Enterprise Community Partners, Inc.
and Affiliate

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

December 31, 2016 and 2015

Enterprise Community Partners, Inc. and Affiliate

Index

Independent Auditor's Report

To the Board of Trustees
Enterprise Community Partners, Inc. and Affiliate

Report on the Financial Statements

We have audited the accompanying combined financial statements of Enterprise Community Partners, Inc. ("Partners") and Affiliate, which comprise the combined statements of financial position as of December 31, 2016 and 2015, and the related combined statements of activities, functional expenses, changes in net assets and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with the financial reporting provisions of loan agreements between third parties, Partners and Affiliate (the “Agreements”). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined 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 combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of Enterprise Community Partners, Inc. and Affiliate as of December 31, 2016 and 2015, and the changes in their combined net assets and their combined cash flows for the years then ended in accordance with the financial reporting provisions of the Agreements.

Basis of Accounting

We draw attention to Note 1 of the accompanying combined financial statements, which describes the basis of accounting. The combined financial statements are prepared in accordance with the financial reporting provisions of the Agreements, which is a basis of accounting other than U.S. generally accepted accounting principles, to comply with the provisions of the Agreements referred to above. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying supplementary information on pages 30 to 33 is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined financial statements as a whole.

Restriction on Use

Our report is intended solely for the information and use of the Board of Trustees and management of Enterprise Community Partners, Inc. and Affiliate and the third parties that have signed the Agreements, and is not intended to be used by anyone other than these specified parties.

CohnReznick LLP

Bethesda, Maryland
April 21, 2017

Enterprise Community Partners, Inc. and Affiliate

Combined Statements of Financial Position
December 31, 2016 and 2015

($ in thousands)

Assets

	2016	2015
Cash, cash equivalents and investments	$ 35,530	$ 45,064
Restricted cash, cash equivalents and investments	87,051	61,485
Contributions receivable, net	20,076	16,858
Contracts receivable, net	5,845	8,919
Interest receivable, net	771	540
Loans receivable, net of allowance for loan losses of $7,517 and $6,644, respectively	148,290	117,753
Notes receivable, net of allowance for loan losses of $7,934 and $8,195, respectively	4,696	6,500
Advances to subsidiaries and affiliates	6,070	2,213
Investments in subsidiaries and affiliates	147,422	146,731
Property and equipment, net	4,986	4,861
Other receivables and other assets, net	670	1,009
Total assets	$ 461,407	$ 411,933

Liabilities and Net Assets

	2016	2015
Liabilities		
Accounts payable and accrued expenses	$ 8,453	$ 12,015
Funds held for others	6,822	10,929
Loans payable, net	140,051	123,983
Total liabilities	155,326	146,927
Commitments and contingencies	-	-
Net assets		
Unrestricted, controlling interest	175,750	170,221
Unrestricted, noncontrolling interest	29,590	26,365
Temporarily restricted - program activities	83,040	51,226
Temporarily restricted - Cullman Challenge Grant	13,387	12,882
Temporarily restricted - Terwilliger Fund	4,314	4,312
Total net assets	306,081	265,006
Total liabilities and net assets	$ 461,407	$ 411,933

See Notes to Combined Financial Statements.

Enterprise Community Partners, Inc. and Affiliate

Combined Statements of Activities
Years Ended December 31, 2016 and 2015

($ in thousands)

	2016	2016 Temporarily restricted			2016	2015	2015 Temporarily restricted			2015
	Unrestricted	Program activities	Cullman Challenge Grant	Terwilliger Fund	Total	Unrestricted	Program activities	Cullman Challenge Grant	Terwilliger Fund	Total
Revenue and support										
Grants and contracts	$ 25,544	$ 3,300	$ -	$ -	$ 28,844	$ 30,036	$ 3,653	$ -	$ -	$ 33,689
Contributions	11,008	51,032	-	-	62,040	15,554	23,620	-	-	39,174
Interest income	8,143	-	-	-	8,143	7,575	-	-	-	7,575
Royalty income	6,145	-	-	-	6,145	5,138	-	-	-	5,138
Services provided to subsidiaries and affiliates	2,379	-	-	-	2,379	6,341	-	-	-	6,341
Investment income	561	-	339	2	902	434	-	348	-	782
Other revenue	3,014	-	-	-	3,014	1,039	-	-	-	1,039
	56,794	54,332	339	2	111,467	66,117	27,273	348	-	93,738
Net assets released from restrictions	23,194	(22,518)	(676)	-	-	18,997	(18,325)	(672)	-	-
Total revenue and support	79,988	31,814	(337)	2	111,467	85,114	8,948	(324)	-	93,738
Expenses										
Program activities										
Program services	46,194	-	-	-	46,194	49,740	-	-	-	49,740
Grants	15,569	-	-	-	15,569	15,593	-	-	-	15,593
Public policy	2,419	-	-	-	2,419	3,011	-	-	-	3,011
Interest on loans	2,790	-	-	-	2,790	3,094	-	-	-	3,094
Total program activities	66,972	-	-	-	66,972	71,438	-	-	-	71,438
Support services										
Management and general	4,195	-	-	-	4,195	5,031	-	-	-	5,031
Fundraising	4,913	-	-	-	4,913	5,430	-	-	-	5,430
Total support services	9,108	-	-	-	9,108	10,461	-	-	-	10,461
Total expenses	76,080	-	-	-	76,080	81,899	-	-	-	81,899
Excess (deficiency) of revenue and support over expenses from operations	3,908	31,814	(337)	2	35,387	3,215	8,948	(324)	-	11,839
Net realized and unrealized gain (loss) on investments	419	-	842	-	1,261	(390)	-	(429)	2	(817)
Equity in increase in net assets of subsidiaries and affiliates	10,620	-	-	-	10,620	13,806	-	-	-	13,806
Changes in net assets	14,947	31,814	505	2	47,268	16,631	8,948	(753)	2	24,828
Changes in net assets, attributable to noncontrolling interest	(9,418)	-	-	-	(9,418)	(3,221)	-	-	-	(3,221)
Changes in net assets, attributable to controlling interest	$ 5,529	$ 31,814	$ 505	$ 2	$ 37,850	$ 13,410	$ 8,948	$ (753)	$ 2	$ 21,607

See Notes to Combined Financial Statements.

Enterprise Community Partners, Inc. and Affiliate

Combined Statements of Functional Expenses
Years Ended December 31, 2016 and 2015

($ in thousands)

	2016				2015			
Expenses	Program activities	Management and general	Fundraising	Total	Program activities	Management and general	Fundraising	Total
Salaries	$ 17,794	$ 1,374	$ 2,878	$ 22,046	$ 23,045	$ 2,605	$ 3,024	$ 28,674
Professional and contract services	18,616	1,927	973	21,516	15,959	797	413	17,169
Grants	15,569	-	-	15,569	15,593	-	-	15,593
Employee benefits and taxes	4,063	350	541	4,954	5,227	619	595	6,441
Interest on loans	2,790	-	-	2,790	3,094	-	-	3,094
Occupancy	2,131	202	258	2,591	3,055	367	328	3,750
Miscellaneous	589	15	78	682	1,130	176	675	1,981
Travel and related costs	1,414	98	103	1,615	1,570	95	132	1,797
Depreciation and amortization expense	1,609	56	12	1,677	1,145	132	165	1,442
Meetings and conferences	871	88	15	974	767	127	17	911
General operating supplies and expenses	565	40	44	649	914	72	67	1,053
Marketing	333	45	11	389	249	41	14	304
Net change in allowance for loan losses	628	-	-	628	(310)	-	-	(310)
	$ 66,972	$ 4,195	$ 4,913	$ 76,080	$ 71,438	$ 5,031	$ 5,430	$ 81,899

See Notes to Combined Financial Statements.

Enterprise Community Partners, Inc. and Affiliate

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

($ in thousands)

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

See Notes to Combined Financial Statements.

Enterprise Community Partners, Inc. and Affiliate

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

($ in thousands)

	2016	2015
Cash flows from operating activities		
Changes in net assets	$ 47,268	$ 24,828
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation expense	1,677	1,442
Loss on disposition of property and equipment	80	-
Amortization of debt issuance costs	9	9
Net change in allowance for loan losses	628	(310)
Equity in increase in net assets of subsidiaries and affiliates	(10,620)	(13,806)
Net realized and unrealized (gain) loss on investments	(1,261)	817
Increase in contributions receivable	(3,218)	(1,793)
Decrease (increase) in contracts receivable	3,074	(2,855)
(Increase) decrease in interest receivable	(231)	40
(Increase) decrease in advances to subsidiaries and affiliates	(3,857)	3,394
Decrease (increase) in other receivables and other assets, net	339	(215)
(Decrease) increase in accounts payable and accrued expenses	(3,562)	2,704
(Decrease) increase in funds held for others	(4,107)	3,484
Net cash provided by operating activities	26,219	17,739
Cash flows from investing activities		
Advances on loans receivable	(106,261)	(60,410)
Repayments of loans receivable	74,835	66,250
Capital contribution to subsidiary	(542)	(3,000)
Advances on notes receivable	(17,000)	-
Repayments of notes receivable	19,065	-
Purchases of property and equipment	(1,882)	(1,713)
Distributions from subsidiaries and affiliates	4,423	-
Net sales of investments	3,400	646
Net cash (used in) provided by investing activities	(23,962)	1,773
Cash flows from financing activities		
Proceeds from loans payable	63,772	65,062
Loan repayments	(47,713)	(68,529)
Net cash provided by (used in) financing activities	16,059	(3,467)
Net increase in cash and cash equivalents	18,316	16,045
Cash and cash equivalents, beginning of year	72,543	56,498
Cash and cash equivalents, end of year	$ 90,859	$ 72,543
Supplementary disclosure of cash flow information		
Interest paid	$ 2,771	$ 3,231
Significant noncash investing and financing activities		
Fully depreciated property and equipment written off	$ 240	$ 1,822
Fully allowed loans and notes receivable written off	$ 27	$ 262
Recovery of loans presented as a loan repayment	$ -	$ 555

See Notes to Combined Financial Statements.

Note 1 - Organization and purpose

Basis of presentation

The combined financial statements include the accounts and transactions of Enterprise Community Partners, Inc. ("Partners") and Enterprise Community Loan Fund, Inc. (the "Affiliate" or "Loan Fund") (collectively, "we", or "us"), which are under common control. Our combined financial statements have been prepared on an accrual basis and are for the purpose of complying with certain loan agreements we have with third parties (the “Agreements”). The combined financial statements are not intended to present the combined financial position of Partners and Loan Fund in conformity with U.S. generally accepted accounting principles as the accounts and transactions of other subsidiaries and affiliates are not combined or consolidated and such consolidated financial statements have not been issued. The consolidated financial statements of Partners are expected to be issued in May 2017. Accordingly, the accounts and transactions of other subsidiaries and affiliates are not combined or consolidated and are accounted for using the equity method. Additionally, other non-related parties have ownership interests in certain affiliates that are accounted for using the equity method in these combined financial statements and therefore, those amounts are presented as noncontrolling interest in these combined financial statements. Significant intercompany transactions and balances are eliminated in combination.

Use of estimates

The preparation of the combined financial statements in conformity with the Agreements 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 combined financial statements in a number of areas, including determining the fair value of unconditional contributions, estimation of potential losses relating to loans and evaluation of the collectability of contributions receivable. Actual results could differ from our estimates.

Organization and business

Partners is a 501(c)(3) and 509(a)(1) not-for-profit publicly supported charitable foundation. Its affiliate, Loan Fund, is a 501(c)(3) publicly supported not-for-profit and a 509(a)(3) supporting organization to Partners. Loan Fund is also a community development financial institution ("CDFI").

Our mission is to create opportunities for low- and moderate-income people through fit, affordable housing and diverse, thriving communities. We accomplish 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 subsidiaries and affiliates. Loan Fund is supported primarily from interest income on loans, contributions, grants and investment income. We also receive loans from various not-for-profit organizations and financial institutions to fund loans to community organizations.

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

Unrestricted net assets - Net assets not subject to donor-imposed restrictions.

Temporarily restricted net assets - Net assets subject to donor-imposed restrictions that will be met by our actions and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed restrictions that must be maintained permanently by us.

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

Note 2 - Significant accounting policies

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

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

Grants and contracts were 26% and 36% of total revenue and support for 2016 and 2015, respectively. Approximately 83% and 93% of the grants and contract revenue is derived from federal funding in 2016 and 2015, respectively. Approximately 45% and 69% of the federal funding is provided by the U.S. Department of Housing and Urban Development ("HUD") in 2016 and 2015, respectively.

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

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

An allowance for uncollectible contributions receivable is made based upon management's judgment, based on factors such as prior collection history, the type of contribution and other relevant factors. Contributions were 56% and 42% of total revenue and support for 2016 and 2015, respectively. Unrestricted contributions include grant revenue from uncombined affiliates of $9.4 million and $3.4 million for 2016 and 2015, respectively.

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

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.

Investment proceeds

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

Cash, cash equivalents and investments

Investments with maturities at dates of purchase of three months or less are considered to be cash equivalents. Cash equivalents are invested in money market funds, certificates of deposit, corporate and U.S. agency bonds and notes, all with an equivalent rating of A2/P2 or higher.

Investments consist primarily of marketable securities and alternative investments. Investments in marketable securities consist of fixed income securities and corporate and foreign securities, which are classified as trading and carried at fair value, and U.S. Treasury and agency securities, which are classified as held to maturity and carried at amortized cost. The original basis of such investments is the purchase price. Investment income is recorded when earned as an addition to unrestricted net assets unless restricted by donor. Realized and unrealized gains and losses are recorded in the accompanying combined statements of activities as an increase or decrease in unrestricted net assets unless restricted by the donor.

Alternative investments consist primarily of investments in limited partnerships. These investments are carried at fair value, which is the monthly net asset value made available by the fund manager or administrator prior to the valuation date.

Restricted cash, cash equivalents and investments

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

Allowance for doubtful accounts
Receivables are reported net of an allowance for doubtful accounts. We routinely evaluate our receivables balances and allow for anticipated losses based on our best estimate of probable losses.

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

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 combined financial statements and reflect the participation component of the loan as a secured borrowing with a pledge of collateral. We had $5.7 million and $0 in loan participation that did not meet the conditions for sale accounting treatment as December 31, 2016 and 2015. These loan participations were recorded in loans receivable, offset in loans payable, and represent no risk to us (see Note 9). We retain the servicing rights on participations and provide loan servicing on other loan arrangements as well. Since the benefits of servicing approximate the costs, no servicing asset or liability is recognized.

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

Performing - Loans are performing and borrower is expected to fully repay future obligations.

Monitored - Loans are performing but require monitoring due to change in market, sponsor or other factors that has the potential to impact the borrower’s ability to repay future obligations.

Impaired - The primary source of repayment is questionable and the value of the underlying collateral has declined, increasing the probability that we will be unable to collect all principal and interest due.

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

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

Advances to subsidiaries and affiliates
Partners has agreements with certain of its uncombined subsidiaries and affiliates whereby Partners provides management services and program personnel to assist these entities in the development of low-income housing throughout the United States. Amounts due to Partners are included in advances to subsidiaries and affiliates on the combined statements of financial position.

Investments in subsidiaries and affiliates
Our investments in subsidiaries and affiliates, including those in which we have a controlling financial interest (usually defined as a majority voting interest), are accounted for using the equity method in the accompanying combined financial statements. Additional information concerning the subsidiaries and affiliates is provided in Note 7.

Property and equipment
Property and equipment are stated at cost less accumulated depreciation and amortization. Generally, we capitalize the purchase of items individually costing $1,000 or more provided an item meets our basic criteria to be capitalized. Additionally, upon meeting certain criteria, we capitalize external direct costs incurred and payroll and payroll-related expenses for employees who are directly associated with developing or obtaining software applications and related upgrades and enhancements. If events or circumstances indicate that the carrying amount is not recoverable, the related asset is tested for impairment and written down to the fair value, if impaired. As of December 31, 2016 and 2015, we have not recognized any reduction in the carrying value of property and equipment. The cost of property and equipment is depreciated or amortized using the straight-line method over the estimated useful lives of the related assets, which range from three to seven years. Leasehold improvements are capitalized and amortized over the shorter of their useful lives or the lease term.

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

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

Guarantee obligations
We account for our exposure to losses under guarantees by recording a liability equal to the estimated fair value of the guarantee based on the facts and circumstances existing at the time that the guarantee is undertaken. Determining the estimated fair value of a contingent liability requires 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 Loan Fund are recognized as 501(c)(3) charitable organizations and are exempt from income taxes with respect to charitable activities, except for unrelated business income. We did not have any unrelated business income during the years ended December 31, 2016 and 2015. Accordingly, no provision or benefit for income taxes has been recorded in the accompanying combined financial statements. We do file tax returns required to be completed by tax-exempt entities with the Internal Revenue Service ("IRS") and other taxing authorities. These income tax returns are subject to examination by the IRS for a period of three years. While no income tax returns are currently being examined by the IRS, tax years since 2013 remain open for examination.

For the years ended December 31, 2016 and 2015, we did not identify any uncertain tax positions that qualify for either recognition or disclosure in the combined financial statements.

Grant expense
Grants made are reported as decreases in unrestricted net assets in the year funded.

Expense allocation
Expenses by function have been allocated among program activities and support services on the basis of an analysis performed by us. During 2016, we updated our methodology for how certain expenses are allocated between functional expense category to better align with the actual operations of our organization. We elected to apply this change retrospectively to 2015, and as a result certain previously reported amounts have been reclassified.

Fair value of financial instruments
The carrying amount of investments in fixed income, corporate and foreign equity securities, and alternative investments are recorded at fair value. The carrying amount of other financial instruments approximate their fair value.

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 combined financial statements.

Change in accounting principle
During 2016, we adopted new guidance related to simplifying the presentation of debt issuance costs, which modifies the presentation of debt issuance costs and the related amortization. The change in accounting under the new guidance improves the reporting of debt issuance costs by no longer reporting them as assets. It also improves the reporting of the related amortization by including it as a component of interest expense. This new guidance has been adopted by us on a retrospective basis. As a result, $255,000 of debt issuance costs, net of accumulated amortization,

related to loans payable were reclassified on the combined statements of financial position from other receivables and other assets for the year ended December 31, 2015. Other than this reclassification, the adoption of this new guidance did not have a material impact on our financial position, results of activities, or cash flows.

Note 3 - Cash, cash equivalents and investments

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

	2016		
	Unrestricted	Restricted	Total
Cash and cash equivalents	$ 29,717	$ 61,142	$ 90,859
U.S. Government agency obligations and fixed income securites	5,813	9,690	15,503
Corporate and foreign equity securities	-	15,633	15,633
Alternative investments	-	586	586
Total	$ 35,530	$ 87,051	$ 122,581

	2015		
	Unrestricted	Restricted	Total
Cash and cash equivalents	$ 36,270	$ 36,273	$ 72,543
U.S. Government agency obligations and fixed income securites	5,638	9,380	15,018
Corporate and foreign equity securities	3,156	15,394	18,550
Alternative investments	-	438	438
Total	$ 45,064	$ 61,485	$ 106,549

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

	2016	2015
Investment income	$ 902	$ 782
Realized gain (loss), net	350	(3)
Unrealized gain (loss), net	911	(814)
	$ 2,163	$ (35)

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

Note 4 - Contributions receivable, net

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

	2016	2015
Unconditional promises expected to be collected in		
Less than one year	$ 14,080	$ 12,855
One year to five years	6,295	4,242
	20,375	17,097
Less unamortized discount	(299)	(239)
Contributions receivable, net	$ 20,076	$ 16,858

Note 5 - Loans receivable, net

Since 1981, we have closed approximately $1.61 billion of loans to various community organizations. The sources of lending capital used and anticipated to be used to fund such loans are loans payable and private contributions. As of December 31, 2016 and 2015, $41.8 million and $57.1 million, respectively, of loans receivable are due within one year. Loans are secured through a variety of collateral arrangements. As of December 31, 2016, 70% of loans receivable were secured by first liens placed on the underlying real estate; 8% were unsecured or secured by subordinate liens; and 22% were secured by non-real estate assignments including developer fees, equity pay-ins, third party credit enhancements or guarantees, and cash and investments. The loans bear interest at varying rates which in the aggregate approximate 5.4% as of both December 31, 2016 and 2015. In accordance with historical practices, it is expected that some of these loans will be extended at maturity. Our loan policy dictates that loans can only be extended if there is no material adverse change in the credit and repayment is not threatened.

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

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

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

	2016	2015
Loans to unaffiliated organizations	$ 155,807	$ 124,397
Less:		
Allowance for loan losses	(7,517)	(6,644)
Loans receivable, net	$ 148,290	$ 117,753

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

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

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

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

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

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

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

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

Note 6 - Notes receivable, net

As of December 31, notes receivable consists of the following ($ in thousands):

	2016	2015
Notes receivable		
Notes to unaffiliated organizations	$ 1,380	$ 3,445
Notes to affiliated organizations	11,250	11,250
	12,630	14,695
Notes receivable allowance:		
Notes to unaffiliated organizations	(1,184)	(1,445)
Notes to affiliated organizations	(6,750)	(6,750)
	(7,934)	(8,195)
Notes receivable, net	$ 4,696	$ 6,500

Notes receivable allowance activity for the years ended December 31 is summarized as follows ($ in thousands):

	2016	2015
Balance at beginning of year	$ (8,195)	$ (8,130)
Net change in allowance for loan losses	261	- (90)
Write-offs	-	25
Balance at end of year	$ (7,934)	$ (8,195)

Note 7 - Transactions with uncombined subsidiaries and certain affiliates

As discussed in Note 1, these combined financial statements include the accounts and transactions of Partners and Loan Fund. Investments in subsidiaries and affiliates, accounted for under the equity method, at December 31 consist of the following ($ in thousands):

	2016	2015
Investment in		
ECI	$ 144,844	$ 138,549
CHC	-	4,054
ImpactUs	360	1,992
Others	2,218	2,136
Total	$ 147,422	$ 146,731

If these financial statements were presented on a consolidated basis, these subsidiaries and affiliates would impact the consolidated financial position at December 31, and the consolidated net assets for the years then ended, by the following amounts ($ in thousands):

Statements of Financial Position

	2016	2015
Total assets	$ 507,966	$ 443,660
Total liabilities	$ 360,544	$ 296,929
Total unrestricted net assets - controlling	117,832	120,366
Total unrestricted net assets - noncontrolling	29,590	26,365
Total liabilities and net assets	$ 507,966	$ 443,660

Statements of Activities

	2016	2015
Revenue	$ 182,382	$ 148,733
Expenses	171,762	134,927
Changes in net assets	$ 10,620	$ 13,806

Enterprise Community Investment ("ECI")
ECI is a stock based, 501(c)(4) social welfare organization. ECI supports our mission by providing investment capital and development services for affordable housing and community revitalization efforts. ECI'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, historic tax credits, and/or new markets tax credits. In support of our core strategy, ECI provides asset management and consulting services and offers debt financing products to affordable residential and commercial projects. ECI, through its wholly-owned subsidiary Enterprise Homes, Inc. ("EHI"), provides development and management expertise relating to the construction of affordable housing projects. ECI, through Bellwether Enterprise Real Estate Capital, LLC and Subsidiaries ("Bellwether"), also originates permanent loan opportunities for a wide range of institutional investors, including life insurance companies, pension funds, government agencies and banks, and also manages mortgage loan servicing for institutional investors.

As a result of the Bellwether merger that occurred in 2012 and acquisition of Towle Acquisition Partners, LLC ("Towle"), a privately held commercial real estate mortgage banking company headquartered in Minneapolis, Minnesota that occurred in 2014, ECI owned a 61.05% interest in Bellwether and the remaining 38.95% interest was owned by noncontrolling members. On July 1, 2015, Bellwether acquired Capital Advisors, Inc. ("Capital Advisors"). As consideration for the Capital Advisors acquisition, a 4.58% ownership interest in the combined mortgage business of Bellwether, Towle and Capital Advisors was provided to the former owners of Capital Advisors, along with $6.0 million in cash. Of this amount, 61.05%, equal to $3.7 million, was provided by ECI based on its previous ownership interest in Bellwether, and the remaining 38.95% was provided by the other existing owners of Bellwether. This acquisition was therefore dilutive to ECI's ownership interest in Bellwether, which stands at 58.25% as of December 31, 2016. This noncontrolling interest is reflected in unrestricted net assets, noncontrolling in our combined statements of financial position.

On July 15, 2016, ECI obtained control of Enterprise Housing Corporation ("EHC"), a 501c(3) not-for-profit organization, through amendments to EHC's governance documents which provided ECI with control of EHC's board of directors. EHC engages in housing and community economic development activities of low-income housing and the provision of decent and affordable rental housing and homeownership opportunities for low-income people. There was no consideration paid by ECI when control was obtained. Subsequent to obtaining control of EHC, ECI contributed the assets and liabilities of its existing development business line, a for-profit wholly-owned subsidiary of ECI, to EHC. EHC's legal name was then changed to Enterprise Homes, Inc. As a result of this reorganization, ECI's development activities are now tax-exempt.

On October 30, 2015, EHI acquired Spyglass at Cedar Cove, LLC ("Spyglass"), a 152 unit multifamily rental housing project located in Lexington Park, Maryland. EHI holds a 0.01% Class A Administrative Member controlling interest and a 14.99% Class B Member interest in Spyglass, while an entity that does not consolidate with EHI owns the remaining 85% Class B Member interest. At settlement of the rental housing project, EHI made a cash payment to Spyglass in the amount of $0.8 million and the other owner made a cash payment to Spyglass of $4.3 million. Spyglass entered into a note agreement with a lender whereby it borrowed $13.4 million in conjunction with the settlement on the property acquired. The proceeds of the loan were used, among other things, to pay off the seller's existing note.

The reorganization of ECI's development business lines during 2016 resulted in the 0.01% Class A Administrative Member interest and 14.99% Class B Member interest in Spyglass being held directly by ECI's not-for-profit subsidiary, EHC, rather than by a for-profit subsidiary. Accordingly, ECI's management evaluated their consolidation of Spyglass in accordance with guidelines set forth for not-for-profit entities. Under these guidelines, management determined that effective July 15, 2016, ECI should no longer consolidate Spyglass, as the 85% Class B Member interest holders hold substantive participating rights over the significant operating activities of Spyglass. Accordingly, the combined statement of changes in net assets reflects a transfer of net assets upon deconsolidation of Spyglass in the amount of $3.7 million.

Under a formal memorandum of understanding, ECI uses the services of our senior management and certain of our professional and administrative personnel. The amounts we billed under the agreement for these services and activities were $2.4 million and $6.3 million during the years ended December 31, 2016 and 2015, respectively. These billings are included in services provided to subsidiaries and affiliates in the accompanying combined statements of activities. Additionally, we are reimbursed by ECI for certain out-of-pocket costs incurred on their behalf. These reimbursements totaled $1.8 million and $1.4 million for the years ended December 31, 2016 and December 31, 2015.

Under the same formal memorandum of understanding referenced above, we use ECI's personnel for such services as information technology, human resources, finance, legal, and office management in 2016 and primarily information technology in 2015. The amounts billed to us under the agreement were $13.3 million and $4.1 million during the years ended December 31, 2016 and 2015, respectively. The amount is reflected as a component of both program activities and support services, management and general in the accompanying combined statements of activities. We also reimburse ECI for other costs they incur on behalf of us. These costs totaled $1.4 million and $2.2 million for the years ended December 31, 2016 and 2015, respectively.

The use of the "Enterprise" name and logo and the associated intellectual property has significant value, particularly in the affordable housing industry. As such, we entered into a royalty agreement with ECI to allow the use of our name and logo in conducting their businesses. This royalty income is based on a percentage of revenue generated by those business lines at a prevalent market rate. For the years ended December 31, 2016 and 2015, this revenue totaled $6.1 million and $5.1 million, respectively. These amounts are reflected as royalty income in the accompanying combined statements of activities.

We also received unrestricted grants from ECI in the amount of $9.4 million and $3.4 million for the years ended December 31, 2016 and 2015, respectively. These amounts are reflected as contributions in the accompanying combined statements of activities.

We have extended an unsecured line of credit to ECI for general corporate purposes. The loan is structured as an arms-length transaction, and the terms are based on what ECI can access from external lenders. At both December 31, 2016 and 2015, the borrowing capacity under this facility was $17 million. The interest rate on the initial $15 million borrowing capacity was LIBOR plus 2.75% through June 30, 2015, and decreased to LIBOR plus 2.25% effective July 1, 2015. The interest rate on the additional $2 million of borrowing capacity is LIBOR plus 2.25%. There were no outstanding borrowings under this facility at December 31, 2016 and 2015. The credit facility is extended automatically on January 1st for successive one-year periods unless Loan Fund gives 30 days notice not to extend.

Cornerstone Housing Corporation ("CHC")

CHC is an affiliated 501(c)(3) and 509(a)(1) not-for-profit organization. CHC was formed to acquire and operate low-income housing units. In June 2015, CHC sold its interest in one affordable housing property, and as a result, we received a contribution from CHC in the amount of $11.0 million. In August 2016, CHC sold its interest in the remaining affordable housing property for $3.4 million, the proceeds from which were used to pay off debt. In December 2016, CHC was dissolved and the final distribution of assets to Partners was $4.1 million, which resulted in us recognizing a gain of approximately $145,000, which is included in investment income on the combined statement of activities.

ImpactUs Marketplace, LLC ("ImpactUs")

During 2015, we made an initial investment of $3.0 million in a newly formed entity, ImpactUs (formerly known as Community Investment Marketplace, LLC) for the purpose of creating an on-line investment platform to facilitate impact investment opportunities. During 2016, we made an additional investment of $0.5 million.

Other Subsidiaries and Affiliates

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

Note 8 - Property and equipment, net

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

	2016	2015
Office equipment	$ 1,195	$ 1,162
Software applications	9,040	7,526
Furniture and fixtures	1,208	1,201
Leasehold improvements	1,902	1,894
	13,345	11,783
Accumulated depreciation and amortization	(8,359)	(6,922)
Total	$ 4,986	$ 4,861

Note 9 - Loans payable

Loans payable bear interest at rates which vary from 0% to 4% and are repayable through 2043. Most of our borrowings are structured as unsecured. We have three facilities that require that we pledge collateral. Currently, we have pledged the underlying loans receivable to collateralize draws from two of the facilities, and government and agency securities to collateralize draws from the third facility. Secured loans payable were $20.8 and $12.5 million as of December 31, 2016 and 2015. Most of our loans payable reflect borrowings which have been restricted by the lender for lending to various community development organizations. Some borrowings are further restricted for use in certain locations or in certain sectors and/or initiatives. Some of our loans payable may be utilized for working capital purposes. Additionally, certain of these loans payable contain covenants that require Loan Fund to provide reporting on a periodic basis and to meet and maintain specific financial ratios.

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

Certain of these loans payable are considered Equity Equivalent ("EQ2") investments. EQ2 investments are fully subordinated, unsecured obligations that carry a fixed interest rate and have a rolling maturity. The lender cannot accelerate payment unless an uncured event of default exists. As of both December 31, 2016 and 2015, loans payable included $15.8 million of EQ2 investments.

Through our Impact Note program, individuals, including employees and board members, and institutions are able to invest a minimum of $5,000 for two to ten years at interest rates of 0% to 3.5%. As of December 31, 2016 and 2015, amounts outstanding under this program were $26.8 million and $31.6 million, respectively. As of December 31, 2016 and 2015, the balance due to employees and the board of directors was $0.7 million and $0.8 million, respectively.

Approximate annual maturities of loans payable for each of the next five years and thereafter are as follows ($ in thousands):

Due in 2017	$	7,015
2018		13,343
2019		29,215
2020		30,364
2021		19,718
Thereafter		40,642
Total	$	140,297

The debt due in 2017 consists of borrowings related to loan facilities that are used to fund outstanding loans receivable. We expect to make payments at or before 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.

Debt issuance costs, net of accumulated amortization, totaled approximately $246,000 and $255,000 as of December 31, 2016 and 2015, respectively, related to these borrowings.

Note 10 - Restrictions and limitations on net asset balances

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

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

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

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

Note 11 - 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 $0.5 million and $0.7 million during the years ended December 31, 2016 and 2015, respectively.

The plan also includes a defined contribution provision, whereby we contribute an amount equal to a percentage, as defined by the plan, of the gross compensation of each employee. The contributions vest over six years. After six years of service, all future contributions are automatically vested. Total expenses under this plan totaled $0.6 million and $0.8 million for the years ended December 31, 2016 and 2015, respectively.

Note 12 - Commitments and contingencies

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

Grants and contracts

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

Loans

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

Custodial accounts

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

Office leases

We, as a lessee, have entered into operating leases, primarily for office space, expiring at various dates through 2028. A portion of the space leased is allocated for use to ECI.

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

2017	$	2,166
2018		2,082
2019		1,954
2020		1,937
2021		1,770
Thereafter		7,340
Total	$	17,249

We also pay our proportionate share of rent on certain space leased by ECI, including office sharing arrangements, in several regional office locations.

After allocations to and from ECI, rent expense was $2.2 million and $2.7 million for the years ended December 31, 2016 and 2015, respectively, and is included as a component of occupancy on the accompanying statements of functional expenses. We were paid $0.8 million under these arrangements during each of the years ended December 31, 2016 and 2015.

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 combined financial statements for adjustments, if any, which may result from an audit.

Litigation

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

Joint venture arrangement

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

Matching requirements

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

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

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

Note 13 - Concentration of credit risk

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.

Note 14 - Risks and uncertainties

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

Note 15 - Fair value measurements

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

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

- Level 1 - Quoted market prices for identical instruments in active markets.
- Level 2 - Quoted market prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
- Level 3 - Significant inputs to the valuation model are unobservable.

We maintain policies and procedures to value instruments using the best and most relevant data available. Additionally, management routinely performs various risk assessments that review valuation, including independent price validation for certain instruments. Further, in other instances, we retain independent pricing vendors to assist in valuing certain instruments. The following tables present the fair value of assets measured on a recurring basis at December 31 ($ in thousands):

December 31, 2016	Level 1	Level 2	Level 3	Net balance
Assets				
Investments in marketable securities	$ 27,738	$ -	$ -	$ 27,738
Alternative investments	-	-	586	586
Total	$ 27,738	$ -	$ 586	$ 28,324

December 31, 2015	Level 1	Level 2	Level 3	Net balance
Assets				
Investments in marketable securities	$ 33,568	$ -	$ -	$ 33,568
Alternative investments	-	-	438	438
Total	$ 33,568	$ -	$ 438	$ 34,006

Investments in marketable securities can consist of U.S. Government agency obligations, fixed income securities and corporate and foreign securities. Marketable securities are carried at fair value based on quoted prices. Alternative investments consist primarily of investments in limited partnerships. These investments are carried at fair value, which is the quarterly net asset value made available by the fund manager or administrator prior to the valuation date.

The following table provides a summary of changes in fair value of our Level 3 assets, as well as the portion of gains or losses included in income attributable to realized and unrealized gains or losses that related to those assets held at December 31 ($ in thousands):

	January 1, 2016	Realized/ unrealized gains (losses) included in changes in net assets	Purchases, issuances and settlements	Transfers in and/or out of Level 3	December 31, 2016
Assets					
Alternative investments	$ 438	$ 5	$ 143	$ -	$ 586
Total	$ 438	$ 5	$ 143	$ -	$ 586

	January 1, 2015	Realized/ unrealized gains (losses) included in changes in net assets	Purchases, issuances and settlements	Transfers in and/or out of Level 3	December 31, 2015
Assets					
Alternative investments	$ 237	$ 1	$ 200	$ -	$ 438
Total	$ 237	$ 1	$ 200	$ -	$ 438

Note 16 - Subsequent events

Events that occur after the combined statement of financial position date but before the combined 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 combined statement of financial position date are recognized in the accompanying combined financial statements. Subsequent events which provide evidence about conditions that existed after the combined statement of financial position date require disclosure in the accompanying notes. We evaluated our activity through April 21, 2017 (the date the combined financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the combined financial statements or disclosure in the notes to the combined financial statements.

Supplementary Information

Enterprise Community Partners, Inc. and Affiliate

Supplementary Information

Combining Statement of Financial Position
December 31, 2016

($ in thousands)

Assets

	Enterprise Community Partners, Inc.	Enterprise Community Loan Fund, Inc.	Total	Eliminations	Combined
Cash, cash equivalents and investments	$ 8,348	$ 27,182	$ 35,530	$ -	$ 35,530
Restricted cash, cash equivalents and investments	67,134	19,917	87,051	-	87,051
Contributions receivable, net	16,776	3,300	20,076	-	20,076
Contracts receivable, net	5,845	-	5,845	-	5,845
Interest receivable, net	-	771	771	-	771
Loans receivable, net	2,862	145,428	148,290	-	148,290
Notes receivable, net	4,705	196	4,901	(205)	4,696
Advances to subsidiaries and affiliates	6,199	(129)	6,070	-	6,070
Investments in subsidiaries and affiliates	198,056	249	198,305	(50,883)	147,422
Property and equipment, net	4,986	-	4,986	-	4,986
Other receivables and other assets, net	670	-	670	-	670
Total assets	$ 315,581	$ 196,914	$ 512,495	$ (51,088)	$ 461,407

Liabilities and Net Assets

	Enterprise Community Partners, Inc.	Enterprise Community Loan Fund, Inc.	Total	Eliminations	Combined
Liabilities					
Accounts payable and accrued expenses	$ 7,961	$ 492	$ 8,453	$ -	$ 8,453
Funds held for others	1,539	5,283	6,822	-	6,822
Loans payable, net	-	140,256	140,256	(205)	140,051
Total liabilities	9,500	146,031	155,531	(205)	155,326
Commitments and contingencies	-	-	-	-	-
Net assets					
Unrestricted, controlling interest	175,750	40,001	215,751	(40,001)	175,750
Unrestricted, noncontrolling interest	29,590	-	29,590	-	29,590
Temporarily restricted - program activities	83,040	8,882	91,922	(8,882)	83,040
Temporarily restricted - Cullman Challenge Grant	13,387	-	13,387	-	13,387
Temporarily restricted - Terwilliger Fund	4,314	2,000	6,314	(2,000)	4,314
Total net assets	306,081	50,883	356,964	(50,883)	306,081
Total liabilities and net assets	$ 315,581	$ 196,914	$ 512,495	$ (51,088)	$ 461,407

See Independent Auditor's Report.

Enterprise Community Partners, Inc. and Affiliate

Supplementary Information

Combining Statement of Financial Position
December 31, 2015

($ in thousands)

	Enterprise Community Partners, Inc.	Enterprise Community Loan Fund, Inc.	Total	Eliminations	Combined
Assets					
Cash, cash equivalents and investments	$ 7,635	$ 37,429	$ 45,064	$ -	$ 45,064
Restricted cash, cash equivalents and investments	46,350	15,135	61,485	-	61,485
Contributions receivable, net	13,205	3,653	16,858	-	16,858
Contracts receivable, net	8,919	-	8,919	-	8,919
Interest receivable, net	-	540	540	-	540
Loans receivable, net	682	117,071	117,753	-	117,753
Notes receivable, net	4,753	2,000	6,753	(253)	6,500
Advances to subsidiaries and affiliates	2,396	(183)	2,213	-	2,213
Investments in subsidiaries and affiliates	192,164	181	192,345	(45,614)	146,731
Property and equipment, net	4,861	-	4,861	-	4,861
Other receivables and other assets, net	1,009	-	1,009	-	1,009
Total assets	$ 281,974	$ 175,826	$ 457,800	$ (45,867)	$ 411,933
Liabilities and Net Assets					
Liabilities					
Accounts payable and accrued expenses	$ 11,551	$ 464	$ 12,015	$ -	$ 12,015
Funds held for others	5,417	5,512	10,929	-	10,929
Loans payable, net	-	124,236	124,236	(253)	123,983
Total liabilities	16,968	130,212	147,180	(253)	146,927
Commitments and contingencies	-	-	-	-	-
Net assets					
Unrestricted, controlling interest	170,221	36,514	206,735	(36,514)	170,221
Unrestricted, noncontrolling interest	26,365	-	26,365	-	26,365
Temporarily restricted - program activities	51,226	7,100	58,326	(7,100)	51,226
Temporarily restricted - Cullman Challenge Grant	12,882	-	12,882	-	12,882
Temporarily restricted - Terwilliger Fund	4,312	2,000	6,312	(2,000)	4,312
Total net assets	265,006	45,614	310,620	(45,614)	265,006
Total liabilities and net assets	$ 281,974	$ 175,826	$ 457,800	$ (45,867)	$ 411,933

See Independent Auditor's Report.

Enterprise Community Partners, Inc. and Affiliate

Supplementary Information

Combining Statement of Activities
Year Ended December 31, 2016

($ in thousands)

	Unrestricted					Temporarily restricted							
	Enterprise Community Partners, Inc.	Enterprise Community Loan Fund, Inc.	Total	Eliminations	Combined	Program activities Partners	Program activities Loan Fund	Cullman Challenge Grant	Terwilliger Fund Partners	Terwilliger Fund Loan Fund	Eliminations	Combined	Combined total
Revenue and support													
Grants and contracts	$ 25,544	$ -	$ 25,544	$ -	$ 25,544	$ -	$ 3,300	$ -	$ -	$ -	$ -	$ 3,300	$ 28,844
Contributions	11,008	-	11,008	-	11,008	51,007	25	-	-	-	-	51,032	62,040
Interest income	220	7,923	8,143	-	8,143	-	-	-	-	-	-	-	8,143
Royalty income	6,145	-	6,145	-	6,145	-	-	-	-	-	-	-	6,145
Services provided to subsidiaries and affiliates	2,379	-	2,379	-	2,379	-	-	-	-	-	-	-	2,379
Investment income	353	208	561	-	561	-	-	339	2	-	-	341	902
Other revenue	2,568	446	3,014	-	3,014	-	-	-	-	-	-	-	3,014
	48,217	8,577	56,794	-	56,794	51,007	3,325	339	2	-	-	54,673	111,467
Net assets released from restrictions	21,651	1,543	23,194	-	23,194	(20,975)	(1,543)	(676)	-	-	-	(23,194)	-
Total revenue and support	69,868	10,120	79,988	-	79,988	30,032	1,782	(337)	2	-	-	31,479	111,467
Expenses													
Program activities													
Program services	42,844	3,350	46,194	-	46,194	-	-	-	-	-	-	-	46,194
Grants	15,569	-	15,569	-	15,569	-	-	-	-	-	-	-	15,569
Public policy	2,419	-	2,419	-	2,419	-	-	-	-	-	-	-	2,419
Interest on loans	-	2,790	2,790	-	2,790	-	-	-	-	-	-	-	2,790
Total program activities	60,832	6,140	66,972	-	66,972	-	-	-	-	-	-	-	66,972
Support services													
Management and general	3,414	781	4,195	-	4,195	-	-	-	-	-	-	-	4,195
Fundraising	4,913	-	4,913	-	4,913	-	-	-	-	-	-	-	4,913
Total support services	8,327	781	9,108	-	9,108	-	-	-	-	-	-	-	9,108
Total expenses	69,159	6,921	76,080	-	76,080	-	-	-	-	-	-	-	76,080
Excess (deficiency) of revenue and support over expenses from operations	709	3,199	3,908	-	3,908	30,032	1,782	(337)	2	-	-	31,479	35,387
Net realized and unrealized gain on investments	199	220	419	-	419	-	-	842	-	-	-	842	1,261
Equity in increase in net assets of subsidiaries and affiliates	14,039	68	14,107	(3,487)	10,620	-	-	-	-	-	-	-	10,620
Change in net assets	14,947	3,487	18,434	(3,487)	14,947	30,032	1,782	505	2	-	-	32,321	47,268
Change in net assets, attributable to noncontrolling interest	(9,418)	-	(9,418)	-	(9,418)	-	-	-	-	-	-	-	(9,418)
Change in net assets, attributable to controlling interest	$ 5,529	$ 3,487	$ 9,016	$ (3,487)	$ 5,529	$ 30,032	$ 1,782	$ 505	$ 2	$ -	$ -	$ 32,321	$ 37,850

See Independent Auditor's Report.

Enterprise Community Partners, Inc. and Affiliate

Supplementary Information

Combining Statement of Activities
Year Ended December 31, 2015

($ in thousands)

	Unrestricted					Temporarily restricted							
	Enterprise Community Partners, Inc.	Enterprise Community Loan Fund, Inc.	Total	Eliminations	Combined	Program activities Partners	Program activities Loan Fund	Cullman Challenge Grant	Terwilliger Fund Partners	Terwilliger Fund Loan Fund	Eliminations	Combined	Combined total
Revenue and support													
Grants and contracts	$ 30,036	$ -	$ 30,036	$ -	$ 30,036	$ -	$ 3,653	$ -	$ -	$ -	$ -	$ 3,653	$ 33,689
Contributions	15,554	4,300	19,854	(4,300)	15,554	23,620	-	-	-	-	-	23,620	39,174
Interest income	264	7,311	7,575	-	7,575	-	-	-	-	-	-	-	7,575
Royalty income	5,138	-	5,138	-	5,138	-	-	-	-	-	-	-	5,138
Services provided to subsidiaries and affiliates	7,433	13	7,446	(1,105)	6,341	-	-	-	-	-	-	-	6,341
Investment income	217	217	434	-	434	-	-	348	-	-	-	348	782
Other revenue	649	390	1,039	-	1,039	-	-	-	-	-	-	-	1,039
	59,291	12,231	71,522	(5,405)	66,117	23,620	3,653	348	-	-	-	27,621	93,738
Net assets released from restrictions	17,546	1,481	19,027	(30)	18,997	(16,874)	(1,481)	(672)	-	-	30	(18,997)	-
Total revenue and support	76,837	13,712	90,549	(5,435)	85,114	6,746	2,172	(324)	-	-	30	8,624	93,738
Expenses													
Program activities													
Program services	48,399	2,446	50,845	(1,105)	49,740	-	-	-	-	-	-	-	49,740
Grants	15,593	4,300	19,893	(4,300)	15,593	-	-	-	-	-	-	-	15,593
Public policy	3,011	-	3,011	-	3,011	-	-	-	-	-	-	-	3,011
Interest on loans	-	3,094	3,094	-	3,094	-	-	-	-	-	-	-	3,094
Total program activities	67,003	9,840	76,843	(5,405)	71,438	-	-	-	-	-	-	-	71,438
Support services													
Management and general	4,190	841	5,031	-	5,031	-	-	-	-	-	-	-	5,031
Fundraising	5,430	-	5,430	-	5,430	-	-	-	-	-	-	-	5,430
Total support services	9,620	841	10,461	-	10,461	-	-	-	-	-	-	-	10,461
Total expenses	76,623	10,681	87,304	(5,405)	81,899	-	-	-	-	-	-	-	81,899
Excess (deficiency) of revenue and support over expenses from operations	214	3,031	3,245	(30)	3,215	6,746	2,172	(324)	-	-	30	8,624	11,839
Net realized and unrealized (loss) gain on investments	(191)	(199)	(390)	-	(390)	-	-	(429)	2	-	-	(427)	(817)
Equity in increase in net assets of subsidiaries and affiliates	16,638	57	16,695	(2,889)	13,806	-	-	-	-	-	-	-	13,806
Change in net assets	16,661	2,889	19,550	(2,919)	16,631	6,746	2,172	(753)	2	-	30	8,197	24,828
Change in net assets, attributable to noncontrolling interest	(3,221)	-	(3,221)	-	(3,221)	-	-	-	-	-	-	-	(3,221)
Change in net assets, attributable to controlling interest	$ 13,440	$ 2,889	$ 16,329	$ (2,919)	$ 13,410	$ 6,746	$ 2,172	$ (753)	$ 2	$ -	$ 30	$ 8,197	$ 21,607

See Independent Auditor's Report.