

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

**Consolidated Financial Statements
(With Supplementary Information)
and Independent Auditor's Report**

December 31, 2017 and 2016

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

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Independent Auditor's Report

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, 2017 and 2016, 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 consolidated financial position of Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates as of December 31, 2017 and 2016, and the changes in their consolidated net assets and their consolidated cash flow 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 June 4, 2018 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates' 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 cursive script that reads "CohnReznick LLP".

Bethesda, Maryland
June 4, 2018

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

**Consolidated Statements of Financial Position
December 31, 2017 and 2016**

(\$ in thousands)

	<u>Assets</u>	
	2017	2016
Cash, cash equivalents and investments	\$ 64,394	\$ 96,395
Restricted cash, cash equivalents and investments	127,332	115,111
Contributions receivable, net	17,568	20,076
Accounts and other receivables, net	99,404	109,009
Loans receivable, net	169,538	148,290
Mortgage loans held for sale	255,428	126,867
Derivative assets	8,460	17,800
Homebuilding inventory	1,310	1,841
Investments in unconsolidated partnerships	141,843	93,049
Other assets, net	15,166	18,284
Deferred tax assets, net	1,485	5,421
Mortgage servicing rights, net	56,999	41,847
Property and equipment, net	19,188	17,499
Goodwill	9,543	9,543
Total assets	\$ 987,658	\$ 821,032
	<u>Liabilities and Net Assets</u>	
Liabilities		
Accounts payable and accrued expenses	\$ 56,889	\$ 49,390
Capital contributions payable	102,413	81,713
Funds held for others	29,753	13,119
Derivative liabilities	3,521	9,840
Indebtedness	439,746	334,406
Losses in excess of investments in unconsolidated partnerships	2,651	4,244
Mortgage servicing obligations, net	73	67
Deferred revenue and other liabilities	22,044	22,172
Total liabilities	657,090	514,951
Commitments and contingencies	-	-
Net assets		
Unrestricted, controlling interest	209,237	175,750
Unrestricted, noncontrolling interest	36,586	29,590
Temporarily restricted	84,745	100,741
Total net assets	330,568	306,081
Total liabilities and net assets	\$ 987,658	\$ 821,032

See Notes to Consolidated Financial Statements.

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

**Consolidated Statements of Activities
Years Ended December 31, 2017 and 2016**

(\$ in thousands)

	2017			2016		
	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total
Revenue and support						
Gains from mortgage banking activities	\$ 81,323	\$ -	\$ 81,323	\$ 72,210	\$ -	\$ 72,210
Syndication and consulting fees	44,817	-	44,817	39,077	-	39,077
Grants and contracts	20,209	2,507	22,716	25,544	3,300	28,844
Asset management fees	22,021	-	22,021	21,899	-	21,899
Contributions	741	19,002	19,743	1,578	51,032	52,610
Interest income	17,754	-	17,754	15,924	-	15,924
Loan servicing fees	10,978	-	10,978	6,398	-	6,398
Property management fees	4,105	-	4,105	-	-	-
Development and construction management fees	4,074	-	4,074	3,884	-	3,884
Sales of real estate	2,648	-	2,648	4,340	-	4,340
Investment income	651	418	1,069	561	341	902
Other revenue	23,010	-	23,010	14,473	-	14,473
	<u>232,331</u>	<u>21,927</u>	<u>254,258</u>	<u>205,888</u>	<u>54,673</u>	<u>260,561</u>
Net assets released from restrictions	<u>40,349</u>	<u>(40,349)</u>	<u>-</u>	<u>23,194</u>	<u>(23,194)</u>	<u>-</u>
Total revenue and support	<u>272,680</u>	<u>(18,422)</u>	<u>254,258</u>	<u>229,082</u>	<u>31,479</u>	<u>260,561</u>
Expenses						
Program activities	200,288	-	200,288	180,713	-	180,713
General and administrative	12,035	-	12,035	13,064	-	13,064
Interest	8,946	-	8,946	7,897	-	7,897
Fundraising	5,038	-	5,038	4,913	-	4,913
Cost of real estate sold	2,304	-	2,304	4,188	-	4,188
Operating properties activities	-	-	-	104	-	104
Income tax expense	4,062	-	4,062	3,310	-	3,310
Total expenses	<u>232,673</u>	<u>-</u>	<u>232,673</u>	<u>214,189</u>	<u>-</u>	<u>214,189</u>
Net realized and unrealized gain on investments	491	2,426	2,917	419	842	1,261
Equity in net income (loss) from unconsolidated partnerships	<u>1,403</u>	<u>-</u>	<u>1,403</u>	<u>(365)</u>	<u>-</u>	<u>(365)</u>
Change in net assets	41,901	(15,996)	25,905	14,947	32,321	47,268
Change in net assets, noncontrolling interest	<u>(8,807)</u>	<u>-</u>	<u>(8,807)</u>	<u>(9,418)</u>	<u>-</u>	<u>(9,418)</u>
Change in net assets, controlling interest	<u>\$ 33,094</u>	<u>\$ (15,996)</u>	<u>\$ 17,098</u>	<u>\$ 5,529</u>	<u>\$ 32,321</u>	<u>\$ 37,850</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, 2017 and 2016**

(\$ in thousands)

	Unrestricted			Temporarily restricted	Consolidated net assets
	Controlling	Noncontrolling	Total		
Balance, December 31, 2015	\$ 170,221	\$ 26,365	\$ 196,586	\$ 68,420	\$ 265,006
Contributions	-	2,516	2,516	-	2,516
Distributions	-	(4,960)	(4,960)	-	(4,960)
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>32,321</u>	<u>47,268</u>
Balance, December 31, 2016	175,750	29,590	205,340	100,741	306,081
Contributions	-	7,153	7,153	-	7,153
Distributions	-	(5,405)	(5,405)	-	(5,405)
Redemption of noncontrolling member's interest	-	(3,166)	(3,166)	-	(3,166)
Reallocation of interests to reflect ownership share	393	(393)	-	-	-
Change in net assets	<u>33,094</u>	<u>8,807</u>	<u>41,901</u>	<u>(15,996)</u>	<u>25,905</u>
Balance, December 31, 2017	<u>\$ 209,237</u>	<u>\$ 36,586</u>	<u>\$ 245,823</u>	<u>\$ 84,745</u>	<u>\$ 330,568</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, 2017 and 2016

(\$ in thousands)

	2017	2016
Cash flows from operating activities		
Changes in net assets	\$ 25,905	\$ 47,268
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization expense	6,507	7,020
Amortization of debt issuance costs	480	561
Deferred tax expense	3,936	3,026
Contribution income upon acquisition of EHC	-	(9,307)
Gain upon sale of investments in unconsolidated partnerships	(8,086)	-
Equity in net (income) loss from unconsolidated partnerships	(1,403)	365
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	(5,259)	628
Impairment of property and equipment, net	-	864
Impairment of investments in unconsolidated partnerships	1,268	8,081
Net realized and unrealized gain on investments	(2,917)	(1,261)
Trading gains on mortgage loans held for sale	(3,185)	(947)
Origination of mortgage servicing rights	(22,279)	(18,881)
Amortization of mortgage servicing rights	9,552	7,435
Changes in operating assets and liabilities:		
Decrease (increase) in contributions receivable	2,508	(3,218)
(Increase) decrease in accounts and other receivables	(28,093)	13,606
Increase in mortgage loans held for sale	(127,795)	(5,974)
Decrease (increase) in derivative assets	9,340	(7,769)
Decrease in homebuilding inventory	531	900
Increase in investments in unconsolidated partnerships	(1,119)	(13,610)
Decrease (increase) in other assets	2,082	(6,040)
Increase (decrease) in accounts payable, accrued expenses, and other liabilities	1,908	(241)
Increase in funds held for others	16,634	1,962
(Decrease) increase in derivative liabilities	(6,319)	3,551
Net cash (used in) provided by operating activities	(125,804)	28,068
Cash flows from investing activities		
Advances on loans receivable	(67,008)	(106,261)
Repayments of loans receivable	44,141	75,085
Advances on notes receivable	-	(7,324)
Repayments of notes receivable	918	14,003
Net (purchases) proceeds from sales of investments	(25,420)	4,183
Purchases of property and equipment	(7,213)	(5,896)
Purchase of limited partner interests in unconsolidated partnerships	(8,903)	(692)
Cash acquired from EHC upon gaining control	-	3,805
Net cash acquired from purchase of partnership	1,272	-
Proceeds from sale of investments in unconsolidated partnerships	5,517	-
Cash transferred out upon deconsolidation of Spyglass	-	(1,498)
Cash transferred out upon deconsolidation of NGF	(1,580)	-
Cash proceeds from sale of real estate held for sale	-	3,299
Capital contributions to unconsolidated partnerships	(16,173)	(699)
Distributions from investments in unconsolidated partnerships	1,204	340
Net cash used in investing activities	(73,245)	(21,655)

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

(\$ in thousands)

	2017	2016
Cash flows from financing activities		
Proceeds from indebtedness	200,977	78,319
Indebtedness repayments	(41,210)	(62,096)
Payment of debt issuance costs	(571)	(461)
Contributions from noncontrolling interest holders	7,153	2,516
Distributions to noncontrolling interest holders	(5,405)	(4,960)
	<u>160,944</u>	<u>13,318</u>
Net cash provided by financing activities		
	<u>160,944</u>	<u>13,318</u>
Net (decrease) increase in cash and cash equivalents	(38,105)	19,731
Cash and cash equivalents, beginning of year	<u>163,827</u>	<u>144,096</u>
Cash and cash equivalents, end of year	<u>\$ 125,722</u>	<u>\$ 163,827</u>
Supplementary disclosure of cash flow information:		
Cash paid for interest during the year, net of amounts capitalized	<u>\$ 8,740</u>	<u>\$ 7,108</u>
Income taxes paid, net	<u>\$ 288</u>	<u>\$ 228</u>
Supplementary disclosure of significant noncash investing and financing activities:		
Commitments to make capital contributions to unconsolidated partnerships	<u>\$ 78,719</u>	<u>\$ 81,713</u>
Transfers of investments in unconsolidated partnerships	<u>\$ 58,127</u>	<u>\$ 15,658</u>
Noncontrolling member's interest was decreased and accounts payable and accrued expenses were increased for redemption of member's interest	<u>\$ 3,166</u>	<u>\$ -</u>
Disposal of fully depreciated property and equipment	<u>\$ 2,122</u>	<u>\$ 496</u>
Fully reserved loans and notes receivable written off	<u>\$ 759</u>	<u>\$ 27</u>
Transfer of net assets upon deconsolidation of Spyglass	<u>\$ -</u>	<u>\$ 3,749</u>

See Notes to Consolidated Financial Statements.

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

Notes to Consolidated Financial Statements December 31, 2017 and 2016

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"), and 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") requires 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 homebuilding inventory, estimation of the cost of home sales, valuation of mortgage loans held for sale ("MLHS"), derivative assets, deferred revenue and liabilities and mortgage servicing rights ("MSRs"), assessing useful lives of property and equipment, 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, determining the functional allocation of expenses, 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 organization. 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

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Notes to Consolidated Financial Statements December 31, 2017 and 2016

products to affordable residential and commercial projects, provides development and management expertise relating to the construction of affordable housing projects, and provides property management services to affordable housing projects.

Through December 31, 2016, Loan Fund was a 509(a)(3) supporting organization to Partners. As of December 31, 2017, Loan Fund qualifies on its own as a 509(a)(2) organization. Loan Fund is also a community development financial institution ("CDFI"). Loan Fund 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. In addition, Bellwether is a full Delegated Underwriting and Servicing ("DUS") Lender in the Federal National Mortgage Association ("Fannie Mae") program. Bellwether and its subsidiaries are required to maintain financial eligibility and adhere to financial reporting requirements under these programs (see Note 21). As of December 31, 2017 and 2016, our controlling ownership interest in Bellwether was 57.37% and 58.25%, respectively.

On August 1, 2017, we acquired ownership interests in a portfolio of 43 affordable housing properties located in the mid-Atlantic region. We hold direct general partner interests in 25 of the projects while our ownership interest in the remaining 18 projects is held indirectly through a newly created investment fund, The Enterprise Homes Preservation Fund, LLC ("EHPF"), in which we own a 29.6% managing member interest. In conjunction with the acquisition of this portfolio of projects, we also acquired rights to the property management contracts for each project, and in turn, formed R Home Property Management, LLC ("R Home"), which now provides services to the projects under these contracts. This new venture will allow us to more directly serve the residents of affordable housing projects within the Enterprise portfolio. See Note 11 for more information surrounding the acquisition of ownership interests in the projects.

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 are reported as changes in unrestricted net assets unless specifically restricted by donor-

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Notes to Consolidated Financial Statements December 31, 2017 and 2016

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 Enterprise Housing Corporation

On July 15, 2016, Enterprise obtained control of Enterprise Housing Corporation ("EHC"), a 501(c)(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.

The results of EHC subsequent to the acquisition date are consolidated in our financial statements. The acquisition had a significant impact on our consolidated financial statements during the year ended December 31, 2016. The initial impact at acquisition in 2016 is summarized as follows (\$ in thousands):

Cash, cash equivalents and investments	\$	3,805
Accounts and other receivables, net		129
Loans receivable, net		5,773
Investments in unconsolidated partnerships		653
Other assets, net		64
Property and equipment, net		247
Accounts payable and accrued expenses		(1,364)
Other revenue		(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, 2017.

Deconsolidation 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 acquired a 0.01% Class A Administrative Member interest and a 14.99% Class B Member interest in Spyglass, which in 2015 was held directly by a for-profit subsidiary, while an unconsolidated related party owns the remaining 85% Class B Member interest. At the time of acquisition, we accounted for this transaction in accordance with business combination accounting guidance and consolidated the results of Spyglass in our financial statements.

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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, EHI, 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. The impact of the deconsolidation on Enterprise's consolidated financial statements for the year ended December 31, 2016 is summarized as follows (\$ in thousands):

Cash, cash equivalents and investments	\$	(1,095)
Restricted cash, cash equivalents and investments		(403)
Accounts and other receivables, net		(5)
Other assets, net		(947)
Property and equipment, net		(15,569)
Accounts payable and accrued expenses		162
Indebtedness		13,392
Deferred revenue and other liabilities		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 during the year ended December 31, 2016. This initial investment, adjusted for any investment activity subsequent to the date of deconsolidation, is included in investments in unconsolidated partnerships on the consolidated statements of financial position.

Deconsolidation of New Generation Fund

On May 15, 2008, New Generation Fund LLC ("NGF") was formed to make, purchase and/or facilitate the funding of loans for the acquisition and pre-development of affordable rental, housing preservation and supportive housing developments in the City of Los Angeles, California. Since NGF was formed, we have consolidated its accounts and transactions into our financial statements. In 2017, management reevaluated our consolidation of NGF in accordance with guidelines set forth for not-for-profit entities and determined that other stakeholders hold substantive participating rights over its significant operations, and therefore we should no longer consolidate NGF into these financial statements as of January 1, 2017. The effect of the deconsolidation of NGF on Enterprise's consolidated financial statements is summarized as follows (\$ in thousands):

Cash, cash equivalents and investments	\$	(619)
Restricted cash, cash equivalents and investments		(11,711)
Accounts and other receivables, net		(43,658)
Other assets, net		(53)
Accounts payable and accrued expenses		1,089
Indebtedness		54,336
Deferred revenue and other liabilities		41

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Notes to Consolidated Financial Statements December 31, 2017 and 2016

As Enterprise continues to hold an interest in NGF after the deconsolidation, which is accounted for under the equity method, the deconsolidation resulted in us recording an investment of approximately \$0.6 million in NGF. This initial investment, adjusted for any investment activity subsequent to the date of deconsolidation, is included in investments in unconsolidated partnerships on the consolidated statements of financial position.

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. MSR's 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 32% and 28% of total revenue and support for 2017 and 2016, respectively.

Syndication and consulting fees

We earn syndication fees for services relating to forming limited partnership investment funds ("Investment Funds"), particularly LIHTC Investment Funds, selling interests in the LIHTC 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.

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Syndication and consulting fees were approximately 18% and 15% of total revenue and support for 2017 and 2016, 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 9% and 11% of total revenue and support for 2017 and 2016, respectively. Approximately 77% and 78% of the grants and contract revenue was derived from federal funding in 2017 and 2016, respectively.

Approximately 67% and 60% of the federal expenditures, which include grants, contracts and loans, were provided by the U.S. Department of Housing and Urban Development ("HUD") in 2017 and 2016, respectively.

Asset management fees

We earn asset management fees 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 9% and 8% of total revenue and support for 2017 and 2016, 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 2017 and 2016 was 3.22% and 3.42%, 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.

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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 8% and 20% of total revenue and support for 2017 and 2016, respectively.

Restricted contributions from the top five contributors comprise approximately 29% and 52% of total contributions for 2017 and 2016, respectively.

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 MSRs. 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.

Property management fees

We earn property management fees for providing management, marketing and operation services to multi-family LIHTC and workforce housing projects. Fees for such services are billed and recognized as services are provided.

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.

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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.

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.

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

Partners and Loan Fund make loans to community-based not-for-profit and for-profit mission aligned affordable housing developers, community organizations and certain affiliates for the

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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.

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 \$7.3 million and \$5.7 in loan participation that did not meet the conditions for sale accounting treatment as of December 31, 2017 and 2016. 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.

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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. After charge-off, we continue to pursue collection of the amount owed.

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 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.

Homebuilding inventory

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.

Impairment of homebuilding inventory, when applicable, is included as a component of cost of real estate sold.

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

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to exercise substantive kick-out or participating rights. We do not consolidate limited partnerships or similar entities in which we own a general partner 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.

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.

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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, 2017 and 2016, 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, 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, 2017 and 2016, 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. No impairment charge was recorded for the year ended December 31, 2017. 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). The cost of property and equipment is depreciated using the straight-line method over the estimated useful lives of the related assets, which range from three to 15 years. The cost of certain intangible assets is amortized using the straight-line method over the estimated useful lives of the related assets, which range from one to 10 years. The cost of certain other intangibles is not amortized, rather it is reviewed for impairment annually, and whenever a triggering event occurs. 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.

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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 affiliates consolidated in these financial statements are exempt from income taxes with respect to their charitable activities, except for unrelated business income. These tax-exempt entities did not have any unrelated business income during the years ended December 31, 2017 and 2016. 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, fundraising, cost of real estate sold, operating properties activities, and income taxes on the basis of an analysis performed by us.

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.

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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.

Note 3 - Cash, cash equivalents and investments

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

	2017		
	Unrestricted	Restricted	Total
Cash and cash equivalents	\$ 64,394	\$ 61,328	\$ 125,722
U.S. Government agency obligations and fixed income securities	-	46,380	46,380
Corporate and foreign equity securities	-	18,869	18,869
Alternative investments	-	755	755
Total	<u>\$ 64,394</u>	<u>\$ 127,332</u>	<u>\$ 191,726</u>
	2016		
	Unrestricted	Restricted	Total
Cash and cash equivalents	\$ 90,582	\$ 73,245	\$ 163,827
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>\$ 115,111</u>	<u>\$ 211,506</u>

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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):

	<u>2017</u>	<u>2016</u>
Investment income	\$ 1,069	\$ 902
Realized gain, net	107	350
Unrealized gain, net	<u>2,810</u>	<u>911</u>
Total	<u>\$ 3,986</u>	<u>\$ 2,163</u>

Investment returns detailed above are net of investment fees of \$51,000 and \$50,000 for the years ended December 31, 2017 and 2016, respectively.

Note 4 - Contributions receivable, net

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

	<u>2017</u>	<u>2016</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 12,402	\$ 14,080
One year to five years	<u>5,350</u>	<u>6,295</u>
	17,752	20,375
Less unamortized discount	<u>(184)</u>	<u>(299)</u>
Total	<u>\$ 17,568</u>	<u>\$ 20,076</u>

Note 5 - Accounts and other receivables, net

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

	<u>2017</u>	<u>2016</u>
Fees receivable, net	\$ 33,987	\$ 33,953
Notes receivable, net	10,656	48,354
Contracts receivable, net	6,511	5,845
Other receivables	<u>48,250</u>	<u>20,857</u>
Total	<u>\$ 99,404</u>	<u>\$ 109,009</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 tax credit 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

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collection. At December 31, 2017 and 2016, fees due from unconsolidated partnerships totaled \$23.9 million and \$25.9 million, respectively, and \$5.4 million and \$5.1 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 \$4.5 million and \$5.4 million at December 31, 2017 and 2016, respectively.

Other fees receivable which amounted to \$5.7 million and \$2.8 million as of December 31, 2017 and 2016 are primarily related to uncollected advisory service fees.

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 partner 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, 2017 and 2016, the allowance for loss on fees receivable was \$0.1 million.

As of December 31, 2017, notes receivable, net consists of six unsecured notes outstanding with a balance due from the borrowers totaling \$10.7 million. These notes mature on various dates between August 8, 2019 and June 1, 2029, and bear interest at rates ranging from 1% to 5.5%. The related interest income earned on these notes amounted to \$0.1 million for the year ended December 31, 2017. Two of these notes with a total net balance as of December 31, 2017 of \$10.5 million are due from affiliated entities.

As of December 31, 2016, notes receivable, net primarily consisted of secured notes due from housing projects to NGF. As of December 31, 2016, twelve notes were outstanding with a balance due from the borrowers of \$48.4 million. These notes were secured by a first lien on the respective properties, were to mature on various dates through April 28, 2018 and bore interest at rates ranging from one-year LIBOR plus 2.25% to 5%. The related interest income earned on these notes amounted to \$2.1 million for the year ended December 31, 2016. As discussed in Note 1, NGF is no longer consolidated as of January 1, 2017.

The allowance for loss on notes receivable was \$3.3 million and \$7.9 million as of December 31, 2017 and 2016, respectively. The decrease in the allowance for loss on notes receivable was recorded as a recovery on an affiliate note during the year ended December 31, 2017 based on management's reassessment of collectability. Management deemed the amount to be collectible due to partial repayments received during 2017 on the affiliate note, as well as improved performance of the affiliated entity. A gain of \$6.8 million was recorded as a component of other revenue on the consolidated statements of activities as this reflects a recovery of program related investment that was not initially anticipated.

Contracts receivable primarily consists of amounts due from government entities.

At December 31, 2017 and 2016, other receivables consist of \$26.3 million and \$10.5 million of short-term loans made by Bellwether to borrowers that are awaiting permanent mortgage financing, bear interest rates ranging from the greater of 5.5% or 4.25% plus LIBOR to the greater of 5.50% or 5.25% plus LIBOR and mature no later than August 11, 2018. The loans are secured by the respective underlying properties.

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In addition, at December 31, 2017 and 2016, other receivables consist of \$16.1 million and \$5.0 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 as discussed in Note 1, we obtained loans receivable from four LIHTC projects in which we own a general partner interest. During 2017, upon acquisition of the portfolio of 43 affordable housing projects as discussed in Note 1, we obtained additional loans receivable from three LIHTC projects in which we own a general partner interest. Three of the loans are secured by the underlying projects and four are unsecured. The loans mature at various dates between 2050 and 2055. As the partnerships do not currently generate sufficient cash flow to pay such obligations, interest on these loans is not currently being accrued and income is being recognized only when cash payments are received. The receivable balances as of December 31, 2017 and 2016 was \$5.9 million and \$5.4 million, respectively.

Note 6 - Loans receivable, net

Since 1981, Partners and Loan Fund have closed approximately \$1.74 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, 2017 and 2016, \$59.8 million and \$41.8 million, respectively, of loans receivable are due within one year. Loans are secured through a variety of collateral arrangements. As of December 31, 2017, 76% of loans receivable were secured by first liens placed on the underlying real estate; 6% were unsecured or secured by subordinate liens; and 18% 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 which in the aggregate, approximate 5.4% as of December 31, 2017 and 2016. 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 \$27.7 million and \$23.2 million at December 31, 2017 and 2016, respectively.

The allowance for loan losses based on total loans receivable was 3.51% and 4.82% as of December 31, 2017 and 2016, respectively. After adjusting for loan participations that did not meet the requirements for sale treatment, the allowance for loan losses was 3.66% and 5.03% for the same periods.

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

	2017	2016
Loans receivable	\$ 175,709	\$ 155,807
Allowance for loan losses	(6,171)	(7,517)
Loans receivable, net	<u>\$ 169,538</u>	<u>\$ 148,290</u>

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

	2017			2016		
	Housing	Other	Total	Housing	Other	Total
Allowance for loan losses:						
Balance at beginning of year	\$ (5,446)	\$ (2,071)	\$ (7,517)	\$ (5,041)	\$ (1,603)	\$ (6,644)
Net change in allowance for loan losses	578	111	689	(394)	(495)	(889)
Write-offs	664	-	664	-	27	27
Recoveries	(7)	-	(7)	(11)	-	(11)
Balance at end of year	<u>\$ (4,211)</u>	<u>\$ (1,960)</u>	<u>\$ (6,171)</u>	<u>\$ (5,446)</u>	<u>\$ (2,071)</u>	<u>\$ (7,517)</u>

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

	2017			2016		
	Housing	Other	Total	Housing	Other	Total
Performing	\$ 124,219	\$ 44,044	\$ 168,263	\$ 109,639	\$ 38,349	\$ 147,988
Monitored	4,176	3,020	7,196	3,810	3,066	6,876
Impaired:						
With an increased loan losses	-	-	-	693	-	693
Without an increased loan losses	250	-	250	250	-	250
Total	<u>\$ 128,645</u>	<u>\$ 47,064</u>	<u>\$ 175,709</u>	<u>\$ 114,392</u>	<u>\$ 41,415</u>	<u>\$ 155,807</u>
Related allowance for loan losses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 693</u>	<u>\$ -</u>	<u>\$ 693</u>
Average investment in impaired loans	<u>\$ 699</u>	<u>\$ -</u>	<u>\$ 699</u>	<u>\$ 1,581</u>	<u>\$ 546</u>	<u>\$ 2,127</u>
Interest income recognized on impaired loans - cash basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 87</u>	<u>\$ 186</u>	<u>\$ 273</u>

No loans were restructured during 2017 and 2016.

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

	2017			2016		
	Housing	Other	Total	Housing	Other	Total
Past due:						
31-60 days	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
61-90 days	-	-	-	-	-	-
Over 90 days	250	-	250	250	-	250
Total	250	-	250	250	-	250
Current	128,395	47,064	175,459	114,142	41,415	155,557
Total	<u>\$ 128,645</u>	<u>\$ 47,064</u>	<u>\$ 175,709</u>	<u>\$ 114,392</u>	<u>\$ 41,415</u>	<u>\$ 155,807</u>

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

Note 7 - Mortgage loans held for sale

At December 31, 2017 and 2016, these loans were recorded at fair value. The unpaid principal balance at December 31, 2017 and 2016 of these loans was \$250.0 million and \$123.2 million, respectively, and all of the loans are current. The difference between the carrying amount of the

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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):

	<u>2017</u>	<u>2016</u>
Unpaid principal of MLHS	\$ 249,985	\$ 123,230
Trading gains on MLHS	3,185	947
Gains on MSRs	<u>2,258</u>	<u>2,690</u>
Total	<u>\$ 255,428</u>	<u>\$ 126,867</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.

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>2017</u>	<u>2016</u>
Contractual loan origination and related fees, net	\$ 39,707	\$ 33,510
Originated MSRs	22,279	18,881
Trading gains	17,007	12,896
Derivative gains on outstanding commitments	<u>2,330</u>	<u>6,923</u>
Total	<u>\$ 81,323</u>	<u>\$ 72,210</u>

Note 9 - Derivative instruments

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

December 31, 2017	<u>Asset</u>	<u>Liability</u>	<u>Net</u>
Interest rate	\$ 3,521	\$ 3,521	\$ -
Accrued fees	3,565	-	3,565
MSRs	<u>1,374</u>	<u>-</u>	<u>1,374</u>
Total	<u>\$ 8,460</u>	<u>\$ 3,521</u>	<u>\$ 4,939</u>

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December 31, 2016	Asset	Liability	Net
Interest rate	\$ 9,840	\$ 9,840	\$ -
Accrued fees	5,192	-	5,192
MSRs	2,768	-	2,768
Total	<u>\$ 17,800</u>	<u>\$ 9,840</u>	<u>\$ 7,960</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 \$1.9 million of the total derivative asset, related to accrued fees.

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):

	2017	2016
Balance at beginning of year, net	\$ 7,960	\$ 3,742
Realized gains recorded in earnings	54,965	45,641
Unrealized gains recorded in earnings	2,330	6,923
Settlements of prior year commitments	(5,351)	(2,705)
Settlements of current year commitments	<u>(54,965)</u>	<u>(45,641)</u>
Balance at end of year, net	<u>\$ 4,939</u>	<u>\$ 7,960</u>

Note 10 - Homebuilding inventory

Homebuilding inventory includes capitalized costs from one development project, Renaissance Square. Homebuilding inventory at both December 31, 2017 and 2016 consists of: 1) real estate held for sale, which consists of two completed homes and two completed model homes; 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 \$0.4 million and \$0.3 million as of December 31, 2017 and 2016, 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

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are no land costs or land development costs in homebuilding inventory as of December 31, 2017 and 2016. The total amount of land development costs contributed by Baltimore County was \$4.2 million as of December 31, 2017 and 2016.

During 2016, we made a request with 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 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. During 2017, four market rate units and six units that will receive second soft mortgages were sold. 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.

Note 11 - Investments in unconsolidated partnerships

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

	2017	2016
Held for sale investments	\$ 101,204	\$ 87,959
Traditional investments in affordable housing	22,445	1,251
Direct investments in affordable housing partnerships	15,352	1,493
Other investments	2,842	2,346
Total	<u>\$ 141,843</u>	<u>\$ 93,049</u>

Held for sale investments

We purchase and hold interests in partnerships for sale to LIHTC 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, 2017 and 2016, we held for sale interests in eleven and eight partnerships, respectively. The balance consists of future capital contributions to these partnerships in the amount of \$91.9 million and \$81.7 million at December 31, 2017 and 2016, 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 partner interests (generally 99%) in these properties that are expected to earn tax credits and transfer those interests to LIHTC 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

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circumstances indicate that the carrying amount exceeds its estimated fair value, an investment will be written down to the lower value. For the years ended December 31, 2017 and 2016, we incurred impairment charges of \$0.9 million and \$8.1 million, respectively, related to these investments. In addition, during 2017, we sold our investment in five previously impaired properties for more than their net carrying values, resulting in us recognizing a gain on sale of \$2.6 million. The gain upon sale is included in other revenue on the consolidated statements of activities.

Traditional investments in affordable housing partnerships

We hold a 5% investor member interest in two non-tax credit affordable housing Investment Funds, one of which was formed during 2016. We also serve as the non-owner managing member of these funds. 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 \$1.4 million and \$1.3 million as of December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, the funds held 15 and 10 investments, respectively.

EHPF was formed on May 15, 2017, as a single-investor non-tax credit affordable housing Investment Fund, for the purpose of acquiring ownership interests in 35 of the 43 affordable housing properties acquired in the portfolio acquisition discussed in Note 1. Similar to our other non-tax credit affordable housing Investment Funds, EHPF is expected to provide returns through cash flow and residual proceeds. We have a maximum capital commitment of \$21.1 million and a 29.6% general partner interest in EHPF. As of December 31, 2017, we have been called upon to contribute \$10.6 million, with the remaining \$10.5 million of unfunded capital expected to be called during 2018. We determined that the limited partner in EHPF is able to exercise substantive participating rights on the operations of EHPF resulting in the presumption of control by the general partner being overcome. Therefore, we will account for our interest in EHPF on the equity method. As of December 31, 2017, our investment in EHPF was \$21.0 million.

Direct investments in affordable housing partnerships

At December 31, 2017 and 2016, we also held direct general partner or co-general partner interests of between 0.1% and 1.0% in one and two partnerships that own low-income affordable housing projects, respectively. We agreed to assume the general partner interest in these entities pursuant to our fiduciary role in LIHTC Investment Funds that hold a majority limited partner 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 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, 2017 and 2016, we made payments of \$0.2 million and \$0.1 million, respectively, to these entities.

Upon obtaining control of EHC in 2016, EHC's direct general partner interest in 24 real estate projects were 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, 2017 and 2016, EHI (formerly EHC) holds a direct general partner interest in 28 and 24 of these real estate projects, respectively, four of which were acquired during 2017 for \$0.6 million. Our general partner interest in these projects ranges from 0.005% to

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15%. We also held one 49% limited partner interest as of December 31, 2016 and acquired a second 14.99% limited partner interest during 2017 in exchange for \$0.9 million. These are limited partner interests in projects which we also hold the general partner interest. As a result of guarantees we provide as the general partner to the project limited partners, our investment in certain partnerships may be negative. As of December 31, 2017 and 2016, our net investments in these projects was \$2.1 million and \$0.7 million, respectively. Included in these net amounts as of December 31, 2017 and 2016, are negative investments of \$0.3 million and \$0.2 million, respectively, which are included in losses in excess of investments in unconsolidated partnerships on the consolidated statements for financial position.

As discussed in Note 1, on August 1, 2017, we acquired direct general partner interests ranging from 0.009% to 0.5% in a portfolio of 25 affordable housing properties located in the mid-Atlantic region for \$7.4 million. The limited partner interest in 17 of these properties is held by EHPF, while the limited partner interest in the remaining eight properties is held by unaffiliated Investment Funds. We determined that other interest holders in each of these affordable housing properties are able to exercise substantive participating rights, resulting in the presumption of control by the general partner being overcome. Therefore, we account for our interests in the properties on the equity method. As of December 31, 2017, our investment in the 25 properties was \$7.4 million.

As of December 31, 2017 and 2016, we wholly-owned four and three LIHTC Investment Funds, respectively, and therefore consolidate them into these financial statements. Each of these LIHTC Investment Funds holds direct, limited partner interest in operating partnerships that are either beyond the tax credit delivery period, or that have de minimis tax credits remaining. We account for these investments on the equity method, and had no investment balance at December 31, 2017 and 2016 in these operating partnerships. We paid \$0.3 million for the new limited partner interest acquired during 2017. Consolidation of the purchased interest as of December 31, 2017 resulted in a net increase in cash, cash equivalents and investments of \$1.3 million, an increase in deferred revenue and other liabilities of \$2.7 million, an increase in capital contributions payable and accounts payable of \$0.1 million, and a decrease in losses in excess of investments in unconsolidated partnerships of \$1.5 million. In addition, we sold our limited partner interests in two of the operating partnerships during 2017 for \$5.5 million, all of which is included in other revenue on the consolidated statements of activities.

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. As of both December 31, 2017 and 2016, the balance of our investment in Spyglass was \$0.6 million.

During 2017, we provided a \$5.0 million capital contribution to a multi-family housing project in exchange for a 0.01% limited partner interest which is expected to provide a 6% annual return. Our earnings and return of capital are in a first priority position. As of December 31, 2017, the balance of our investment in this multi-family housing project was \$5.0 million.

Limited partner interests in LIHTC Investment Funds

We hold between 1.0% and 46.8% limited partner interests in fourteen and nine LIHTC Investments Funds as of December 31, 2017 and 2016, respectively. During 2017, we acquired five additional limited partner interests. 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 LIHTC Investment Fund. Each of these LIHTC 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

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interest in these LIHTC Investment Funds on the equity method. The balance of our investment in these LIHTC Investment Funds was \$1.5 million and \$1.3 million at December 31, 2017 and 2016, respectively.

General partner or managing member interests in tax credit Investment Funds

We hold general partner or managing member interests of between 0.005% and 1.0% in tax credit 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 tax credit Investment Funds were VIEs, and that we were not the primary beneficiary. We account for our interest in these tax credit 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 tax credit Investment Funds each year. The limited partners in these tax credit 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 tax credit 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 tax credit Investment Funds to be insignificant. However, under the equity method of accounting, we are required to record our share of losses from these tax credit Investment Funds, and our share of losses generally exceeds our nominal contributions resulting in negative investment balances in these tax credit 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 tax credit 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 tax credit Investment Funds.

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, development 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 \$24.7 million and \$6.3 million for the year ended December 31, 2017, and \$20.1 million and (\$4.3) million for the year ended December 31, 2016, respectively.

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

	<u>2017</u>	<u>2016</u>
Current tax expense	\$ 126	\$ 284
Deferred tax expense	<u>3,936</u>	<u>3,026</u>
Income tax expense	<u>\$ 4,062</u>	<u>\$ 3,310</u>

Current income tax 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):

	<u>2017</u>	<u>2016</u>
Tax at statutory rate on income before taxes	\$ 10,131	\$ 5,371
State income tax, net of federal income tax benefits	126	284
Tax effect at statutory rate on income not subject to federal taxes	(1,741)	1,461
Tax effect at statutory rate on income related to noncontrolling interest	(3,226)	(3,249)
Tax refunds	(2)	(109)
Tax credits	(458)	(353)
Net impact of tax reform	30	-
Other	<u>(798)</u>	<u>(95)</u>
Income tax expense	<u>\$ 4,062</u>	<u>\$ 3,310</u>

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

	<u>2017</u>	<u>2016</u>
Total deferred assets	\$ 15,016	\$ 22,628
Total deferred liabilities	<u>(13,531)</u>	<u>(17,207)</u>
Deferred tax assets, net	<u>\$ 1,485</u>	<u>\$ 5,421</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.

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At December 31, 2017, we have federal and state net operating loss carryforwards of \$14.6 million and \$17.5 million, respectively. These loss carryforwards will expire between 2033 and 2037 for federal and state purposes. A valuation allowance of \$1.0 million and \$0.5 million has been established as of December 31, 2017 and 2016, respectively, due to the uncertainty of realizing certain of these state loss carry forwards 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 was 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 carry forwards 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 in 2016. However, Investment's 2016 tax losses being applied to this gain led to no current income taxes due related to this change.

Tax reform

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act ("Tax Act"). The Tax Act makes numerous changes to U.S. corporate taxation including, but not limited to, the following changes that will take effect in 2018:

- 1) Modifying the U.S. federal corporate tax rate structure from a graduated rate structure with a top rate of 35% to a flat rate of 21%;
- 2) Eliminating the corporate alternative minimum tax;
- 3) Eliminating, with certain exceptions, the ability to carryback net operating losses ("NOLs") generated after December 31, 2017, and replacing the 20-year carryforward period with an indefinite carryforward period for NOLs generated after December 31, 2017;
- 4) Limiting the deductibility of NOLs generated after December 31, 2017, to 80% of taxable income; and
- 5) Introducing a new limitation on the deductibility of interest expense.

We have remeasured our deferred tax assets and deferred tax liabilities as of December 31, 2017, to account for the change in the federal corporate tax rate that will take effect in 2018. The remeasurement resulted in an adjustment to increase deferred tax assets, net by \$30,000. The adjustment to deferred tax assets led to a corresponding decrease in deferred tax expense for the year ended December 31, 2017.

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. We also remain subject to examination of all of our federal income tax returns for 2014 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.

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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. 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, 2017 and 2016, Bellwether was servicing 3,083 and 2,491 loans, respectively, with outstanding principal balances of approximately \$18.5 billion and \$13.7 billion, respectively.

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

	2017	2016
MSRs	\$ 56,999	\$ 41,847
Mortgage servicing obligations	(73)	(67)
MSRs, net	<u>\$ 56,926</u>	<u>\$ 41,780</u>

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

	2017	2016
Net MSR beginning balance	\$ 41,780	\$ 30,518
MSRs originated, net of obligations recognized	22,279	18,881
Settlement of prior year derivatives to MSRs	1,987	979
Amortization expense and write-offs of MSRs	(9,552)	(7,435)
Change related to MLHS	432	(1,163)
Net MSR ending balance	<u>\$ 56,926</u>	<u>\$ 41,780</u>

Included in the \$56.9 million and \$41.8 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 date of the Bellwether merger in 2012, the Towle acquisition in 2014 and the Capital Advisors acquisition in 2015. Such loans have a net book value of \$2.7 million and \$3.9 million at December 31, 2017 and 2016, 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.

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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 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):

	<u>2017</u>	<u>2016</u>
Beginning of year	\$ 74,103	\$ 53,906
Ending of year	\$ 102,354	\$ 74,103
Weighted average discount rate	13%	13%
Weighted average servicing life	131 months	138 months
Weighted average term to payoff	265 months	266 months

For the years ended December 31, 2017 and 2016, 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):

	<u>2017</u>	<u>2016</u>
Office equipment	\$ 3,631	\$ 3,477
Software applications	36,617	32,337
Furniture and fixtures	3,210	2,899
Leasehold improvements	3,117	2,775
Land	<u>251</u>	<u>247</u>
	46,826	41,735
Accumulated depreciation and amortization	<u>(27,638)</u>	<u>(24,236)</u>
Property and equipment, net	<u><u>\$ 19,188</u></u>	<u><u>\$ 17,499</u></u>

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

Depreciation expense was \$5.5 million and \$5.7 million for the years ended December 31, 2017 and 2016, respectively.

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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 \$1.0 million and \$1.4 million for the years ended December 31, 2017 and 2016, respectively, was recorded related to these assets. At December 31, the intangible assets, net balance is included in other assets, net on the statements of financial position and consists of the following (\$ in thousands):

	<u>2017</u>	<u>2016</u>
Borrower relationships	\$ 4,622	\$ 5,435
Trade name	<u>-</u>	<u>170</u>
Total	<u>\$ 4,622</u>	<u>\$ 5,605</u>

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

2018	\$ 813
2019	813
2020	813
2021	813
2022	555
Thereafter	<u>815</u>
Total	<u>\$ 4,622</u>

On August 1, 2017, as part of the aforementioned acquisition of ownership interest in a portfolio of 43 affordable housing projects, we acquired the rights to property management contracts for all of the properties for \$3.6 million. The intangible assets related to these property management contracts will not be amortized, rather reviewed for impairment annually, and whenever a triggering event occurs. The balance is included in other assets, net on the consolidated statements of financial position.

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.

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Note 16 - Indebtedness

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

	2017	2016
Loans payable	\$ 166,312	\$ 178,324
Credit line agreements	274,220	156,848
Debt issuance costs	<u>(786)</u>	<u>(766)</u>
Total	<u>\$ 439,746</u>	<u>\$ 334,406</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 \$29.9 and \$20.8 million as of December 31, 2017 and 2016, respectively. 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, 2017 and 2016, Loan Fund is in compliance with these covenants.

In addition, we had \$7.3 million and \$5.7 million of loans payable related to loan participation agreements that did not meet the conditions for sale accounting treatment at December 31, 2017 and 2016, respectively. These loans payable were offset by loans receivable and represent no risk to Loan Fund (see Note 2).

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, 2017 have a total borrowing capacity of \$497.6 million and expire on dates ranging from May 2018 through November 2019. The credit facilities have interest rates as of December 31, 2017 varying from 3.1788% to 4.25%. The credit facilities have certain covenants and restrictions. 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. Investment has maintained compliance with these restrictions, and they have not limited Investment's normal business activities. We expect to extend the majority of the remaining credit line agreements at similar terms before their expiration dates.

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

2018	\$	294,889
2019		40,980
2020		34,715
2021		17,331
2022		14,765
Thereafter		<u>37,852</u>
Total	\$	<u>440,532</u>

The debt due in 2018 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 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 as of December 31, 2017 and 2016. Debt issuance costs, net of accumulated amortization related to credit line agreements borrowings totaled approximately \$0.5 million as of December 31, 2017 and 2016.

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 LIHTC 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 \$8.6 million and \$14.1 million at December 31, 2017 and 2016, respectively. During 2017 and 2016, 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 LIHTC Investment Funds, which is the primary driver of the decrease in our deferred revenue. During the years ended December 31, 2017 and 2016, we amortized \$0.7 million and \$1.1 million, respectively, 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, 2017 and 2016, such deferred revenue totaled \$1.1 million and \$1.2 million, respectively.

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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 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 \$8.6 million and \$5.7 million at December 31, 2017 and 2016, respectively, and is included in deferred revenue and other liabilities in the consolidated statements of financial position. At December 31, 2017 and 2016, there were no reserves related to specific loans included in our allowance for loan loss sharing provision.

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, 2017 and 2016, we recorded revenue of \$83.6 million and \$66.1 million, respectively, for such services.

In addition, we provide development, construction management, and property management services to the owners of low-income housing projects which we have an equity interest in, or for which certain of our officers serve as officers of the housing projects. For the years ended December 31, 2017 and 2016, we had revenue of \$8.9 million and \$3.7 million, respectively, for such services.

We also manage a \$60 million credit facility as of December 31, 2016 on behalf of select Investment Funds that are admitted as borrowers to the facility. During 2017, we increased the borrowing capacity to \$120 million. 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 the interest and fees associated with borrowings from this facility made by certain Investment Funds. The interest rate related to borrowings is payable at a fluctuating interest rate which was 3.7643% and 2.9717% as of December 31, 2017 and 2016, respectively. The credit facility is set to expire on December 14, 2018. Total outstanding borrowings under the facility were \$92.6 million and \$34.8 million as of December 31, 2017 and 2016, respectively. The total costs incurred by us for this facility totaled \$0.4 million and \$0.5 million for the years ended December 31, 2017 and 2016, respectively. These costs are included in general and administrative expenses in the accompanying consolidated statements of activities.

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Note 19 - Restrictions and limitations on net assets

During the years ended December 31, 2017 and 2016, net assets released from temporary donor restrictions and the events and transactions which caused the restrictions to expire total \$40.3 million and \$23.2 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):

	2017	2016
Gifts and other unexpended revenue restricted to specific programs or locations	\$ 67,261	\$ 80,665
Contributions receivable due in future periods, net	17,484	20,076
Total	\$ 84,745	\$ 100,741

As of December 31, 2017 and 2016, 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 \$2.1 million and \$1.9 million during the years ended December 31, 2017 and 2016, 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 vest over six years. After six years of service, all future contributions are automatically vested. Total expenses under this plan totaled \$2.9 million and \$2.7 million for the years ended December 31, 2017 and 2016, 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 \$1.9 million and \$1.2 million for the years ended December 31, 2017 and 2016, respectively.

Compensation deferrals and employer contributions are invested on behalf of the participants in various participant directed investment options. The investments amounted to \$5.6 million and \$5.2 million at December 31, 2017 and 2016, respectively, and are included in restricted cash, cash equivalents and investments on the consolidated statements of financial position. Obligations to the

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plan participants at December 31, 2017 and 2016 totaled \$7.5 million and \$6.4 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 at December 31, 2017 and 2016.

Note 21 - Commitments and contingencies

Commitments and contingencies not reflected in the consolidated statements of financial position at December 31, 2017 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, 2017, Bellwether met this requirement with an adjusted net worth of \$63.2 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. At December 31, 2017, Bellwether met this requirement with an adjusted net worth of \$63.2 million. The Ginnie Mae program also requires liquid assets of 20% of the adjusted net worth. As of December 31, 2017, Bellwether had \$25.1 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, 2017, which is a function of its portfolio balance of \$2.6 billion, is \$18.0 million. At December 31, 2017, the subsidiary had adjusted net worth of \$54.6 million applicable to this requirement and therefore met the requirement. At December 31, 2017, the subsidiary's operational liquidity requirement was \$2.9 million and the restricted liquidity requirement was approximately \$6.1 million. The subsidiary had \$7.2 million and \$6.1 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 of collateral. The requirement is classified as restricted cash, cash equivalents and investments on the accompanying consolidated statements of financial position.

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, 2017, Bellwether's required net worth was \$5.0 million and its required liquidity was \$0.5 million. At December 31, 2017, Bellwether met these requirements with net worth of \$86.0 million and liquid assets totaling \$25.1 million.

Grants and contracts

At December 31, 2017, we had commitments under grants and contracts from federal and various state governments of \$31 million. This amount will be received through 2020 as we provide services under the terms of the grants and contracts.

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Loans

At December 31, 2017, we have commitments to fund loans to various community development organizations of approximately \$83 million. We also have additional commitments for debt to assist in funding these loans of approximately \$119 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, 2017, we have entered into commitments to originate loans totaling \$162.1 million and commitments to sell loans of \$412.1 million, \$250.0 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, 2017, we held fiduciary funds of \$428.5 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 our assets or liabilities.

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, 2017, deposits and escrows totaled \$23.1 million. The asset and corresponding liability related to these prospective borrower deposits and escrows are included in restricted cash, cash equivalents and investments and funds held for others, respectively, in the accompanying consolidated statements of financial position.

During 2017, we held funds in an agency capacity through custodial accounts for a participation program. The cash and corresponding liability of \$10.0 million at December 31, 2017 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 2030. Rent expense was \$7.2 million and \$6.4 million for the years ended December 31, 2017 and 2016, respectively.

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Annual minimum rent payments due under operating leases in effect at December 31, 2017 are as follows (\$ in thousands):

2018	\$	6,649
2019		6,685
2020		5,588
2021		6,005
2022		5,464
Thereafter		<u>14,531</u>
Total	\$	<u>44,922</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 \$1.3 million loss contingency during 2016, that was recorded in a prior year. The reversal of this loss contingency is included as a reduction in program activities in the consolidated statements of activities.

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.

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The awards, outstanding at any time during 2017, the related matching commitments, amounts expended and matching program services and costs achieved as of December 31, 2017 are summarized as follows (\$ in thousands):

Capacity Building Grant	Award Year	Award Amount	Required Matching Commitments	Amount Expended	Matching Commitment Achieved
CB 17	2013	\$ 14,512	\$ 43,535	\$ 14,470	\$ 43,535
CB 18	2014	15,888	47,665	14,705	47,665
CB 19	2015	14,635	43,904	6,651	27,350
CB 20	2016	14,265	42,794	1,269	2,374

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 \$3.8 million and \$2.3 million issued through one of our credit facilities at December 31, 2017 and 2016, respectively. The estimated maximum exposure to loss under these guarantees is \$4.1 million and \$2.9 million at December 31, 2017 and 2016, respectively. 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 \$0.1 million in restricted assets that serve as collateral on these letters of credit as of December 31, 2017 and 2016.

We provide a guarantee to the lender of Spyglass's nonrecourse first mortgage. The guaranty is in the amount of the outstanding principal and interest on the first mortgage, and remains in place until the mortgage is fully repaid. The maturity date of this mortgage is November 1, 2022. As payments are made over the term of the mortgage, the guaranty is effectively reduced by the amount of the payments. The estimated maximum exposure to loss under this guarantee is \$13.4 million as of December 31, 2017 and 2016. As the borrower's loan is secured by the property, amounts would be due by us only upon the occurrence of certain "bad boy" events as defined in the guarantee agreement which we believe are unlikely to occur. As management believes there is sufficient collateral from the partnership's assets, primarily the property, to support this guarantee, along with the fact that Spyglass is current on its mortgage principal and interest payments and generating positive cash flow on an annual basis, no risk of loss has been recognized in these consolidated financials.

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We also provide guarantees to JPMorgan Chase Bank, N.A. on first mortgage loans for five affordable housing projects in which we acquired interests in as part of the portfolio acquisition discussed in Note 1. The guarantee is for 15% of the outstanding principal balance. The loans are interest-only and mature on July 31, 2020. The total principal balance outstanding among all five loans at December 31, 2017 was \$35.9 million. As management believes there is sufficient collateral from the partnerships' assets, primarily the properties, to support these guarantees we have not recorded guarantee obligations in the consolidated statements of financial position as of December 31, 2017.

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 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 \$7.6 million and \$1.1 million at December 31, 2017 and 2016, respectively. 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, 2017. 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.

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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 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, 2017	Level 1	Level 2	Level 3	Net balance
Assets:				
Investments in marketable securities	\$ 56,316	\$ -	\$ -	\$ 56,316
MLHS	-	255,428	-	255,428
Derivative assets	-	-	8,460	8,460
Alternative investments	-	-	755	755
Total	<u>\$ 56,316</u>	<u>\$ 255,428</u>	<u>\$ 9,215</u>	<u>\$ 320,959</u>
Liabilities:				
Derivative liabilities	\$ -	\$ -	\$ 3,521	\$ 3,521
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,521</u>	<u>\$ 3,521</u>
December 31, 2016	Level 1	Level 2	Level 3	Net balance
Assets:				
Investments in marketable securities	\$ 43,695	\$ -	\$ -	\$ 43,695
MLHS	-	126,867	-	126,867
Derivative assets	-	-	17,800	17,800
Alternative investments	-	-	586	586
Total	<u>\$ 43,695</u>	<u>\$ 126,867</u>	<u>\$ 18,386</u>	<u>\$ 188,948</u>
Liabilities:				
Derivative liabilities	\$ -	\$ -	\$ 9,840	\$ 9,840
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,840</u>	<u>\$ 9,840</u>

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

Notes to Consolidated Financial Statements December 31, 2017 and 2016

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, 2017 and 2016, 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 2017 or 2016.

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, 2017	Realized/ unrealized gains (losses) included in earnings	Purchases, issuances and settlements	Transfers in and/or out of Level 3	December 31, 2017
Assets:					
Alternative investments	\$ 586	\$ 3	\$ 166	\$ -	\$ 755
Total	<u>\$ 586</u>	<u>\$ 3</u>	<u>\$ 166</u>	<u>\$ -</u>	<u>\$ 755</u>
	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>

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

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

Notes to Consolidated Financial Statements December 31, 2017 and 2016

impairment loss of \$0.9 million and \$8.1 million was recorded against held for sale investments and program activities during the year ended December 31, 2017 and 2016, respectively. In addition, during the year ended December 31, 2017, other investments in unconsolidated partnerships were impaired by \$0.4 million. Also, in 2016, we determined our projected cash flows were 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 related to property and equipment were recognized during the year ended December 31, 2017.

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 evaluated our activity through June 4, 2018 (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. However, management has determined that the subsequent events in Notes 7 and 9, as well as the following subsequent events, require disclosure in the notes to the consolidated financial statements.

On January 1, 2018, Investment obtained control of Community Preservation and Development Corporation and Subsidiaries, namely Community Housing, Inc. ("CHI") (collectively, "CPDC"). CPDC and CHI are both 501(c)(3) not-for-profit organizations. We obtained control as a result of amendments made to CPDC's governance documents which provided Enterprise with majority representation on CPDC's board of directors. CPDC is an affordable housing developer headquartered in Maryland, and it holds interest in affordable housing projects in Washington, D.C., Maryland and Virginia. CPDC specializes in acquisition, redevelopment, and operation of affordable housing for low- and moderate-income individuals and families. In addition, CPDC provides comprehensive resident services to the residents of its developments aimed primarily at youth and seniors. In 2018, we will account for this transaction in accordance with business combinations accounting guidance. As there was no consideration paid by Investment when control was obtained, Investment expects to recognize contribution income in 2018 equal to the fair value of the net assets of CPDC as of January 1, 2018.

In addition, as of April 1, 2018, Investment obtained control of Loan Fund from Partners. This change in control was accomplished through amendments to Loan Fund's governance documents, which transferred control of Loan Fund's Board of Trustees from Partners to Investment. Additionally, Loan Fund filed IRS Form 8940 to notify the IRS of a change in status of Loan Fund's public charity status from a 509(a)(3) supporting organization to Partners to qualifying on its own as a 509(a)(2) organization. Loan Fund also obtained the consent of its lenders for the change, as necessary. This change in control will have no impact on the 2018 consolidated financial statements.

Supplementary Information

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

**Schedule of Indirect Costs
Year Ended December 31, 2017**

FRINGE BENEFIT RATE

Fringe benefits		\$	7,153,486
Total labor			<u>18,105,181</u>
Fringe benefit rate			<u><u>39.5%</u></u>

OVERHEAD RATE

Numerator:			
Program overhead salaries	\$	2,413,239	
Program overhead fringe		953,488	
Overhead - other costs		<u>3,252,592</u>	
Total			\$ 6,619,319
Denominator:			
Direct labor		10,050,337	
Fringe benefits on direct labor		<u>3,970,959</u>	
Total			<u>14,021,296</u>
Overhead rate			<u><u>47.2%</u></u>

GENERAL AND ADMINISTRATIVE RATE

Numerator:			
General and administrative - other		<u>6,073,713</u>	
Total			\$ 6,073,713
Denominator:			
Modified total direct costs and overhead			<u>30,776,645</u>
General and administrative rate			<u><u>19.7%</u></u>

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

Schedule of Expenditure of Federal Awards Year Ended December 31, 2017

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		\$ 1,000,000
				<u>1,000,000</u>
Total HUD Pass-through Programs				<u>1,000,000</u>
HUD - Direct				
Neighborhood Stabilization Program	14.264			41,385
Section 4 Capacity Building for Community Development and Affordable Housing	14.252		\$ 7,194,642	12,647,874
Community Compass Technical Assistance and Capacity Building	14.259			2,193,107
Strong Cities Strong Communities (SC2) National Resource Network	14.534			1,457,878
<i>CDBG - Disaster Recovery Grants - Pub. L. No. 113-2 Cluster</i> <i>National Disaster Resilience Competition - Total CDBG - Disaster Recovery</i> <i>Grants - Pub. L. No. 113-2 Cluster</i>	14.272			51,000
			<u>7,194,642</u>	<u>16,391,244</u>
Total HUD-Direct Programs				
Total HUD Programs			<u>7,194,642</u>	<u>17,391,244</u>
Department of Treasury				
Volunteer Income Tax Assistance (VITA) Matching Grant Program	21.009			171,487
<i>CDFI Cluster</i> Community Development Financial Institutions Fund Program - <i>Total CDFI Cluster</i>	21.020			6,953,000
Bond Guarantee Program	21.014			19,799,842
				<u>26,924,329</u>
Total Department of Treasury Programs				
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			283,512
Total Department of Health and Human Services Administration for Children and Families Program				<u>283,512</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			1,840,306
Rural Community Development Initiative Grant	10.446			92,812
Total Department of Agriculture Programs				<u>1,933,118</u>
Corporation for National and Community Service				
Volunteers in Service to America	94.013			270,945
Total Corporation for National and Community Service Program				<u>270,945</u>
Department of Transportation Federal Transit Administration				
Public Transportation Research, Technical Assistance, and Training	20.514			182,072
Total Department of Transportation Federal Transit Administration Program				<u>182,072</u>
National Endowment for the Arts (NEA)				
Promotion of the Arts Grants to Organizations and Individuals	45.024			50,000
Total National Endowment for the Arts Program				<u>50,000</u>
Total All Programs			<u>\$ 7,194,642</u>	<u>\$ 47,235,220</u>

The accompanying Notes to Schedule of Expenditure of Federal Awards are an integral part of this schedule

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

Notes to Schedule of Expenditure of Federal Awards December 31, 2017

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, 2017. 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, 2017 consists of:

CFDA Number	Program Name	Outstanding Balance at December 31, 2017
10.415	Preservation Revolving Loan Fund	\$ 1,771,935
14.704	SSMMA Loans	1,000,000
21.014	Bond Guarantee Program	19,799,842
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, 2017, 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 June 4, 2018. 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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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 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 cursive script that reads "CohnReznick LLP".

Bethesda, Maryland
June 4, 2018

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, 2017. 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, 2017.

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 cursive script that reads "Cohn Reznick LLP".

Bethesda, Maryland
June 4, 2018

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

**Schedule of Findings and Questioned Costs
December 31, 2017**

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*. No significant deficiencies were 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 Agriculture - Rural Rental Housing Loans - 10.415.

U.S. Department of Housing and Urban Development - Section 4 Capacity Building for Community Development and Affordable Housing - 14.252.

U.S. Department of Housing and Urban Development - Strong Cities Strong Communities (SC2) National Resource Network - 14.534.
8. The threshold for distinguishing between Type A and Type B programs was: \$1,417,057.
9. Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates was determined to be a low-risk auditee.

B. Findings - Financial Statement Audit

None

C. Findings and Questioned Costs - Major Federal Awards Programs Audit

None



Enterprise Community Partners, Inc
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2017

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

FINDING 2017-001

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.

Current Status

The finding was identified in early 2017 prior to the issuance of the 2016 Single Audit. The process to evaluate the internal controls commenced in mid-2017 with the update of policies in August 2017. The recommendation was fully implemented January 1, 2018.