

We develop affordable housing in the Mid-Atlantic region. Homebuilding inventory is stated at cost unless the inventory is determined to be impaired, in which case the impaired inventories are written down to fair value. The cost of developed lots and uncompleted homes includes financing costs, direct costs, such as construction costs, real estate taxes and salaries, and overhead expenses. Selling, general and administrative costs are expensed as incurred. Cost of home sales is computed by multiplying the actual sales price of a sold home by a cost ratio that is determined by dividing the estimated cost of the project by its estimated revenue. Any revisions resulting from a change in the estimated number of homes to be constructed or in estimated costs subsequent to the commencement of delivery of homes are applied prospectively. Homebuilding inventory is carried at cost reduced for impairment losses, where appropriate.

Operating properties deemed to have met held for sale accounting criteria are also included in real estate held for sale.

Impairment of real estate held for sale is included as a component of cost of real estate sold.

Investments in operating properties

Investment in operating properties consists of land, building and improvements, net of accumulated depreciation, and is carried at cost reduced for impairment losses, where appropriate, based on estimated undiscounted future cash flows. Costs of significant improvements, replacements and renovations at operating properties are capitalized, while costs of maintenance and repairs are expensed as incurred. Certain financing costs are capitalized as deferred costs and amortized over the terms of the financing. Depreciation of operating properties is computed using the straight-line method over the estimated useful lives of the related assets, approximately 30 years.

Principles of consolidation - limited partnerships and similar entities

We have subsidiaries subject to not-for-profit consolidation principles, and subsidiaries subject to for-profit consolidation principles. Not-for-profit consolidation principles require limited partnerships or similar entities to be consolidated by the general partner or managing member under the presumption that the general partner or managing member controls the entity. The presumption of control by a general partner or managing member can be overcome if the limited partners are able to exercise substantive kick-out or participating rights. We do not consolidate limited partnerships or similar entities in which we own a general partnership or managing member interest and for which the presumption of control has been overcome, and instead account for these interests using the equity method of accounting.

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Interests in other entities held by our subsidiaries subject to for-profit consolidation principles are evaluated to determine if the entities are variable interest entities ("VIEs"). If the entities are determined to be VIEs, we then make a determination as to whether or not we are the primary beneficiary. The primary beneficiary is the party with both the power to direct the activities of a VIE that most significantly impacts its economic performance and the obligation to absorb losses or right to receive benefits of the VIE that could potentially be significant to the VIE. We consolidate VIEs in which we are the primary beneficiary and account for our noncontrolling interests in VIEs and other entities we do not control using the equity method of accounting.

Under the equity method, the initial investment is recorded at cost, increased by our share of income and contributions, and decreased by our share of losses and distributions. As a general partner, our investment balance may be reduced below zero. Distributions we receive in excess of our investment are recognized as income.

If events or circumstances indicate an other than temporary decline in value, the carrying amount of our investment in the unconsolidated partnership is written down to fair value as a charge to impairment.

Debt issuance costs

Debt issuance costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the loans payable and credit line borrowings to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense, and is computed using an imputed rate of interest on loans payable with amortizing principal payments and using the straight-line method for loans payable without amortizing payments and credit line borrowings.

Mortgage servicing rights and mortgage servicing obligations

MSRs are recognized as separate assets when purchased, when the servicing is contractually separated from the underlying mortgage loans by sale or securitization of the loans with servicing rights retained, or when the right to service a loan originated by others is assumed. Whenever we obtain an obligation to service a loan, we assess whether a servicing asset or liability should be recognized. A servicing asset is recognized whenever the compensation for servicing is expected to exceed current market servicing costs. Likewise, servicing liabilities are recognized when servicing fees to be received are not expected to adequately compensate us for our expected cost. The servicing rights are initially recognized at fair value based on the expected future net cash flow to be received over the estimated life of the loan discounted at market rates. Subsequently, the mortgage servicing assets or liabilities are amortized in proportion to, and over the period of, estimated servicing income. The amortization expense is included as a reduction of loan servicing fees in the consolidated statements of activities.

The fair value of MSRs is estimated using an internal valuation model. This model determines fair value by estimating the present value of anticipated future net servicing cash flows. Estimates of the fair value involve assumptions, including discount rates, servicing costs, and other economic factors which are subject to change over time.

Changes in the underlying assumptions could cause the fair value of MSRs to change significantly. To the extent that the carrying value of MSRs exceeds fair value, the asset is considered to be impaired and a valuation reserve is recorded as a reduction of servicing income in current earnings. Valuation reserves are adjusted to reflect changes in the measurement of impairment. At both December 31, 2016 and 2015, no valuation reserve was necessary.

MSRs are also reviewed for other-than-temporary impairment. Other-than-temporary impairment exists when the recoverability of a recorded valuation allowance is determined to be remote, taking into consideration historical and projected interest rates and loan pay-off activity. When this situation occurs,

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the unrecoverable portion of the valuation allowance is applied as a direct write-down to the carrying value of the MSRs. Unlike a valuation allowance, a direct write-down permanently reduces the carrying value of the MSR and the valuation allowance, precluding subsequent recoveries. For the years ended December 31, 2016 and 2015, no impairment charge was recorded.

Property and equipment and intangible assets

Property and equipment and intangible assets are stated at cost less accumulated depreciation and amortization. Generally, we capitalize the purchase of items individually costing \$1,000 or more provided an item meets our basic criteria to be capitalized. Additionally, upon meeting certain criteria, we capitalize external direct costs incurred and payroll and payroll-related expenses for employees who are directly associated with developing or obtaining software applications and related upgrades and enhancements. If events or circumstances indicate that the carrying amount is not recoverable, the related asset is tested for impairment and written down to the fair value, if impaired. For the year ended December 31, 2016, we incurred an impairment charge in property and equipment in the amount of \$0.9 million (see Note 24). No impairment charge was recorded for the year ended December 31, 2015. The cost of property and equipment and intangible assets is depreciated or amortized using the straight-line method over the estimated useful lives of the related assets, which range from three to ten years. Leasehold improvements are capitalized and amortized over the shorter of their useful lives or lease term.

Goodwill

Goodwill is not amortized; rather, it is reviewed for impairment annually, and whenever a triggering event occurs.

Funds held for others

We hold assets, primarily cash and cash equivalents, for third parties pursuant to fiscal agency and similar contractual arrangements. The assets held are classified as restricted and the liability is included in funds held for others.

Allowance for loan loss sharing

We bear a portion of the risk of loan losses for certain mortgages we originate and service based on the terms set forth in our agreements with investors. We maintain an allowance for loan loss sharing for loans at a level that, in management's judgment, is adequate to provide for estimated potential losses. This judgment is based upon various risk assessments including the value of the collateral, the operating results of the properties, the remaining years of available tax credits, the borrower's financial condition and our loss experience with similar loans.

Guarantee obligations

We account for our potential exposure to losses under guarantees by recording a liability equal to the estimated fair value of the guarantee based on the facts and circumstances existing at the time that the guarantee is undertaken. Determining the estimated fair value of a contingent liability requires us to make significant estimates and assumptions, including among others, market interest rates, historical loss experience on similar guarantees, total financial exposure, probability of loss, and severity and timing of possible losses. The guarantee obligation is reduced as identified risks are deemed to have expired based upon the satisfaction of applicable measures or milestones, which reduce or eliminate the guarantee exposure.

Income taxes

Partners and certain subsidiaries consolidated in these financial statements are exempt from income taxes with respect to their charitable activities, except for unrelated business income. These tax-exempt

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entities did not have any unrelated business income during the years ended December 31, 2016 and 2015. We are liable for federal and state income taxes with respect to some of our for-profit subsidiaries. These subsidiaries are primarily involved in our mortgage, LIHTC asset management and non-tax credit affordable housing investment fund activities. As previously mentioned, during 2016, our development activities became tax-exempt. Prior to that, our development activities were subject to taxation. The provision for or benefit from income taxes has been recorded on the accompanying consolidated financial statements.

We use the asset and liability method to account for deferred income taxes. Under this method, assets and liabilities are recognized for the future tax attributable to differences between the financial statement carrying amounts and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in the period that includes the enactment date. We only recognize deferred tax assets to the extent that it is more likely than not that they will be realized based on consideration of available evidence, including tax planning strategies and other factors.

We recognize the financial statement impact of a tax position when it is more-likely-than-not that the position will be sustained upon examination. If the more-likely-than-not threshold is met, the tax position is to be measured at the largest amount of the benefit that is greater than 50% likely of being realized upon ultimate settlement.

Expense allocation

Expenses by function have been allocated among program activities, general and administrative, interest, cost of real estate sold, fundraising, operating properties activities, and income taxes on the basis of an analysis performed by us. During 2016, we updated our methodology for how certain expenses are allocated between functional expense categories to better align with the actual operations of our organization. We elected to apply this change retrospectively to 2015, and as a result certain previously reported amounts have been reclassified.

Fair value of financial instruments

The carrying amount of investments in fixed income, corporate, and foreign equity securities, MLHS, derivative assets and liabilities and alternative investments, are recorded at fair value. The carrying amount of other financial instruments approximates their fair values.

Business combinations

Upon acquisition of an entity, we allocate the purchase price of the entity based upon the fair value of the assets and liabilities acquired.

Transaction costs related to acquisitions, such as broker fees, transfer taxes, legal, accounting, valuation, and other professional and consulting fees, are expensed as incurred.

Reclassifications

Reclassifications have been reflected in the current year presentation for prior year balances. Such reclassifications are for comparative purposes only and do not restate the prior year consolidated financial statements.

Change in accounting principle

During 2016, we adopted new guidance related to simplifying the presentation of debt issuance costs, which modifies the presentation of debt issuance costs and the related amortization. The change in accounting under the new guidance amends the reporting of debt issuance costs by no longer reporting

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them as assets. It also amends the reporting of the related amortization by including it as a component of interest expense. This new guidance has been adopted by us on a retrospective basis. As a result, approximately \$866,000 of debt issuance costs, net of accumulated amortization, were reclassified on the consolidated statement of financial position from other assets, net to reduce indebtedness for the year ended December 31, 2015. Other than this reclassification, the adoption of this new guidance did not have a material impact on our financial position, results of activities, or cash flows.

Note 3 - Cash, cash equivalents and investments

Cash, cash equivalents and investments at December 31 consist of the following (\$ in thousands):

	2016		
	Unrestricted	Restricted	Total
Cash and cash equivalents	\$ 90,582	\$ 67,176	\$ 157,758
U.S. Government agency obligations and fixed income securities	5,813	25,647	31,460
Corporate and foreign equity securities	-	15,633	15,633
Alternative investments	-	586	586
Total	<u>\$ 96,395</u>	<u>\$ 109,042</u>	<u>\$ 205,437</u>
	2015		
	Unrestricted	Restricted	Total
Cash and cash equivalents	\$ 101,621	\$ 42,475	\$ 144,096
Certificates of deposits	5,638	20,130	25,768
U.S. Government agency obligations and fixed income securities	3,156	21,015	24,171
Corporate and foreign equity securities	-	438	438
Total	<u>\$ 110,415</u>	<u>\$ 84,058</u>	<u>\$ 194,473</u>

The following summarizes the components of investment return and their classifications in the consolidated statements of activities for the years ended December 31 (\$ in thousands):

	2016	2015
Investment income	\$ 902	\$ 782
Realized loss, net	350	(3)
Unrealized (loss) gain, net	911	(814)
Total	<u>\$ 2,163</u>	<u>\$ (35)</u>

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Investment returns detailed above are net of investment fees of \$50,000 and \$78,000 for the years ended December 31, 2016 and 2015, respectively.

Note 4 - Contributions receivable, net

Contributions receivable at December 31 are summarized as follows (\$ in thousands):

	<u>2016</u>	<u>2015</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 14,080	\$ 12,855
One year to five years	<u>6,295</u>	<u>4,242</u>
	20,375	17,097
Less unamortized discount	<u>(299)</u>	<u>(239)</u>
Total	<u><u>\$ 20,076</u></u>	<u><u>\$ 16,858</u></u>

Note 5 - Accounts and other receivables, net

Accounts and other receivables, net at December 31 are summarized as follows (\$ in thousands):

	<u>2016</u>	<u>2015</u>
Fees receivable, net	\$ 33,650	\$ 40,092
Notes receivable, net	48,354	54,772
Contracts receivable, net	5,845	8,919
Other receivables	<u>21,160</u>	<u>19,580</u>
Total	<u><u>\$ 109,009</u></u>	<u><u>\$ 123,363</u></u>

Fees receivable, net includes fees due from unconsolidated partnerships, development fees receivable, and other fees receivable.

Fees due from unconsolidated partnerships are primarily attributable to syndication and asset management fees earned related to Investment Funds in which we hold a general partner or managing member interest. The receivables are due on demand; however, we may elect to defer collection. At December 31, 2016 and 2015, fees due from unconsolidated partnerships totaled \$25.9 million and \$31.0 million, respectively, and \$5.1 million and \$19.2 million, respectively, of the receivables due from these entities have been deferred.

Development fees receivable includes unbilled amounts related to the percentage of completion method of revenue recognition of \$5.4 million and \$6.2 million at December 31, 2016 and 2015, respectively.

Other fees receivable which amounted to \$2.5 million and \$2.9 million as of December 31, 2016 and 2015 are primarily related to uncollected advisory service fees.

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The majority of our fees receivables is due from unconsolidated partnerships for syndication and asset management services and must be funded by the limited partners in those partnerships. As the entities that hold the limited partnership interests are generally highly-rated financial institutions, we do not expect that any of the limited partners will fail to meet their obligations and we believe that credit risk with respect to these receivables is not significant. For both the years ended December 31, 2016 and 2015, the allowance for loss on fees receivable was \$0.1 million.

Notes receivable, net consist mainly of secured notes to housing projects. As of December 31, 2016, 12 notes were outstanding with a balance due from the borrowers of \$48.4 million. These notes are secured by a first lien on the respective properties, are to mature on various dates through April 28, 2018 and bear interest at rates ranging from one-year LIBOR plus 2.25% to 5%. As of December 31, 2015, 16 notes were outstanding with a balance receivable of \$54.8 million. These notes were secured by a first lien on the respective properties were to mature on various dates through August 30, 2018 and bore interest at rates ranging from one-year LIBOR plus 2.25% to 5%. During 2015, four of these notes were paid off, and two new notes were originated. The related interest income earned on these notes amounted to \$2.1 million and \$1.30 million for the years ended December 31, 2016 and 2015, respectively.

The allowance for loss on notes receivable was \$7.9 million and \$8.2 million as December 31, 2016 and 2015, respectively.

Contracts receivable consists of amounts due from government entities.

At December 31, 2016 and 2015, other receivables consists of \$10.7 million and \$9.4 million of short-term loans made by Bellwether to borrowers that are awaiting permanent mortgage financing, bear interest at the greater of 5.75% or 5.50% plus LIBOR and mature no later than June 28, 2017. The loans are secured by the respective underlying properties.

In addition, at December 31, 2016 and 2015, other receivables consists of \$5.0 million and \$10.2 million, respectively, of short-term bridge loans and predevelopment loans. The bridge loans are made to unconsolidated partnerships are noninterest-bearing and are generally due within six months of the loan date. The predevelopment loans are made to LIHTC projects, bear interest at rates ranging from 4.90% to 5.00% and are generally due within 12 months of the loan date.

During 2016, upon our acquisition of EHC, we obtained loans receivable from four LIHTC projects in which we own a general partner interest. Three of the loans are secured by the underlying projects and one is unsecured. The loans mature at various dates between 2050 and 2055. Due to the poor financial condition of the partnerships, interest on these loans is not currently being accrued and income is being recognized only when cash payments are received. The receivable balance as of December 31, 2016 was \$5.4 million.

Note 6 - Loans receivable, net

Since 1981, we have closed approximately \$1.61 billion of loans to various community organizations. The sources of lending capital used and anticipated to be used to fund such loans are loans payable and private contributions. As of December 31, 2016 and 2015, \$41.8 million and \$57.1 million, respectively, of loans receivable are due within one year. Loans are secured through a variety of collateral arrangements. As of December 31, 2016, 70% of loans receivable were secured by first liens placed on the underlying real estate; 8% were unsecured or secured by subordinate liens; and 22% were secured by non-real estate assignments including developer fees, equity pay-ins, third party credit enhancements or guarantees, and cash and investments. The loans bear interest at varying rates

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which in the aggregate, approximate 5.4% as of both December 31, 2016 and 2015. In accordance with historical practices, it is expected that some of these loans will be extended at maturity. Our loan policy dictates that loans can only be extended if there is no material adverse change in the credit, and repayment is not threatened.

Loan participations outstanding totaled \$23.2 million and \$23.6 million at December 31, 2016 and 2015, respectively.

The allowance for loan losses based on total loans receivable was 4.82% and 5.34% as of December 31, 2016 and 2015, respectively. After adjusting for loan participations that did not meet the requirements for sale treatment, the allowance for loan losses was 5.03% and 5.37% for the same periods.

As of December 31, the loan portfolio consists of the following (\$ in thousands):

	2016	2015
Loans receivable	\$ 155,807	\$ 124,397
Allowance for loan losses	(7,517)	(6,644)
Loans receivable, net	<u>\$ 148,290</u>	<u>\$ 117,753</u>

Allowance for loan loss activity by portfolio segment for the years ended December 31, is summarized as follows (\$ in thousands):

	2016			2015		
	Housing	Other	Total	Housing	Other	Total
Allowance for loan losses:						
Balance at beginning of year	\$ (5,041)	\$ (1,603)	\$ (6,644)	\$ (5,687)	\$ (1,577)	\$ (7,264)
Net change in allowance for loan losses	(394)	(495)	(889)	426	(26)	400
Write-offs	-	27	27	237	-	237
Recoveries	(11)	-	(11)	(17)	-	(17)
Balance at end of year	<u>\$ (5,446)</u>	<u>\$ (2,071)</u>	<u>\$ (7,517)</u>	<u>\$ (5,041)</u>	<u>\$ (1,603)</u>	<u>\$ (6,644)</u>

As of December 31, loans by credit quality indicator and portfolio segment consist of the following (\$ in thousands):

	2016			2015		
	Housing	Other	Total	Housing	Other	Total
Performing	\$ 109,639	\$ 38,349	\$ 147,988	\$ 91,149	\$ 25,619	\$ 116,768
Monitored	3,810	3,066	6,876	3,879	-	3,879
Impaired:						
With an increased allowance for loan losses	693	-	693	900	1,995	2,895
Without an increased allowance for loan losses	250	-	250	855	-	855
Total	<u>\$ 114,392</u>	<u>\$ 41,415</u>	<u>\$ 155,807</u>	<u>\$ 96,783</u>	<u>\$ 27,614</u>	<u>\$ 124,397</u>
Related allowance for loan losses	<u>\$ 693</u>	<u>\$ -</u>	<u>\$ 693</u>	<u>\$ 675</u>	<u>\$ 322</u>	<u>\$ 997</u>
Average investment in impaired loans	<u>\$ 1,581</u>	<u>\$ 546</u>	<u>\$ 2,127</u>	<u>\$ 3,406</u>	<u>\$ 2,069</u>	<u>\$ 5,475</u>
Interest income recognized on impaired loans - cash basis	<u>\$ 87</u>	<u>\$ 186</u>	<u>\$ 273</u>	<u>\$ 17</u>	<u>\$ -</u>	<u>\$ 17</u>

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No loans were restructured during 2016. During the year ended December 31, 2015, two housing loans were modified through troubled debt restructuring with balances at restructuring of \$8.7 million. One of the loans was repaid prior to year-end, and the other was classified as performing.

An aging of past due loans by portfolio segment as of December 31 is as follows (\$ in thousands):

	2016			2015		
	Housing	Other	Total	Housing	Other	Total
Past due:						
31-60 days	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
61-90 days	-	-	-	-	-	-
Over 90 days	250	-	250	250	1,969	2,219
Total	250	-	250	250	1,969	2,219
Current	114,142	41,415	155,557	96,533	25,645	122,178
Total	<u>\$ 114,392</u>	<u>\$ 41,415</u>	<u>\$ 155,807</u>	<u>\$ 96,783</u>	<u>\$ 27,614</u>	<u>\$ 124,397</u>

All loans 90 or more days past due were no longer accruing interest.

Note 7 - Mortgage loans held for sale

At December 31, 2016 and 2015, these loans were recorded at fair value. The unpaid principal balance at December 31, 2016 and 2015 of these loans was \$123.2 million and \$117.2 million, respectively, and all of the loans are current. The difference between the carrying amount of the MLHS and the unpaid principal balance consists of trading gains and gains on originated MSRs, both included in gains from mortgage banking activities on the accompanying consolidated statements of activities (\$ in thousands):

	2016	2015
Unpaid principal of MLHS	\$ 123,230	\$ 117,225
Trading gains on MLHS	947	1,010
Gains on MSRs	2,690	1,527
Total	<u>\$ 126,867</u>	<u>\$ 119,762</u>

The loans were sold at amounts equal to their carrying value subsequent to year-end, less amounts attributable to the fair value of MSRs obtained by us.

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Note 8 - Gains from mortgage banking activities

Gains from mortgage banking activities consist of the following for the years ended December 31 (\$ in thousands):

	<u>2016</u>	<u>2015</u>
Contractual loan origination and related fees, net	\$ 33,510	\$ 28,439
Originated MSRs	18,881	9,037
Trading gains	12,896	7,925
Derivative gains on outstanding commitments	<u>6,923</u>	<u>2,068</u>
Total	<u>\$ 72,210</u>	<u>\$ 47,469</u>

Note 9 - Derivative instruments

Derivative assets and liabilities consist of the following at December 31 (\$ in thousands):

December 31, 2016	<u>Asset</u>	<u>Liability</u>	<u>Net</u>
Interest rate	\$ 9,840	\$ 9,840	\$ -
Accrued fees	5,192	-	5,192
Mortgage servicing rights	<u>2,768</u>	<u>-</u>	<u>2,768</u>
Total	<u>\$ 17,800</u>	<u>\$ 9,840</u>	<u>\$ 7,960</u>

December 31, 2015	<u>Asset</u>	<u>Liability</u>	<u>Net</u>
Interest rate	\$ 6,289	\$ 6,289	\$ -
Accrued fees	1,933	-	1,933
Mortgage servicing rights	<u>1,809</u>	<u>-</u>	<u>1,809</u>
Total	<u>\$ 10,031</u>	<u>\$ 6,289</u>	<u>\$ 3,742</u>

The interest rate component of the net derivative relates to a forecasted movement in interest rates between the time of the commitment and the time of the loan funding and investor purchase. As we do not enter into speculative commitments, it is assumed that our interest rate exposure is perfectly hedged with respect to these commitments. The accrued fees relate to origination fees and trading gains that we expect to collect related to the commitments. The MSRs relate to the expected servicing rights that will be realized upon the sale of the loans to the investor. Income related to these derivatives is included in gains from mortgage banking activities on the accompanying consolidated statements of activities. Subsequent to year end, we have collected \$2.0 million of the total derivative asset, related to accrued fees.

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Derivative instruments are classified as Level 3 in the fair value hierarchy (see Note 24). A roll forward of derivative assets and liabilities, net, is as follows (\$ in thousands):

	<u>2016</u>	<u>2015</u>
Balance at beginning of year, net	\$ 3,742	\$ 6,198
Realized gains recorded in earnings	45,641	26,498
Unrealized gains recorded in earnings	6,923	2,068
Settlements	<u>(48,346)</u>	<u>(31,022)</u>
Balance at end of year, net	<u>\$ 7,960</u>	<u>\$ 3,742</u>

Note 10 - Real estate held for sale

Real estate held for sale consists of the following at December 31 (\$ in thousands):

	<u>2016</u>	<u>2015</u>
Homebuilding inventory	\$ 1,841	\$ 2,741
Held for sale property	<u>-</u>	<u>3,268</u>
Total	<u>\$ 1,841</u>	<u>\$ 6,009</u>

Homebuilding inventory includes capitalized costs from one development project, Renaissance Square. Homebuilding inventory at December 31, 2016 and 2015 consists of: 1) real estate held for sale, which consists of two completed homes and two completed model homes as of December 31, 2016; and two completed model homes as of December 31, 2015; and 2) real estate held for production and in-process construction costs, inclusive of capitalized internal efforts. Additionally, capitalized interest incurred on project borrowings of \$0.3 million during each of the years ended December 31, 2016 and 2015, respectively, is included in homebuilding inventory.

The land for Renaissance Square was conveyed by Baltimore County per an agreement of sale dated August 16, 2007. Upon conveyance, we determined that the land had no value. Additionally, Baltimore County has agreed to contribute \$4.2 million toward land development costs. This contribution is expected to cover the total cost of land development at Renaissance Square. The Baltimore County contribution was provided proportionally at the beginning of each of the three phases of the project. As a result of the land conveyance and Baltimore County contribution, there are no land costs or land development costs in homebuilding inventory as of December 31, 2016 and 2015. The total amount of land development costs contributed by Baltimore County was \$4.2 million and \$4.0 million as of December 31, 2016 and 2015, respectively.

During 2016, we made a request with the U.S. Department of Housing and Urban Development ("HUD") and Baltimore County to reduce the total number of units at Renaissance Square by seven units. The units were close to Back River Neck Road and determined to be less marketable than other units. Both HUD and Baltimore County approved the request, thus reducing the total number of units Renaissance Square is expected to produce to 108. As of December 31, 2016, there are 22 more units to sell. Of these 22 units, seven will receive soft second mortgages to reduce the cost to buyers earning up to 115% of the Area Median Income ("AMI"). The remaining 15 units are market rate. Market rate

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buyers under 120% of AMI could qualify for down payment and settlement assistance. Market rate buyers over 120% AMI will not receive assistance for down payments. In addition to providing affordable housing units, Renaissance Square is critical to community revitalization efforts being undertaken by Baltimore County. Management will assess the carrying value of the project if market conditions or other relevant factors negatively impact its value. It is anticipated the sale of housing units in this development will be completed in 2018.

Held for sale property included operating properties which were classified as held for sale. Such held for sale properties were presented at the lower of cost or fair value. As of December 31, 2015, one property was included in real estate held for sale with a carrying value of \$3.3 million. This property was sold in 2016, and upon sale, a gain of approximately \$31,000 was recognized.

Note 11 - Investments in unconsolidated partnerships

Investments in unconsolidated partnerships at December 31 are summarized as follows (\$ in thousands):

	2016	2015
Held for sale investments	\$ 87,959	\$ 16,491
Other investments	4,831	2,885
Total	<u>\$ 92,790</u>	<u>\$ 19,376</u>

Held for sale investments

We purchase and hold interests in partnerships for sale to Investment Funds. Such partnerships own multi-family low-income housing tax credit projects that are under construction. Their balance sheets consist primarily of land, building, and construction in progress balances, as well as any related mortgage debt. Operating activities are generally minimal.

At December 31, 2016 and 2015, we held for sale interests in eight and two partnerships, respectively. The balance consists of future capital contributions to these partnerships in the amount of \$81.7 million and \$15.7 million at December 31, 2016 and 2015, respectively, with the remaining balance relating to cash investments and other adjustments. The capital contributions payable are reflected as a liability on the consolidated statements of financial position.

We acquire limited partnership interests (generally 99%) in these properties that are expected to earn tax credits and transfer those interests to Investment Funds for the investor(s) benefit. Our holding period for these investments is generally three to nine months and, during that period, we account for our interest using the equity method of accounting. Typically, due to the short holding period, the carrying amount of the investments approximate their fair value. However, if events or circumstances indicate that the carrying amount exceeds its estimated fair value, an investment will be written down to the lower value. For the year ended December 31, 2016, we incurred an impairment charge of \$8.1 million related to these investments. No impairment charge was recorded for the year ended December 31, 2015.

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Other investments

Other investments include the following:

General partner or managing member interests in Investment Funds

We hold general partner or managing member interests of between 0.005% and 1.0% in Investment Funds. These entities invest in affordable housing and commercial partnerships that own projects that qualify for income tax credits. We determined that certain of these Investment Funds were VIEs, and that we were not the primary beneficiary. We account for our interest in these Investment Funds and other entities that we do not control on the equity method.

We obtained our first interest in one of these tax credit Investment Funds in 1988 and typically obtain an interest in several new Investment Funds each year. The limited partners in these Investment Funds are generally financial institutions that contribute committed capital to fund investments and meet working capital reserve requirements. Most of the real estate partnerships in which these Investment Funds invest must meet certain requirements to be eligible for tax credits. Once the credits are fully earned and tax compliance requirements are met, it is anticipated that the partnerships will be dissolved. Due to the funding obligations of our limited partners, management believes our exposure to loss relating to these Investment Funds to be insignificant. However, under the equity method of accounting, we are required to record our share of losses from these Investment Funds, and our share of losses exceeds our nominal contributions resulting in negative investment balances in these Investment Funds. These negative balances are classified as losses in excess of investments in unconsolidated partnerships in the liability section of our consolidated statements of financial position. As the majority of our share of losses from these Investment Funds relate to noncash charges, such as depreciation expense, we believe that this liability generally will not result in a funding requirement by Enterprise and will likely reverse at dissolution of the Investment Funds.

Limited partner interests in Investment Funds

We hold between 11.0% and 46.8% limited partner interests in nine Investments Funds as of December 31, 2016. During 2016, we acquired one additional limited partner interest and exited two limited partner interests through dissolution of the respective Investment Funds. We also hold a 50% interest in a joint venture that was formed for the sole purpose of holding a 33.8% limited partner interest in an Investment Fund. Each of these Investment Funds holds investments in operating partnerships that are either beyond the tax credit delivery period, or that have de minimis tax credits remaining. We determined that these entities are VIEs, and that we are not the primary beneficiary. Accordingly, we account for our interest in these Investment Funds on the equity method. The balance of our investment in these Investment Funds was \$1.3 million and \$0.9 million at December 31, 2016 and 2015, respectively.

Direct investments in affordable housing partnerships

At December 31, 2016 and 2015, we also held direct general partnership or co-general partnership interests of between 0.1% and 1.0% in two and three partnerships that own low-income affordable housing projects, respectively. We agreed to assume the general partnership interest in these entities pursuant to our fiduciary role in tax credit Investment Funds that hold a majority limited partnership interest in the underlying real estate project. We account for these entities on the equity method due to significant variable interests and related rights held by lenders, investors and other parties and due to our limited exposure to the variability in operating activities.

We consider our exposure to loss relating to these partnerships to be insignificant. As our share of losses from these investments exceeds our nominal contributions, we classify our negative

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investment balances in these entities as losses in excess of investments in unconsolidated partnerships in the liability section of our consolidated statements of financial position. During the years ended December 31, 2016 and 2015, we made payments of \$0.1 million and \$0.2 million, respectively, to these entities.

At December 31, 2015, EHC held a direct general partnership interest in 24 partnerships that own real estate projects. The interest in these partnerships is generally 0.01% or less. Upon obtaining control of EHC in 2016, these investments were initially recorded at fair value in our consolidated financial statements. Subsequently, we account for these entities on the equity method due to significant participating rights of the project limited partners. As of December 31, 2016, EHC holds a direct general partnership interest in 23 of these partnerships real estate. Due to guarantees we provide as the general partner to the partnership limited partners, our investment in certain partnerships may be negative. As of December 31, 2016, our investment in six of the partnerships was negative in the cumulative amount of \$0.2 million.

As previously discussed, we hold a 0.01% managing member interest and a 14.99% investor member interest in Spyglass. Effective July 15, 2016, our interest in this entity is accounted for on the equity method due to the significant participating rights of the other investor members.

In September 2016, we negotiated and agreed in principle to the acquisition of a portfolio of 43 affordable housing properties located in the mid-Atlantic region. During 2016, we made a \$5 million deposit related to this acquisition, which is included in other assets, net in our consolidated statement of financial position. The closing of this acquisition occurred on August 1, 2017. Simultaneous with the closing, we placed 35 of these properties into a single investor Investment Fund where we hold both a general partner ownership interest in the properties, as well as a managing member interest in the fund of approximately 31.5%. We hold a general partner interest in the remaining eight properties, all of which are still in their tax credit compliance periods. The limited partner interest for each of these eight properties is held by unaffiliated Investment Funds. The financing structure for the acquisition of this portfolio and related assets, included a total investment by us of approximately \$32 million. In conjunction with this acquisition, we formed a new property management company, and migrated approximately 174 employees from an unaffiliated entity to Enterprise.

During 2015, we sold our interest in one affordable housing operating property located in Bethesda, Maryland and as a result, realized income of \$12.3 million, which is included in sales of real estate on the consolidated statements of activities.

Subsequent to year end, we sold our interest in two affordable housing operating properties located in Maryland and as a result, realized income of \$5.5 million.

Traditional investments in affordable housing partnerships

We hold a 5% managing member interest in two non-tax credit affordable housing investment funds, one of which was formed during 2016. The funds provide returns to investors through cash flow and residual proceeds, with an expected investment holding period of approximately seven years. We determined these entities are not VIEs and that we do not control these entities. We account for our interest in these entities on the equity method, subject to the specified investment period of the funds. Our investment in these funds totaled \$1.3 million and \$0.9 million as of December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, the funds held eleven and seven investments, respectively.

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Other subsidiaries and affiliates

We also have an interest in other subsidiaries and affiliates that support our mission of providing affordable housing and/or other resources to low-income communities throughout the United States.

Note 12 - Income taxes

As described in Note 1, Investment is a 501(c)(4) social welfare organization. While Investment's LIHTC syndication and NMTC activities are exempt from income taxes, other activities are taxable including mortgage, LIHTC asset management and non-tax credit affordable housing investment fund activities. Investment's taxable and tax-exempt increase (decrease) in net assets before income taxes was \$20.1 million and (\$4.3) million for the year ended December 31, 2016, and \$10.9 million and (\$1.9) million for the year ended December 31, 2015, respectively.

The income tax provision consists of the following for the years ended December 31 (\$ in thousands):

	2016	2015
Current tax expense (benefit)	\$ 284	\$ (6,481)
Deferred tax expense	3,026	1,941
Income tax expense (benefit)	<u>\$ 3,310</u>	<u>\$ (4,540)</u>

Current income tax (benefit) expense includes tax refunds as well as interest and penalties relating to income tax obligations. We benefit from the allocation of tax credits from certain tax credit partnerships in which we hold an interest. This allocation of tax credits reduces our current income tax expense. Income tax expense is reconciled to the amount computed by applying the federal corporate income tax rate of 34%, as follows (\$ in thousands):

	2016	2015
Tax at statutory rate on income before taxes	\$ 5,371	\$ 3,061
State income tax (benefit), net of federal income tax benefits	284	(13)
Tax at statutory rate on income not subject to federal taxes	1,461	662
Tax at statutory rate on income related to noncontrolling interest	(3,249)	(1,092)
Tax refunds	(109)	(6,468)
Tax credits and other	(448)	(690)
Income tax expense (benefit)	<u>\$ 3,310</u>	<u>\$ (4,540)</u>

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Deferred tax assets, net consist of the following at December 31 (\$ in thousands):

	2016	2015
Total deferred assets	\$ 23,983	\$ 24,840
Total deferred liabilities	<u>(18,562)</u>	<u>(16,393)</u>
Deferred tax assets, net	<u>\$ 5,421</u>	<u>\$ 8,447</u>

The deferred tax assets relate primarily to deferred compensation, deferred revenue and net operating loss carryforwards. Deferred tax liabilities consist primarily of the tax effects of MSR revenue and amortization expense, which are recognized for book purposes but not for income tax purposes until the related servicing activities are performed in subsequent years, accelerated depreciation for tax purposes and deferred fees. At December 31, 2016, we have federal and state net operating loss carryforwards of \$10.4 million and \$11.8 million, respectively. These loss carryforwards begin to expire in 2033 for federal purposes and 2034 for state purposes. A valuation allowance of \$0.5 million and \$0.4 million has been established as of December 31, 2016 and 2015, respectively, due to the uncertainty of realizing certain of these carryforwards and certain other deferred tax assets. Based on projections of future taxable income, management believes that it is more-likely-than-not that the deferred tax assets, net of valuation allowance, will be realized. The amount of deferred tax assets considered realizable could be reduced if estimates of future taxable income are reduced.

As mentioned in Note 1, during 2016, Investment's development activities are now conducted by an entity that is classified as a tax-exempt 501(c)(3) organization. A final tax return will be filed for the taxable activities for the short period ended July 15, 2016. As a result of this change in tax status, \$2.0 million of net deferred tax liabilities were written off, which led to a corresponding decrease in income tax expense in 2016. Accumulated federal net operating loss carryforwards related to Investment's development activities in the amount of \$3.2 million were maintained within our consolidated group. This change in tax status resulted in taxable gain of \$2.8 million. However, Investment's current year tax losses being applied to this gain led to no current income taxes due related to this change.

Uncertain tax positions

We conduct business throughout the United States and, as a result, we file income tax returns in federal and various state jurisdictions. Although there are currently no ongoing examinations by state jurisdictions, the statute of limitations has not yet expired on several of our tax filings. In 2014, we filed amended tax returns for 2008 through 2010 seeking a refund relating to a taxable loss incurred on a transaction that closed in 2010. Due to the uncertainty in realizing this benefit, we had not recorded an asset in our consolidated financial statements as of December 31, 2014. During 2015, the IRS processed the amended returns and issued a tax refund in the amount of \$5.9 million. This tax refund is included in income tax benefit in our consolidated statement of activities. During 2015, we also remitted \$1.4 million of this refund to a third party that was involved in the original transaction. This expense is included within other general and administrative expenses in our consolidated statement of activities. We also remain subject to examination of all of our federal income tax returns for 2013 and subsequent years. We also generally remain subject to the examination of our various state income tax returns for a period of four to five years from the date the return was filed. Our most significant state tax exposure is within Maryland, the location of our headquarters.

The filing of the federal and state tax returns requires us to assess and measure uncertain tax positions. The conversion of Investment's development company to 501(c)(3) status during 2016 resulted in a need to file a final tax return for Investment's previously for-profit development company.

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The preparation of this final tax return, and the associated taxable gain from this transaction, involved certain assumptions made by management. Upon examination of tax positions taken on this final tax return, and other returns, Investment concluded that all positions taken on its tax returns exceeded the more-likely-than-not threshold and expects to realize the benefit of all positions if examined by a taxing authority. As a result, we concluded that there were no uncertain positions that required measurement in or adjustment to our consolidated financial statements.

Note 13 - Mortgage servicing rights and obligations, net

As of December 31, 2016 and 2015, we were servicing 2,491 and 2,353 loans, respectively, with outstanding principal balances of approximately \$13.7 billion and \$11.8 billion, respectively.

MSRs and servicing obligations are carried at their adjusted cost basis, which consist of the following at December 31 (\$ in thousands):

	<u>2016</u>	<u>2015</u>
MSRs	\$ 41,847	\$ 30,574
Servicing obligations	<u>(67)</u>	<u>(56)</u>
MSRs, net	<u>\$ 41,780</u>	<u>\$ 30,518</u>

Changes in the carrying value of the MSRs consist of the following for the years ended December 31 (\$ in thousands):

	<u>2016</u>	<u>2015</u>
Net MSR beginning balance	\$ 30,518	\$ 26,244
MSRs originated, net of obligations recognized	18,881	9,037
MSRs acquired from Capital Advisors	-	1,677
Settlement of prior year derivatives to MSRs	979	1,071
Amortization expense and write-offs of MSRs	(7,435)	(6,323)
Change related to MLHS	<u>(1,163)</u>	<u>(1,188)</u>
Net MSR ending balance	<u>\$ 41,780</u>	<u>\$ 30,518</u>

Included in the \$41.8 million and \$30.5 million net MSR balances above are servicing contracts related to private/equity loans that are cancellable within 30 to 90 days and existed as of the merger/acquisition dates. Such loans have a net book value of \$3.9 million and \$5.9 million at December 31, 2016 and 2015, respectively. For financial statement presentation, these assets are classified with MSRs, as they are being amortized and accounted for similar to other MSRs in the overall pool.

We determine the value of MSRs and servicing obligations by considering factors such as net future cash flows and discount rates. We use industry trends and portfolio data to make certain assumptions in determining discount rates that are commensurate with risks involved in the portfolio, market

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assumptions, prepayment and default rates and other relevant factors. We amortize the initial carrying value of MSRs and servicing obligations over the expected servicing period, generally 10 years, and assess for impairment or increased obligation annually, unless we have specific information giving rise to the need to make adjustments on a more current basis. At December 31, the fair value and key economic assumptions used to estimate the fair value of MSRs were as follows (\$ in thousands):

	2016	2015
Beginning of year	\$ 53,906	\$ 39,202
Ending of year	\$ 74,103	\$ 53,906
Weighted average discount rate	13%	13%
Weighted average servicing life	138 months	136 months
Weighted average term to payoff	266 months	260 months

For the years ended December 31, 2016 and 2015, we have not provided for impairment on any MSRs.

Note 14 - Property and equipment, net

Property and equipment, net, consist of the following at December 31 (\$ in thousands):

	2016	2015
Office equipment	\$ 3,477	\$ 3,584
Software applications	32,337	28,056
Furniture and fixtures	2,899	2,760
Leasehold improvements	2,775	2,641
Land	247	-
	41,735	37,041
Accumulated depreciation and amortization	(24,236)	(19,082)
Total	\$ 17,499	\$ 17,959

The software applications asset consists primarily of investments made in proprietary software applications developed for internal use.

Depreciation expense was \$5.7 million and \$5.1 million for the years ended December 31, 2016 and 2015, respectively.

Note 15 - Intangible assets, net and goodwill

We acquired intangible assets of \$6.7 million related to the Bellwether merger that occurred in 2012, \$1.8 million related to the Towle acquisition that occurred in 2014, \$2.7 million related to the Capital Advisors acquisition that occurred in 2015 and \$0.8 million related to the Spyglass acquisition that occurred in 2015. Amortization expense of \$1.4 million and \$1.6 million for the years ended December 31, 2016 and 2015, respectively, was recorded related to these assets. At December 31, the intangible

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assets, net balance is included in other assets, net on the statements of financial position and consists of the following (\$ in thousands):

	<u>2016</u>	<u>2015</u>
Borrower relationships	\$ 5,435	\$ 6,248
Trade name	170	533
Non-compete agreements	-	185
In-place leases	-	645
	<u> </u>	<u> </u>
Total	<u>\$ 5,605</u>	<u>\$ 7,611</u>

Future amortization expense with respect to intangible assets is estimated as follows (\$ in thousands):

2017	\$ 984
2018	813
2019	813
2020	813
2021	813
Thereafter	<u>1,369</u>
Total	<u>\$ 5,605</u>

We also acquired goodwill of \$3.9 million related to the Towle acquisition in 2014 and \$5.7 million related to the Capital Advisors acquisition in 2015. Goodwill was recognized due to expected synergies from combining operations of Towle and Capital Advisors with that of Bellwether. Goodwill is not amortized, rather it is reviewed for impairment annually, and whenever a triggering event occurs.

Note 16 - Indebtedness

A summary of indebtedness at December 31 is as follows (\$ in thousands):

	<u>2016</u>	<u>2015</u>
Loans payable	\$ 178,324	\$ 154,181
Fixed rate mortgage payable	-	2,544
Credit line agreements	156,848	175,616
Debt issuance costs	<u>(766)</u>	<u>(866)</u>
	<u> </u>	<u> </u>
Total	<u>\$ 334,406</u>	<u>\$ 331,475</u>

Loans payable bear interest at rates which vary from 0% to 4.0% and are repayable through 2043. Most of our borrowings are structured as unsecured. We have three facilities that require that we pledge collateral. Currently, we have pledged the underlying loans receivable to collateralize draws from two of the facilities, and government and agency securities to collateralize draws from the third facility. These particular secured loans payable were \$20.8 and \$12.5 million as of December 31, 2016 and 2015, respectively. Loans payable also included a mortgage note agreement entered into by Spyglass on October 30, 2015, whereby it borrowed \$13.4 million in conjunction with the settlement on the property

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acquired. This loan bears interest at a rate of 4.06%. Under the terms of the note, interest-only payments are due for the first two years. Beginning December 1, 2017, monthly principal and interest payments will commence and will continue until November 1, 2022, the note's maturity date at which time a final balloon payment of \$12.2 million is due. The loan is secured by a deed of trust, which constitutes a first lien on property held by Spyglass. Total interest cost under this note was \$0.1 million for the year ended December 31, 2015. As discussed in Note 1, Spyglass is no longer consolidated into these financial statements. Most of our other loans payable reflect borrowings which have been restricted by the lender for lending to various community development organizations. Some borrowings are further restricted for use in certain locations or in certain sectors and/or initiatives. Some of our loans payable may be utilized for working capital purposes. Additionally, certain of these loans payable contain covenants that require Loan Fund to provide reporting on a periodic basis and to meet and maintain specific financial ratios. As of December 31, 2016 and 2015, Loan Fund is in compliance with these covenants.

In addition, we had \$5.7 million and \$0 of loans payable related to loan participation agreements that did not meet the conditions for sale accounting treatment at December 31, 2016 and 2015, respectively. These loans payable were offset by loans receivable and represent no risk to Loan Fund (see Note 2).

The fixed rate mortgage payable bore interest at 7.875%, was secured by a deed of trust on the rental property and was due in installments through 2016. During 2016, the mortgage was fully repaid upon sale of the underlying rental property.

We have entered into various credit line agreements. The credit line agreements restrict the use of the borrowings to the acquisition or origination of multi-family and commercial mortgages and pre-development loans, and the funding of loans receivable for acquisition and predevelopment costs. Certain of our credit facilities also allow us to borrow on an unsecured basis for general purposes or letters of credit. The credit facilities in effect at December 31, 2016 have a total borrowing capacity of \$475.5 million and expire on dates ranging from February 2017 through May 2018. The credit facilities have interest rates varying from 2.6717% up to 7%. The credit facilities impose limitations on the borrowers. The most restrictive of these limits the level of debt that Investment may incur and requires Investment to maintain specified minimum levels of debt service coverage and net worth. These restrictions have not limited Investment's normal business activities. Credit line agreements with expiration dates subsequent to year end and before the issuance of these financial statements have either been extended at similar terms or repaid. We expect to extend the majority of the remaining credit line agreements at similar terms before their expiration dates.

Future contractual maturities of indebtedness are summarized as follows (\$ in thousands):

2017	\$	171,222
2018		34,011
2019		29,215
2020		30,364
2021		19,718
Thereafter		<u>50,642</u>
Total	\$	<u><u>335,172</u></u>

The debt due in 2017 consists primarily of borrowings related to loan facilities that are used to fund loans receivable and MLHS. We expect to make payments at or before the scheduled maturity dates of the related loans from proceeds from the collection of loans receivable and the sale of MLHS. We may

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also refinance existing loan facilities, borrow under other corporate credit facilities or use our operating cash to make the required payments.

Debt issuance costs, net of accumulated amortization, related to loans payable totaled approximately \$0.3 million for both years ended December 31, 2016 and 2015. Debt issuance costs net of accumulated amortization related to credit line agreements borrowings totaled approximately \$0.5 million and \$0.6 million as of December 31, 2016 and 2015, respectively.

Note 17 - Deferred revenue and other liabilities

Deferred revenue

Deferred revenue consists mainly of amounts we have recorded related to our asset management services or other obligations to be performed in future periods, or due to certain contingencies. In general, revenue deferrals with respect to the syndication fees consist of estimated costs expected to be incurred and paid by us in managing tax credit Investment Funds in which we own a 0.005% to 1.0% general partner or managing member ownership interest. Our exposure could be greater than the amount of revenue deferred. Such deferred revenue was \$14.1 million and \$19.1 million at December 31, 2016 and 2015, respectively. During 2016 and 2015, we were able to recognize significant cost reductions resulting from both our investment in technology over the past several years and from the implementation of process improvements. These cost reductions significantly reduced our estimated future costs for managing the Investment Funds, which is the primary driver of the decrease in our deferred revenue. During the years ended December 31, 2016 and 2015, we amortized \$1.1 million and \$1.7 million of syndication deferred revenue into asset management fees.

We provide asset management and other services to third parties with respect to affordable housing and commercial real estate in emerging and under-served communities. Some of these fees are prepaid by the third parties for services to be performed in the future, primarily related to services we provide in connection with NMTC transactions. In addition, there are deferrals of asset management and other fees that generally consist of various advisory services agreements. At December 31, 2016 and 2015, such deferred revenue totaled \$1.2 million and \$1.5 million, respectively.

Allowance for loan loss sharing

As a Fannie Mae DUS lender, Bellwether assumes responsibility for a portion of any loss that may result if borrowers default on loans it originated and serviced. Under a loss sharing formula with Fannie Mae, Bellwether is generally responsible for funding 100% of the mortgagor's delinquency up to the first 5% of the unpaid principal balance and a portion of any additional losses to a maximum of 20% of the original principal balance.

As a U.S. Department of Agriculture ("USDA") lender, Bellwether assumes a 10% risk position on loans originated in the Rural Housing Services Section 538 Guaranteed Rural Rental Housing Program. Bellwether is responsible for 10% of the loss in the event a borrower defaults on a loan.

In addition, there are other programs in which Bellwether assumes responsibility for a portion of loan losses.

Allowance for loan loss sharing under all programs was \$5.7 million and \$3.5 million at December 31, 2016 and 2015, respectively, and is included in deferred revenue and other liabilities in the consolidated statements of financial position. At December 31, 2016 and 2015, there were no reserves related to specific loans included in our allowance for loan loss sharing provision.

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Note 18 - Related party transactions

We provide syndication, asset management and other advisory services to Investment Funds in which we own an interest. These Investment Funds are investors in partnerships that own real estate projects. We are compensated for these services by the Investment Funds. For the years ended December 31, 2016 and 2015, we recorded revenue of \$61.3 million and \$51.4 million, respectively, for such services.

We also manage a \$60 million credit facility on behalf of select Investment Funds that are admitted as borrowers to the facility. Borrowings are secured by capital commitments payable from the investors in Investment Funds with repayments to come from investor capital contributions. We manage this facility on behalf of the Investment Funds but are not considered a borrower. As such, our assets are not provided as collateral for the facility and we do not provide a guarantee for repayment of borrowings. However, we have agreed to pay all interest and fees associated with this facility. The interest rate related to borrowings is LIBOR plus 2.20%. The credit facility is set to expire on December 14, 2017. Total outstanding borrowings under the facility were \$34.8 million and \$55.9 million as of December 31, 2016 and 2015, respectively. The total costs incurred by us for this facility totaled \$0.5 million for each of the years ended December 31, 2016 and 2015. These costs are included in general and administrative expenses in the accompanying consolidated statements of activities.

Note 19 - Restrictions and limitations on net assets

During the years ended December 31, 2016 and 2015, net assets released from temporary donor restrictions and the events and transactions which caused the restrictions to expire total \$23.2 million and \$19.0 million, respectively, for expenses incurred for donor specified purposes or expiration of time restrictions.

Temporarily restricted net assets at December 31 consist of the following (\$ in thousands):

	2016	2015
Gifts and other unexpended revenue restricted		
to specific programs or locations	\$ 80,665	\$ 49,016
Contributions receivable due in future periods, net	20,076	16,858
Contracts receivable	-	2,546
Total	<u>\$ 100,741</u>	<u>\$ 68,420</u>

As of December 31, 2016 and 2015, we had no permanently restricted net assets.

Note 20 - Pension and savings plans

We sponsor a qualified defined contribution plan available to substantially all our employees. This plan allows employees to make pre-tax contributions pursuant to Section 401(k) of the Internal Revenue Code. We match eligible participants' contributions, as defined, after one year of employment, based on a formula set forth in the plan and may make additional contributions, subject to certain limitations, at the discretion of the Board of Trustees. Participants are immediately vested in their contributions and matching contributions are vested over a three-year period. We made matching contributions of \$1.9 million and \$1.7 million during the years ended December 31, 2016 and 2015, respectively.

The plan also includes a defined contribution provision, whereby we contribute an amount equal to a percentage, as defined by the plan, of the gross compensation of each employee. These contributions

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vest over six years. After six years of service, all future contributions are automatically vested. Total expenses under this plan totaled \$2.7 million and \$2.3 million for the years ended December 31, 2016 and 2015, respectively.

We also have a nonqualified deferred compensation plan covering certain of Investment's employees. This plan provides for employer annual discretionary contributions. Covered employees were previously able to make pre-tax contributions of up to \$25,000 annually. Under this plan, contributions made prior to 2011 are not paid to the covered employees until their separation from Enterprise. Beginning in 2011, employer contributions now vest after three years and upon vesting, the employer contributions are paid to the covered employees. Such payments from plan assets to covered employees began in 2014. Additionally, employees are vested and paid immediately if they are at least 55 years old and have five years or more of service to Enterprise. Our expense under these plans was approximately \$1.2 million and \$1.0 million for the years ended December 31, 2016 and 2015, respectively.

Compensation deferrals and employer contributions are invested on behalf of the participants in various participant directed investment options. The investments amounted to \$5.2 million and \$5.6 million at December 31, 2016 and 2015, respectively, and are included in cash, cash equivalents and investments on the consolidated statements of financial position. Obligations to the plan participants at December 31, 2016 and 2015 totaled \$6.4 million and \$6.5 million, respectively, and are included in accounts payable and accrued expenses in the consolidated statements of financial position. The vested amounts of these obligations were \$4.1 million and \$4.3 million at December 31, 2016 and 2015, respectively.

Note 21 - Commitments and contingencies

Commitments and contingencies not reflected in the consolidated statement of financial position at December 31, 2016 are indicated below:

Net worth and liquidity requirements

As discussed in Note 1, Bellwether is an FHA Title II Non-Supervised Mortgagee, and as such, is required under this program to maintain adjusted net worth of \$2.5 million, of which no less than 20% must be liquid assets. At December 31, 2016, Bellwether met this requirement with an adjusted net worth of \$50.9 million.

As a GNMA issuer of mortgage-backed securities, the adjusted net worth required is \$1 million plus 1% of the outstanding principal balance of securities and commitment authority in excess of \$25 million up to \$175 million, plus 0.2% in excess of \$175 million, which equated to \$4.3 million at December 31, 2016. At December 31, 2016, Bellwether met this requirement with an adjusted net worth of \$50.9 million. The FHA program also requires liquid assets of 20% of the adjusted net worth. As of December 31, 2016, Bellwether had \$20.0 million of such assets available to meet the liquidity requirement.

Additionally, under the Fannie Mae DUS program, a subsidiary of Bellwether Enterprise Real Estate Capital, LLC is required to maintain acceptable net worth and liquidity. The subsidiary's net worth requirement at December 31, 2016, which is a function of its portfolio balance of \$1.7 billion, is \$13.8 million. At December 31, 2016, the subsidiary had adjusted net worth of \$34.6 million applicable to this requirement and therefore met the requirement. At December 31, 2016, the subsidiary's operational liquidity requirement was \$2.0 million and the restricted liquidity requirement was approximately \$4.5 million. The subsidiary had \$2.3 million and \$4.5 million of applicable assets to meet the operational and restricted liquidity requirements, respectively. The restricted liquidity requirement is calculated monthly by Fannie Mae's custodian, U.S. Bank, N.A., and is based upon current portfolio size and types

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of collateral. The requirement is classified as restricted cash, cash equivalents and investments on the accompanying consolidated statements of financial position.

The subsidiary of Bellwether is also required to meet minimum production volume goals on an annual basis per the DUS Agreement with Fannie Mae. A fee equal to 20 basis points multiplied by the shortfall in production will be assessed. As of December 31, 2016, the subsidiary assessed the current Fannie Mae production and concluded that no loss contingencies exist.

Bellwether is an approved seller/servicer under Freddie Mac's TAH program. Under this program, it is required to maintain acceptable net worth and liquidity. At December 31, 2016, Bellwether's required net worth was \$5.0 million and its required liquidity was \$0.5 million. At December 31, 2016, Bellwether met these requirements with net worth of \$70.9 million and liquid assets totaling \$20.0 million.

Grants and contracts

At December 31, 2016, we had commitments under grants and contracts from federal and various state governments of \$47 million. This amount will be received through 2020 as we provide services under the terms of the grants and contracts.

Loans

At December 31, 2016, we have commitments to fund loans to various community development organizations of approximately \$109 million. We also have additional commitments for debt to assist in funding these loans of approximately \$97 million. Our loans may also be partially funded with unrestricted net assets.

Minimum equity requirement

Pursuant to certain partnership agreements of entities managed by us, we are required to maintain a minimum equity amount that is generally stated as a fixed amount or a percentage of the investment partnership's invested equity. This requirement is less restrictive than a similar requirement in our credit facilities (see Note 16) and has not limited our ability to conduct our business.

Loan origination commitments

Commitments for the origination and subsequent sale and delivery of loans to an investor or agency represent those mortgage loan transactions where the borrower has locked an interest rate and scheduled closing and we have entered into a mandatory deliver commitment to sell the loan to an investor or agency. As of December 31, 2016, we have entered into commitments to originate loans totaling \$279.0 million and commitments to sell loans of \$402.2 million, \$123.2 million of which is included in MLHS on the accompanying consolidated statement of financial position. As discussed in Note 2, we account for these commitments as derivatives recorded at fair value.

Escrow accounts

The servicing of mortgage loans includes collection of loan and escrow payments from commercial mortgagors, deposit of these collections into restricted trust accounts, periodic remittance of principal and interest to investors, payment of property taxes and insurance premiums, and periodic inspection of certain properties. As of December 31, 2016, we held fiduciary funds of \$336.4 million representing undisbursed collections from mortgagors. These trust funds and the corresponding fiduciary trust liability are not included in the accompanying consolidated financial statements, as they do not represent assets or liabilities of the Company.

We hold, on behalf of prospective borrowers, various amounts in escrow at the time of loan placement until the disbursement of loan proceeds. Upon funding of the loan, these escrow amounts are fully refundable to the borrower. As of December 31, 2016, deposits and escrows totaled \$6.1 million.

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During 2016, we held funds in an agency capacity through custodial accounts for a participation program. The cash and corresponding liability of \$11.6 million at December 31, 2016 is not reflected in the accompanying consolidated financial statements.

Office leases

We, as a lessee, have entered into operating leases, primarily for office space, expiring at various dates through 2028. Rent expense was \$6.4 million and \$6.2 million for the years ended December 31, 2016 and 2015, respectively.

Annual minimum rent payments due under operating leases in effect at December 31, 2016 are as follows (\$ in thousands):

2017	\$	6,369
2018		6,123
2019		5,885
2020		4,865
2021		5,252
Thereafter		<u>15,519</u>
Total	\$	<u><u>44,013</u></u>

New markets tax credits

The NMTCs are contingent on our ability to maintain compliance with various rules and regulations of the CDFI Fund and applicable sections of Section 45D of the Internal Revenue Code. Failure to maintain compliance could result in recapture of previously taken NMTCs and the loss of future NMTCs.

Litigation

In the ordinary course of business, we may be involved in a number of lawsuits, claims and assessments. In the opinion of management the result of any such claims will not have a material impact on our consolidated financial statements.

Government contracting

We recognize revenue from grants and contracts from government agencies based on actual costs incurred and reimbursable expenses from the granting agencies. These costs are subject to audit by the Office of the Inspector General, and ultimate realization of revenue recognized is contingent upon the outcome of such audits. In our opinion, adequate provisions have been made on the accompanying consolidated financial statements for adjustments, if any, which may result from an audit.

Joint venture arrangement

We entered into a joint venture arrangement with three other not-for-profit organizations to provide services to stabilize distressed residential mortgage loans. The joint venture has borrowed monies from housing agencies to provide the program services. We believed that the obligation to repay these loans was an obligation of the joint venture and not recourse to the members, which was challenged by a housing agency. During 2016, we received a letter from the housing agency stating that they will not seek repayment for any of the funds given to the joint venture. This resulted in us reversing a previously recorded \$1.3 million loss contingency. The reversal of this loss contingency is included as a reduction in program activities in the consolidated statements of activities.

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Matching requirements

We were awarded various four-year Capacity Building grants by HUD. These awards require us to either directly provide qualified matching program services and costs or obtain the matching program services and costs from third parties on a 3:1 basis within four years of the award date on amounts expended, which could be less than the award amount. Should we not achieve the committed 3:1 matching requirement from third parties, we would be required to provide the matching program services or accept alternative corrective action.

The awards, outstanding at any time during 2016, the related matching commitments, amounts expended and matching program services and costs achieved as of December 31, 2016 are summarized as follows (\$ in thousands):

Capacity Building Grant	Award Year	Award Amount	Required Matching Commitments	Amount Expended	Matching Commitment Achieved
CB 15	2011	\$ 19,728	\$ 59,183	\$ 19,728	\$ 59,183
CB 16	2012	15,649	46,948	15,649	46,948
CB 17	2013	14,512	43,535	13,000	39,000
CB 18	2014	15,888	47,665	10,845	32,534
CB 19	2015	14,635	43,904	847	2,542
CB 20	2016	14,265	42,794	-	-

Note 22 - Guarantee obligations

We enter into certain guarantees in the ordinary course of business. The guarantees and obligations are described below.

We provide construction completion, operating deficit and/or tax credit guarantees to investors related to our performance under various development agreements. The maximum future payments we could be required to pay under these guarantees range from a fixed amount to unlimited based on the nature of the guarantee. However, in management's judgment, there are several factors that reduce or limit loss exposure, including requiring general contractors to post construction completion bonds. After considering our risk management strategies, we have determined that our risks are not significant with respect to these guarantees.

We have letters of credit relating to certain partnerships for which we provide syndication and/or development services, including \$2.3 million and \$3.9 million issued through one of our credit facilities at December 31, 2016 and 2015, respectively. The estimated maximum exposure to loss under these guarantees is \$2.9 million and \$4.6 million at December 31, 2016 and 2015, respectively, and management believes that there is sufficient collateral from partnership assets to support these instruments and, therefore, no risk of loss has been recognized in these consolidated financial statements. In addition, we have \$0.2 million \$0.4 million in restricted assets that serve as collateral on these letters of credit as of December 31, 2016 and 2015, respectively (see Note 3).

Beginning in 2015, we also provide guarantees to Ohio Housing Finance Agency ("OHFA") related to certain LIHTC projects which have received a Housing Development Loan ("HDL") from OHFA. The intent of the HDLs is to bridge a portion of the investor equity that would typically be paid during construction or at completion over a 10-year period in order to increase the value of the LIHTCs. Our guaranty serves as collateral for the loan's repayment to OHFA. The guaranty is in the amount of the

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outstanding principal and interest on the HDL, and remains in place until the HDL is fully repaid. As payments are made over the term of the HDL, the guaranty is effectively reduced by the amount of the payments. The estimated maximum exposure to loss under these guarantees is \$1.1 million at December 31, 2016 and 2015. As the source of repayment for the HDL is investor capital contributions which are deemed to be highly probable based on history and the financial health of the investors, we have determined that our risk is not significant, and as such, no related liability has been recorded.

Note 23 - Risks and uncertainties

Our cash and cash equivalents are primarily invested in checking accounts, money market accounts and certificates of deposit with carefully selected financial institutions. While at times, deposits may exceed federally insured limits, we have not experienced any losses with respect to our cash and cash equivalents balances. Accordingly, we do not believe that we are exposed to significant credit risk with respect to cash and cash equivalents.

Our invested assets consist of commercial paper, corporate and U.S. agency obligations and notes, and diversified funds which invest in fixed income securities, equities and alternative investments. Investment policy and guidelines are established by our investment committee of the board of trustees and approved by the applicable boards. These investments are exposed to various risks, such as interest rate, market and credit. Due to the level of uncertainty related to changes in interest rates, market volatility and credit risks, it is at least reasonably possible that changes in these risks could materially affect the fair value of investments reported in the consolidated statement of financial position as of December 31, 2016. The investment policy and guidelines consider liquidity and risks for each entity and each pool of assets and attempt to diversify asset classes to mitigate risks over the applicable time horizons.

Note 24 - Fair value measurements

Fair value of assets or liabilities measured on a recurring basis is determined based on the price we would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. In the absence of active markets for the identical assets or liabilities, such measurements involve developing assumptions based on market observable data and, in the absence of such data, internal information that is consistent with what market participants would use in a hypothetical transaction that occurs at the measurement date.

Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. Preference is given to observable inputs. These two types of inputs create the following fair value hierarchy:

Level 1 - Quoted prices for identical instruments in active markets.

Level 2 - Quoted market prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 - Significant inputs to the valuation model are unobservable.

We maintain policies and procedures to value instruments using the best and most relevant data available. Additionally, we routinely perform various risk assessments that review valuation, including independent price validation for certain instruments. Further, in other instances, we retain independent

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pricing vendors to assist in valuing certain instruments. The following table presents the fair value of assets and liabilities measured on a recurring basis at December 31 (\$ in thousands):

December 31, 2016	Level 1	Level 2	Level 3	Net balance
Assets:				
Investments in marketable securities	\$ 43,695	\$ -	\$ -	\$ 43,695
Mortgage loans held for sale	-	126,867	-	126,867
Derivative assets	-	-	17,800	17,800
Alternative investments	-	-	586	586
Total	\$ 43,695	\$ 126,867	\$ 18,386	\$ 188,948
Liabilities:				
Derivative liabilities	\$ -	\$ -	\$ 9,840	\$ 9,840
Total	\$ -	\$ -	\$ 9,840	\$ 9,840
December 31, 2015	Level 1	Level 2	Level 3	Net balance
Assets:				
Investments in marketable securities	\$ 49,939	\$ -	\$ -	\$ 49,939
Mortgage loans held for sale	-	119,762	-	119,762
Derivative assets	-	-	10,031	10,031
Alternative investments	-	-	438	438
Total	\$ 49,939	\$ 119,762	\$ 10,469	\$ 180,170
Liabilities:				
Derivative liabilities	\$ -	\$ -	\$ 6,289	\$ 6,289
Total	\$ -	\$ -	\$ 6,289	\$ 6,289

Investments in marketable securities can consist of U.S. Government agency obligations, fixed income securities and corporate and foreign securities. Marketable securities are carried at fair value based on quoted prices. MLHS are measured using current purchase commitments from investors, plus the value of mortgage servicing obtained by us, to approximate the fair value of a whole loan. These loans were sold subsequent to December 31, 2016 and 2015, respectively, for amounts that approximated their fair values less the value of the mortgage servicing rights obtained by us. Derivative instruments consist of interest rate lock commitments and forward sale agreements. These instruments are valued using a discounted cash flow model based on changes in the U.S. Treasury rate and other observable market data for similar instruments. Alternative investments consist primarily of investments in limited partnerships. These investments are carried at fair value, which is the quarterly net asset value made available by the fund manager or administrator prior to the valuation date.

There were no transfers between any levels of the fair value hierarchy during 2016 or 2015.

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A summary of the changes in fair value of derivative assets and liabilities can be found in Note 9. The following table provides a summary of changes in fair value of alternative investments, as well as the portion of gains or losses included in income attributable to realized and unrealized gains or losses that related to those assets held at December 31 (\$ in thousands):

	January 1, 2016	Realized/ unrealized gains (losses) included in earnings	Purchases, issuances and settlements	Transfers in and/or out of Level 3	December 31, 2016
Assets:					
Alternative investments	\$ 438	\$ 5	\$ 143	\$ -	\$ 586
Total	<u>\$ 438</u>	<u>\$ 5</u>	<u>\$ 143</u>	<u>\$ -</u>	<u>\$ 586</u>
	January 1, 2015	Realized/ unrealized gains (losses) included in earnings	Purchases, issuances and settlements	Transfers in and/or out of Level 3	December 31, 2015
Assets:					
Alternative investments	\$ 237	\$ 1	\$ 200	\$ -	\$ 438
Total	<u>\$ 237</u>	<u>\$ 1</u>	<u>\$ 200</u>	<u>\$ -</u>	<u>\$ 438</u>

With respect to our derivative assets and liabilities, significant increases (decreases) in counterparty credit risk may lead to significantly lower (higher) fair value measurements. Given the credit quality of our counterparties, the short duration between funding the loan to the borrower and subsequent sale of the loan to the investor, and our historical experience with the agreements, the risk of nonperformance by our counterparties is not considered to be significant.

Nonrecurring fair value measurements

We evaluate mortgage servicing rights and obligations, property and equipment, our investments in unconsolidated partnerships and homebuilding inventory annually for impairment. We estimate the fair value of mortgage servicing rights and obligations as described in Note 13. We estimate the fair value of investments in unconsolidated partnerships using market yields to investors as of the measurement date. These valuations represent Level 3 fair value measurements due to significant unobservable inputs. We recognize impairment to the extent transferring the unconsolidated partnerships to the investment partnership will result in a loss to us. As discussed in Note 11, an impairment loss of \$8.1 million was recorded against investments in unconsolidated partnerships and program activities during the year ended December 31, 2016. In addition, we determined our projected cash flows are insufficient to recover the carrying value of certain property and equipment. As discussed in Note 2, an impairment loss of \$0.9 million was recorded against property and equipment during the year ended December 31, 2016. No impairment losses were recognized during the year ended December 31, 2015.

Note 25 - Subsequent events

Events that occur after the consolidated statement of financial position date but before the consolidated financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the consolidated statement of financial position date are recognized in the accompanying consolidated financial statements. Subsequent events which provide evidence about conditions that existed after the consolidated statement of financial position date require disclosure in the accompanying notes. We

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

**Notes to Consolidated Financial Statements
December 31, 2016 and 2015**

evaluated our activity through September 29, 2017 (the date the consolidated financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the consolidated financial statements or disclosure in the notes to the consolidated financial statements, except as noted below.

As discussed in note 11, on August 1, 2017, we closed on the acquisition of a portfolio of 43 affordable housing properties located in the mid-Atlantic region. Additionally, subsequent to year-end, we sold our interest in two affordable housing operating properties located in Maryland and as a result, realized income of \$5.5 million.

Supplementary Information

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

**Schedule of Indirect Costs
Year Ended December 31, 2016**

FRINGE BENEFIT RATE

Fringe benefits		\$	7,052,114
Total labor			<u>17,363,975</u>
Fringe benefit rate			<u><u>40.6%</u></u>

OVERHEAD RATE

Numerator:			
Program overhead salaries	\$	2,004,662	
Program overhead fringe		814,163	
Overhead - other costs		<u>3,370,565</u>	
Total			\$ 6,189,390
Denominator:			
Direct labor		9,376,516	
Fringe benefits on direct labor		<u>3,808,129</u>	
Total			<u>13,184,645</u>
Overhead rate			<u><u>46.9%</u></u>

GENERAL AND ADMINISTRATIVE RATE

Numerator:			
General and administrative - other		<u>6,272,076</u>	
Total			\$ 6,272,076
Denominator:			
Modified total direct costs and overhead			<u>29,560,019</u>
General and administrative rate			<u><u>21.2%</u></u>

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

Schedule of Expenditure of Federal Awards Year Ended December 31, 2016

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number/Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Department of Housing and Urban Development				
(HUD) Pass-through				
Community Challenge Planning Grants and Department of Transportation TIGER II Planning Grants (SSMMA)	14.704	M-SSMMA412-214Loans		\$ 1,500,000
				<u>1,500,000</u>
Total HUD Pass-through Programs				<u>1,500,000</u>
HUD - Direct				
American Recovery and Reinvestment Act of 2009 (ARRA)				
Neighborhood Stabilization Program-Technical Assistance	14.256			169,546
Total ARRA: HUD-Direct				<u>169,546</u>
Section 4 Capacity Building for Community Development and Affordable Housing	14.252		\$ 9,897,333	16,265,591
Community Compass Technical Assistance and Capacity Building	14.259			2,396,810
Strong Cities Strong Communities (SC2) National Resource Network	14.534			2,773,102
<i>CDBG - Disaster Recovery Grants - Pub. L. No. 113-2 Cluster</i>				
National Disaster Resilience Competition - <i>Total CDBG - Disaster Recovery</i> <i>Grants - Pub. L. No. 113-2 Cluster</i>	14.272			37,397
Total HUD-Direct Programs			<u>9,897,333</u>	<u>21,642,446</u>
Total HUD Programs			<u>9,897,333</u>	<u>23,142,446</u>
Department of Treasury				
Volunteer Income Tax Assistance (VITA) Matching Grant Program	21.009			125,526
<i>CDFI Cluster</i>				
Community Development Financial Institutions Fund Program - <i>Total CDFI Cluster</i>	21.020			5,653,000
Bond Guarantee Program	21.014			17,141,670
Total Department of Treasury Programs				<u>22,920,196</u>
Department of Health and Human Services				
Administration for Children and Families				
<i>TANF Cluster</i>				
Temporary Assistance for Needy Families - <i>Total TANF Cluster</i>	93.558			346,987
Total Department of Health and Human Services Administration for Children and Families Program				<u>346,987</u>
Department of Energy				
State Energy Program (ARRA)	81.041			200,000
Total Department of Energy Program				<u>200,000</u>
Department of Agriculture				
Rural Rental Housing Loans	10.415			663,153
Rural Community Development Initiative Grant	10.446			22,413
Total Department of Agriculture Programs				<u>685,566</u>
Corporation for National and Community Service				
Social Innovation Fund Pay for Success	94.024			128,152
Volunteers in Service to America	94.013			7,021
Total Corporation for National and Community Service Programs				<u>135,173</u>
Department of Transportation Federal Transit Administration				
Public Transportation Research, Technical Assistance, and Training	20.514			168,217
Total Department of Transportation Federal Transit Administration Programs				<u>168,217</u>
Total All Programs			<u>\$ 9,897,333</u>	<u>\$ 47,598,585</u>

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

Notes to Expenditure of Federal Awards December 31, 2016

Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates, under programs of the federal government for the year ended December 31, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates. The financial statements of certain subsidiaries and affiliates included in the consolidated financial statements were not audited in accordance with *Government Audit Standards* as they are not subject to the requirements under the Uniform Guidance.

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, as applicable, the cost principles contained in OMB Circular A-122, "Cost Principles for Non-Profit Organizations" or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates operates under an Indirect Cost Rate Agreement that is approved by the U.S. Department of Housing and Urban Development.

Note 3 - Federal loan programs

The loan programs listed subsequently are administered directly by Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates, and the balances and transactions related to these programs are included in Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates' basic consolidated financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at December 31, 2016 consists of:

CFDA Number	Program Name	Outstanding Balance at December 31, 2016
10.415	Preservation Revolving Loan Fund	\$ 639,897
14.704	SSMMA Loans	1,000,000
21.014	Bond Guarantee Program	17,141,670
81.041	State Energy Program (ARRA)	200,000

Independent Auditor's 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*

To the Board of Trustees
Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

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 Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates, which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities, changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 29, 2017. The financial statements of certain subsidiaries and affiliates were not audited in accordance with *Government Auditing Standards* and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with these subsidiaries and affiliates.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates' internal control over financial reporting ("internal control") to determine the 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 Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates' internal control. Accordingly, we do not express an opinion on the effectiveness of the Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates' 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 a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2017-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates' 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 determination of consolidated financial statement amounts. 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*.

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates' Response to the Finding

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates' response was not subjected to the auditing procedures applied in the audit of the consolidated 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 Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "CohnReznick LLP". The signature is written in a cursive, flowing style.

Bethesda, Maryland
September 29, 2017

Independent Auditor's Report on Compliance for Each Major Federal Program
and on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Trustees
Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

Report on Compliance for Each Major Federal Program

We have audited Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates' major federal programs for the year ended December 31, 2016. Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates' major federal programs 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 Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates' 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 each major federal program. However, our audit does not provide a legal determination of Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates' compliance.

Opinion on Each Major Federal Program

In our opinion, Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

Report on Internal Control over Compliance

Management of Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates 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 Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates' 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 Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates' 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.

A handwritten signature in black ink that reads "CohnReznick LLP". The signature is written in a cursive, flowing style.

Bethesda, Maryland
September 29, 2017

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

Schedule of Findings and Questioned Costs December 31, 2016

A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on whether the consolidated financial statements of Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates were prepared in accordance with generally accepted accounting principles.
2. No material weaknesses related to the audit of the consolidated financial statements were reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. A significant deficiency was reported.
3. No instances of noncompliance material to the consolidated financial statements of Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No material weaknesses in internal control over major federal award programs were disclosed during the audit and reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance required by the Uniform Guidance. No significant deficiencies were reported.
5. The auditor's report on compliance for the major federal award programs for Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates expresses an unmodified opinion on all major federal programs.
6. There are no audit findings required to be reported in accordance with 2 CFR Section 200.516(a) in this Schedule.
7. The programs tested as major programs were:

U.S. Department of Housing and Urban Development - Community Challenge Planning Grants and Department of Transportation TIGER II Planning Grants - 14.704

U.S. Department of Treasury - Bond Guarantee Program - 21.014
8. The threshold for distinguishing between Type A and Type B programs was: \$1,427,957
9. Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates was determined to be a low-risk auditee.

B. Findings - Financial Statement Audit

Finding 2017-001

Criteria: Internal controls should be in place to ensure that modifications to originally reported amounts of time and effort are properly authorized to provide reasonable assurance that the consolidated financial statements are free of material misstatement.

Condition: Modifications to originally reported amounts of time and effort are possible without appropriate authorization.

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

**Schedule of Findings and Questioned Costs
December 31, 2016**

Cause: A deficiency in the design and implementation of internal controls surrounding the review and approval of reported amounts of time and effort did not allow management, in the normal course of performing their assigned functions, to effectively monitor that modifications to originally reported amounts of time and effort were appropriately authorized and reallocated to certain programmatic activities administered by the organization.

Effect: Because of the deficiency in the design and implementation of internal controls surrounding the review and approval of modifications to originally reported amounts of time and effort, modified amounts of time and effort were inappropriately reallocated to certain programmatic activities administered by the organization.

Recommendation: We recommend management evaluate the design and implementation of its internal controls surrounding the review and approval of modifications to originally reported amounts of time and effort to ensure that modified amounts of time and effort are charged to the appropriate programmatic activities.

View of Responsible Officials and Planned Corrective Actions: We agree that the internal controls surrounding our time and effort collection and reporting did not facilitate the effective monitoring, review and authorization of modifications to time and effort. Although the magnitude of the error was immaterial to our financial statements and programmatic activities, we performed a review of our internal controls and implemented enhanced processes and procedures. These enhancements included strengthening our overall policies and procedures to reinforce best practices, and implementing improvements to the monitoring of time entry and adjustments at multiple levels. In addition, we are in the process of implementing a new timekeeping system that further enhances the reporting and monitoring of reported effort against planned effort. Additional training has also been conducted and will be conducted annually to reinforce proper procedures and best practices.

C. Findings and Questioned Costs - Major Federal Awards Programs Audit - None



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CORRECTIVE ACTION PLAN
September 29, 2017

Enterprise Community Partners, Inc. respectfully submits the following corrective action plan for the year ended December 31, 2016.

CohnReznick LLP
7501 Wisconsin Avenue
Suite 400E
Bethesda, MD 20814

Audit Period: December 31, 2016

The finding from the December 31, 2016 schedule of findings and questioned costs is discussed below. The finding is numbered consistently with the numbers assigned in the schedule.

FINDING – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCY

2016-001

Recommendation

We recommend management evaluate the design and implementation of its internal controls surrounding the review and approval of modifications to originally reported amounts of time and effort to ensure that modified amounts of time and effort are charged to the appropriate programmatic activities.

Action Taken

We agree that the internal controls surrounding our time and effort collection and reporting did not facilitate the effective monitoring, review and authorization of modifications to time and effort. Although the magnitude of the error was immaterial to our financial statements and programmatic activities, we performed a review of our internal controls and implemented enhanced processes and procedures. These enhancements included strengthening our overall policies and procedures to reinforce best practices, and implementing improvements to the monitoring of time entry and adjustments at multiple levels. In addition, we are in the process of implementing a new timekeeping system that further enhances the reporting and monitoring of reported effort against planned effort. Additional training has also been conducted and will be conducted annually to reinforce proper procedures and best practices.

These actions are anticipated to be implemented effective January 1, 2018.

Should there be any questions regarding this plan, please call Sally Hebner at 410.772.2683.

Sincerely yours,

A handwritten signature in blue ink that reads "Sally Hebner".

Sally Hebner
Chief Financial Officer