



**NOVOGRADAC
& COMPANY** LLP®

CERTIFIED PUBLIC ACCOUNTANTS

Chattanooga Neighborhood Enterprise, Inc.

**Consolidated Financial Statements with Supplementary Information
and Report of Independent Auditors**

June 30, 2019 and 2018

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Report of Independent Auditors

To the Board of Directors of
Chattanooga Neighborhood Enterprise, Inc.:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Chattanooga Neighborhood Enterprise, Inc. and subsidiaries (the “Organization”), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses 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.

Auditors’ Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Chattanooga Neighborhood Enterprise, Inc. and subsidiaries as of June 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Organization adopted a change in accounting principle for financial reporting, primarily related to the presentation of net assets and required disclosures related to liquidity and functional expenses. Our opinion is not modified with respect to that matter.

Report on Consolidating Information

The supplementary information on pages 27 to 30 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual subsidiaries, 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 consolidating 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 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 consolidated financial information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Novogradac & Company LLP

Alpharetta, Georgia
October 17, 2019

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - WITH CONSOLIDATING DETAILS
June 30, 2019

	CNE	Operating Entities	Consolidation Eliminations	Total
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents:				
Operating	\$ 2,765,414	\$ 194,000	\$ -	\$ 2,959,414
Designated for investments	439,144	-	-	439,144
Restricted cash	2,473,159	90,960	-	2,564,119
Accounts receivable	49,509	1,405	-	50,914
Grants receivable	242,644	-	-	242,644
Due from affiliates	208,647	-	(204,947)	3,700
Prepaid expenses	11,281	22,235	-	33,516
	<u>6,189,798</u>	<u>308,600</u>	<u>(204,947)</u>	<u>6,293,451</u>
NONCURRENT ASSETS				
Affiliated organizations receivable, net of doubtful collections of \$1,078,663	934,500	-	(934,500)	-
Loans receivable:				
Unrestricted loans, net of allowances for loan losses of \$830,372	2,465,842	-	-	2,465,842
Restricted loans	43,060	-	-	43,060
Forgivable loans, net of loan reserves of \$9,918	-	-	-	-
Interest receivable	16,213	-	-	16,213
Investments in Operating Entities	-	117,358	(117,358)	-
REO properties	20,275	-	-	20,275
Construction in progress	506,758	-	-	506,758
Property and equipment at cost:				
Land	-	644,531	-	644,531
Property held for sale	176,747	-	-	176,747
Property held and used	1,700,434	5,591,382	-	7,291,816
Furniture and fixtures	136,004	16,998	-	153,002
Less accumulated depreciation	(437,055)	(604,460)	-	(1,041,515)
Property and equipment, net	<u>1,576,130</u>	<u>5,648,451</u>	<u>-</u>	<u>7,224,581</u>
	<u>5,562,778</u>	<u>5,765,809</u>	<u>(1,051,858)</u>	<u>10,276,729</u>
Total current assets	<u>11,752,576</u>	<u>6,074,409</u>	<u>(1,256,805)</u>	<u>16,570,180</u>
Total assets	<u>\$ 11,752,576</u>	<u>\$ 6,074,409</u>	<u>\$ (1,256,805)</u>	<u>\$ 16,570,180</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 187,423	\$ 22,776	\$ -	\$ 210,199
Due to affiliates	-	204,947	(204,947)	-
Loan servicing payables	286,572	-	-	286,572
Escrow and contractual obligations	201,012	45,520	-	246,532
Unearned restricted grants	1,593,341	-	-	1,593,341
Small dollar line of credit	75,144	-	-	75,144
Current portion of long-term debt	79,179	133,195	-	212,374
	<u>2,422,671</u>	<u>406,438</u>	<u>(204,947)</u>	<u>2,624,162</u>
Total current liabilities	<u>2,422,671</u>	<u>406,438</u>	<u>(204,947)</u>	<u>2,624,162</u>
NONCURRENT LIABILITIES				
Long-term debt, net of unamortized debt issuance costs	1,059,814	3,618,203	-	4,678,017
Long-term debt, affiliates	-	934,500	(934,500)	-
	<u>1,059,814</u>	<u>4,552,703</u>	<u>(934,500)</u>	<u>4,678,017</u>
Total noncurrent liabilities	<u>1,059,814</u>	<u>4,552,703</u>	<u>(934,500)</u>	<u>4,678,017</u>
Total liabilities	<u>3,482,485</u>	<u>4,959,141</u>	<u>(1,139,447)</u>	<u>7,302,179</u>
NET ASSETS				
Without donor restrictions	4,730,128	1,115,268	(117,358)	5,728,038
With donor restrictions	3,539,963	-	-	3,539,963
	<u>8,270,091</u>	<u>1,115,268</u>	<u>(117,358)</u>	<u>9,268,001</u>
Total net assets	<u>8,270,091</u>	<u>1,115,268</u>	<u>(117,358)</u>	<u>9,268,001</u>
Total liabilities and net assets	<u>\$ 11,752,576</u>	<u>\$ 6,074,409</u>	<u>\$ (1,256,805)</u>	<u>\$ 16,570,180</u>

See notes to consolidated financial statements

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - WITH CONSOLIDATING DETAILS
June 30, 2018

	CNE	Operating Entities	Consolidation Eliminations	Total
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents:				
Operating	\$ 225,735	\$ 106,065	\$ -	\$ 331,800
Designated for investments	541,801	-	-	541,801
Restricted cash	1,583,862	83,816	-	1,667,678
Accounts receivable	10,070	9,185	-	19,255
Grants receivable	197,705	-	-	197,705
Due from affiliates	213,166	-	(190,490)	22,676
Prepaid expenses	20,480	7,070	-	27,550
	<u>2,792,819</u>	<u>206,136</u>	<u>(190,490)</u>	<u>2,808,465</u>
NONCURRENT ASSETS				
Restricted cash	96,500	-	-	96,500
Affiliated organizations receivable, net of doubtful collections of \$1,078,663	934,500	-	(934,500)	-
Loans receivable:				
Unrestricted loans, net of allowances for loan losses of \$640,490	2,578,593	-	-	2,578,593
Restricted loans	55,990	-	-	55,990
Forgivable loans, net of loan reserves of \$17,703	-	-	-	-
Interest receivable	199,827	-	-	199,827
Investments in Operating Entities	-	117,358	(117,358)	-
REO properties	20,275	-	-	20,275
Construction in progress	697,672	9,667	-	707,339
Property and equipment at cost:				
Land	-	926,213	-	926,213
Property held for sale	150,685	-	-	150,685
Property held and used	769,329	5,507,741	-	6,277,070
Furniture and fixtures	337,718	16,998	-	354,716
Less accumulated depreciation	(621,936)	(397,863)	-	(1,019,799)
Property and equipment, net	<u>635,796</u>	<u>6,053,089</u>	<u>-</u>	<u>6,688,885</u>
	<u>5,219,153</u>	<u>6,180,114</u>	<u>(1,051,858)</u>	<u>10,347,409</u>
Total noncurrent assets	<u>5,219,153</u>	<u>6,180,114</u>	<u>(1,051,858)</u>	<u>10,347,409</u>
Total assets	<u>\$ 8,011,972</u>	<u>\$ 6,386,250</u>	<u>\$ (1,242,348)</u>	<u>\$ 13,155,874</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 131,647	\$ 45,564	\$ -	\$ 177,211
Due to affiliates	-	201,312	(90,490)	110,822
Loan servicing payables	203,127	-	-	203,127
Escrow and contractual obligations	171,038	47,308	-	218,346
Unearned restricted grants	557,909	-	-	557,909
Construction loans	84,309	-	-	84,309
Current portion of long-term debt	80,409	142,700	-	223,109
	<u>1,228,439</u>	<u>436,884</u>	<u>(90,490)</u>	<u>1,574,833</u>
Total current liabilities	<u>1,228,439</u>	<u>436,884</u>	<u>(90,490)</u>	<u>1,574,833</u>
NONCURRENT LIABILITIES				
Long-term debt, net of unamortized debt issuance costs	1,096,549	3,678,093	-	4,774,642
Long-term debt, affiliates	-	1,034,500	(1,034,500)	-
Grant liability	226,819	-	-	226,819
	<u>1,323,368</u>	<u>4,712,593</u>	<u>(1,034,500)</u>	<u>5,001,461</u>
Total noncurrent liabilities	<u>1,323,368</u>	<u>4,712,593</u>	<u>(1,034,500)</u>	<u>5,001,461</u>
Total liabilities	<u>2,551,807</u>	<u>5,149,477</u>	<u>(1,124,990)</u>	<u>6,576,294</u>
NET ASSETS				
Without donor restrictions	2,368,576	1,236,773	(117,358)	3,487,991
With donor restrictions	3,091,589	-	-	3,091,589
	<u>5,460,165</u>	<u>1,236,773</u>	<u>(117,358)</u>	<u>6,579,580</u>
Total net assets	<u>5,460,165</u>	<u>1,236,773</u>	<u>(117,358)</u>	<u>6,579,580</u>
Total liabilities and net assets	<u>\$ 8,011,972</u>	<u>\$ 6,386,250</u>	<u>\$ (1,242,348)</u>	<u>\$ 13,155,874</u>

See notes to consolidated financial statements

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES - WITH CONSOLIDATING DETAILS
For the year ended June 30, 2019

	CNE		Total	Operating Entities	Consolidation Eliminations	Consolidated
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions				
REVENUES						
Program support:						
Homeownership promotion	\$ -	\$ 207,017	\$ 207,017	\$ -	\$ -	\$ 207,017
Homeownership preservation	-	175,236	175,236	-	-	175,236
Real estate development	-	770,171	770,171	-	-	770,171
Property management	-	30,832	30,832	-	-	30,832
Neighborhood engagement	-	189,486	189,486	-	-	189,486
Loan servicing	-	122,362	122,362	-	-	122,362
Small dollar loan	-	4,441	4,441	-	-	4,441
Total program support	-	1,499,545	1,499,545	-	-	1,499,545
General support:						
General revenue	1,800,166	-	1,800,166	-	(58,472)	1,741,694
Fundraising	3,460	-	3,460	-	-	3,460
Total general support	1,803,626	-	1,803,626	-	(58,472)	1,745,154
Other revenue:						
Operating entities	-	-	-	603,411	-	603,411
Total other revenue	-	-	-	603,411	-	603,411
Total revenues	1,803,626	1,499,545	3,303,171	603,411	(58,472)	3,848,110
EXPENSES						
Direct program services:						
Homeownership preservation	-	179,542	179,542	-	-	179,542
Real estate development	-	261,034	261,034	-	-	261,034
Neighborhood engagement	-	84,863	84,863	-	-	84,863
Total direct program services	-	525,439	525,439	-	-	525,439
Indirect program services:						
Homeownership promotion	-	133,993	133,993	-	-	133,993
Homeownership preservation	-	41,125	41,125	-	-	41,125
Real estate development	-	153,410	153,410	-	-	153,410
Property management	-	195,842	195,842	-	-	195,842
Loan servicing	-	693,378	693,378	-	-	693,378
Neighborhood engagement	-	344,425	344,425	-	-	344,425
Small dollar loan	-	19,540	19,540	-	-	19,540
Total indirect program services	-	1,581,713	1,581,713	-	-	1,581,713
Total program services	-	2,107,152	2,107,152	-	-	2,107,152
Support services:						
General and administrative	101,697	-	101,697	558,329	(58,472)	601,554
Fundraising	34,358	-	34,358	-	-	34,358
Total support services	136,055	-	136,055	558,329	(58,472)	635,912
Total expenses	136,055	2,107,152	2,243,207	558,329	(58,472)	2,743,064
OTHER CHANGES IN NET ASSETS						
Loss on sale of assets	-	-	-	(137,483)	-	(137,483)
Transfer of net assets	1,749,962	-	1,749,962	(29,104)	-	1,720,858
Total other changes in net assets	1,749,962	-	1,749,962	(166,587)	-	1,583,375
Changes in net assets	3,417,533	(607,607)	2,809,926	(121,505)	-	2,688,421
Reclassification of net assets	(1,055,981)	1,055,981	-	-	-	-
Net assets at beginning of year	2,368,576	3,091,589	5,460,165	1,236,773	(117,358)	6,579,580
Net assets at end of year	\$ 4,730,128	\$ 3,539,963	\$ 8,270,091	\$ 1,115,268	\$ (117,358)	\$ 9,268,001

See notes to consolidated financial statements

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES - WITH CONSOLIDATING DETAILS
For the year ended June 30, 2018

	CNE					
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total	Operating Entities	Consolidation Eliminations	Consolidated
REVENUES						
Program support:						
Homeownership promotion	\$ -	\$ 192,886	\$ 192,886	\$ -	\$ -	\$ 192,886
Homeownership preservation	-	124,946	124,946	-	-	124,946
Real estate development	-	499,747	499,747	-	-	499,747
Property management	-	22,461	22,461	-	(14,261)	8,200
Neighborhood engagement	-	158,672	158,672	-	-	158,672
Loan servicing	-	151,329	151,329	-	-	151,329
Total program support	-	1,150,041	1,150,041	-	(14,261)	1,135,780
General support:						
General revenue	1,184,272	-	1,184,272	-	(19,167)	1,165,105
Fundraising	7,306	-	7,306	-	-	7,306
Total general support	1,191,578	-	1,191,578	-	(19,167)	1,172,411
Other revenue:						
Operating entities	-	-	-	429,042	-	429,042
Total other revenue	-	-	-	429,042	-	429,042
Total revenues	1,191,578	1,150,041	2,341,619	429,042	(33,428)	2,737,233
EXPENSES						
Direct program services:						
Homeownership promotion	-	12,429	12,429	-	-	12,429
Homeownership preservation	-	173,406	173,406	-	-	173,406
Real estate development	-	167,851	167,851	-	-	167,851
Neighborhood engagement	-	108,323	108,323	-	-	108,323
Total direct program services	-	462,009	462,009	-	-	462,009
Indirect program services:						
Homeownership promotion	-	435,448	435,448	-	-	435,448
Homeownership preservation	-	165,206	165,206	-	-	165,206
Real estate development	-	240,273	240,273	-	-	240,273
Property management	-	105,133	105,133	-	-	105,133
Loan servicing	-	270,331	270,331	-	-	270,331
Neighborhood engagement	-	105,133	105,133	-	-	105,133
Total indirect program services	-	1,321,524	1,321,524	-	-	1,321,524
Total program services	-	1,783,533	1,783,533	-	-	1,783,533
Support services:						
General and administrative	150,198	-	150,198	507,881	(33,428)	624,651
Fundraising	30,040	-	30,040	-	-	30,040
Total support services	180,238	-	180,238	507,881	(33,428)	654,691
Total expenses	180,238	1,783,533	1,963,771	507,881	(33,428)	2,438,224
OTHER CHANGE IN NET ASSETS						
Loss on sale of assets	-	-	-	(1,929)	-	(1,929)
Total other change in net assets	-	-	-	(1,929)	-	(1,929)
Changes in net assets	1,011,340	(633,492)	377,848	(80,768)	-	297,080
Reclassification of net assets	(689,476)	689,476	-	-	-	-
Net assets at beginning of year	2,046,712	3,035,605	5,082,317	1,317,541	(117,358)	6,282,500
Net assets at end of year	<u>\$ 2,368,576</u>	<u>\$ 3,091,589</u>	<u>\$ 5,460,165</u>	<u>\$ 1,236,773</u>	<u>\$ (117,358)</u>	<u>\$ 6,579,580</u>

See notes to consolidated financial statements

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2019

<u>Functional Expenses</u>	<u>Support Services</u>			
	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Bad debt	\$ -	\$ 14,721	\$ -	\$ 14,721
Bank related	10,762	1,221	234	1,455
Communication	14,642	941	318	1,259
Depreciation	16,514	207,898	440	208,338
Direct program expenses	525,439	-	-	-
Document storage	457	29	10	39
Dues and subscriptions	27,416	1,762	598	2,360
Equipment leasing	2,192	141	47	188
Insurance	47,384	11,541	1,030	12,571
Interest	14,228	40,127	309	40,436
Land holding costs	13,430	25,672	292	25,964
Office supplies	16,940	1,088	364	1,452
Postage	8,637	315	108	423
Professional services	163,090	15,620	3,544	19,164
Promotion and marketing	36,905	6,582	804	7,386
Rent and utilities	71,171	57,564	1,544	59,108
Repairs and maintenance	-	30,029	-	30,029
Salaries, benefits and bonuses	1,043,308	67,074	22,662	89,736
Software	26,926	2,230	583	2,813
Taxes	10,266	113,305	223	113,528
Training	32,539	2,090	707	2,797
Travel	24,906	1,604	541	2,145
Total	<u>\$ 2,107,152</u>	<u>\$ 601,554</u>	<u>\$ 34,358</u>	<u>\$ 635,912</u>

See notes to consolidated financial statements

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2018

<u>Functional Expenses</u>	<u>Support Services</u>			
	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Bad debt	\$ -	\$ 88	\$ -	\$ 88
Bank related	12,920	1,661	292	1,953
Communication	12,797	1,455	291	1,746
Depreciation	43,904	203,883	1,052	204,935
Direct program expenses	462,009	-	-	-
Document storage	528	60	12	72
Dues and subscriptions	26,775	3,042	610	3,652
Equipment leasing	3,151	359	71	430
Insurance	48,781	6,750	1,109	7,859
Interest	5,344	13,919	68	13,987
Land holding costs	13,720	24,933	312	25,245
Loan losses	17,121	1,946	389	2,335
Office supplies	11,229	2,011	253	2,264
Postage	6,188	705	141	846
Professional services	160,093	52,504	3,640	56,144
Promotion and marketing	28,305	10,561	643	11,204
Rent and utilities	68,380	50,013	1,553	51,566
Repairs and maintenance	-	85,077	-	85,077
Salaries, benefits and bonuses	805,854	91,576	18,320	109,896
Software	16,057	1,129	366	1,495
Taxes	229	68,417	5	68,422
Training	29,987	3,408	685	4,093
Travel	10,161	1,154	228	1,382
Total	<u>\$ 1,783,533</u>	<u>\$ 624,651</u>	<u>\$ 30,040</u>	<u>\$ 654,691</u>

See notes to consolidated financial statements

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 2,688,421	\$ 297,080
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization of debt issuance costs	228,583	251,210
Release of grant liability restrictions	(226,819)	-
Loan losses	-	19,456
(Gain) loss on sale of assets, net	(175,109)	1,929
Transfer of net assets from dissolution of CCDFI	(1,720,858)	-
Changes in operating assets and liabilities:		
Accounts receivable	(31,659)	482,674
Grants receivable	(44,939)	(1,237)
Due from affiliates	18,976	18,373
Prepaid expenses	(5,966)	(8,644)
Loans receivable	348,552	405,252
Accounts payable and accrued expenses	28,970	70,142
Due to affiliates	-	(99,951)
Loan servicing payables	229,585	2,552
Escrows and contractual obligations	28,186	47,341
Unearned restricted grants	1,035,432	205,112
Small dollar line of credit	75,144	-
	<hr/>	<hr/>
Net cash provided by operating activities	2,476,499	1,691,289
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received from dissolution of CCDFI	1,118,831	-
Cash received from sale of assets	1,127,220	-
Increase in restricted cash	(799,941)	(429,642)
Cash paid for property and equipment	<u>(1,465,477)</u>	<u>(1,394,085)</u>
	<hr/>	<hr/>
Net cash used in investing activities	(19,367)	(1,823,727)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Payment of) proceeds from construction loans	(84,309)	84,309
Decrease in grant liability	-	(254,178)
Proceeds from long-term debt, net	152,134	85,009
Net cash provided by (used) in financing activities	<u>67,825</u>	<u>(84,860)</u>
	<hr/>	<hr/>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,524,957	(217,298)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>873,601</u>	<u>1,090,899</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 3,398,558</u></u>	<u><u>\$ 873,601</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 57,743</u>	<u>\$ 19,030</u>
SUPPLEMENTAL DISCLOSURE FOR NON-CASH INVESTING ACTIVITY		
Property and equipment costs incurred	\$ 1,712,659	\$ 4,430,040
Less:		
Construction in progress	(200,581)	(3,035,955)
Transfer of CCDFI property	<u>(46,601)</u>	<u>-</u>
Cash paid for property and equipment	<u><u>\$ 1,465,477</u></u>	<u><u>\$ 1,394,085</u></u>

See notes to consolidated financial statements

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

1. Organization

Chattanooga Neighborhood Enterprise, Inc. (“CNE” or the “Organization”) was incorporated in Tennessee in 1986 as a non-profit organization. The Organization was established to preserve, rehabilitate, and prevent deterioration of rental units and single-family dwellings; to encourage home ownership and rehabilitation through below-market loans; to develop a training program for in-home maintenance and repair; to promote neighborhood beautification and self-improvement projects; to promote neighborhood revitalization; and to promote the enforcement of uniform building codes and eliminate all substandard housing in the City of Chattanooga and Hamilton County, Tennessee. During 2019, Chattanooga Community Development Financial Institution, Inc. (“CCDFI”) was dissolved into CNE. The consolidated financial statements are presented with the dissolution of CCDFI into CNE as of July 1, 2018.

The Organization operates the following programs:

Homeownership promotion - The Organization helps Chattanoogaans achieve homeownership through its homeownership education and counseling program. The Organization brokers mortgages to finance the purchase of single-family residences in Chattanooga and Hamilton County to qualified persons or families. CNE provides second mortgage loans to low and moderate income households that are funded by federal grant awards and CNE capital.

Homeownership preservation - The Organization's Homeownership Center offers counseling services to assist local families avoid foreclosure and sustain their homeownership.

Real estate development - The Organization is involved in developing single-family and multi-family housing in the City of Chattanooga. The single family development is sold for homeownership. The rental development becomes part of CNE's rental portfolio.

Property management - The Organization provides property management services for its rental housing portfolio.

Neighborhood engagement – The Organization helps residents and other community stakeholders to develop leadership to build a stronger community. Activities offered include development of neighborhood groups, leadership skill development training courses, youth activity and training groups, community fairs, and other opportunities to encourage a renewed energy, expertise, and focus in the community.

Loan servicing - The Organization serves as a loan underwriting agent for down payment and home repair loans. The Organization services these loans (see Note 7) and loans funded by other entities (see Note 8).

Small dollar loan - The Organization provides a small dollar loan program as an alternative to payday loans. The Organization offers affordable short-term loans through area employers as a benefit to their employees.

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019 and 2018

2. Summary of significant accounting policies and nature of operations

Basis of accounting

The Organization prepares its consolidated financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

Basis of presentation

The Organization is required to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature, which will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Principles of consolidation

The Organization's consolidated financial statements include CNE and the following entities in which CNE has an interest (collectively, the "Operating Entities").

Chattanooga Affordable Rental Enterprise V, Inc. ("CARE")
CNE Affordable Housing Limited Partnership V ("CAHLP V")
Highland Park, LLC ("Highland Park")
Mai Bell Apartments, LLC ("Mai Bell")

CARE, a Tennessee corporation, was formed on January 15, 1997 to serve as a general partner in CAHLP V and to help organize and syndicate low-income housing tax credits on CAHLP V.

CAHLP V, a Tennessee limited partnership, was formed on November 21, 1996 to construct, own and operate CNE Affordable Housing located in Chattanooga, Tennessee. The property consists of 20 multi-family housing units. CNE serves as the limited partner and CARE serves as the general partner.

Highland Park, a Tennessee limited liability company, was formed on July 7, 2014, to acquire vacant and blighted property, in the Highland Park neighborhood of Chattanooga for the purpose of neighborhood development. CNE intends to develop a mix of single-family and urban multi-family structures that complement existing structures and provide high-quality residential opportunities. As of June 30, 2019, CNE had acquired 34 parcels of vacant and blighted property in the Highland Park neighborhood, and has developed 11 of them into single family or rental housing. Of the remaining lots, 11 are currently under development, 2 are held for future development, and 10 undeveloped lots have been sold. CNE serves as the single member of the company.

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019 and 2018

2. Summary of significant accounting policies and nature of operations (continued)

Principles of consolidation (continued)

Mai Bell, a Tennessee limited liability company, was formed on August 17, 2016, to construct, own, and operate Mai Bell Apartments located in the Highland Park neighborhood. The property consists of multi-family housing units. CNE serves as the single member of the company.

All significant intercompany balances and transactions have been eliminated.

Use of estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates are made in loans receivable (see Note 7), grants receivable (see Note 5), affiliated receivables and investments in affiliated organizations (see Note 6), property held for sale and property held for development. The most significant estimates involve the determination of the allowances for loan losses and the possible impairment, under accounting principles generally accepted in the United States of America, of its investments and advances.

Cash and cash equivalents

For purposes of the consolidated statements of cash flows, the Organization considers all short-term highly-liquid debt instruments with an original maturity of three months or less to be cash equivalents. Restricted cash is not considered cash and cash equivalents.

Cash and cash equivalents is allocated between operating and designated for investments. The amount designated for investment was determined by the Organization's Board of Directors, and is to be used in accordance with the Organization's mission.

Concentrations of credit risk

The Organization maintains cash balances at various financial institutions. Such balances were insured by the Federal Deposit Insurance Corporation up to \$250,000. As of June 30, 2019 and 2018, the Organization maintained cash at financial institutions that exceeds the federally insured limits.

Other concentrations of credit risk with respect to consolidated financial instruments include loans receivable. The concentration in loans receivable is a geographic concentration with the majority of loans to borrowers in the City of Chattanooga. The concentration is mitigated by a large group of borrowers with all such receivables collateralized by residential real estate.

Receivables

Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written-off through a charge to the valuation allowance and a credit to receivables.

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019 and 2018

2. Summary of significant accounting policies and nature of operations (continued)

Receivables (continued)

Deferred payment loans

The first payment on these loans is deferred until a predetermined date in the future. Once the deferment period has expired, these loans bear interest at rates ranging between zero and the current market rate.

Title transfer loan

These loans require that the payment of the loan be paid in full when the residential property securing the loan is sold or the property title is transferred to a party other than the original borrower. There is no interest charged on these loans.

Forgivable loan

Certain of these loans are forgivable over a predetermined period of time. If the residential property is sold during the term of the loan, the pro-rated balance must be paid in full. Other loans funded by Community Impact of Chattanooga ("CIC") grants are forgivable only after the passage of the entire term of the loan, which is generally five years. These loans are included in the temporarily restricted net assets balance.

Loans receivable are stated at unpaid principal balances less the allowance for loan losses. Interest income is recognized on the economic accrual basis. Loan fees do not exceed the cost per loan and, therefore, are recognized as fee income upon loan closing.

Amortizing loans are written off when a loan is specifically determined to be impaired or when, in the opinion of management, there is an indication that the borrower may be unable to make the required payments as they become due.

The allowance for loan losses is maintained at a level, which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, and economic conditions, as well as other risks inherent in the portfolio. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Although management uses available information to recognize losses on loans, because of uncertainties associated with local economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that a material change could occur in the allowance for loan losses in the near term. However, the amount of the change that is reasonably possible cannot be estimated. The allowance is increased by a provision for loan losses, which is charged to expenses, and reduced by charge-offs, net of recoveries.

REO Properties

Occasionally, the Organization acquires properties through foreclosure or by deed in lieu of foreclosure. These properties are classified as REO properties. Real property acquired by the Organization as a result of foreclosure or by deed in lieu of foreclosure is classified as assets held for sale until it is sold and is recorded at the lower of cost or the estimated recovery value to be received at the foreclosure sale minus expenses. Losses arising from the acquisition of foreclosed properties are charged against the allowance for loan losses.

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019 and 2018

2. Summary of significant accounting policies and nature of operations (continued)

Construction in progress

Construction in progress (“CIP”) is comprised of costs incurred to develop and construct property owned by the Organization. All costs associated with such development and construction costs are being capitalized. As of June 30, 2019 and 2018, the total amount of CIP was \$506,758 and \$707,339, respectively, and is included on the accompanying consolidated statements of financial position.

Property and equipment

Rental property and furniture and fixtures are depreciated over the estimated useful lives of the respective classes of assets using the straight-line method of depreciation. Expenditures for repairs and maintenance are charged to expense as incurred, and additions and improvements that significantly extend the lives of assets are capitalized at cost. For the years ended June 30, 2019 and 2018, depreciation expense was \$224,852 and \$248,839, respectively.

In accordance with its mission, the Organization purchases property from time to time with the intent to sell or develop at a future date. These properties are classified as held for sale.

Impairment of long-lived assets

The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the future net undiscounted cash flows expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds the fair value as determined from an appraisal, discounted cash flow analysis, or other valuation technique. There were no impairment losses recognized during 2019 or 2018.

Amortization of debt issuance costs

Debt issuance costs are considered to be a reduction of the related debt and are being amortized over the term of the debt through a charge to interest expense using the straight line method. As of June 30, 2019 and 2018, debt issuance costs totaled \$48,932 and \$14,871, respectively. As of June 30, 2019 and 2018, accumulated amortization was \$6,102 and \$2,371, respectively. Amortization expense for the years ended June 30, 2019 and 2018 was \$3,731 and \$2,371, respectively.

Income taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Internal Revenue Service has determined the Organization not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. The CARE income is taxable and such cumulative taxable income or loss has been insignificant.

Income taxes on the Operating Entities’ income are levied on the members in their individual capacity. Accordingly, no provision for income taxes is reflected in the accompanying consolidated financial statements.

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2019 and 2018

2. Summary of significant accounting policies and nature of operations (continued)

Income taxes (continued)

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Organization to report information regarding its exposure to various tax positions taken by the Organization. The Organization has determined whether any tax positions have met the recognition threshold and has measured the Organization's exposure to those tax positions. Management believes that the Organization has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Organization are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

Contributions and grants

Contributions and grants received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions and grants that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution or grant is recognized. All other donor restricted contributions and grants are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Revenue recognition

Rental income attributable to residential leases is recorded when due from residents, which is generally upon the first day of each month. Leases are for up to one year, with rental payments due monthly. Other income results from fees for late payments, cleaning, damages, storage, parking, and laundry facilities and is recorded when earned.

Functional allocation of expenses

The costs of providing program services and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among program services, administrative and support, and fundraising services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Direct program	Full time equivalent and actual
Indirect and other	Time and effort

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019 and 2018

2. Summary of significant accounting policies and nature of operations (continued)

Advertising costs

The Organization incurs advertising costs for its rental units, for completed development property and for advertising lending and financial literacy programs available from the Organization. All advertising costs are expensed as incurred. For the years ended June 30, 2019 and 2018, the costs associated with advertising were \$14,500 and \$28,979, respectively.

Reclassifications

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year presentation.

Change in accounting principle

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, information about liquidity and availability of resources, and consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these financial statements accordingly. ASU 2016-14 has been applied retrospectively to all periods presented.

Subsequent events

Subsequent events have been evaluated through October 17, 2019, which is the date the consolidated financial statements were available to be issued, and there are no subsequent events requiring disclosure.

3. Liquidity and availability of financial assets

The following represents the Organization’s financial assets at June 30, 2019 and 2018:

	2019	2018
Financial assets	\$ 3,398,558	\$ 873,601
Less amounts not available to be used within one year:	-	-
	\$ 3,398,558	\$ 873,601

The Organization’s goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$621,000). As part of its liquidity plan, excess cash is invested in money market accounts.

4. Restricted cash

Restricted cash represents escrow receipts from the Organization’s loan servicing activity for each borrower’s escrow account, as well as restricted cash related to unearned restricted grants (see Note 10).

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019 and 2018

4. Restricted cash (continued)

As of June 30, 2019 and 2018, restricted cash totaled \$2,564,119 and \$1,764,178, respectively, and consisted of amounts to or held on behalf of the following organizations, entities, municipalities, or programs:

Current:

	<u>2019</u>	<u>2018</u>
Center Centre	\$ 154,504	\$ 26
CCDFI	-	147,521
Chattanooga Opportunity Fund	13,264	4,696
City of Chattanooga	174,694	193,479
Deposits held in trust	105,174	91,067
Lyndhurst Foundation/Benwood Foundation	1,495,410	304,872
NeighborWorks America	183,085	331,485
Real estate development funds	27,494	81,872
Small dollar loan funds	131,500	-
State of Tennessee Small and Minority Owned Businesses	96,975	337,950
Taxes and escrow	<u>182,019</u>	<u>174,710</u>
Total current restricted cash	2,564,119	1,667,678

Noncurrent:

Lyndhurst Foundation/Benwood Foundation	<u>-</u>	<u>96,500</u>
Total noncurrent restricted cash	<u>-</u>	<u>96,500</u>
Total restricted cash	<u>\$ 2,564,119</u>	<u>\$ 1,764,178</u>

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019 and 2018

5. Grants receivable

Grants receivable represent funds earned in accordance with program requirements by the Organization that had not yet been received by year-end from the following:

	<u>2019</u>	<u>2018</u>
City of Chattanooga	\$ 242,644	\$ 197,705
Total grants receivable	<u>\$ 242,644</u>	<u>\$ 197,705</u>

6. Transactions with affiliated organizations

Due from affiliates

Due from affiliates represents amounts owed to the Organization from the following entities:

	<u>2019</u>	<u>2018</u>
CCDFI	\$ -	\$ 1,381
Highland Park	<u>3,700</u>	<u>21,295</u>
Total due from affiliates	<u>\$ 3,700</u>	<u>\$ 22,676</u>

Due to affiliates

Due to affiliates represents amounts owed to Highland Park and Mai Bell for loans from the following:

	<u>2019</u>	<u>2018</u>
CCDFI	\$ -	\$ 110,822
Total due to affiliates	<u>\$ -</u>	<u>\$ 110,822</u>

7. Loans receivable and allowance for loan losses

The Organization offers a variety of loan products to assist borrowers in either purchasing a home or making home improvements.

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019 and 2018

7. Loans receivable and allowance for loan losses (continued)

The loans receivable portfolio as of June 30, 2019 and 2018 was as follows:

	2019	2018
Unrestricted loans:		
Amortizing loans	\$ 2,852,359	\$ 2,794,773
Title transfer loans	443,855	424,310
Less – Allowance for loan losses	(830,372)	(640,490)
	2,465,842	2,578,593
Restricted loans:		
Amortizing loans	43,060	55,990
	43,060	55,990
Forgivable loans:		
Non-commercial loans	9,918	17,703
Less – loan reserves	(9,918)	(17,703)
Total loans	\$ 2,508,902	\$ 2,634,583

Funds received under grants from the State of Tennessee, the City of Chattanooga, or Hamilton County are used to fund loans in Chattanooga or Hamilton County.

The aging of loans receivables as of June 30, 2019 and 2018 were as follows:

	2019	2018
Performing:		
Current	\$ 2,413,290	\$ 2,299,601
31-60 days	102,162	133,806
61-90 days	198,768	268,652
	2,714,220	2,702,059
Nonperforming:		
Over 91 days	191,117	166,407
Deferred:		
Title transfer loans	443,855	424,310
Total loans receivable	\$ 3,349,192	\$ 3,292,776

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019 and 2018

7. Loans receivable and allowance for loan losses (continued)

The Organization has established an allowance for loan loss and a loan loss reserve for all categories of loans classified as assets. Management maintains an allowance for loan losses based upon, among other things, historical experience and an evaluation of economic conditions and regular reviews of delinquencies and loan portfolio quality. Based upon such factors, management makes various assumptions and judgments about the ultimate collectability of the loan portfolio and provides an allowance for loan losses. The Organization takes a charge against loan loss reserves with respect to specific loans when their ultimate collectability is considered questionable. The Organization has also established a loan portfolio review committee comprised of a majority of non-employee directors from the financial services industry to periodically review the Organization's loan portfolio and loan allowance calculations. The Organization reserves 50% of the loan balance for title transfer loans.

The changes in the allowance for loan losses as of June 30, 2019 and 2018 were as follows:

	2019	2018
Balance, beginning	\$ 658,193	\$ 768,103
Provision charged to expense	-	19,456
CCDFI transfer	129,969	-
Amounts charged off, net of bad debt recovery	52,128	(129,366)
	\$ 840,290	\$ 658,193

8. Loans underwriting and servicing activities

The Organization serves as a loan underwriting agent for other entities who support the Organization's operating mission and provides loan servicing activities for such loans. As of June 30, 2019 and 2018, the Organization provided servicing for \$9,149,989 and \$11,077,254, respectively, of loans receivable funded by such other entities. These loans receivable are not included in the Organization's consolidated statements of financial position.

The loans the Organization was servicing as of June 30, 2019 and 2018 were as follows:

	2019	2018
CCDFI Loans	\$ -	\$ 547,036
Center Centre	473,290	489,420
Chattanooga Opportunity Fund Loans	126,284	168,390
City of Chattanooga	8,550,415	9,872,408
	\$ 9,149,989	\$ 11,077,254

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019 and 2018

9. Loan servicing payables

Payments received for non-Organization loans are deposited into the Organization's cash account and recorded as a payable. As of June 30, 2019 and 2018, loan servicing payables consisted of the following:

	2019	2018
CCDFI	\$ -	\$ 147,521
Center Centre	154,504	26
Chattanooga Opportunity Fund Loans	11,310	4,696
City of Chattanooga	120,758	50,884
Total loan servicing payables	\$ 286,572	\$ 203,127

10. Unearned restricted grants

For the years ended June 30, 2019 and 2018, the Lyndhurst Foundation and Benwood Foundation provided \$1,629,000 and \$306,000, respectively, to be utilized for property revitalization in the St. Elmo, Alton Park, Highland Park, and Ridgedale areas.

As of June 30, 2019 and 2018, unearned restricted grants were \$1,593,341 and \$557,909, respectively. For the years ended June 30, 2019 and 2018, \$552,178 and \$323,185, respectively, had been released from unearned restricted grants and are included with real estate development revenue on the accompanying consolidated statements of activities.

11. Construction loans

Construction loan financing is provided by SmartBank for a maximum amount of \$114,526 per loan. The six loans, which are secured by property, bear interest at 4 percentage points under the index as defined in the promissory note, and require monthly interest only payments until the maturity date of May 10, 2019 when the entire principal and accrued interest are due in full. As of June 30, 2019 and 2018, the principal balance outstanding was \$0 and \$84,309, respectively.

12. Small dollar line of credit

Line of credit is provided by Synovus Bank for a maximum amount of \$500,000 to fund loans made under the small dollar loan program. The line of credit, which is secured by the loans, bear interest at Prime minus 4 percentage points, and require monthly interest and principle payments. As of June 30, 2019 and 2018, the principal balance outstanding was \$75,144 and \$0, respectively.

13. Grant liability

CNE received a loan from the City of Chattanooga through a program to build affordable housing units. The loan is recorded as a grant liability, and is secured by property held for sale or used with a carrying amount of \$300,000 as of June 30, 2019 and 2018. The grant liability is to be repaid to the City of Chattanooga in the event of the sale of the property. As of June 30, 2019 and 2018, grant liability outstanding was \$0 and \$226,819, respectively.

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019 and 2018

14. Long-term debt

As of June 30, 2019 and 2018, debt consisted of the following:

		2019	2018
CNE	Loan from the State of Tennessee, Department of Treasury for servicing loans in the State's Small and Minority-Owned Business Assistance Program; interest at 0%; maturity date of December 31, 2022.	\$ 123,486	\$ 398,795
CNE	Construction note payable to First Tennessee National Association; interest at prime lending rate minus 4%; principal payments of \$522 plus interest are payable monthly through the maturity date of February 5, 2032 with remaining balance then due; collateralized by real estate property.	183,777	44,890
CNE	Note payable to SmartBank; interest at the prime lending rate minus 4% with a 2.5% cap; maturity date of September 11, 2023 with remaining balance then due; collateralized by third party loans. For the years ended June 30, 2019 and 2018, the effective interest rate was 1.82% and 0.92%, respectively.	680,141	745,773
CNE	Note payable to SmartBank; interest at the prime lending rate minus 4%; maturity date of March 7, 2034 with remaining balance then due; collateralized by property. For the years ended June 30, 2019 and 2018, the effective interest rate was 1.84% and 0.00%, respectively.	194,419	-
CAHLP V	Note payable to Pinnacle Bank; interest at the prime lending rate minus 4%, subject to change no more often than each 5 years, currently 0%; principal payments of \$3,806 are payable monthly through April 18, 2032 with remaining balance then due; collateralized by real estate.	586,055	631,722
Highland Park	Loans payable to City of Chattanooga; interest at 1%; interest is payable on 19 th of each month starting September 19, 2015; payment is due upon sale of collateralized land.	269,982	288,444

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019 and 2018

14. Long-term debt (continued)

As of June 30, 2019 and 2018, debt consisted of the following (continued):

		2019		2018
Mai Bell	Secured construction loan payable to First Tennessee Bank: interest at the prime rate minus 4%; maturity date of August 31, 2031; collateralized by real estate property.	\$ 2,895,361	\$	2,900,627
	Total long-term debt	\$ 4,933,221	\$	5,010,251

Long-term debt consists of the following as of June 30, 2019 and 2018:

	2019		2018
Principal balance	\$ 4,933,221	\$	5,010,251
Less: unamortized debt issuance costs-	(42,830)	\$	(12,500)
Long-term debt, net of unamortized debt issuance costs	\$ 4,890,391	\$	4,997,751

Future minimum mortgage principal payment requirements for the next five years are as follows:

Year ending June 30,	
2020	\$ 212,374
2021	214,183
2022	219,607
2023	344,101
2024	221,635
Thereafter	3,721,321
Total	\$ 4,933,221

15. Net assets with donor restrictions

NeighborWorks America

Since 1995, the Organization has received revolving project funds as expendable grants and capital grants from NeighborWorks America (“NWA”). The capital grants represent net assets with donor restrictions totaling \$1,213,371 as of June 30, 2019 and 2018. The NWA funds have been utilized in various loan and development programs of the Organization. The Organization is obligated to reimburse the restricted net assets balance for any losses sustained on receivables funded by NWA capital grants.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019 and 2018

15. Net assets with donor restrictions (continued)

NeighborWorks America (continued)

The components of the NWA capital fund grant assets as of June 30, 2019 and 2018 consisted of the following:

	2019	2018
Restricted cash	\$ 183,085	\$ 231,485
Loans receivable	293,939	304,033
Affiliated organizations receivables	736,347	600,000
Real estate	-	77,853
Total NWA restricted net assets	\$ 1,213,371	\$ 1,213,371

Other net assets with donor restrictions

The Organization has received grants from the Lyndhurst Foundation, State of Tennessee, and other state and local grantors. These funds have been utilized in the surrounding communities for property development, property revitalization, home purchase incentives, originating and servicing loans at below market rates to qualifying individuals, and relocation incentives. Any losses in the restricted net assets become an obligation of the Organization and must be restored.

The components of other restricted net assets as of June 30, 2019 and 2018 consisted of the following:

	2019	2018
Restricted cash	\$ 2,262,580	\$ 1,448,877
Loans receivable	26,512	303,110
Real estate	37,500	126,231
Total other restricted net assets	\$ 2,326,592	\$ 1,878,218

16. Operating lease

The Organization leases its administrative office under a non-cancelable agreement accounted for as an operating lease. For the years ended June 30, 2019 and 2018, rental expense under the agreement was \$51,865. The Organization's lease agreement dated June 9, 2014 for its office space has a ten-year term with an option to renew for an additional five years at an annual rent of \$58,938.

Future minimum operating lease payment requirements for the next six years are as follows:

Year ending June 30,	
2020	\$ 51,865
2021	51,865
2022	51,865
2023	51,865
2024	51,865
2025	8,644
Total	\$ 267,969

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17. Retirement plan

The Organization has established a defined contribution 403(b) plan (the “Plan”) for the benefit of its full-time employees. The Plan is a contributory plan and is administered by the Organization. In 2016, the Plan’s assets were invested in various mutual funds with Principal. Under the terms of the plan agreement, an employee may contribute an amount in accordance with a compensation reduction agreement not to exceed Internal Revenue Service limits per year.

An employee is eligible to participate in the Plan one month after the date of hire as a full-time employee. There is a seven year vesting period for any employee hired after January 1, 2014 for the employer paid contribution to the Plan. For the years ended June 30, 2019 and 2018, the Organization’s discretionary contribution was \$31,626 and \$31,984, respectively.

18. Contingencies

The Organization receives a substantial amount of its support from federal, state, and local governments. Substantially all of the Organization’s grants are renewable on an annual basis, and such revenues are contingent annually upon the decisions of the granting authority. The Organization’s existing grants require the fulfillment of certain conditions as set forth in the grant documents. Failure to fulfill the conditions or to continue to fulfill them could result in the return of funds to grantors. Although this possibility exists, management deems the contingency remote since by accepting the grants and their terms, it has accommodated the objectives of the grantor to the provisions of the grant award.

The Organization is involved in various legal actions and claims arising in the ordinary course of business. Management believes that such litigation and claims will be resolved without material effect on the Organization's consolidated statements of financial position, consolidated statements of activities, or consolidated statements of cash flows.

SUPPLEMENTARY INFORMATION

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION - OPERATING ENTITIES STATEMENTS OF FINANCIAL POSITION
June 30, 2019

	CARE	CAHLP V	HIGHLAND PARK	MAI BELL	TOTAL
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ -	\$ 10,914	\$ 99,298	\$ 83,788	\$ 194,000
Restricted cash	-	44,115	-	46,845	90,960
Accounts receivable	-	1,152	-	253	1,405
Prepaid expenses	-	6,410	-	15,825	22,235
Total current assets	-	62,591	99,298	146,711	308,600
NONCURRENT ASSETS					
Investments in Operating Entity	117,358	-	-	-	117,358
Property and equipment at cost:					
Land	-	15,341	471,357	157,833	644,531
Property held and used	-	1,118,367	-	4,473,015	5,591,382
Furniture and fixtures	-	-	-	16,998	16,998
Less accumulated depreciation	-	(317,589)	-	(286,871)	(604,460)
Property and equipment, net	-	816,119	471,357	4,360,975	5,648,451
Total noncurrent assets	117,358	816,119	471,357	4,360,975	5,765,809
Total assets	\$ 117,358	\$ 878,710	\$ 570,655	\$ 4,507,686	\$ 6,074,409
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable and accrued expenses	\$ -	\$ 6,330	\$ 1,290	\$ 15,156	\$ 22,776
Due to affiliates	-	21,725	175,139	8,083	204,947
Escrow and contractual obligations	-	11,191	-	34,329	45,520
Current portion of long-term debt	-	45,667	-	87,528	133,195
Total current liabilities	-	84,913	176,429	145,096	406,438
NONCURRENT LIABILITIES					
Long-term debt	-	540,388	269,982	2,807,833	3,618,203
Long term debt, affiliates	-	-	-	934,500	934,500
Total noncurrent liabilities	-	540,388	269,982	3,742,333	4,552,703
Total liabilities	-	625,301	446,411	3,887,429	4,959,141
NET ASSETS					
Without donor restrictions	117,358	253,409	124,244	620,257	1,115,268
Total liabilities and net assets	\$ 117,358	\$ 878,710	\$ 570,655	\$ 4,507,686	\$ 6,074,409

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CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION - OPERATING ENTITIES STATEMENTS OF FINANCIAL POSITION
 June 30, 2018

	CARE	CAHLP V	HIGHLAND PARK	MAI BELL	TOTAL
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ -	\$ 5,084	\$ 25,876	\$ 75,105	\$ 106,065
Restricted cash	-	46,671	-	37,145	83,816
Accounts receivable	-	1,544	-	7,641	9,185
Prepaid expenses	-	7,070	-	-	7,070
Total current assets	-	60,369	25,876	119,891	206,136
NONCURRENT ASSETS					
Investments in Operating Entity	117,358	-	-	-	117,358
Construction in progress	-	-	-	9,667	9,667
Property and equipment at cost:					
Land	-	15,341	910,872	-	926,213
Property held and used	-	1,118,367	-	4,389,374	5,507,741
Furniture and fixtures	-	-	-	16,998	16,998
Less accumulated depreciation	-	(276,921)	-	(120,942)	(397,863)
Property and equipment, net	-	856,787	910,872	4,285,430	6,053,089
Total noncurrent assets	117,358	856,787	910,872	4,295,097	6,180,114
Total assets	<u>\$ 117,358</u>	<u>\$ 917,156</u>	<u>\$ 936,748</u>	<u>\$ 4,414,988</u>	<u>\$ 6,386,250</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable and accrued expenses	\$ -	\$ 27,398	\$ -	\$ 18,166	\$ 45,564
Due to affiliates	120	26,025	174,832	335	201,312
Escrow and contractual obligations	-	10,762	-	36,546	47,308
Current portion of long-term debt	-	45,667	-	97,033	142,700
Total current liabilities	120	109,852	174,832	152,080	436,884
NONCURRENT LIABILITIES					
Long-term debt	-	586,055	288,444	2,803,594	3,678,093
Long-term debt, affiliates	-	-	-	1,034,500	1,034,500
Total noncurrent liabilities	-	586,055	288,444	3,838,094	4,712,593
Total liabilities	120	695,907	463,276	3,990,174	5,149,477
NET ASSETS					
Without donor restrictions	117,238	221,249	473,472	424,814	1,236,773
Total liabilities and net assets	<u>\$ 117,358</u>	<u>\$ 917,156</u>	<u>\$ 936,748</u>	<u>\$ 4,414,988</u>	<u>\$ 6,386,250</u>

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CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION - OPERATING ENTITIES STATEMENTS OF ACTIVITIES
For the year ended June 30, 2019

	CARE	CAHLP V	HIGHLAND PARK	MAI BELL	TOTAL
REVENUES					
Gross residential rental income	\$ -	\$ 144,263	\$ -	\$ 446,682	\$ 590,945
Other income	120	3,880	-	8,466	12,466
Total revenues	120	148,143	-	455,148	603,411
EXPENSES					
General and administrative	-	8,288	-	9,538	17,826
Marketing and advertising	-	-	-	4,200	4,200
Repairs and maintenance	-	4,421	11,965	25,608	41,994
Tax and insurance	-	29,432	8,402	91,705	129,539
Utilities	-	15,218	-	36,903	52,121
Professional fees	-	3,927	362	-	4,289
Management fees	-	14,029	-	44,443	58,472
Depreciation	-	40,668	-	165,929	206,597
Interest expense	-	-	4,079	39,212	43,291
Total expenses	-	115,983	24,808	417,538	558,329
OTHER CHANGES IN NET ASSETS					
Loss on sale of assets	-	-	(137,483)	-	(137,483)
Transfer of net assets	-	-	(186,937)	157,833	(29,104)
Total other changes in net assets	-	-	(324,420)	157,833	(166,587)
Changes in net assets	<u>\$ 120</u>	<u>\$ 32,160</u>	<u>\$ (349,228)</u>	<u>\$ 195,443</u>	<u>\$ (121,505)</u>

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CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION - OPERATING ENTITIES STATEMENTS OF ACTIVITIES
For the year ended June 30, 2018

	CARE	CAHLP V	HIGHLAND PARK	MAI BELL	TOTAL
REVENUES					
Gross residential rental income	\$ -	\$ 116,152	\$ -	\$ 265,669	\$ 381,821
Grant revenue	-	-	-	25,814	25,814
Other income	7,609	2,003	-	11,795	21,407
Total revenues	7,609	118,155	-	303,278	429,042
EXPENSES					
General and administrative	120	404	-	31,220	31,744
Marketing and advertising	-	-	-	7,345	7,345
Repairs and maintenance	-	39,477	12,639	45,600	97,716
Tax and insurance	-	22,772	8,278	46,705	77,755
Utilities	-	10,720	-	27,945	38,665
Professional fees	-	5,413	307	307	6,027
Management fees	-	6,526	-	27,760	34,286
Depreciation	-	77,682	-	120,942	198,624
Interest expense	-	-	2,150	13,569	15,719
Total expenses	120	162,994	23,374	321,393	507,881
OTHER CHANGE IN NET ASSETS					
Loss on sale of assets	-	-	(1,929)	-	(1,929)
Total other change in net assets	-	-	(1,929)	-	(1,929)
Net income (loss)	\$ 7,489	\$ (44,839)	\$ (25,303)	\$ (18,115)	\$ (80,768)

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