

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

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

December 31, 2019 and 2018

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, 2019 and 2018, and the related consolidated statements of activities, functional expenses, 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, 2019 and 2018, and the changes in their consolidated net assets and their consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standard

As discussed in Note 2, Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates adopted the Financial Accounting Standard Board ("FASB")'s Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09") as of and for the year ended December 31, 2019. Our opinion is not modified with respect to this matter.

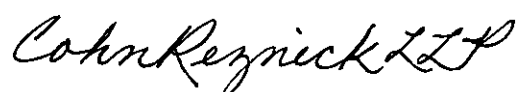
Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information 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 29, 2020, 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.



Bethesda, Maryland
June 29, 2020

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

**Consolidated Statements of Financial Position
December 31, 2019 and 2018
(\$ in thousands)**

<u>Assets</u>		
	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 92,159	\$ 99,881
Restricted cash and cash equivalents	204,438	217,676
Investments	495	-
Contributions receivable, net	11,243	16,402
Accounts and other receivables, net	119,020	87,110
Mortgage loans held for sale	101,876	281,420
Derivative assets	22,204	14,969
Homebuilding inventory	-	739
Prepaid expenses and other assets, net	16,296	12,426
Loans receivable, net	271,569	237,669
Investments in unconsolidated partnerships	150,371	121,222
Restricted investments	52,882	58,595
Deferred tax assets, net	-	843
Mortgage servicing rights, net	93,333	69,956
Property and equipment, net	65,211	73,431
Intangible assets, net	19,057	22,238
Goodwill	9,543	9,543
	<u> </u>	<u> </u>
Total assets	<u>\$ 1,229,697</u>	<u>\$ 1,324,120</u>
 <u>Liabilities and Net Assets</u>		
Liabilities		
Accounts payable and accrued expenses	\$ 77,080	\$ 65,530
Capital contributions payable	88,599	61,018
Funds held for others	27,525	19,194
Deferred tax liabilities, net	8,197	-
Derivative liabilities	15,930	9,238
Indebtedness	423,530	577,522
Losses in excess of investments in unconsolidated partnerships	1,912	1,811
Mortgage servicing obligations, net	98	85
Allowance for loan loss sharing	16,797	12,563
Deferred revenue and other liabilities	19,213	12,616
	<u> </u>	<u> </u>
Total liabilities	<u>678,881</u>	<u>759,577</u>
Commitments and contingencies	-	-
Net assets		
Net assets without donor restrictions	295,810	278,327
Net assets without donor restrictions - noncontrolling interest	54,639	49,601
Net assets with donor restrictions	200,367	236,615
	<u> </u>	<u> </u>
Total net assets	<u>550,816</u>	<u>564,543</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 1,229,697</u>	<u>\$ 1,324,120</u>

See Notes to Consolidated Financial Statements.

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

Consolidated Statements of Activities Years Ended December 31, 2019 and 2018 (\$ in thousands)

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support						
Gains from mortgage banking activities	\$ 111,475	\$ -	\$ 111,475	\$ 89,364	\$ -	\$ 89,364
Syndication fees	47,121	-	47,121	33,178	-	33,178
Interest income	36,389	-	36,389	30,507	-	30,507
Contributions	2,141	33,976	36,117	8,726	193,202	201,928
Asset management fees	27,698	-	27,698	24,595	-	24,595
Loan servicing fees	21,478	-	21,478	16,432	-	16,432
Grants and contracts	20,927	-	20,927	13,262	9,300	22,562
Property management fees	20,270	-	20,270	16,780	-	16,780
Rental income	10,544	-	10,544	10,911	-	10,911
Development and construction management fees	8,068	-	8,068	6,940	-	6,940
Investment income	3,827	423	4,250	2,098	409	2,507
Advisory services and other fees	4,166	-	4,166	5,828	-	5,828
Sales of real estate	1,914	-	1,914	1,625	-	1,625
Other revenue	11,145	-	11,145	8,854	-	8,854
	327,163	34,399	361,562	269,100	202,911	472,011
Net assets released from restrictions	73,545	(73,545)	-	54,187	(54,187)	-
Total revenue and support	400,708	(39,146)	361,562	323,287	148,724	472,011
Expenses						
Program activities	346,930	-	346,930	296,999	-	296,999
Management and general	15,544	-	15,544	13,023	-	13,023
Fundraising	5,682	-	5,682	4,929	-	4,929
Total expenses	368,156	-	368,156	314,951	-	314,951
Net realized and unrealized gain (loss) on investments	1,050	2,898	3,948	(509)	(1,454)	(1,963)
Impairment of investments in unconsolidated partnerships	(1,501)	-	(1,501)	(699)	-	(699)
Equity in net income from unconsolidated partnerships	546	-	546	2,072	-	2,072
Inherent contribution	-	-	-	79,339	4,600	83,939
Change in net assets before income taxes	32,647	(36,248)	(3,601)	88,539	151,870	240,409
Income tax expense	4,192	-	4,192	1,212	-	1,212
Change in net assets	28,455	(36,248)	(7,793)	87,327	151,870	239,197
Change in net assets, noncontrolling interest	(12,816)	-	(12,816)	(17,079)	-	(17,079)
Change in net assets, controlling interest	\$ 15,639	\$ (36,248)	\$ (20,609)	\$ 70,248	\$ 151,870	\$ 222,118

See Notes to Consolidated Financial Statements.

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

Consolidated Statement of Functional Expenses
Years Ended December 31, 2019 and 2018
(\$ in thousands)

Expenses	2019				2018			
	Program activities	Management and general	Fundraising	Total	Program activities	Management and general	Fundraising	Total
Salaries and employee benefits	\$ 187,035	\$ 11,493	\$ 4,119	\$ 202,647	\$ 165,883	\$ 9,023	\$ 4,060	\$ 178,966
Grants	50,879	-	-	50,879	34,827	-	-	34,827
Professional and contract services	21,726	896	553	23,175	21,605	1,283	178	23,066
Interest expense	22,344	-	-	22,344	17,418	-	-	17,418
General operating expenses	16,351	1,372	321	18,044	11,861	893	217	12,971
Occupancy	17,022	591	242	17,855	14,000	680	251	14,931
Depreciation and amortization expense	14,519	596	63	15,178	13,829	424	66	14,319
Travel and related costs	5,609	341	133	6,083	5,074	309	143	5,526
Provision for loan losses and bad debt expense	5,618	-	-	5,618	6,852	-	-	6,852
Marketing expenses	1,701	230	143	2,074	1,306	391	-	1,697
Cost of real estate sold	1,876	-	-	1,876	1,967	-	-	1,967
Meetings and conferences	1,094	25	108	1,227	1,161	20	14	1,195
Development contract costs	1,156	-	-	1,156	1,216	-	-	1,216
	<u>\$ 346,930</u>	<u>\$ 15,544</u>	<u>\$ 5,682</u>	<u>\$ 368,156</u>	<u>\$ 296,999</u>	<u>\$ 13,023</u>	<u>\$ 4,929</u>	<u>\$ 314,951</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, 2019 and 2018
(\$ in thousands)

	Without Donor Restrictions			With Donor Restrictions	Consolidated Net Assets
	Controlling Interest	Noncontrolling Interest	Total		
Balance, December 31, 2017	\$ 209,237	\$ 36,586	\$ 245,823	\$ 84,745	\$ 330,568
Contributions	-	5,027	5,027	-	5,027
Distributions	-	(8,086)	(8,086)	-	(8,086)
Redemption of noncontrolling member's interest	-	(117)	(117)	-	(117)
Reallocation of interests to reflect ownership share	888	(888)	-	-	-
Transfer of net assets upon deconsolidation	(2,046)	-	(2,046)	-	(2,046)
Change in net assets	<u>70,248</u>	<u>17,079</u>	<u>87,327</u>	<u>151,870</u>	<u>239,197</u>
Balance, December 31, 2018	278,327	49,601	327,928	236,615	564,543
Impact of change in accounting policy (see Note 2)	4,591	-	4,591	-	4,591
Contributions	-	9,129	9,129	-	9,129
Distributions	-	(4,881)	(4,881)	-	(4,881)
Redemption of noncontrolling member's interest	-	(14,773)	(14,773)	-	(14,773)
Reallocation of interests to reflect ownership share	(2,747)	2,747	-	-	-
Change in net assets	<u>15,639</u>	<u>12,816</u>	<u>28,455</u>	<u>(36,248)</u>	<u>(7,793)</u>
Balance, December 31, 2019	<u>\$ 295,810</u>	<u>\$ 54,639</u>	<u>\$ 350,449</u>	<u>\$ 200,367</u>	<u>\$ 550,816</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, 2019 and 2018
(\$ in thousands)

	2019	2018
Cash flows from operating activities		
Changes in net assets	\$ (7,793)	\$ 239,197
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	15,178	14,319
Amortization of debt issuance costs	601	503
Deferred tax expense	3,821	642
Gain upon sale of investments in unconsolidated partnerships	(150)	(1,107)
Gain upon sale of affordable housing property	(2,445)	-
Equity in net income from unconsolidated partnerships	(546)	(2,072)
Loss on disposition of property and equipment, net	59	99
Provision for loan losses	5,428	2,959
Bad debt expense	190	-
Impairment expense	1,501	699
Net realized and unrealized (gain) loss on investments	(3,948)	1,963
Trading gains on mortgage loans held for sale	(1,591)	(2,420)
Origination of mortgage servicing rights	(35,671)	(22,452)
Amortization of mortgage servicing rights	13,564	10,635
Inherent contribution income upon acquisition of CPDC	-	(83,939)
(Increases) decreases in assets:		
Contributions receivable, net	5,159	1,166
Accounts and other receivables, net	(32,896)	14,336
Loans receivable, net	(2,418)	(1,851)
Mortgage loans held for sale	179,878	(24,700)
Derivative assets	(7,235)	(6,509)
Homebuilding inventory	739	165
Investments in unconsolidated partnerships	(3,898)	1,222
Other assets	(3,967)	105
Increases (decreases) in liabilities:		
Accounts payable, accrued expenses, and other liabilities	19,921	7,445
Funds held for others	8,390	(11,015)
Deferred tax liabilities, net	5,219	-
Derivative liabilities	6,692	5,717
Indebtedness	2,107	2,090
Net cash provided by operating activities	165,889	147,197
Cash flows from investing activities		
Advances on loans receivable	(87,416)	(113,843)
Repayments of loans receivable	55,986	68,523
Advances on notes receivable	(770)	(1,318)
Repayments of notes receivable	1,109	1,796
Net proceeds from sales (purchases) of investments	10,316	4,490
Purchases of property and equipment	(15,656)	(16,569)
Investments made in unconsolidated partnerships	(3,682)	-
Net cash acquired from purchase of partnerships	1,924	-
Proceeds from sale of investments in unconsolidated partnerships	155	2,341
Cash acquired from CPDC upon gaining control	-	17,514
Cash transferred out upon deconsolidation of properties	-	(286)
Net proceeds from sale of affordable housing property	444	-
Capital contributions to unconsolidated partnerships	(113)	(11,785)
Distributions from investments in unconsolidated partnerships	6,598	15,721
Net cash used in investing activities	(31,105)	(33,416)

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018
(\$ in thousands)

	2019	2018
Cash flows from financing activities		
Proceeds from indebtedness	87,999	315,351
Indebtedness repayments	(237,129)	(233,089)
Payment of debt issuance costs	(499)	(1,032)
Contributions from noncontrolling interest holders	9,129	4,910
Distributions to noncontrolling interest holders	(15,244)	(8,086)
Net cash (used in) provided by financing activities	<u>(155,744)</u>	<u>78,054</u>
Net (decrease) increase in cash and cash equivalents	(20,960)	191,835
Cash and cash equivalents, beginning of year	<u>317,557</u>	<u>125,722</u>
Cash and cash equivalents, end of year	<u><u>\$ 296,597</u></u>	<u><u>\$ 317,557</u></u>
Supplementary disclosure of cash flow information:		
Cash paid for interest during the year, net of amounts capitalized	<u><u>\$ 19,578</u></u>	<u><u>\$ 11,695</u></u>
Income taxes paid, net	<u><u>\$ 832</u></u>	<u><u>\$ 473</u></u>
Reconciliation of cash, cash equivalents, and restricted cash and cash equivalents presented in the statements of cash flows:		
Cash and cash equivalents	<u>\$ 92,159</u>	<u>\$ 99,881</u>
Restricted cash and cash equivalents	<u>204,438</u>	<u>217,676</u>
Total cash, cash equivalents, and restricted cash and cash equivalents presented in the statements of cash flows	<u><u>\$ 296,597</u></u>	<u><u>\$ 317,557</u></u>
Supplementary disclosure of significant noncash investing and financing activities:		
Commitments to make capital contributions to unconsolidated partnerships	<u><u>\$ 88,301</u></u>	<u><u>\$ 61,018</u></u>
Transfers of investments in unconsolidated partnerships	<u><u>\$ 60,620</u></u>	<u><u>\$ 91,864</u></u>
Noncontrolling member's interest was decreased and indebtedness was increased for redemption of member's interest	<u><u>\$ 4,410</u></u>	<u><u>\$ -</u></u>
Disposal of fully depreciated property and equipment	<u><u>\$ 668</u></u>	<u><u>\$ 388</u></u>
Recovery of loans receivable presented as a loan payable repayment	<u><u>\$ 158</u></u>	<u><u>\$ -</u></u>
Fully reserved loans and notes receivable written off	<u><u>\$ -</u></u>	<u><u>\$ 2,800</u></u>
Net assets without donor restrictions was increased and accounts and other receivables and deferred revenue were decreased for a change in accounting policy	<u><u>\$ 4,591</u></u>	<u><u>\$ -</u></u>

See Notes to Consolidated Financial Statements.

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

Notes to Consolidated Financial Statements December 31, 2019 and 2018

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 controlling interest, 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 primarily 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 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 unconditional contributions, evaluation of the collectability of accounts, contributions and other receivables, assessment of the value of investments in unconsolidated partnerships, goodwill and homebuilding inventory, estimation of the cost of real estate sold, valuation of mortgage loans held for sale ("MLHS"), derivative assets and liabilities and mortgage servicing rights ("MSRs"), useful lives of property and equipment and intangible assets, 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, breakout of expenses between functional expense category, 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 charitable foundation. Our mission is to create opportunities for low- and moderate-income people through fit, affordable housing and diverse, thriving communities. Partners accomplishes this mission by providing local communities technical assistance, training and financial resources. More specifically, we provide: operating grants to community organizations; loans to community-based developers of low-income housing, community organizations and certain affiliates; technical services and training programs; and research and information services. Partners obtains funding primarily from contracts, grants and contributions from the federal government, foundations, corporations, individuals, state and local governments and through services provided to and grants received from subsidiaries and affiliates.

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

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

Notes to Consolidated Financial Statements December 31, 2019 and 2018

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.

Loan Fund is a 501(c)(3) and 509(a)(2) organization, and 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. During 2018, control of Loan Fund was transferred from Partners to Investment. As this transfer was made between entities that consolidate into these financial statements, the transfer of control had no impact on these consolidated financial statements.

Bellwether originates permanent loans 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 a licensed Freddie Mac Optigo Seller Servicer of Conventional, Manufactured Housing Community, Senior Housing and Targeted Affordable Housing ("TAH") Loans. 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 23). As of December 31, 2019 and 2018, Investment's controlling ownership interest in Bellwether was 59.01% and 55.14%, respectively. Subsequent to December 31, 2019, a portion of our ownership interest in Bellwether was sold. See Note 27 for more information on the sale.

Acquisition of CPDC

On January 1, 2018, Investment obtained control of Community Preservation and Development Corporation and Subsidiaries, namely Community Housing, Inc. ("CHI") (collectively, "CPDC"). Community Preservation and Development Corporation and CHI are both 501(c)(3) not-for-profit organizations. As of the acquisition date, CPDC controlled seven operating affordable housing properties and seven affordable housing properties in the predevelopment stage.

We obtained control of CPDC as a result of amendments made to CPDC's governance documents which provided us with control over the appointment of individuals to CPDC's board of directors. CPDC is an affordable housing developer headquartered in Maryland, and it holds interests in affordable housing projects in Washington, D.C, Maryland and Virginia. CPDC specializes in the 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 certain of its developments aimed primarily at youth and seniors. We accounted for this transaction in accordance with business combinations guidance. As there was no consideration paid by us when control was obtained, and the fair value of assets acquired exceeded the fair value of liabilities acquired, contribution income was recognized upon acquisition.

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

Notes to Consolidated Financial Statements December 31, 2019 and 2018

The acquisition had a significant impact on our consolidated financial statements. The initial effect on these financial statements upon acquisition are summarized as follows (\$ in thousands):

Cash and cash equivalents	\$ 4,303
Restricted cash and cash equivalents	13,211
Accounts and other receivables	5,841
Prepaid expenses and other assets	1,040
Loans receivable	16,056
Investments in unconsolidated partnerships	25,746
Property and equipment	60,042
Intangible assets	18,463
Accounts payable and accrued expenses	(4,860)
Funds held for others	(456)
Indebtedness	(55,430)
Deferred revenue	(17)
Inherent contribution	(83,939)

Deconsolidation of affordable housing properties

As previously noted, CPDC controlled seven affordable housing properties in the predevelopment stage as of the acquisition date. During 2018, three of these properties admitted third-party limited partners as they transitioned to the development stage. As a result of their admission, these third-party limited partners hold substantive participating rights over the significant operating activities of each of the three properties and therefore these entities were deconsolidated as of the date the third-party limited partners were admitted. As a result of the deconsolidation, we transferred assets and liabilities summarized as follows:

Cash and cash equivalents	\$ (286)
Intangible assets	(2,046)
Loans receivable, net	4,542
Property and equipment	(5,734)
Indebtedness	1,478
Net assets without donor restrictions	2,046

As we continue to hold a general partner interest in each of these properties ranging from 0.1% to 1% after the admission of the limited partners, which is accounted for under the equity method, the deconsolidation resulted in us recording an investment of \$300, which is equal to our capital commitment to the properties. This initial investment, adjusted for any investment activity subsequent to the date of deconsolidation, is included in investments in unconsolidated partnerships in the consolidated statements of financial position.

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Sale of affordable housing property

On September 27, 2019, we sold our limited partner interest in an affordable housing property that we had previously controlled and therefore consolidated into these financial statements. Subsequent to the sale of the limited partner interest, the new third-party limited partner held substantive participating rights over the significant activities of the housing property and therefore the housing property was deconsolidated as of the date the limited partner interest was sold. The effect on these financial statements upon sale is summarized as follows (\$ in thousands):

Cash and cash equivalents	\$ 772
Restricted cash and cash equivalents	(328)
Accounts and other receivables, net	592
Prepaid expenses and other assets	(117)
Loans receivable, net	1,221
Property and equipment, net	(18,476)
Accounts payable and accrued expenses	264
Funds held for others	72
Indebtedness	18,434
Deferred revenue	11
Gain upon sale	(2,445)

Acquisition of affordable housing property

On December 31, 2019, we purchased the limited partner interest in an affordable housing property that we had previously held the general partner interest in for \$0.7 million. Subsequent to the purchase of the limited partner interest, we wholly-own the affordable housing property and therefore upon purchase have consolidated the assets and liabilities into these financial statements. As the purchase of the affordable housing property did not constitute the purchase of a business, it has been accounted for as an asset acquisition. Under asset acquisition accounting guidance, the purchase price is allocated to the individual assets acquired and liabilities assumed based on their relative fair values, and generally no gain or loss upon purchase is recognized. The initial effect on these financial statements upon acquisition are summarized as follows (\$ in thousands):

Cash and cash equivalents	\$ 75
Restricted cash and cash equivalents	740
Prepaid expenses and other assets	20
Property and equipment, net	7,336
Intangible assets	725
Accounts payable and accrued expenses	(1,457)
Funds held for others	(13)
Indebtedness	(7,420)
Deferred revenue	(6)

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:

- Net assets without donor restrictions - Net assets not subject to donor-imposed restrictions.

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- Net assets with donor restrictions - Net assets subject to donor-imposed restrictions that will be met by our actions and/or the passage of time, or maintained perpetually by us.

Revenue is reported as increases in net assets without donor restrictions unless use of the related assets are limited by donor-imposed restrictions. Investment proceeds and realized/unrealized gains and losses are reported as changes in net assets without donor restrictions unless specifically limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expirations of donor 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 from net assets with donor restrictions to net assets without donor restrictions.

Partners has been the recipient of several contributions which are designated to provide gap financing for affordable housing projects, capacity building support to land bank and community land bank trust and code enforcement/housing improvements in New York. The majority of these funds are distributed as pass-through funding with a small portion of the funds being designated to cover our operating costs to administer the program. The net assets with donor restrictions balance for this program includes designated pass-through funds in the amount of \$130 million and \$169 million as of December 31, 2019 and 2018, respectively.

Note 2 - Significant accounting policies

Revenue recognition and related matters

Effective January 1, 2019, except for Loan Fund, where it was effective January 1, 2018, we adopted new guidance related to the recognition of revenue from contracts with customers. This guidance is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is not recognized unless collectability under the contract is considered probable, the contract has commercial substance and the contract has been approved. Additionally, the contract must contain payment terms, as well as the rights and commitments of both parties. The guidance also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. Gains from mortgage banking activities, interest income, loan servicing fees, and contributions and grants are excluded from the new guidance and such revenue is recognized when earned and realized as detailed below.

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 costs, and the estimated fair value of the expected net cash flows associated with the servicing of the loan. Also, included in gains from mortgage banking activities are changes to the fair value of loan commitments, forward sale commitments, and loans held for sale that occur during their respective holding periods. Upon sale of the loans, no gains or losses are recognized as such loans are recorded at fair value during their holding periods. MSRs are recognized as assets upon the sale of the loans. Additionally,

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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.

Syndication fees

We earn syndication fees for services relating to forming limited partnership entities, particularly LIHTC funds (known as "Investment Funds"), selling interests in those partnerships to investors and acquiring interests in affordable housing projects 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 projects are recognized as the partnerships acquire property interests, which is deemed to be the point our performance obligation has been satisfied and control has been transferred to the customer, 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 the Investment Funds have short-term liquidity needs. 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 fees in the consolidated statements of activities.

Interest income

Interest income on loans receivable and notes receivable is accrued on the principal balance outstanding at the contractual interest rate. 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. For certain loans and notes receivable that were initially recorded at fair value due to rules surrounding accounting for business combinations, interest income is accrued using the effective interest method.

Effective interest method

Interest income is accrued using the effective interest method on loans and notes receivable, and interest expense is accrued using the effective interest method on loans and notes payable that were recorded initially in these financial statements at their fair values due to rules surrounding accounting for business combinations.

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 net assets with donor restrictions and are reclassified to net assets without donor restrictions at the time the condition for release of restriction is met. We have elected the simultaneous release option for donor-restricted contributions meaning contributions whose restrictions are met in the same reporting period as the revenue is recorded are recognized directly to net assets without donor restrictions. 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 net assets without donor restrictions. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Conditional promises to give received during 2019 totaled \$7.5 million. As of

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December 31, 2019, \$0.2 million is included in net assets with donor restrictions, since the conditions were met, and the remaining \$7.3 million is included in deferred revenue and other liabilities on the consolidated statements of financial position.

Contributions recognized that are to be received more than one year after the formal contribution date 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 2019 and 2018 was 2.86% and 4.11%, respectively. Amortization of the discount is recorded as additional contribution revenue. Contributions of assets other than cash are recorded at estimated fair value at the date of the gift.

An allowance for uncollectible contributions receivable is made based upon management's judgment, based on factors such as prior collection history, the type of contribution and other relevant factors.

Contributions with donor imposed restrictions, excluding the pass-through contributions discussed in Note 1, from the top five contributors comprise approximately 60% and 28% of total contributions for 2019 and 2018, respectively.

Asset management fees

We earn asset management fees in providing oversight and management services relating to investments held by various affiliated partnerships. Revenue is recognized under the terms of the related agreements, over time as we provide the contracted services to the customers and collectability is reasonably assured. Certain syndication fees are associated with asset management services to be performed throughout the life of the limited 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 over time as revenue when services are performed.

Loan servicing fees

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

Grants and contracts

Grants and contracts are funded from government sources and 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 specified percentage of direct costs. The revenue related to direct and indirect costs is recorded as an addition to net assets without donor restrictions.

Approximately 83% and 78% of grants and contract revenue is derived from federal funding reimbursements in 2019 and 2018, respectively. Approximately 55% and 38% of the federal funding is provided by the U.S. Department of Housing and Urban Development ("HUD") in 2019 and 2018, respectively.

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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 over time as we provide the contracted services.

Rental income

Rental income is recognized on the accrual basis over time as services are provided to tenants, and collectability is reasonably assured. Advance receipts of rental income are deferred and classified as liabilities until earned. All leases between properties and tenants are considered to be operating leases.

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, in accordance with development fee or construction management fee agreements. We view our contractual obligations under these agreements as a single performance obligation and recognize revenue over time 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. Certain portions of development and construction management fee revenue may be deferred due to contractual support obligations that may require funding from us after the completion of the construction period of the low-income housing rental project. These deferrals are recognized after it is reasonably estimable that we have no further support obligations that will require funding under the contract which generally occurs after construction completion and stabilization, as defined in the contract, of the low-income housing rental project. Revenue recognized in excess of billings recorded are accounted for as unbilled receivables, and cash received in excess of revenue recognized is accounted for as deferred revenue. Development fee revenue, which is contractually deferred, and will be paid out of the operating cash surpluses of the underlying project are included in deferred development fees, and discounted based upon the net present value of the expected future payments.

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

Investment income

Investment earnings on funds held pursuant to donor-imposed restrictions are reported as investment income and added to net assets with donor restrictions. 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 net assets with donor restrictions.

Advisory services and other fees

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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Sales of real estate

We build single family and townhouse residences that we sell to the ultimate homeowners. Revenue relating to such sales is recognized at the time title to the completed units is transferred to the customer.

Cash and 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 corporate and U.S. government and agency obligations, certificates of deposit, banker's acceptances, repurchase agreements, and money market mutual funds. The carrying value of such investments approximates their market value. Short-term investments with maturities at dates of purchase of three months or less are classified as cash equivalents.

Restricted cash and cash equivalents

Restricted cash and cash equivalents 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

Accounts and other receivables 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.

Short-term loans receivable consisting of term loans, including bridge loans made by Bellwether to borrowers that are awaiting permanent financing, are carried at their uncollected principal balance, and are included in accounts and other receivables, net. Interest income, if applicable, on the short-term loans receivable is recognized on an accrual basis. We routinely evaluate the creditworthiness of our borrowers and other related factors and establish a reserve where we believe collectability is no longer reasonably assured. These short-term loans receivable are generally collateralized by a security interest in the underlying assets and/or other assets owned by the borrowers.

Mortgage loans held for sale

We originate or acquire mortgage loans for sale 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.

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Homebuilding inventory

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 real estate sold 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. Impairment, if any, is included as a component of cost of real estate sold.

Loans receivable

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

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 \$2.8 million in loan participations that did not meet the conditions for sale accounting treatment as December 31, 2019 and 2018. These loan participations were recorded in loans receivable, offset in loans payable, and represent no risk to us (see Note 17). 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 generally 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 and investments, 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 obligations.

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- Monitored - Loans are performing but require monitoring due to change in market, sponsor or other factors that have the potential to impact the borrower's ability to repay 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 accrual of interest income in our statements of activities. Interest payments received on these loans are recognized as either a reduction of principal, or if it is determined that principal can be fully repaid irrespective of collateral value, as interest income. Interest accrual is resumed when the quality of the loan improves sufficiently to warrant interest recognition.

Loans are carried at their unpaid principal balance, less an allowance for loan losses to reflect potentially uncollectable balances. 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.

Principles of consolidation - limited partnerships and similar entities

We have subsidiaries and controlling interests in entities subject to not-for-profit consolidation principles, and subsidiaries and controlling interests in entities subject to for-profit consolidation principles. Not-for-profit consolidation principles require limited partnerships or similar entities to be consolidated by the general partner or managing member under the presumption that the general partner or managing member controls the entity. The presumption of control by a general partner or managing member can be overcome if the limited partners are able to exercise substantive kick-out or participating rights. We do not consolidate limited partnerships or similar entities in which we own a general 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. For limited partnerships or similar entities in which we are solely a limited partner or investor member, we account for these interests using the equity method of accounting if we are able to influence the operating or financial decisions of the entity, or using the fair value method if we are not able to influence those decisions.

Interests in other entities held by our subsidiaries and controlled entities 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 impact 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.

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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 or managing member, our investment balance may be reduced below zero. Distributions we receive from investments with carrying amounts less than zero are recognized as income to the extent the distribution is not indicative of future funding obligation.

Under the fair value method, the investment is carried at fair value with changes in the fair value recognized through changes in net assets. Under the fair value method, investments without a readily determinable fair value, as a practical expedient, may be estimated using the net asset value per share. If no net asset value per share is available, then the investment may be measured at cost minus impairment and adjusted to fair value if a future event occurs that provides us with enough observable inputs to determine the fair value.

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

Restricted investments

Restricted investments at December 31, 2019 and 2018, consisted of stock, marketable securities, and mutual funds. Investment in stock is with the Federal Home Loan Bank of Atlanta, which is accounted for using the cost method as the fair value is not readily determinable. This investment is evaluated annually for impairment. As of and for the year ended December 31, 2019 and 2018, we did not identify any events or changes in circumstances that might have a significant adverse effect on the recorded cost of this investment requiring the recording of a loss on impairment. Investments in marketable securities consist of 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 net assets without donor restrictions unless restricted by a donor.

Mutual fund investments are selected by the participants in our nonqualified deferred compensation plan and long-term equity sharing 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.

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 the current market expected cost to service. 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.

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

Changes in the underlying assumptions could cause the fair value of MSRs to change significantly. To the extent that the carrying value of MSRs exceeds fair value, the asset is considered to be impaired and a valuation reserve is recorded as a reduction of servicing income in current earnings. Valuation reserves are adjusted to reflect changes in the measurement of impairment. At December 31, 2019 and 2018, 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, 2019 and 2018, 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. 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. Such impairment charge is included in depreciation and amortization expense with additional explanation in the appropriate note. 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. The cost of property and equipment and certain intangible assets is depreciated or amortized using the straight-line method over the estimated useful lives of the related assets, which range from one to 40 years. Some intangible assets are amortized ratably as related fees are earned. Land is not depreciated, while leasehold improvements are capitalized and depreciated over the shorter of their useful lives or lease terms. In addition, certain intangible assets are not amortized, rather they are reviewed for impairment annually and whenever a triggering event occurs.

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 cash and cash equivalents and the liability is included in funds held for others.

Debt issuance costs

Debt issuance costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the notes payable and line of credit 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 notes payable with amortizing principal payments and using the straight-line method for line of credit borrowings.

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Repayable grants and forgivable notes payable

We account for grants with repayments terms should compliance requirements not be met and notes that are forgivable should certain compliance requirements be met as loans and notes payable. We recognize the grant income or the debt forgiveness income only when all compliance requirements have been met and no ongoing obligations exist at the end of the compliance period. For loans and notes payable that are forgiven in tranches, we recognized the debt forgiveness income in accordance with the timing of the legal forgiveness of the loans and notes.

Allowance for loan loss sharing

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

Guarantee obligations

We account for our exposure to losses under guarantees by recording a liability equal to the estimated value of the guarantee based on the facts and circumstances existing at the time the guarantee is undertaken. Determining the estimated fair value of a contingent liability requires management 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, 2019 and 2018. 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 certain non-tax credit affordable housing Investment Fund activities. 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 record 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.

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Income tax returns are subject to examination by the Internal Revenue Service for a period of three years. While no income tax returns are currently being examined by the Internal Revenue Service, tax years since 2016 remain open.

Expense allocation

Expenses by function have been allocated among program activities and support services on the basis of an analysis performed by us. Staff time is reviewed for the allocation of other operating expenses except professional and contract services. Professional and contract services is allocated based on its nature or staff time, depending on the type of expense. Cost of real estate sold, interest expense, grant expense, provision for loan losses, and development contract costs are program activities by nature.

Fair value of financial instruments

The carrying amount of investments in fixed income, corporate, and foreign equity securities, MLHS, derivative assets and liabilities and certain investments in unconsolidated partnerships not accounted for under the equity method are recorded at fair value. The carrying amount of other financial instruments approximates their fair values.

Business combinations

Upon the occurrence of a business combination, we generally allocate the purchase price of the entity based upon the fair value of the assets and liabilities acquired.

Transaction costs arising from business combinations, 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.

Changes in accounting principles

During 2019, we adopted new guidance related to contributions received. This update clarifies when contributions are considered to be conditional or unconditional. The changes required by the new guidance have been applied prospectively. Grants received with conditions are recorded as liabilities when the cash is received and recorded as contribution revenue upon satisfaction of the condition.

As previously discussed, effective January 1, 2019, except for Loan Fund, where it was effective January 1, 2018, we adopted new guidance related to the recognition of revenue from contracts with customers. We have elected to utilize the modified retrospective approach in adopting this guidance applied to all contracts not completed as of January 1, 2019. Results for reporting periods beginning after January 1, 2019 are presented under the new guidance while prior period amounts continue to be reported in accordance with legacy guidance. The cumulative effect of adopting this new guidance at the date of initial application, January 1, 2019, is \$4.6 million as reflected on the consolidated statements of changes in net assets. This cumulative effect includes a \$5.1 million decrease in deferred revenue and a \$0.5 million decrease in development fees receivable.

Under legacy guidance we deferred the recognition of syndication fees for certain milestones that the affordable housing projects had to meet subsequent to the sale of the partnership interests in those projects to investors. Under the new guidance, we consider all performance obligations to be

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satisfied upon the sale of the partnership interests in the projects to investors and therefore will no longer defer recognition of the related syndication fees for these milestones.

In addition, under the new guidance the timing of when we recognize development and construction management fees has changed to align the recognition of these fees with when the promised services are transferred to the customer.

The impact to the consolidated statements of activities of adopting this new guidance for the year ended December 31, 2019 is summarized as follows (\$ in thousands):

	For the year ended December 31, 2019		
	Under New Guidance	Under Legacy Guidance	Impact of New Guidance
Syndication fees	\$ 47,121	\$ 47,209	\$ (88)
Development and construction management fees	8,068	8,288	(220)

During 2018, we adopted new guidance related to the presentation of financial statements of not-for-profit entities. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about the expenses and investment return between not-for-profit entities. The changes required by the new guidance have been applied retrospectively to all periods presented. A key change of the new guidance are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions.

Additionally, during 2018, we adopted new guidance related to accounting for equity securities that are not accounted for under the equity method of accounting or result in consolidation of an investee. The change in accounting under the new guidance requires these equity securities to be measured at fair value with changes in the fair value recognized through changes in net assets. In addition, the guidance no longer allows for accounting for these types of equity securities under the cost method.

Finally, during 2018, we adopted new guidance related to the presentation of the statement of cash flows. The change in presentation under the new guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash and cash equivalents. Prior to this guidance, there was significant diversity in practice on how to present changes in restricted cash and cash equivalents on the statement of cash flows.

Upcoming accounting standards

As previously disclosed, the Financial Accounting Standards Board ("FASB") issued new guidance related to contributions received, which we adopted during 2019 as required by the guidance. The guidance also provided similar guidance to contributions made. However, this portion of the guidance is not required to be adopted until annual periods beginning after December 15, 2019. We are currently evaluating the impact to the consolidated financial statements under the new guidance for contributions made.

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The FASB also issued new guidance related to the accounting for leases. This guidance will require lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of activities. Currently, leases are classified as either capital or operating, with only capital leases recognized on the statement of financial position. The reporting of lease-related expenses in the statement of activities and cash flows will be generally consistent with the current guidance. The guidance is currently effective for us for fiscal years beginning after December 15, 2020. As of the report date, the FASB has voted unanimously to consider amending the effective date of this guidance for private companies and not-for-profit entities for fiscal years beginning after December 15, 2021. When adopted, the guidance will be applied using a modified retrospective transition method to the beginning of the year of adoption. We are currently evaluating the impact to the consolidated financial statements under the new guidance.

Note 3 - Liquidity

Our financial assets available to meet general expenditures over the next 12 months consist of the following at December 31 (\$ in thousands):

	2019	2018
Financial assets		
Cash and cash equivalents and investments	\$ 92,654	\$ 99,881
Restricted cash and cash equivalents and investments	257,320	276,271
Contributions receivable, net	11,243	16,402
Accounts and other receivables, net	119,020	87,110
Mortgage loans held for sale	101,876	281,420
Derivative assets	22,204	14,969
Prepaid expenses and other assets, net	6,208	1,296
Loans receivable, net	271,569	237,669
Investments in unconsolidated partnerships	150,371	121,222
Deferred tax assets, net	-	843
Mortgage servicing rights, net	93,333	69,956
Total financial assets	1,125,798	1,207,039
Less amounts not available to be used within one year:		
Restricted cash and cash equivalents and investments	(257,320)	(276,271)
Contributions receivable, net	(11,101)	(16,402)
Accounts and other receivables, net	(61,630)	(28,052)
Mortgage loans held for sale	(100,285)	(279,000)
Derivative assets	(20,012)	(11,816)
Loans receivable, net	(245,437)	(230,559)
Investments in unconsolidated partnerships	(137,957)	(112,706)
Deferred tax assets, net	-	(843)
Mortgage servicing rights, net	(79,207)	(57,206)
Total financial assets not available to be used within one year	(912,949)	(1,012,855)
Financial assets available to meet general expenditures over the next 12 months	\$ 212,849	\$ 194,184

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We consider general expenditures to be operating expenses that will be paid with funds that do not have donor restrictions. A portion of our overall operating expenses are supported by restricted contributions. In addition, a portion of our overall operating expenses are supported by cost reimbursements from Investment Funds we manage. Our overall operating expenses, which do not include depreciation and amortization, and certain programmatic professional and contract services, are approximately \$280 million and \$240 million as of December 31, 2019 and 2018, respectively. The increase in operating expenses is primarily attributed to Bellwether's continued growth, of which a portion is attributable to noncontrolling interests, and the increase is supported by Bellwether's revenue growth.

Reasons for differences between financial assets and amounts not expected to be available to be used within one year are as follows:

- A small portion of contributions receivable may be used for general operations.
- A portion of accounts and other receivables are not expected to be collected within one year.
- As disclosed in Note 7, only a small portion of mortgage loans held for sale represent trading gains expected to be earned when the loans are sold. The remaining proceeds from the sale of these loans will be used to pay back line of credit borrowings.
- Similar to mortgage loans held for sale, as disclosed in Note 9, only a portion of the derivative assets represent accrued fees which will be available to meet general expenditures.
- We expect to be reimbursed for capitalized predevelopment costs paid to third-parties upon closing of the related developments. The remaining balance of prepaid expenses and other assets does not include financial assets.
- Loans and notes payable could be drawn to finance a portion of loans receivable that is currently funded with our cash, providing the cash for additional liquidity. In addition, a portion of loans receivable is expected to be collected and is not expected to be used to pay loans and notes payable.
- We bridge capital to our held for sale investments until they are sold to Investment Funds. This bridged capital is expected to be repaid to us and will then be available to meet general expenditures.
- Only a portion of mortgage servicing rights are expected to be collected within one year.

We also maintain line of credits for potential liquidity needs. Commitments on these lines totaled \$660 million and \$539 million at December 31, 2019 and 2018, respectively, with \$522 million and \$245 million undrawn as of December 31, 2019 and 2018, respectively. Of the undrawn amounts as of December 31, 2019 and 2018, \$58.2 million and \$35 million, respectively, may be used for general corporate purposes while the remaining capacity is generally used to fund our warehousing and lending activity.

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Note 4 - Restricted cash and cash equivalents

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

The significant restricted cash and cash equivalent balances held as of December 31, 2019 and 2018 largely relate to us receiving several grants in 2018 which are designated to provide gap financing for affordable housing projects, capacity building support to land bank and community land bank trust and code enforcement/housing improvements in New York. The majority of these funds are distributed as pass-through funding with a small portion of the funds being designated to cover our operating costs to administer the program. The net assets with donor restrictions balance for this program includes designated pass-through funds in the amount of \$130 million and \$169 million as of December 31, 2019 and 2018, respectively, with the majority of such amounts being included within restricted cash and cash equivalents in the consolidated statements of financial position.

Note 5 - Contributions receivable, net

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

	2019	2018
Unconditional promises expected to be collected in:		
Less than one year	\$ 10,213	\$ 14,559
One year to five years	1,059	1,921
	11,272	16,480
Less unamortized discount	(29)	(78)
Total	<u>\$ 11,243</u>	<u>\$ 16,402</u>

Note 6 - Accounts and other receivables, net

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

	2019	2018
Fees receivable, net	\$ 56,934	\$ 42,705
Borrower bridge loans	36,550	12,802
Notes receivable, net	8,373	9,404
Interest receivable, net	7,578	6,925
Bridge loans to unconsolidated partnerships	5,480	7,840
Contracts receivable, net	4,105	7,434
Total	<u>\$ 119,020</u>	<u>\$ 87,110</u>

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

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Fees due from unconsolidated partnerships are primarily attributable to syndication and asset management fees earned related to Investment Funds in which we hold a general partner or managing member interest. The receivables are due on demand; however, we may elect to defer collection. At December 31, 2019 and 2018, fees due from unconsolidated partnerships totaled \$43.6 million and \$26.6 million, respectively. As of December 31, 2018, \$5.1 million, of the receivables due from these entities were deferred. Due to the change in accounting policy related to revenue recognition discussed in Note 2, no amounts were deferred as of December 31, 2019.

Development fees receivable includes fees that have been billed and uncollected, or unbilled amounts for which revenue was recognized as services provided were transferred to the customer. These development fees are due generally from the customer's annual surplus cash and mature upon expiration of the LIHTC compliance period. As of December 31, 2019 and 2018, the balance of development fees receivable was \$10.9 million and \$11.0 million, respectively.

Other fees receivable which amounted to \$3.6 million and \$6.6 million as of December 31, 2019 and 2018, respectively, 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 the years ended December 31, 2019 and 2018, the allowance for loss on fees receivable was \$1.2 million.

As of December 31, 2019 and 2018, borrower bridge loans are short-term loans made by Bellwether to borrowers that are awaiting permanent financing and bear interest at rates ranging from the greater of 6% or 4.25% plus LIBOR to the greater of 7.0% or 5.25% plus LIBOR and mature no later than June 18, 2020. The loans are secured by the respective underlying properties.

As of December 31, 2019 and 2018, notes receivable, net consists of unsecured notes with carrying balances totaling \$8.4 million and \$9.4 million, respectively. As of December 31, 2019 and 2018, these notes mature on various dates between December 31, 2024 and June 1, 2029, and bear interest at rates ranging from 1% to 3.53%. Two of these notes with a total net balance as of December 31, 2019 and 2018 of \$7.8 million and 8.7 million, respectively, are due from affiliated entities that we do not consolidate. The allowance for loss on notes receivable was \$2.0 million and \$1.2 million as of December 31, 2019 and 2018, respectively.

Interest receivable primarily relates to interest earned on both long and short-term loans and notes receivable.

As of December 31, 2019 and 2018, bridge loans to unconsolidated partnerships consists 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 2.00% to 7.45% and are generally due within 12 months of the loan date.

Contracts receivable primarily consists of amounts due from government entities.

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Note 7 - Mortgage loans held for sale

At December 31, 2019 and 2018, MLHS were recorded at fair value. The unpaid principal balance at December 31, 2019 and 2018, of MLHS was \$98.4 million and \$276.6 million, respectively, and all of the MLHS are current. The difference between the carrying amount of the MLHS and the unpaid principal balance consists of trading gains and gains on originated MSRs, both included in gains from mortgage banking activities on the accompanying consolidated statements of activities (\$ in thousands):

	2019	2018
Unpaid principal of MLHS	\$ 98,417	\$ 276,640
Trading gains on MLHS	1,591	2,420
Gains on MSRs	1,868	2,360
Total	<u>\$ 101,876</u>	<u>\$ 281,420</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 retained 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):

	2019	2018
Contractual loan origination and related fees, net	\$ 52,757	\$ 46,588
Originated MSRs	35,671	22,452
Trading gains	18,386	14,286
Derivative gains on outstanding commitments	4,661	6,038
Total	<u>\$ 111,475</u>	<u>\$ 89,364</u>

Note 9 - Derivative instruments

Derivative assets and liabilities consist of forward commitments to fund 57 and 56 loans as of December 31, 2019 and 2018, respectively, and sell 59 and 63 loans as of December 31, 2019 and 2018, respectively. The amounts related to these commitments are summarized as follows (\$ in thousands):

December 31, 2019	Asset	Liability	Net
Interest rate	\$ 15,930	\$ 15,930	\$ -
Accrued fees	2,192	-	2,192
MSRs	4,082	-	4,082
Total	<u>\$ 22,204</u>	<u>\$ 15,930</u>	<u>\$ 6,274</u>

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December 31, 2018	Asset	Liability	Net
Interest rate	\$ 9,238	\$ 9,238	\$ -
Accrued fees	3,153	-	3,153
MSRs	2,578	-	2,578
Total	<u>\$ 14,969</u>	<u>\$ 9,238</u>	<u>\$ 5,731</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 completely 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 right assets 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.

Derivative instruments are classified as Level 3 in the fair value hierarchy (see Note 26). The following is a roll forward of derivative assets and liabilities, net from January 1, 2018 to December 31, 2018 (\$ in thousands):

Balance at beginning of year, net	\$ 4,939
Realized gains recorded in earnings	54,535
Unrealized gains recorded in earnings	6,038
Settlements of prior year commitments	(5,245)
Settlements of current year commitments	<u>(54,536)</u>
Balance at end of year, net	<u>\$ 5,731</u>

New guidance was issued that updates disclosure requirements for fair value measurements. Among other things, the updated guidance removes the disclosure requirement for changes in unrealized gains and losses for recurring Level 3 fair value measurements. In its place, the guidance requires the disclosure of transfers into and out of Level 3 assets and liabilities and purchases and issues of Level 3 assets and liabilities. This change in the disclosure requirement is required to be applied prospectively in the initial year of adoption, which for us was 2019.

There were no transfers into or out of Level 3 assets or liabilities during 2019. Derivative instruments on mortgage banking activity classified as Level 3 assets were entered into during 2019, with the exception of \$2.6 million in net derivative instruments associated with commitments at December 31, 2019 that were entered into in previous years

Note 10 - Homebuilding inventory

Homebuilding inventory included capitalized costs from the Renaissance Square development project. As of December 31, 2018, homebuilding inventory consisted of real estate held for production. All homebuilding inventory had been sold as of December 31, 2019. Additionally, capitalized interest incurred on project borrowings totaled \$0.4 million as of December 31, 2018, included in homebuilding inventory on the consolidated statements of financial position. No interest was capitalized on project borrowings for the year ended December 31, 2019.

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The land for Renaissance Square was conveyed by Baltimore County per an agreement of sale dated August 16, 2007. Upon conveyance, management determined that the land had no value. Additionally, Baltimore County had agreed to contribute toward land development costs. This contribution was expected to cover the total cost of land development at Renaissance Square. The Baltimore County contribution was provided proportionally at the beginning of each of the three phases of the project. As a result of the land conveyance and Baltimore County contribution, there are no land costs or land development costs in homebuilding inventory as of December 31, 2019 and 2018. The total amount of land development costs contributed by Baltimore County was \$4.2 million as of December 31, 2019 and 2018, which represents the entire amount Baltimore County contributed.

As of December 31, 2019, the development project has been completed and all units have sold. As of December 31, 2018, there were six more units to sell. During 2018, certain issues were identified by management which created an uncertainty as to recoverability. As a result, management analyzed the projected future net cash flows anticipated to be received from the development and concluded that the carrying value of the asset was impaired and had to be reduced to its fair market value. Accordingly, an impairment loss of \$0.4 million was recorded during the year ended December 31, 2018 and is included as a component of program activities on the consolidated statements of activities.

Note 11 - Loans receivable, net

Since 1981, Loan Fund has closed approximately \$2.08 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, private contributions and net assets. As of December 31, 2019 and 2018, the net balance of these loans receivable totaled \$235.8 and \$216.0 million, respectively. Of these amounts, \$87.3 million and \$65.9 million as of December 31, 2019 and 2018, respectively, were due within one year. These loans are secured through a variety of collateral arrangements. As of December 31, 2019, 79% of these loans receivable were secured by first liens placed on the underlying real estate; 8% were unsecured or secured by subordinate liens; and 13% 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 mature at various dates between 2019 and 2046, and bear interest at varying rates which in the aggregate approximate 5.5% and 5.6% as of December 31, 2019 and 2018, respectively. In accordance with Loan Fund's historical practice, 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. There were three loans receivable as of December 31, 2019 with maturity dates in 2019, of which two were extended until the end of 2020 and one was repaid in January of 2020.

Loan participations outstanding totaled \$47.0 million and \$36.0 million at December 31, 2019 and 2018, respectively.

The allowance for loan losses based on the above loans receivable portfolio was 3.63% and 3.72% as of December 31, 2019 and 2018, respectively. After adjusting for loan participations that did not meet the requirements for sale treatment, the allowance for loan losses was 3.67% and 3.77% for the same periods.

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In addition to the above loan portfolio, we have loans receivable due from several LIHTC projects in which we own a general partner interest. Five of these loans are secured by the properties and four are unsecured. The notes mature at various dates between 2050 and 2055, and bear interest at rates ranging from noninterest-bearing to 5.5%. As of December 31, 2019 and 2018, the net carry value of these loans receivable totaled \$6.4 million and \$5.8 million, respectively. While these loans do not have an allowance as of December 31, 2019 or 2018, they were obtained during third party acquisitions in previous years and were therefore initially recorded at fair value. The contractual amounts due under these loans receivable generally exceeds their carrying values.

Loans receivable also includes loans to employees of Bellwether that were made to assist the employees acquiring equity interest in Bellwether. Principal and accrued interest on these loans are due in quarterly installments through the maturity dates which range from December 31, 2023 to June 30, 2029, and bear interest at rates ranging from 4% to 5%. The employee loans are secured by their member interest in Bellwether. As of December 31, 2019 and 2018, the outstanding balance of these loans totaled \$9.7 million and \$2.4 million, respectively.

As part of the acquisition of CPDC, we acquired loans receivable whose net carrying amounts were adjusted to fair value during 2018. These receivables are due from properties in which CPDC holds a general partner interest. During 2019, CPDC advanced additional loans to properties. The notes mature at various dates between 2020 and 2060, and bear interest at rates ranging from 0% to 6%. A significant portion of these loans are secured by the underlying properties, and some are unsecured. The secured notes were generally made to fund operating deficits of the properties or provide grant funding and will be repaid out of property available cash flow. As these loans were obtained as part of a third-party acquisition and were therefore initially recorded at fair value, the contractual amounts due under these loans receivable exceed their carrying values. As of December 31, 2019 and 2018, the net carrying balance of these loans totaled \$19.6 million and \$13.5 million, respectively.

As of December 31, the loans receivable, net consists of the following (\$ in thousands):

	2019	2018
Loans to unaffiliated organizations	\$ 281,361	\$ 246,435
Allowance for loan losses	(9,792)	(8,766)
Loans receivable, net	<u>\$ 271,569</u>	<u>\$ 237,669</u>

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

	2019			2018		
	Housing	Other	Total	Housing	Other	Total
Allowance for loan losses:						
Balance at beginning of year	\$ (5,716)	\$ (3,050)	\$ (8,766)	\$ (4,211)	\$ (1,960)	\$ (6,171)
Net change in allowance for loan losses	(1,156)	145	(1,011)	(1,483)	(1,090)	(2,573)
Write-offs	-	-	-	-	-	-
Recoveries	(15)	-	(15)	(22)	-	(22)
Balance at end of year	<u>\$ (6,887)</u>	<u>\$ (2,905)</u>	<u>\$ (9,792)</u>	<u>\$ (5,716)</u>	<u>\$ (3,050)</u>	<u>\$ (8,766)</u>

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

	2019			2018		
	Housing	Other	Total	Housing	Other	Total
Performing	\$ 179,890	\$ 83,179	\$ 263,069	\$ 154,033	\$ 70,083	\$ 224,116
Monitored	15,376	2,916	18,292	16,287	6,032	22,319
Impaired	-	-	-	-	-	-
Total	<u>\$ 195,266</u>	<u>\$ 86,095</u>	<u>\$ 281,361</u>	<u>\$ 170,320</u>	<u>\$ 76,115</u>	<u>\$ 246,435</u>
Average investment in impaired loans	<u>\$ -</u>	<u>\$ 138</u>	<u>\$ 138</u>	<u>\$ 125</u>	<u>\$ -</u>	<u>\$ 125</u>
Interest income recognized on impaired loans - cash basis	<u>\$ -</u>	<u>\$ 11</u>	<u>\$ 11</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

During the year ended December 31, 2019, one housing loan was modified through a troubled debt restructuring. The balance at restructuring was \$0.9 million, the loan has not defaulted, and additional commitments to lend were \$0.8 million as of December 31, 2019. No loans were restructured during 2018. No loans were more than 30 days past due as of December 31, 2019 and 2018.

Note 12 - Investments in unconsolidated partnerships

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

	2019	2018
Held for sale investments	\$ 100,715	\$ 69,136
Traditional investments in affordable housing	18,963	22,038
Direct investments in affordable housing partnerships	25,093	27,109
Social impact investments	1,069	1,050
Other investments	4,531	1,889
Total	<u>\$ 150,371</u>	<u>\$ 121,222</u>

Held for sale investments

We purchase and hold interests in projects for sale to Investment Funds. Such projects are multi-family low-income housing tax credit properties 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, 2019 and 2018, we held for sale investments in eight and seven projects, respectively. The balance consists of future capital contribution commitments to these projects in the amount of \$89 million and \$61 million at December 31, 2019 and 2018, respectively, with the remaining balance relating to cash investments and other adjustments. The capital contributions payable is reflected as a liability on the consolidated statements of financial position.

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We acquire limited partnership interests (generally 99%) in these properties that are expected to earn tax credits and transfer those interests to Investment Funds for the investor(s) benefit. Our holding period for these investments is generally three to nine months and, during that period, we account for our interest using the equity method of accounting. Typically, due to the short holding period, the carrying amount of the investments approximates their fair value. However, if events or circumstances indicate that the carrying amount exceeds its estimated fair value, an investment will be written down to the fair value. There were no impairment charges incurred for the years ended December 31, 2019 and 2018. During 2018, we sold our investment in four previously impaired properties for more than their net carrying values, resulting in us recognizing a gain on sale of \$0.2 million. These gains upon sales are included in other revenue on the consolidated statements of activities.

Traditional investments in affordable housing partnerships

We hold investor member interests ranging from 1.95% and 5% in three non-tax credit affordable housing investment funds, one of which was acquired during 2019. We also serve as the 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 \$1.7 million and \$2.0 million as of December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, the funds held 28 and 18 investments, respectively.

EHPF was formed on May 15, 2017 as a single-investor Investment Fund, for the purpose of acquiring ownership interests in affordable housing properties located in the mid-Atlantic region. Similar to our other non-tax credit affordable housing investment funds, EHPF is expected to provide returns through cash flow and residual proceeds. We had a maximum capital commitment of \$21.1 million, all of which was contributed as of December 31, 2018, and a 29.6% general partner interest in EHPF. 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 account for our interest in EHPF on the equity method. As of December 31, 2019 and 2018, our investment in EHPF was \$17.3 million and \$20.0 million, respectively. As of December 31, 2019 and 2018, the fund held 33 and 35 investments, respectively.

Direct investments in affordable housing partnerships

At both December 31, 2019 and 2018, we held a direct general partner interest of 0.1% in one and two different low-income affordable housing projects, respectively. We agreed to assume the general partnership interest in these entities pursuant to our fiduciary role in tax credit Investment Funds that hold a majority limited partner interest in the underlying real estate project. We accounted 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.

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In addition, at December 31, 2019 and 2018, we held a direct general partner interest in 55 real estate projects, two of which were acquired during 2018 for a minimal contribution. We disposed of an interest in one of the real estate projects during 2018. Our general partner interest in these projects ranges from 0.005% to 10%. We also directly held three limited partner interests as of December 31, 2019 and 2018 ranging from 14.99% to 49%, and indirectly held 15 and 17, respectively, limited partner interests through EHPF. 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 projects may be negative. We account for these interests on the equity method due to significant participating rights of the project unaffiliated limited partners. As of December 31, 2019 and 2018, our net investment in these projects was \$9.0 million and \$9.4 million, respectively. Included in these net amounts as of December 31, 2019 and 2018 are negative investments of \$0.3 million, which are included in losses in excess of investments in unconsolidated partnerships on the consolidated statements of financial position.

As of December 31, 2019 and 2018, we wholly-owned six and four Investment Funds, respectively, and therefore consolidate them into these financial statements. Each of these Investment Funds holds direct, limited partner interests 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, 2019 and 2018. We paid \$2.8 million for the two new limited partner interests acquired during 2019. Consolidation of the purchased interests resulted in a net increase in cash of \$1.1 million, a decrease in accounts and other receivables of \$0.2 million, and an increase in deferred gain which is included in deferred revenue and other liabilities on the consolidated statements of financial position of \$0.9 million.

As of December 31, 2019 and 2018, we hold a 0.01% limited partner interest in Columbia Apartments LP. Our total capital commitment of \$5.0 million, all of which was paid in a prior year is expected to yield a 6% annual return. Our earnings and return of capital are in a first priority position. As of December 31, 2019 and 2018, our investment in this property was \$4.5 million and \$4.8 million, respectively.

As a result of the acquisition of CPDC in 2018, as of December 31, 2019 and 2018, we hold general partner or similar interests ranging from 0.005% to 15.0% in 27 affordable housing properties. In addition, we hold a 0.01% limited partner interest in one of those affordable housing properties. 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 interest in these properties on the equity method. As of December 31, 2019 and 2018, our investment in these properties was \$11.3 million and \$12.6 million, respectively.

Social Impact investments

We hold a limited partner interest in two partnerships that seek to address pressing social and environmental challenges through debt and equity investments. As of December 31, 2019 and 2018, our ownership interests in these investments are 0.72% and 1.6%. Total capital commitments for both investments is \$1.9 million. Based on the size of our ownership interests in each of the investments, along with the fact that we are unable to influence the operating or financial decisions of the partnerships, these investments are not accounted for on the equity method, rather these investments are accounted for using the fair value method. As of December 31, 2019 and 2018, our investment in the two partnerships was \$1.1 million. As of December 31, 2019 and 2018, we have uncalled capital commitments totaling \$0.6 million and \$0.8 million to these two partnerships, respectively.

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Other investments

We hold between 1.0% and 46.8% limited partner interests in 10 Investment Funds as of December 31, 2019 and 2018. During 2018, we disposed of four limited partner interests for proceeds totaling \$1.0 million, resulting in a gain of \$0.6 million which is included in other revenue on the consolidated statements of activities. We also held a 50% interest in a joint venture that was formed for the sole purpose of holding a 33.8% limited partner interest in an Investment Fund. During 2018, we disposed of this joint venture interest for proceeds totaling \$0.5 million, resulting in a gain of \$0.3 million which is included in other revenue on the consolidated statements of activities. Each of these Investment Funds holds investments in operating partnerships that are either beyond the tax credit delivery period, or that have de minimis tax credits remaining. We determined that these entities are VIEs, and that we are not the primary beneficiary. Accordingly, we account for our interest in these Investment Funds on the equity method. The balance of our investment in these Investment Funds was \$0.9 million at December 31, 2019 and 2018.

We acquired a 33.33% co-member interest in Rivermont Enterprise Capital, LLC ("REC") during 2018. This fund is the manager of a Qualified Opportunity Fund ("QOF") named Rivermont Enterprise Emergent Communities Fund I, LP ("REECF") which holds investments in Qualified Opportunity Zones as designated by the 2017 tax legislation commonly referred to as the Tax Cuts and Jobs Act. In addition, we hold a 17.31% limited partner interest in REECF. This fund's principal business activity is to be a QOF that invests in qualified assets in the Southeastern United States. We determined that these entities are VIEs, and that we are not the primary beneficiary as control is shared amongst the members. Accordingly, we account for our interest in these funds on the equity method. The balance of our investment in these investment funds was \$1.0 million and \$0.1 million at December 31, 2019 and 2018, respectively. As of December 31, 2019, we have fully funded our commitments into these funds.

We also hold several other small investments 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, all of which that are accounted for on the equity method. The balance of our investment in these was \$2.6 million and \$0.9 million as of December 31, 2019 and 2018, respectively.

General partner or managing member interests in Investment Funds

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

We obtained our first interest in one of these tax credit Investment Funds in 1988 and typically obtain an interest in several new Investment Funds each year. The limited partners in these Investment Funds are generally financial institutions that contribute committed capital to fund investments and meet working capital reserve requirements. Most of the real estate partnerships in which these Investment Funds invest must meet certain requirements to be eligible for tax credits. Once the credits are fully earned and tax compliance requirements are met, it is anticipated that the partnerships will be dissolved. Due to the funding obligations of our limited partners, management believes our exposure to loss in excess of our fees relating to these Investment Funds to be insignificant. However, under the equity method of accounting, we are required to record our share of losses from these Investment Funds, and our share of losses generally exceeds our nominal contributions resulting in negative investment balances in these Investment Funds. These negative balances are classified as losses in excess of investments in unconsolidated partnerships in the

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liability section of our consolidated statements of financial position. As the majority of our share of losses from these Investment Funds relate to noncash charges, such as depreciation expense, management believes that this liability generally will not result in a funding requirement by Enterprise and will likely reverse at dissolution of the Investment Funds.

Note 13 - Mortgage servicing rights and obligations, net

As of December 31, 2019 and 2018, Bellwether was servicing 3,525 and 3,364 loans, respectively, with outstanding principal balances of approximately \$25.8 billion and \$22.5 billion, respectively.

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

	<u>2019</u>	<u>2018</u>
MSRs	\$ 93,333	\$ 69,956
Mortgage servicing obligations	<u>(98)</u>	<u>(85)</u>
MSRs, net	<u><u>\$ 93,235</u></u>	<u><u>\$ 69,871</u></u>

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

	<u>2019</u>	<u>2018</u>
Net MSR beginning balance	\$ 69,871	\$ 56,926
MSRs originated, net of obligations recognized	35,671	22,452
Settlement of prior year derivatives to MSRs	765	1,230
Amortization expense and write-offs of MSRs	(13,564)	(10,635)
Change related to MLHS	<u>492</u>	<u>(102)</u>
Net MSR ending balance	<u><u>\$ 93,235</u></u>	<u><u>\$ 69,871</u></u>

Included in the \$93.2 million and \$69.9 million net MSR balances above are servicing contracts related to private/equity loans that are cancellable within 30-90 days and were initially recorded at fair value during previous mergers and acquisitions. Such loans have a net book value of \$1.2 million and \$1.7 million at December 31, 2019 and 2018, 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 servicing assets and liabilities by considering factors such as net future cash flows and discount rates. Management uses 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 servicing assets and liabilities 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>2019</u>	<u>2018</u>
Beginning of year	\$ 143,532	\$ 102,354
Ending of year	\$ 166,533	\$ 143,532
Weighted average discount rate	11%	13%
Weighted average servicing life	128 months	128 months
Weighted average term to payoff	269 months	268 months

For the years ended December 31, 2019 and 2018, 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>2019</u>	<u>2018</u>
Office equipment	\$ 5,910	\$ 4,785
Software applications	48,496	42,491
Furniture and fixtures	6,786	5,983
Leasehold improvements	6,289	5,540
Building and improvements	34,084	38,767
Land	<u>13,142</u>	<u>15,933</u>
	114,707	113,499
Accumulated depreciation and amortization	<u>(49,496)</u>	<u>(40,068)</u>
Property and equipment, net	<u><u>\$ 65,211</u></u>	<u><u>\$ 73,431</u></u>

The software applications asset consists primarily of investments made in proprietary software applications developed for use in providing syndication and asset management services for our affordable housing portfolio.

As discussed in Note 1, CPDC controlled several operating affordable housing properties and seven affordable housing properties in the predevelopment stage. These properties held significant building and improvements and land balances as of December 31, 2019 and 2018.

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Depreciation and amortization expense on property and equipment was \$12.7 million and \$11.9 million for the years ended December 31, 2019 and 2018, respectively. Included in 2019 depreciation and amortization expense is \$0.9 million of impairment of a certain software application whose carrying value as of December 31, 2019 was determined to not be recoverable.

Note 15 - Intangible assets, net and goodwill

We recognized goodwill of \$9.6 million related to mortgage companies acquired in previous years. Goodwill was recognized due to expected synergies from combining operations of these companies with that of Bellwether. Goodwill is not amortized, rather it is reviewed for impairment annually, and whenever a triggering event occurs.

Through a previous acquisition of ownership interests in a portfolio of 43 affordable housing projects, we acquired the rights to property management contracts for all of the properties. 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 of these intangible assets as of December 31, 2019 and 2018 was \$3.6 million.

As part of the CPDC acquisition discussed in Note 1, we acquired the rights to receive certain fees from the properties in which CPDC holds a general partner interest. These include rights to property management fees, community service fees, incentive management fees, and other miscellaneous fees. The intangible assets related to these fees will not be amortized, rather reviewed for impairment annually, and whenever a triggering event occurs. The value of these fees upon acquisition was \$4.0 million. During 2019, certain triggering events occurred including a change in the terms of some of the fee contracts, as well as a decline in performance of certain of the properties which caused us to reevaluate the value of a portion of these intangible assets. Based on this reevaluation using a discounted cash flow analysis, we recorded impairment expense of \$0.6 million during 2019. The balance of these intangible assets as of December 31, 2019 and 2018, was \$3.4 million and \$4.0 million, respectively.

In addition to the aforementioned intangible assets with indefinite lives, we have also recognized several intangible assets with finite lives that are being amortized, which consist of the following at December 31 (\$ in thousands):

	2019		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Borrower relationships	\$ 8,132	\$ 5,137	\$ 2,995
Rights to development fees	2,802	1,131	1,671
In-place leases	29	-	29
Ground leases	7,667	179	7,488
Total	<u>\$ 18,630</u>	<u>\$ 6,447</u>	<u>\$ 12,183</u>

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		2018	
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Borrower relationships	\$ 8,132	\$ 4,324	\$ 3,808
Rights to development fees	2,802	68	2,734
In-place leases	1,559	1,559	-
Ground leases	8,111	-	8,111
Total	<u>\$ 20,604</u>	<u>\$ 5,951</u>	<u>\$ 14,653</u>

Amortization expense on these intangible assets was \$2.5 million and \$2.4 million for the years ended December 31, 2019 and 2018, respectively.

During 2018, the rights to development fees, in-place leases, and ground leases were all recognized upon the acquisition of CPDC discussed in Note 1. During 2019, we recognized \$28,965 of in-place leases and \$0.7 million of ground leases as part of the acquisition of an affordable housing property discussed in Note 1.

In addition, during 2019, one of the ground leases acquired in 2018 was cancelled. This cancellation caused a triggering event which impaired the full value of the ground lease of \$1.1 million at the time of cancellation. This impairment of \$1.1 million, net of a gain on the cancellation of a related note of \$0.2 million, is included in impairment on the consolidated statements of activities.

All intangible assets, other than goodwill, as of December 31, 2019 and 2018 are included in intangible assets, net on the consolidated statements of financial position.

Lastly, two affordable housing properties in predevelopment controlled by CPDC and thus consolidated as of the acquisition date had rights to lease land which were determined to have a value of \$2.0 million upon acquisition. During 2018, CPDC assigned control of these properties, and as a result, they were deconsolidated. Accordingly, the intangible asset related to the rights to lease land are not included on the consolidated statements of financial position as of December 31, 2018. See Note 1 for more information regarding the deconsolidation of these predevelopment properties.

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

2020	\$ 1,768
2021	1,574
2022	832
2023	468
2024	427
Thereafter	<u>7,114</u>
Total	<u>\$ 12,183</u>

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Note 16 - Income taxes

As described in Note 1, Investment is a 501(c)(4) social welfare organization. While Investment's LIHTC syndication, development, property management and NMTC activities are exempt from income taxes, other activities are taxable including mortgage, LIHTC asset management and certain non-tax credit affordable housing Investment Fund operations. Investment's taxable and tax-exempt increase in net assets before income taxes was \$23.9 million and \$8.6 million for the year ended December 31, 2019 and \$23.0 million and \$46.4 million for the year ended December 31, 2018, respectively.

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

	<u>2019</u>	<u>2018</u>
Current tax expense	\$ 371	\$ 569
Deferred tax expense	<u>3,821</u>	<u>643</u>
Income tax expense	<u>\$ 4,192</u>	<u>\$ 1,212</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 21% for the years ended December 31, 2019 and 2018, as follows (\$ in thousands):

	<u>2019</u>	<u>2018</u>
Tax at statutory rate on income before taxes	\$ 6,824	\$ 14,578
State income tax, net of federal income tax benefits	327	569
Valuation allowance	431	-
Tax effect at statutory rate on income not subject to federal taxes	(716)	(9,751)
Tax effect at statutory rate on income related to noncontrolling interest	(2,691)	(2,356)
Tax refunds	(64)	(429)
Tax credits	(240)	(1,413)
Other	<u>321</u>	<u>14</u>
Income tax expense	<u>\$ 4,192</u>	<u>\$ 1,212</u>

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

	2019	2018
Total deferred assets	\$ 18,585	\$ 17,681
Total deferred liabilities	<u>(26,782)</u>	<u>(16,838)</u>
Deferred (liabilities) assets, net	<u>\$ (8,197)</u>	<u>\$ 843</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, book to tax differences in investments in unconsolidated partnerships and deferred fees.

At December 31, 2019, we have federal and state net operating loss carryforwards of \$24.7 million and \$32.7 million, respectively. These loss carryforwards will expire between 2034 and 2039 for federal and state purposes. A valuation allowance of \$3.5 million and \$1.3 million has been established as of December 31, 2019 and 2018, respectively, due to the uncertainty of realizing certain of these state loss carryforwards and certain other deferred tax assets. Based on projections of future taxable income, management believes that it is more likely than not that the deferred tax assets, net of any valuation allowance, will be realized. The amount of deferred tax assets considered realizable could be reduced if estimates of future taxable income are reduced.

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 2016 and subsequent years. We also generally remain subject to the examination of our various state income tax returns for a period of four to five years from the date the return was filed. Our most significant state tax exposure is within Maryland, the location of our headquarters.

The filing of income tax returns requires management to assess and measure uncertain tax positions. Upon examination of tax positions taken, management concluded that all positions taken on its tax returns exceed the more-likely-than-not threshold and expects to realize the benefit of all positions if examined by a taxing authority. As a result, management concluded that there were no uncertain positions that required measurement in or adjustment to our consolidated financial statements.

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Note 17 - Indebtedness

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

	2019	2018
Loans payable	\$ 291,647	\$ 290,654
Credit line agreements	133,112	287,914
Debt issuance costs	(1,229)	(1,046)
Total	<u>\$ 423,530</u>	<u>\$ 577,522</u>

Loans payable

We had an unsecured \$6.6 million note payable with a partnership owned by affiliates, which bore interest at approximately 1.39% per year. The purpose of the partnership is to make loans to entities that enable the limited partner of the partnership to benefit from the receipt of NMTC and, as a result, the interest rates on the loans were generally below market rate. We had drawn down \$6.6 million in proceeds under this note agreement. The last of the NMTC compliance periods applicable to the loans lapsed September 25, 2015, and therefore use of the funds subsequent to that date had been unrestricted. The note was fully repaid upon its maturity on December 12, 2018. Total interest cost under this note payable was \$0.1 million for the years ended December 31, 2018.

Loan Fund maintains loans payable that fund its lending activity (see Note 11). Total loans payable, net associated with these borrowings as of December 31, 2019 and 2018, were \$199.0 million and \$204.5 million, respectively. Debt issuance cost, net associated with these borrowings as of December 31, 2019 and 2018 was \$0.7 million and \$0.8 million, respectively. These loans payable bear interest at rates which vary from 0% to 4.15% and are repayable through 2047. Most of these borrowings are structured as unsecured. Three of these loans require that we pledge collateral. Based on the requirements of the lender, we pledge the underlying loans receivable, government and agency securities, and/or cash to collateralize draws. Secured loans payable were \$62.8 million and \$57.0 million as of December 31, 2019 and 2018, respectively. Most of these loans payable reflect borrowings that 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 these loans payable may be utilized for working capital purposes. Additionally, certain of these loans payable are guaranteed by Partners and contain covenants that require us to provide reporting on a periodic basis and to meet and maintain specific financial ratios. As of December 31, 2019, the guaranteed amount was \$104 million, which represented 50% of our loans payable.

Certain of these acquired loans payable are considered Equity Equivalent ("EQ2") investments. EQ2 investments are fully subordinated, unsecured obligations that carry fixed interest rates ranging from 2% to 4% and have a rolling maturity. The lender cannot accelerate repayment unless an uncured event of default exists. As of December 31, 2019 and 2018, loans payable included \$7.0 million and \$15.8 million of EQ2 investments, respectively.

In addition, Loan Fund had \$2.8 million of loans payable related to loan participation agreements that did not meet the conditions for sale accounting treatment at December 31, 2019 and 2018. These loans payable are offset by loans receivable and represent no risk to Loan Fund (see Note 11).

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Loan Fund also offers an Impact Note program to individuals, including employees and board members, and institutions. All outstanding Impact Notes were repurchased in August 2018, and the existing program was restructured. We began issuing notes under the program in March 2019. Investments are at a minimum of \$25,000 for 1 to 10 years at interest rates of 0% to 3.5%. As of December 31, 2019, the amount outstanding under the program was \$9.5 million. As of December 31, 2018, there was no outstanding amount under the program.

Total interest cost for Loan Fund borrowings was \$5.7 million and \$5.3 million for the years ended December 31, 2019 and 2018, respectively.

On November 2, 2018, we entered into an unsecured \$30.0 million note payable with two lenders. The note bears interest at a fixed interest rate of 5.19% and matures on May 2, 2024. Debt issuance costs, net of accumulated amortization, totaled \$28,415 as of December 31, 2019 and 2018, related to this borrowing. The outstanding balance as of December 31, 2019 and 2018 was \$28.6 million and \$30 million, respectively. Total interest cost under this note payable was \$1.5 million and \$0.2 million for the year ended December 31, 2019 and 2018, respectively.

On April 1, 2019, we entered into unsecured notes payable in conjunction with the redemption of certain noncontrolling members' interest in Bellwether. The notes bear interest at a fixed rate of 4.0% and mature on October 1, 2023. The outstanding balance as of December 31, 2019 was \$3.6 million. Total interest cost under these notes was \$0.1 million for the year ended December 31, 2019.

We sometimes borrow on behalf of LIHTC properties we own a general partner interest in. We then lend those funds to the LIHTC properties (see Note 11). As of December 31, 2019, we held three of these notes that are noninterest-bearing and mature on dates ranging from 2032 to 2059. The outstanding balance as of December 31, 2019 was \$1.5 million.

As part of the CPDC acquisition, we acquired loans payable. These loans are held by the affordable housing properties that CPDC controls. The loans bear interest at rates which vary from 0% to 12% and are repayable through 2055. Most of these borrowings are secured by the underlying real estate. The carrying value of these loans payable as of December 31, 2019 and 2018 was \$49.0 million and \$55.8 million, respectively. Debt issuance cost, net associated with these borrowings as of December 31, 2019 was \$0.2 million. There were no debt issuance costs as of December 31, 2018. These loans were recorded at fair value upon the acquisition of CPDC, resulting in actual contractual obligations under these loans payable exceeding their carrying value. Total contractual obligations under these loans payable as of December 31, 2019 and 2018 was \$51.1 million and \$58.4 million, respectively.

In addition to the loans payable above, we acquired two secured notes payable with carrying values totaling \$0.4 million and \$0.3 million of December 31, 2019 and 2018, respectively. These notes each bear interest at 1%. All principal and accrued and unpaid interest is payable on June 1, 2033 and October 1, 2037 for each of the notes, respectively. However, the lenders will forgive 10% of the outstanding principal and accrued interest upon each annual anniversary through June 1, 2043 and October 1, 2047, respectively, provided that CPDC is compliant with the covenants of the note. These loans were recorded at fair value upon the acquisition of CPDC resulting in actual contractual obligations under these loans payable exceeding their carrying value. Total contractual obligations under these loans payable as of December 31, 2019 was \$1.0 million.

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Credit line agreements

We have three credit facilities with KeyBank National Association ("KeyBank"). We are subject to an Amended and Restated Master Participation and Facility Agreement (the "Agreement") with KeyBank. Under the terms of the Agreement, we have agreed to sell beneficial ownership interest in eligible loans funded under the Agreement to KeyBank subject to KeyBank's approval. The Agreement is used by us to fund certain of our MLHS. At December 31, 2019 and 2018, the available warehouse facility under the Agreement was \$200 million. Interest is payable at a fluctuating interest rate, which was 3.2125% and 3.8783% at December 31, 2019 and 2018, respectively, and is secured by KeyBank's participation in the eligible loans funded under the Agreement. At December 31, 2019 and 2018, the outstanding balance under these facilities was \$9.7 million and \$94.8 million, respectively. Debt issuance costs, net of accumulated amortization, totaled \$0 and \$11,814 as of December 31, 2019 and 2018, respectively, related to this borrowing. We expect to extend the Agreement at similar terms before the maturity date of July 1, 2020.

We also have a separate Master Participation and Facility Agreement (the "Bridge Agreement") with KeyBank. Under the terms of the Bridge Agreement, we have agreed to sell beneficial ownership interest in eligible loans that will serve as bridge loans pending closing of permanent refinancing, funded under the Bridge Agreement to KeyBank subject to KeyBank's approval. At December 31, 2019 and 2018, the borrowing capacity was \$55 million. Interest is payable at a fluctuating interest rate, which was 4.3125% and 4.8783% at December 31, 2019 and 2018, respectively, and is secured by KeyBank's participation in the eligible loans funded under the Bridge Agreement. A closing fee is payable with the purchase of each participation at the greater of \$7,500 or 15bps of the purchase price. The Bridge Agreement contains certain covenants and restrictions. At December 31, 2019 and 2018, the outstanding balance under this facility was \$27.9 million and \$11.3 million, respectively. We expect to extend the Bridge Agreement at similar terms before the maturity date of July 1, 2020.

In addition, we have a Warehousing Credit and Security Agreement ("Security Agreement") with PNC Bank, National Association ("PNC"), which was renewed effective December 20, 2019, for a one-year term. Under the terms of the Security Agreement, we have agreed to sell beneficial ownership interest in eligible loans funded under the Security Agreement to PNC subject to PNC's approval. At December 31, 2019 and 2018, the available warehouse facility was \$125 million and the facility can be expanded in size up to \$200 million for certain periods of time. The Security Agreement is used to fund MLHS, and is secured by PNC's participation in the eligible loans funded under the Security Agreement. Interest is payable at a fluctuating interest rate, which was 3.0625% and 3.9783% at December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018, the outstanding balance under this facility was \$24.4 million and \$81.0 million, respectively. Debt issuance costs, net of accumulated amortization, totaled \$0.1 million and \$0.2 million as of December 31, 2019 and 2018, respectively, related to this borrowing.

We entered into the Repurchase Agreement with JPMC. Under the terms of the Repurchase Agreement, we have agreed to sell beneficial ownership interest in eligible loans funded under the Repurchase Agreement to JPMC subject to JPMC's approval. As of December 31, 2019 and 2018, the available facility was \$450 million and \$250 million, respectively. The Repurchase Agreement will be used by us to fund its MLHS, and is secured by JPMC's participation in the eligible loans funded under the Repurchase Agreement. Interest will be payable at a fluctuating interest rate, which was 3.2375% and 4.0533% at December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018, the outstanding balance was \$27.4 million and \$100.8 million, respectively. Subsequent to yearend, the maturity date of the Repurchase Agreement was extended from May 26, 2020 to August 24, 2020 at similar terms. We expect to extend the Repurchase Agreement for one year before the current maturity date of August 24, 2020 at similar terms.

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On May 13, 2019, we entered into a Revolving Loan and Security Agreement with KeyBank for a maximum commitment of \$30 million for corporate borrowing purpose. This facility is secured by the fair value of our Fannie Mae mortgage servicing rights. Interest will be payable at a fluctuating interest rate, which was 4.3125% at December 31, 2019. At December 31, 2019, the outstanding balance was \$6.8 million. The facility matures on May 13, 2022. Debt issuance costs, net of accumulated amortization, totaled \$0.2 million as of December 31, 2019 related to this borrowing.

On June 17, 2019, we entered into a Mortgage Warehousing Credit and Security Agreement with MUFG Union Bank, N.A. ("Union"), for a one-year term. The facility is a revolving line of credit to be used to finance the origination of multifamily mortgage loans, subject to approval by Union. The facility is secured by a first priority, perfected security interest in the loan funded under the Agreement. As of December 31, 2019, the availability facility was \$150 million. Interest will be payable at a fluctuating interest rate, which was 3.12% at December 31, 2019. At December 31, 2019, the outstanding balance under this facility was \$36.9 million. Subsequent to December 31, 2019, any outstanding balance under this facility was repaid and the facility was closed.

Subsequent to December 31, 2019, we entered into a new credit agreement with PNC for a one-year term. The facility is a revolving line of credit to be used to finance advances for any loan forbearance that were originated under the Fannie Mae DUS program, and borrowings are secured by the underlying loans in forbearance. The available facility is \$40 million which can be expanded in size up to \$80 million for certain periods of time. Interest is payable at a fluctuating rate of LIBOR plus 200 basis points.

During 2018, we reduced the size of our \$50 million credit facility we had with two lenders to \$35 million. The borrowings are subject to the following:

Up to \$35 million at December 31, 2019 and 2018, can be borrowed on an unsecured basis for general corporate purposes or letters of credit. We had \$2.4 million and \$3.8 million in letters of credit issued through this facility as of December 31, 2019 and 2018, respectively. Interest is payable at a fluctuating interest rate, which was 3.6625% and 4.7699% at December 31, 2019 and 2018, respectively.

Borrowings on this credit facility mature on November 2, 2021, with any letters of credit on the facility maturing on November 2, 2023.

Except for the letters of credit noted above, there were no outstanding borrowings under this facility at December 31, 2019 and 2018. Debt issuance costs, net of accumulated amortization, totaled \$44,710 and \$0.3 million as of December 31, 2019 and 2018, respectively, related to this borrowing.

Subsequent to December 31, 2019, we increased the size of this credit facility back up to \$50 million. No other material changes to the agreement resulted from this increase in size.

We maintained a \$2.0 million secured construction credit facility relating to our Renaissance Square development project (see Note 10). Borrowings under the facility could only be used to fund the construction costs related to new single-family homes and new townhouses, and could be used to fund land development costs. Further, under the terms of the facility, a sales contract on a single-family home had to exist prior to commencing construction on the home. With respect to townhouses, sales contracts for the majority of the homes in a row of townhouses had to exist prior to commencing construction. The sales contracts and the underlying developed land served as collateral for the borrowings. Such borrowings were to be repaid from the proceeds of the home

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sales. Interest was payable at a fluctuating interest rate, which was 5.5% as of December 31, 2018. As of December 31, 2018, there was no outstanding balance under this facility. The facility was closed during 2019.

Total interest cost under these credit facilities was \$10.2 million and \$7.2 million for the years ended December 31, 2019 and 2018, respectively. There were no interest costs capitalized in 2019 and, and in 2018 capitalized interest amounted to \$9,982. Amortization of debt issuance costs amounted to \$0.4 million for the years ended December 31, 2019 and 2018, and is included within interest expense on the consolidated statements of activities.

All of these credit facilities have certain covenants and restrictions. The most restrictive of these limit the levels of debt we may incur and require us to maintain specified minimum levels of debt service coverage and net worth. We have maintained compliance with these restrictions, and they have not limited our normal business activities.

Future contractual maturities

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

2020	\$	143,682
2021		33,025
2022		39,398
2023		32,555
2024		37,086
Thereafter		<u>141,754</u>
Total	\$	<u><u>427,500</u></u>

The debt due in 2020 consists primarily of borrowings related to loan facilities that are used to fund outstanding loans receivable. We expect to make payments at or before the scheduled maturity dates of the related loans from proceeds from the collection of loans receivable, the refinancing of loan facilities, or through the use of operating cash.

As previously noted, certain loans were recorded at fair value upon the acquisition of CPDC, resulting in actual contractual obligations under these loans payable exceeding their carrying value. Accordingly, the total future contractual maturities noted above is greater than the balance of indebtedness on the consolidated statements of financial position.

Note 18 - 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.

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Allowance for loan loss sharing under all programs was \$16.8 million and \$12.6 million at December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018, there were no reserves related to specific loans included in our allowance for loan loss sharing provision.

Note 19 - Deferred revenue

Deferred revenue consists of amounts we have recorded related to our asset management or other obligations to be performed in future periods, or due to certain contingencies. In general, revenue deferrals with respect to the syndication fees consist of estimated costs expected to be incurred and paid by us in managing tax credit Investment Funds in which we own a 0.005% to 1.0% general partner or managing member ownership interest. Our exposure could be greater than the amount of revenue deferred. Such deferred revenue was \$5.9 million and \$7.1 million at December 31, 2019 and 2018, respectively. During the years ended December 31, 2019 and 2018, we amortized \$0.6 million of syndication deferred revenue into asset management fees.

We provide asset management, development, 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 for these services are prepaid by the third parties for services to be performed in the future. The remaining deferral of asset management and other fees consists of various advisory service agreements. As of December 31, 2019 and 2018, such deferred revenue totaled \$1.5 million and \$1.7 million, respectively.

Deferred revenue is included in deferred revenue and other liabilities on the consolidated statements of financial position.

Note 20 - Related party transactions

We provide syndication, asset management, development, property management, and other advisory services to certain affiliated entities in which we, or one of our subsidiaries, own an interest and are compensated for these services. For the years ended December 31, 2019 and 2018, we recorded revenue of \$113.4 million and \$99.4 million, respectively, for such services.

We also manage a \$120 million credit facility as of December 31, 2019 and 2018, on behalf of select Investment Funds that are admitted as borrowers to the facility. Borrowings are secured by capital commitments payable from the investors in Investment Funds with repayments to come from investor capital contributions. We manage this facility on behalf of the Investment Funds but are not considered a borrower. As such, our assets are not provided as collateral for the facility and we do not provide a guarantee for repayment of borrowings. However, we have agreed to pay certain interest and fees associated with this facility. Interest related to borrowings is payable at a fluctuating interest rate which was 3.7125% and 4.7199% as of December 31, 2019 and 2018, respectively. The credit facility is set to expire on December 14, 2020. Total outstanding borrowings under the facility were \$99.4 million and \$101.3 million as of December 31, 2019 and 2018, respectively. Interest costs incurred by us for this facility totaled \$1.2 million and \$0.9 million for the years ended December 31, 2019 and 2018, respectively. These costs are included in program activities in the accompanying consolidated statements of activities.

Note 21 - Restrictions and limitations on net assets

During the years ended December 31, 2019 and 2018, net assets released from donor restrictions and the events or transactions which caused the restrictions to expire total \$73.5 million and \$54.2 million, respectively, for expenses incurred for donor specified purposes or time restrictions.

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Net assets with donor restrictions at December 31 consist of the following (\$ in thousands):

	2019	2018
Gifts and other unexpended revenue restricted to specific programs or locations	\$ 189,434	\$ 221,541
Contributions receivable due in future periods, net	10,933	15,074
Total	<u>\$ 200,367</u>	<u>\$ 236,615</u>

Note 22 - 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 and provides for employer matching contributions for eligible employees in accordance with the provisions of this plan. 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 Boards of Trustees. Participants are immediately vested in their contributions and our matching contributions are vested over a three-year period. We made matching contributions to the plan of \$2.9 million and \$2.6 million during the years ended December 31, 2019 and 2018, 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 \$4.1 million and \$3.7 million for the years ended December 31, 2019 and 2018, 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 \$1.7 million for the years ended December 31, 2019 and 2018, respectively.

Compensation deferrals and employer contributions are invested on behalf of the participants in various participant directed investment options. The investments amounted to \$6.6 million and \$5.9 million at December 31, 2019 and 2018, respectively, and are included in restricted cash, cash equivalents and investments on the consolidated statements of financial position. Obligations to the plan participants at December 31, 2019 and 2018 totaled \$8.5 million and \$7.6 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 \$4.3 million and \$4.1 million at December 31, 2019 and 2018, respectively.

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Note 23 - Commitments and contingencies

Commitments and contingencies not reflected in the consolidated statements of financial position at December 31, 2019 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 \$0.5 million must be liquid assets. At December 31, 2019, Bellwether met these requirements with an adjusted net worth of \$107.3 million.

As a Ginnie Mae 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, 2019, Bellwether met this requirement with an adjusted net worth of \$107.3 million. The Ginnie Mae program also requires liquid assets of 20% of the adjusted net worth. As of December 31, 2019, Bellwether had \$30.3 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, 2019, which is a function of its portfolio balance of \$4.6 billion, is \$27.9 million. At December 31, 2019, the subsidiary had adjusted net worth of \$95.1 million applicable to this requirement and therefore met the requirement. At December 31, 2019, the subsidiary's operational liquidity requirement was \$4.8 million and the restricted liquidity requirement was approximately \$11.3 million. The subsidiary had \$11.0 million and \$11.3 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 assets on the accompanying consolidated statements of financial position.

As a licensed Freddie Mac Optigo Seller Servicer of Conventional and TAH loans, Bellwether is required to maintain acceptable net worth and liquidity. At December 31, 2019, Bellwether's required net worth was \$5.0 million and its required liquidity was \$0.5 million. At December 31, 2019, Bellwether met these requirements with net worth of \$129.6 million and liquid assets totaling \$30.3 million.

Grants and contracts

At December 31, 2019, we had commitments under grants and contracts from federal and various state governments of \$36 million. This amount will be received through 2023 as we provide services under the terms of the grants and contracts.

Loans

At December 31, 2019, we have commitments to fund loans to various community development organizations of approximately \$84 million. We also have additional commitments for debt to assist in funding these loans of approximately \$145 million. Our loans may also be partially funded with net assets without donor restrictions.

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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 17) and has not limited our ability to conduct our business.

Loan origination commitments

We are a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of our customers and to reduce our own exposure to fluctuations in interest rates. These financial instruments include (a) commitments to extend credit and (b) forward contracts to deliver and sell loans to investors. Those instruments involve, to varying degrees, elements of credit and market risk in excess of the amount recognized on the balance sheet.

Our exposure to credit loss in the event of nonperformance by the other parties to these financial instruments represented by the contract amount of the instruments. We use the same credit policies in making commitments and forward contracts as we do for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer and generally have fixed expiration dates. Since most of the commitments are expected to be drawn upon, the total commitment amounts represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the counterparty. The collateral held is commercial and multifamily real estate.

Forward contracts are contracts for delayed delivery of loans or mortgage-backed securities in which the seller agrees to make delivery at a future date of a specified instrument, at a specified price or yield. These contracts are used primarily to reduce the exposure to interest rate fluctuations for loans in process and in loan inventory held for sale to investors. Most forward contracts are for terms of 30 days to 90 days.

As of December 31, 2019, we had entered into commitments to originate loans approximating \$483 million and commitments to sell loans of \$491 million, \$8.1 million of which is included in MLHS on the accompanying consolidated statements of financial position. As discussed in Note 2, we account for these commitments as derivatives recorded at fair value.

Custodial accounts

During 2019, we held funds in an agency capacity through custodial accounts for a participation program. The cash and corresponding liability of \$8.4 million are not included in the accompanying consolidated financial statements, as they do not represent assets or liabilities of Enterprise.

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, 2019, we held fiduciary funds of \$513.7 million representing undisbursed collections from mortgagors. These trust funds and the corresponding fiduciary trust liability are not included in the accompanying consolidated financial statements, as they do not represent assets or liabilities of Enterprise.

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Office leases

We, as a lessee, have entered into operating leases, primarily for office space, expiring at various dates through 2031. Rent expense was \$8.7 million and \$8.1 million for the years ended December 31, 2019 and 2018, respectively.

Annual minimum rent payments due under operating leases in effect at December 31, 2019 are as follows (\$ in thousands):

2020	\$	8,034
2021		8,053
2022		7,621
2023		6,957
2024		4,215
Thereafter		<u>14,873</u>
Total	\$	<u>49,753</u>

New markets tax credits

The NMTCs are contingent on our ability to maintain compliance with various rules and regulations of the Community Development Financial Institution 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 are involved in a number of lawsuits, claims and assessments. In the opinion of management, there is no pending legal liability and accordingly no loss contingencies are required to be recorded in the accompanying 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 the opinion of management, adequate provisions have been made in the accompanying consolidated financial statements for adjustments, if any, which may result from an audit.

Conditional grants

As of December 31, 2019, conditional promises to us totaled \$51.8 million, of which \$22.8 million are conditional for future matching requirements, \$15.2 million are conditional for the performance of a future event, and \$13.8 are conditional due to federal cost principles.

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 2019, the related matching requirements, amounts expended and matching program services and the costs achieved as of December 31, 2019 are summarized as follows (\$ in thousands):

Capacity Building Grant	Award Year	Award Amount	Required Matching Commitments	Amount Expended	Matching Commitment Achieved
CB 18	2014	\$ 15,888	\$ 47,665	\$ 15,883	\$ 47,665
CB 19	2015	14,635	43,904	14,635	43,904
CB 20	2016	14,265	42,794	12,417	42,794
CB 21	2017	14,452	43,355	7,233	27,912
CB 22	2018	13,962	41,887	666	1,171

Put-call agreements with Bellwether noncontrolling members

In accordance with put-call agreements executed by and between Enterprise and two holders of noncontrolling membership interests in Bellwether, Enterprise had the right to call from the noncontrolling members, and the noncontrolling members had the right to put to Enterprise, a portion of those members' interests in Bellwether. If the option was exercised by either party, the price to be paid by Enterprise for the membership interests would be the greater of the calculated company value or the adjusted book value of Bellwether, as those terms are defined in the Bellwether operating agreement. These put-call options were exercised on April 1, 2019, resulting in Enterprise paying \$7.7 million to acquire an additional 4.44% of member interest in Bellwether that was previously held by the two aforementioned noncontrolling members.

Note 24 - 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, development deficit, environmental, and/or tax credit guarantees to investors related to our performance under various development agreements. The maximum future payments we could be required to pay under these guarantees range from a fixed amount to unlimited based on the nature of the guarantee. However, in management's judgment, there are several factors that reduce or limit loss exposure, including requiring general contractors to post construction completion bonds. After considering our risk management strategies, we have determined that our risks are not significant with respect to these guarantees.

We have letters of credit relating to certain partnerships for which we provide syndication and/or development services, including \$2.4 million issued through one of our credit facilities at December 31, 2019. The estimated maximum exposure to loss under these guarantees is \$2.7 million at December 31, 2019. 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.

We provide a guarantee to the lender of the nonrecourse first mortgage of a partnership in which we hold a 15% ownership interest. A nonrecourse second mortgage was entered into by the partnership during 2018 with a similar guaranty from us. The guarantees are in the amount of the outstanding principal and interest on both mortgages, and remain in place until the mortgages are

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fully repaid. The maturity date of both mortgages is November 1, 2022. As payments are made over the term of the mortgages, the guarantees are effectively reduced by the amount of the payments. The estimated maximum exposure to loss under these guarantees is \$16.0 million and \$16.3 million as of December 31, 2019 and 2018, respectively. As the borrower's loans are secured by the property, amounts would be due by us only upon the occurrence of certain "bad boy" events as defined in the guarantee agreements which we believe are unlikely to occur. As management believes there is sufficient collateral from the partnership's assets, primarily the property, to support these guarantees, along with the fact that the partnership 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 financial statements.

We also provide guarantees to JPMC on first mortgage loans for five affordable housing projects in which we acquired interest in as part a portfolio acquisition that occurred in a previous year. 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, 2019 and 2018 was \$35.9 million. As management believes there is sufficient collateral from the partnerships' assets, primarily the properties, to support these guarantees no risk of loss has been recognized in these consolidated financial statements.

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 \$9.5 million and \$6.9 million at December 31, 2019 and 2018, 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 25 - Risks and uncertainties

Cash, cash equivalents, and restricted cash and cash equivalents are held primarily in checking accounts, certificates of deposit, and money market funds 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, management does not believe that we are exposed to significant credit risk with respect to cash and cash equivalents.

Our investments consist of commercial paper, corporate and U.S. agency bonds and notes, and diversified funds which invest in fixed income securities, and equities. 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, 2019. 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.

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Note 26 - Fair value measurements

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

Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our 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 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, management routinely performs various risk assessments that review valuation, including independent price validation for certain instruments. Furthermore, in other instances, we retain independent pricing vendors to assist in valuing certain instruments.

The following table presents the fair value of assets measured on a recurring basis at December 31, (\$ in thousands):

December 31, 2019	Level 1	Level 2	Level 3	Net balance
Assets:				
Investments in marketable securities	\$ 52,568	\$ -	\$ -	\$ 52,568
MLHS	-	101,876	-	101,876
Derivative assets	-	-	22,204	22,204
Investments in unconsolidated partnerships	-	-	1,069	1,069
Total	<u>\$ 52,568</u>	<u>\$ 101,876</u>	<u>\$ 23,273</u>	<u>\$ 177,717</u>
Liabilities:				
Derivative liabilities	\$ -	\$ -	\$ 15,930	\$ 15,930
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,930</u>	<u>\$ 15,930</u>

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December 31, 2018	Level 1	Level 2	Level 3	Net balance
Assets:				
Investments in marketable securities	\$ 57,723	\$ -	\$ -	\$ 57,723
MLHS	-	281,420	-	281,420
Derivative assets	-	-	14,969	14,969
Investments in unconsolidated partnerships	-	-	1,050	1,050
Total	\$ 57,723	\$ 281,420	\$ 16,019	\$ 355,162
Liabilities:				
Derivative liabilities	\$ -	\$ -	\$ 9,238	\$ 9,238
Total	\$ -	\$ -	\$ 9,238	\$ 9,238

Marketable securities can consist of exchange traded mutual funds, U.S. Government agency obligations, fixed income securities and corporate and foreign securities and U.S. Treasury and agency securities, and are measured at their unadjusted, quoted net asset value. MLHS are measured using market values provided by third party investors for similar loans, plus the value of the related servicing right. 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. Certain of our investments in unconsolidated partnerships, our social impact investments, are measured at fair value which is measured by our net asset value per share in each of those investments.

There were no transfers between any of the levels within the fair value hierarchy during 2019 or 2018.

The following table presents information about significant unobservable inputs used in the measurement of the fair value of our Level 3 assets and liabilities measured on a recurring basis at December 31 (\$ in thousands):

	Fair value		Valuation technique	Unobservable input	Input
	2019	2018			
Derivative assets	\$ 22,204	\$ 14,969	Discounted cash flow	Counterparty credit risk	-
Derivative liabilities	15,930	9,238	Discounted cash flow	Counterparty credit risk	-
Derivative assets, net	<u>\$ 6,274</u>	<u>\$ 5,731</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, our investments in unconsolidated partnerships, intangible assets 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

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fair value of investments in unconsolidated partnerships that are held for sale 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. For all other investments in unconsolidated partnerships, we estimate the fair value based on the residual value to Enterprise of the investment as of the measurement date. During the year ended December 31, 2019, intangible assets were impaired by \$1.5 million. During the year ended December 31, 2018, other investments in unconsolidated partnerships were impaired by \$0.7 million.

We engaged a third-party advisor (the "Advisor") to determine the fair value of the components of CPDC as of the acquisition date. The significant assets and liabilities requiring a valuation included accounts and loans receivable, investments in unconsolidated partnerships, intangible assets, property and equipment, accounts payable and accrued expenses, and loans and notes payable. The Advisor utilized various methods in determining the value of the components. Specifically, the Advisor employed the income-based and market-based methods to determine the fair value of property and equipment, and loans and notes payable. The Advisor employed the income-based method to determine the fair value of accounts and loans receivable, accounts payable and accrued expenses, investments in unconsolidated partnerships, and intangible assets.

Note 27 - 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. Management evaluated the activity of Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates through June 29, 2020 (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. Management determined that in addition to the subsequent events disclosed in Note 17, the following subsequent events required disclosure in the consolidated financial statements.

Effective January 1, 2020, Enterprise Homes, Inc., a 501(c)(3) not-for-profit organization and controlled affiliate of Enterprise Community Investment, Inc. ("ECI"), changed its name to Enterprise Community Development, Inc. ("ECD"). Concurrently, CPDC's governance documents have been amended to provide ECD with control of the appointment of CPDC's board of directors and thus control of CPDC. The newly combined ECD is one of the Nation's largest affordable housing developers. This is not expected to have any impact on our prospective consolidated financial statements as ECI continues to control ECD subsequent to this reorganization.

The World Health Organization declared the novel strain of coronavirus ("Covid-19") a global pandemic on March 11, 2020, and recommended containment and mitigation measures worldwide. As of May 28, 2020, all of our reporting segments remain operational. However, we are seeing requests for forbearance related to Covid-19 in our Bellwether and Loan Fund portfolios, as well as an increase in economic vacancy in a subset of our properties in Investment's tax credit and non-tax credit portfolios and the ECD portfolio. Presently, management estimates the collective impact of these described situations will not have a material impact on our prospective consolidated financial statements. As of this date, we cannot reasonably estimate the remaining length or severity of this pandemic, or the extent to which the disruption will materially impact our

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

Notes to Consolidated Financial Statements December 31, 2019 and 2018

consolidated financial position, consolidated activities, and consolidated cash flows in fiscal year 2020. Management is actively working to identify and mitigate financial, operational, liquidity and mission-related risks related to this pandemic.

On April 20, 2020, Bellwether entered into a Unit Purchase Agreement ("Purchase Agreement") with an unaffiliated third party, whereby the third party purchased certain Bellwether Class B voting membership units and Class C non-voting membership units for an aggregate purchase price of \$45.0 million. Bellwether used the \$45.0 million in transaction proceeds to repurchase 13.85% of the outstanding Class A voting membership units from pre-existing members. From this repurchase, we received \$26.8 million in proceeds, which reflects our pro-rata share of the proceeds, based on our 59.45% ownership and controlling voting interest in Bellwether prior to the sale. In exchange for the \$26.8 million in proceeds, our ownership interest in Bellwether was diluted to 51.22%, while our controlling voting interest in Bellwether was diluted to 56.48%. Prospectively, we expect this transaction to have a material impact on our consolidated financial statements, as noncontrolling interest holders share of Bellwether's activities and net assets will increase.

Supplementary Information

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

Supplementary Information

Consolidating Statement of Financial Position December 31, 2019 (\$ in thousands)

	<u>Assets</u>				<u>All Other Subsidiaries & Affiliates, net of Eliminations</u>	
	<u>Enterprise Community Partners, Inc.</u>	<u>Enterprise Community Loan Fund, Inc.</u>	<u>Combined Eliminations</u>	<u>Combined Total</u>		<u>Consolidated</u>
Cash and cash equivalents	\$ 5,703	\$ 15,594	\$ -	\$ 21,297	\$ 70,862	\$ 92,159
Restricted cash and cash equivalents	136,505	29,395	-	165,900	38,538	204,438
Investments	-	495	-	495	-	495
Contributions receivable, net	10,177	924	-	11,101	142	11,243
Accounts and other receivables, net	11,943	1,765	-	13,708	105,312	119,020
Advances to subsidiaries and affiliates	6,278	(36)	-	6,242	(6,242)	-
Mortgage loans held for sale	-	-	-	-	101,876	101,876
Derivative assets	-	-	-	-	22,204	22,204
Homebuilding inventory	-	-	-	-	-	-
Prepaid expenses and other assets	612	23	-	635	15,661	16,296
Loans receivable, net	4,955	230,887	-	235,842	35,727	271,569
Investments in controlled subsidiaries and affiliates	338,099	-	(67,806)	270,293	(270,293)	-
Investments in uncontrolled subsidiaries and affiliates	480	6,053	-	6,533	143,838	150,371
Restricted investments	41,577	4,747	-	46,324	6,558	52,882
Mortgage servicing rights, net	-	-	-	-	93,333	93,333
Property and equipment, net	4,836	397	-	5,233	59,978	65,211
Intangible assets, net	-	-	-	-	19,057	19,057
Goodwill	-	-	-	-	9,543	9,543
Total assets	\$ 561,165	\$ 290,244	\$ (67,806)	\$ 783,603	\$ 446,094	\$ 1,229,697
	<u>Liabilities and Net Assets</u>					
Liabilities						
Accounts payable and accrued expenses	\$ 8,288	\$ 1,201	\$ -	\$ 9,489	\$ 67,591	\$ 77,080
Capital contributions payable	-	-	-	-	88,599	88,599
Funds held for others	2,061	6,059	-	8,120	19,405	27,525
Deferred tax liabilities, net	-	-	-	-	8,197	8,197
Derivative liabilities	-	-	-	-	15,930	15,930
Indebtedness	-	207,840	-	207,840	215,690	423,530
Losses in excess of investments in unconsolidated partnerships	-	-	-	-	1,912	1,912
Mortgage servicing obligations, net	-	-	-	-	98	98
Allowance for loan loss sharing	-	-	-	-	16,797	16,797
Deferred revenue and other liabilities	-	7,338	-	7,338	11,875	19,213
Total liabilities	10,349	222,438	-	232,787	446,094	678,881
Commitments and contingencies	-	-	-	-	-	-
Net assets						
Net assets without donor restrictions	295,810	54,505	(54,505)	295,810	-	295,810
Net assets without donor restrictions - noncontrolling interest	54,639	-	-	54,639	-	54,639
Net assets with donor restrictions	200,367	13,301	(13,301)	200,367	-	200,367
Total net assets	550,816	67,806	(67,806)	550,816	-	550,816
Total liabilities and net assets	\$ 561,165	\$ 290,244	\$ (67,806)	\$ 783,603	\$ 446,094	\$ 1,229,697

See Independent Auditor's Report.

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

Supplementary Information

Consolidating Statement of Activities Year Ended December 31, 2019 (\$ in thousands)

	Without Donor Restrictions						With Donor Restrictions						
	Enterprise Community Partners, Inc.	Enterprise Community Loan Fund, Inc.	Combined Eliminations	Combined Total	All Other Subsidiaries & Affiliates, net of Eliminations	Consolidated	Enterprise Community Partners, Inc.	Enterprise Community Loan Fund, Inc.	Combined Eliminations	Combined Total	All Other Subsidiaries & Affiliates, net of Eliminations	Consolidated	Consolidated Total
Revenue and support													
Gains from mortgage banking activities	\$ -	\$ -	\$ -	\$ -	\$ 111,475	\$ 111,475	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 111,475
Syndication fees	-	-	-	-	47,121	47,121	-	-	-	-	-	-	47,121
Interest income	231	13,284	-	13,515	22,874	36,389	-	-	-	-	-	-	36,389
Contributions	10,122	-	-	10,122	(7,981)	2,141	32,838	960	-	33,798	178	33,976	36,117
Asset management fees	-	-	-	-	27,698	27,698	-	-	-	-	-	-	27,698
Loan servicing fees	-	-	-	-	21,478	21,478	-	-	-	-	-	-	21,478
Grants and contracts	20,927	-	-	20,927	-	20,927	-	-	-	-	-	-	20,927
Property management fees	-	-	-	-	20,270	20,270	-	-	-	-	-	-	20,270
Rental income	-	-	-	-	10,544	10,544	-	-	-	-	-	-	10,544
Development and construction management fees	-	-	-	-	8,068	8,068	-	-	-	-	-	-	8,068
Services provided to subsidiaries and affiliates	1,966	-	-	1,966	(1,966)	-	-	-	-	-	-	-	-
Investment income	3,827	-	-	3,827	-	3,827	423	-	-	423	-	423	4,250
Advisory services and other fees	-	-	-	-	4,166	4,166	-	-	-	-	-	-	4,166
Sales of real estate	-	-	-	-	1,914	1,914	-	-	-	-	-	-	1,914
Royalty income	4,027	-	-	4,027	(4,027)	-	-	-	-	-	-	-	-
Other revenue	2,818	1,127	-	3,945	7,200	11,145	-	-	-	-	-	-	11,145
	43,918	14,411	-	58,329	268,834	327,163	33,261	960	-	34,221	178	34,399	361,562
Net assets released from restrictions	67,426	1,243	-	68,669	4,876	73,545	(67,426)	(1,243)	-	(68,669)	(4,876)	(73,545)	-
Total revenue and support	111,344	15,654	-	126,998	273,710	400,708	(34,165)	(283)	-	(34,448)	(4,698)	(39,146)	361,562
Expenses													
Program activities													
Program activities	102,855	11,243	-	114,098	232,832	346,930	-	-	-	-	-	-	346,930
Management and general	3,476	1,428	-	4,904	10,640	15,544	-	-	-	-	-	-	15,544
Fundraising	5,965	-	-	5,965	(283)	5,682	-	-	-	-	-	-	5,682
Total expenses	112,296	12,671	-	124,967	243,189	368,156	-	-	-	-	-	-	368,156
Net realized and unrealized gain (loss) on investments	1,185	(135)	-	1,050	-	1,050	2,898	-	-	2,898	-	2,898	3,948
Impairment	-	-	-	-	(1,501)	(1,501)	-	-	-	-	-	-	(1,501)
Equity in increase (decrease) in net assets of subsidiaries and affiliates	28,222	40	(2,888)	25,374	(24,828)	546	(4,698)	-	-	(4,698)	4,698	-	546
Change in net assets before income taxes	28,455	2,888	(2,888)	28,455	4,192	32,647	(35,965)	(283)	-	(36,248)	-	(36,248)	(3,601)
Income tax expense	-	-	-	-	4,192	4,192	-	-	-	-	-	-	4,192
Change in net assets	28,455	2,888	(2,888)	28,455	-	28,455	(35,965)	(283)	-	(36,248)	-	(36,248)	(7,793)
Change in net assets, attributable to noncontrolling interest	(12,816)	-	-	(12,816)	-	(12,816)	-	-	-	-	-	-	(12,816)
Change in net assets, attributable to controlling interest	\$ 15,639	\$ 2,888	\$ (2,888)	\$ 15,639	\$ -	\$ 15,639	\$ (35,965)	\$ (283)	\$ -	\$ (36,248)	\$ -	\$ (36,248)	\$ (20,609)

See Independent Auditor's Report.

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

Supplementary Information

Consolidating Statement of Functional Expenses Year Ended December 31, 2019 (\$ in thousands)

Expenses	Program activities						Management and General						Fundraising						Consolidated Total
	Enterprise Community Partners, Inc.	Enterprise Community Loan Fund, Inc.	Combined Eliminations	Combined Total	All Other Subsidiaries & Affiliates, net of Eliminations	Consolidated	Enterprise Community Partners, Inc.	Enterprise Community Loan Fund, Inc.	Combined Eliminations	Combined Total	All Other Subsidiaries & Affiliates, net of Eliminations	Consolidated	Enterprise Community Partners, Inc.	Enterprise Community Loan Fund, Inc.	Combined Eliminations	Combined Total	All Other Subsidiaries & Affiliates, net of Eliminations	Consolidated	
Salaries and employee benefits	\$ 25,089	\$ 2,464	\$ -	\$ 27,553	\$ 159,482	\$ 187,035	\$ 1,134	\$ 814	\$ -	\$ 1,948	\$ 9,545	\$ 11,493	\$ 3,858	\$ -	\$ -	\$ 3,858	\$ 261	\$ 4,119	\$ 202,647
Grants and royalty fee	50,879	-	-	50,879	-	50,879	-	-	-	-	-	-	-	-	-	-	-	-	50,879
Professional and contract services	18,191	1,381	-	19,572	2,154	21,726	1,937	471	-	2,408	(1,512)	896	1,155	-	-	1,155	(602)	553	23,175
Interest expense	-	5,688	-	5,688	16,656	22,344	-	-	-	-	-	-	-	-	-	-	-	-	22,344
General operating expenses	1,851	171	-	2,022	14,329	16,351	86	37	-	123	1,249	1,372	266	-	-	266	55	321	18,044
Occupancy	2,200	246	-	2,446	14,576	17,022	166	54	-	220	371	591	242	-	-	242	-	242	17,555
Depreciation and amortization expense	1,877	142	-	2,019	12,500	14,519	44	31	-	75	521	596	60	-	-	60	3	63	15,178
Travel and related costs	1,391	82	-	1,473	4,136	5,609	56	18	-	74	267	341	133	-	-	133	-	133	6,083
Provision for loan losses and bad debt expense	232	1,055	-	1,287	4,331	5,618	-	-	-	-	-	-	-	-	-	-	-	-	5,618
Marketing expenses	371	-	-	371	1,330	1,701	40	-	-	40	190	230	143	-	-	143	-	143	2,074
Cost of real estate sold	-	-	-	-	1,876	1,876	-	-	-	-	-	-	-	-	-	-	-	-	1,876
Meetings and conferences	774	14	-	788	306	1,094	13	3	-	16	9	25	108	-	-	108	-	108	1,227
Development contract costs	-	-	-	-	1,156	1,156	-	-	-	-	-	-	-	-	-	-	-	-	1,156
	<u>\$ 102,855</u>	<u>\$ 11,243</u>	<u>\$ -</u>	<u>\$ 114,098</u>	<u>\$ 232,832</u>	<u>\$ 346,930</u>	<u>\$ 3,476</u>	<u>\$ 1,428</u>	<u>\$ -</u>	<u>\$ 4,904</u>	<u>\$ 10,640</u>	<u>\$ 15,544</u>	<u>\$ 5,965</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,965</u>	<u>\$ (283)</u>	<u>\$ 5,682</u>	<u>\$ 368,156</u>

See Independent Auditor's Report.

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

Supplementary Information

**Schedule of Indirect Costs
Year Ended December 31, 2019**

FRINGE BENEFIT RATE

Numerator:

Fringe benefits		\$ 8,709,985
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Denominator:

Total labor		21,213,152
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Fringe benefit rate		41.1%
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OVERHEAD RATE

Numerator:

Program overhead salaries	\$ 2,761,170	
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Program overhead fringe	1,133,719	
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Overhead - other costs	3,832,797	
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Total		\$ 7,727,686
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Denominator:

Direct labor	12,253,429	
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Fringe benefits on direct labor	5,031,180	
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Total		17,284,609
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Overhead rate		44.7%
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GENERAL AND ADMINISTRATIVE RATE

Numerator:

General and administrative - other		\$ 6,232,854
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Denominator:

Modified total direct costs and overhead		37,988,660
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General and administrative rate		16.4%
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See Independent Auditor's Report.

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

Schedule of Expenditures of Federal Awards Year Ended December 31, 2019

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 Programs				
County of Cook				
Community Development Block Grants (CDBG)/Entitlement Grants Program	14.218	M-1801-088	\$ -	\$ 103,939
Richmond Redevelopment and Housing Authority				
CDBG/State's program and Non-Entitlement Grants in Hawaii Program	14.228	0301-03805-SV0909-1184	-	190,000
Total HUD Pass-through Programs			-	293,939
HUD - Direct Programs				
Neighborhood Stabilization Program	14.264		-	56,857
Section 4 Capacity Building for Community Development and Affordable Housing	14.252		9,255,617	14,043,657
Community Compass Technical Assistance and Capacity Building	14.259		-	3,006,528
Research and Evaluations, Demonstrations, and Data Analysis and Utilization	14.536		-	21,961
<i>CDBG - Disaster Recovery Grants - Pub. L. No. 113-2 Cluster</i>				
National Disaster Resilience Competition - Total CDBG - Disaster Recovery Grants - Pub. L. No. 113-2 Cluster	14.272		-	79,042
Total HUD-Direct Programs			9,255,617	17,208,045
Total HUD Programs			9,255,617	17,501,984
Department of Treasury Pass-through				
NeighborWorks America	21.115.141	M-R-NONINT-2018-51126	-	50,000
NeighborWorks America	21.115.141	M-R-NONINT-2018-51377	-	3,475
NeighborWorks America	21.115.141	M-R-NONINT-2018-51481	-	30,000
NeighborWorks America	21.116.6	M-R-NONINT-2019-55342	-	50,000
NeighborWorks America	21.116.6	M-R-NONINT-2019-55384	-	45,000
Total Department of Treasury Pass-through Programs			-	178,475
Department of Treasury - Direct				
Volunteer Income Tax Assistance (VITA) Matching Grant Program	21.009		-	151,122
Capital Magnet Fund Program	21.011		-	14,800,000
Bond Guarantee Program	21.014		-	49,386,481
<i>CDFI Cluster</i>				
Community Development Financial Institutions Fund Program - Total CDFI Cluster	21.020		-	6,506,905
Total Department of Treasury - Direct Programs			-	70,844,508
Total Department of Treasury Programs			-	71,022,983
Department of Health and Human Services				
Administration for Children and Families				
<i>TANF Cluster</i>				
Temporary Assistance for Needy Families - Total TANF Cluster	93.558		-	343,661
Total Department of Health and Human Services Administration for Children and Families Program			-	343,661
Department of Energy				
State Energy Program (ARRA)	81.041		-	200,000
Total Department of Energy Program			-	200,000
Department of Agriculture				
Rural Rental Housing Loans	10.415			1,712,486
Rural Community Development Initiative Grant	10.446		-	97,615
Total Department of Agriculture Programs			-	1,810,101
Department of Education Pass Through				
Maryland State Department of Education				
Twenty-First Century Community Learning Centers Program	84.287	S287C180020	-	162,716
Total Department of Education Pass through			-	162,716
Department of Transportation Federal Transit Administration Pass through				
Smart Growth America				
National Infrastructure Investments Program	20.933	M-15FC99317	-	4,812
Total Department of Transportation Federal Transit Administration Pass through			-	4,812
National Endowment for the Arts				
Promotion of the Arts Grants to Organizations and Individuals	45.024		-	30,000
Total National Endowment for the Arts Program			-	30,000
Total All Programs			\$ 9,255,617	\$ 91,076,257

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

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

Notes to Schedule of Expenditures of Federal Awards December 31, 2019

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, 2019. 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. operates under an Indirect Cost Rate Agreement that is approved by the U.S. Department of Housing and Urban Development. Whereas, certain affiliates of Enterprise Community Partners, Inc. subject to the requirements under the Uniform Guidance have elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance, as applicable.

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, 2019 consists of:

CFDA Number	Program Name	Outstanding Balance at December 31, 2019
10.415	Preservation Revolving Loan Fund	\$ 1,712,486
21.014	Bond Guarantee Program	49,386,481
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, 2019, and the related consolidated statements of activities, functional expenses, 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 29, 2020, which includes an emphasis of matter paragraph on page 3. 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.



Bethesda, Maryland
June 29, 2020

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, 2019. 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, 2019.

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.



Bethesda, Maryland
June 29, 2020

Enterprise Community Partners, Inc. and its Subsidiaries and Affiliates

**Schedule of Findings and Questioned Costs
December 31, 2019**

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 Treasury - Bond Guarantee Program - 21.014.
8. The threshold for distinguishing between Type A and Type B programs was: \$2,732,288.
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



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