



Chattanooga Neighborhood Enterprise, Inc.

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

June 30, 2021 and 2020

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Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Chattanooga Neighborhood Enterprise, Inc., a Tennessee nonprofit corporation, and subsidiaries (collectively, the “Organization”), which comprise the consolidated statements of financial position – with consolidating details as of June 30, 2021, and the related consolidated statements of activities – with consolidating details, functional expenses and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 the Organization as of June 30, 2021, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

Our audit of the consolidated financial statements of the Organization as of June 30, 2020 and for the year then ended, was conducted in accordance with auditing standards generally accepted in the United States of America. Our report dated September 25, 2020 expressed an unmodified opinion on those consolidated statements.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the consolidating financial information on pages 27-30, are 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 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated September 28, 2021, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Novogradac & Company LLP

September 28, 2021

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - WITH CONSOLIDATING DETAILS
June 30, 2021

	CNE	Rental Properties	Consolidation Eliminations	Total
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents:				
Operating	\$ 2,648,044	\$ 491,963	\$ -	\$ 3,140,007
Designated for investments	310,411	-	-	310,411
Restricted cash	3,270,114	85,159	-	3,355,273
Accounts receivable	183,501	29,015	-	212,516
Grants receivable	272,984	-	-	272,984
Due from affiliates	96,053	105,221	(201,274)	-
Prepaid expenses	25,021	52,124	-	77,145
	<u>6,806,128</u>	<u>763,482</u>	<u>(201,274)</u>	<u>7,368,336</u>
NONCURRENT ASSETS				
Due from affiliates	934,500	-	(934,500)	-
Loans receivable:				
Unrestricted loans, net of allowances for loan losses of \$646,685	2,404,796	-	-	2,404,796
Restricted loans	18,305	-	-	18,305
Interest receivable	7,782	-	-	7,782
Construction in progress	1,856,544	-	-	1,856,544
Property and equipment at cost:				
Land	767,117	238,285	-	1,005,402
Property held for sale	378,006	-	-	378,006
Rental property held and used	6,391,629	5,703,218	-	12,094,847
Furniture and fixtures	65,755	16,998	-	82,753
Less accumulated depreciation	(645,802)	(1,020,912)	-	(1,666,714)
Property and equipment, net	<u>6,956,705</u>	<u>4,937,589</u>	<u>-</u>	<u>11,894,294</u>
	<u>12,178,632</u>	<u>4,937,589</u>	<u>(934,500)</u>	<u>16,181,721</u>
Total assets	<u>\$ 18,984,760</u>	<u>\$ 5,701,071</u>	<u>\$ (1,135,774)</u>	<u>\$ 23,550,057</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 102,494	\$ 104,799	\$ -	\$ 207,293
Prepaid rent	-	43,869	-	43,869
Due to affiliates	94,221	107,053	(201,274)	-
Loan servicing payables	361,573	-	-	361,573
Escrow and contractual obligations	116,491	80,654	-	197,145
Refundable advances	2,497,799	-	-	2,497,799
Construction loan	157,500	-	-	157,500
Current portion of long-term debt	223,482	140,755	-	364,237
	<u>3,553,560</u>	<u>477,130</u>	<u>(201,274)</u>	<u>3,829,416</u>
NONCURRENT LIABILITIES				
Refundable advances	575,444	-	-	575,444
Long-term debt, net of unamortized debt issuance costs	5,370,083	3,076,949	-	8,447,032
Long-term debt, affiliates	-	934,500	(934,500)	-
	<u>5,945,527</u>	<u>4,011,449</u>	<u>(934,500)</u>	<u>9,022,476</u>
Total liabilities	<u>9,499,087</u>	<u>4,488,579</u>	<u>(1,135,774)</u>	<u>12,851,892</u>
NET ASSETS				
Without donor restrictions	8,272,302	1,212,492	-	9,484,794
With donor restrictions	1,213,371	-	-	1,213,371
	<u>9,485,673</u>	<u>1,212,492</u>	<u>-</u>	<u>10,698,165</u>
Total liabilities and net assets	<u>\$ 18,984,760</u>	<u>\$ 5,701,071</u>	<u>\$ (1,135,774)</u>	<u>\$ 23,550,057</u>

See notes to consolidated financial statements

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - WITH CONSOLIDATING DETAILS
June 30, 2020

	CNE	Rental Properties	Consolidation Eliminations	Total
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents:				
Operating	\$ 2,321,018	\$ 363,821	\$ -	\$ 2,684,839
Designated for investments	767,781	-	-	767,781
Restricted cash	2,982,413	65,552	-	3,047,965
Accounts receivable	101,272	42,309	-	143,581
Grants receivable	123,002	-	-	123,002
Due from affiliates	179,787	11,000	(190,787)	-
Prepaid expenses	-	40,788	-	40,788
	<u>6,475,273</u>	<u>523,470</u>	<u>(190,787)</u>	<u>6,807,956</u>
TOTAL current assets	6,475,273	523,470	(190,787)	6,807,956
NONCURRENT ASSETS				
Due from affiliates	934,500	-	(934,500)	-
Loans receivable:				
Unrestricted loans, net of allowances for loan losses of \$655,522	2,315,665	-	-	2,315,665
Restricted loans	25,537	-	-	25,537
Interest receivable	16,837	-	-	16,837
Construction in progress	1,822,877	72,477	-	1,895,354
Property and equipment at cost:				
Land	758,061	476,997	-	1,235,058
Property held and used	4,044,690	5,591,382	-	9,636,072
Furniture and fixtures	48,435	16,998	-	65,433
Less accumulated depreciation	(447,537)	(811,183)	-	(1,258,720)
Property and equipment, net	<u>4,403,649</u>	<u>5,274,194</u>	<u>-</u>	<u>9,677,843</u>
	<u>9,519,065</u>	<u>5,346,671</u>	<u>(934,500)</u>	<u>13,931,236</u>
TOTAL noncurrent assets	9,519,065	5,346,671	(934,500)	13,931,236
Total assets	<u>\$ 15,994,338</u>	<u>\$ 5,870,141</u>	<u>\$ (1,125,287)</u>	<u>\$ 20,739,192</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 136,220	\$ 58,616	\$ -	\$ 194,836
Prepaid rent	-	26,565	-	26,565
Due to affiliates	-	190,787	(190,787)	-
Loan servicing payables	264,435	-	-	264,435
Escrow and contractual obligations	148,715	61,552	-	210,267
Refundable advances	2,184,589	-	-	2,184,589
Construction loan	157,500	-	-	157,500
Current portion of long-term debt	104,427	140,755	-	245,182
	<u>2,995,886</u>	<u>478,275</u>	<u>(190,787)</u>	<u>3,283,374</u>
TOTAL current liabilities	2,995,886	478,275	(190,787)	3,283,374
NONCURRENT LIABILITIES				
Refundable advances	364,351	-	-	364,351
Long-term debt, net of unamortized debt issuance costs	3,983,569	3,377,342	-	7,360,911
Long-term debt, affiliates	-	934,500	(934,500)	-
	<u>4,347,920</u>	<u>4,311,842</u>	<u>(934,500)</u>	<u>7,725,262</u>
TOTAL noncurrent liabilities	4,347,920	4,311,842	(934,500)	7,725,262
Total liabilities	7,343,806	4,790,117	(1,125,287)	11,008,636
NET ASSETS				
Without donor restrictions	7,437,161	1,080,024	-	8,517,185
With donor restrictions	1,213,371	-	-	1,213,371
	<u>8,650,532</u>	<u>1,080,024</u>	<u>-</u>	<u>9,730,556</u>
Total net assets	8,650,532	1,080,024	-	9,730,556
Total liabilities and net assets	<u>\$ 15,994,338</u>	<u>\$ 5,870,141</u>	<u>\$ (1,125,287)</u>	<u>\$ 20,739,192</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, 2021

	CNE					
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total	Rental Properties	Consolidation Eliminations	Consolidated
REVENUES						
Program support:						
Homeownership preservation	\$ 488,760	\$ -	\$ 488,760	\$ -	\$ -	\$ 488,760
Homeownership promotion	55,765	-	55,765	-	-	55,765
Lending and loan origination	811,851	-	811,851	-	-	811,851
Loan servicing	229,850	-	229,850	-	-	229,850
Neighborhood engagement	738,980	-	738,980	-	-	738,980
Property management	162,372	-	162,372	-	(162,317)	55
Real estate development	510,980	-	510,980	-	-	510,980
Small dollar loan	6,678	-	6,678	-	-	6,678
Total program support	<u>3,005,236</u>	<u>-</u>	<u>3,005,236</u>	<u>-</u>	<u>(162,317)</u>	<u>2,842,919</u>
General support:						
General revenue	1,455,869	-	1,455,869	1,122,263	-	2,578,132
Fundraising	1,829	-	1,829	-	-	1,829
Total general support	<u>1,457,698</u>	<u>-</u>	<u>1,457,698</u>	<u>1,122,263</u>	<u>-</u>	<u>2,579,961</u>
Total revenues	4,462,934	-	4,462,934	1,122,263	(162,317)	5,422,880
EXPENSES						
Direct program services:						
Homeownership preservation	426,001	-	426,001	-	-	426,001
Homeownership promotion	31,602	-	31,602	-	-	31,602
Neighborhood engagement	595,633	-	595,633	-	-	595,633
Total direct program services	<u>1,053,236</u>	<u>-</u>	<u>1,053,236</u>	<u>-</u>	<u>-</u>	<u>1,053,236</u>
Indirect program services:						
Homeownership preservation	151,220	-	151,220	-	-	151,220
Homeownership promotion	194,699	-	194,699	-	-	194,699
Lending and loan origination	718,345	-	718,345	-	-	718,345
Loan servicing	203,724	-	203,724	-	-	203,724
Neighborhood engagement	396,734	-	396,734	-	-	396,734
Property management	600,060	-	600,060	-	-	600,060
Real estate development	142,854	-	142,854	-	-	142,854
Small dollar loan	5,481	-	5,481	-	-	5,481
Total indirect program services	<u>2,413,117</u>	<u>-</u>	<u>2,413,117</u>	<u>-</u>	<u>-</u>	<u>2,413,117</u>
Total program services	3,466,353	-	3,466,353	-	-	3,466,353
Support services:						
General and administrative	55,956	-	55,956	989,795	(162,317)	883,434
Fundraising	34,167	-	34,167	-	-	34,167
Total support services	<u>90,123</u>	<u>-</u>	<u>90,123</u>	<u>989,795</u>	<u>(162,317)</u>	<u>917,601</u>
Total expenses	<u>3,556,476</u>	<u>-</u>	<u>3,556,476</u>	<u>989,795</u>	<u>(162,317)</u>	<u>4,383,954</u>
Change in net assets from operations	906,458	-	906,458	132,468	-	1,038,926
NON-OPERATING ACTIVITIES						
Loss on sale of assets	(71,317)	-	(71,317)	-	-	(71,317)
Total non-operating activities	<u>(71,317)</u>	<u>-</u>	<u>(71,317)</u>	<u>-</u>	<u>-</u>	<u>(71,317)</u>
Changes in net assets	835,141	-	835,141	132,468	-	967,609
Net assets at beginning of year	7,437,161	1,213,371	8,650,532	1,080,024	-	9,730,556
Net assets at end of year	<u>\$ 8,272,302</u>	<u>\$ 1,213,371</u>	<u>\$ 9,485,673</u>	<u>\$ 1,212,492</u>	<u>\$ -</u>	<u>\$ 10,698,165</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, 2020

	CNE					
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total	Rental Properties	Consolidation Eliminations	Consolidated
REVENUES						
Program support:						
Homeownership preservation	\$ 581,400	\$ -	\$ 581,400	\$ -	\$ -	\$ 581,400
Homeownership promotion	70,262	-	70,262	-	-	70,262
Lending and loan origination	370,203	-	370,203	-	-	370,203
Loan servicing	251,016	-	251,016	-	-	251,016
Neighborhood engagement	307,732	-	307,732	-	-	307,732
Property management	50,481	-	50,481	-	-	50,481
Real estate development	332,790	-	332,790	-	-	332,790
Small dollar loan	8,872	-	8,872	-	-	8,872
Total program support	<u>1,972,756</u>	<u>-</u>	<u>1,972,756</u>	<u>-</u>	<u>-</u>	<u>1,972,756</u>
General support:						
General revenue	1,348,414	-	1,348,414	770,102	(85,785)	2,032,731
Fundraising	6,283	-	6,283	-	-	6,283
Total general support	<u>1,354,697</u>	<u>-</u>	<u>1,354,697</u>	<u>770,102</u>	<u>(85,785)</u>	<u>2,039,014</u>
Total revenues	3,327,453	-	3,327,453	770,102	(85,785)	4,011,770
EXPENSES						
Direct program services:						
Homeownership preservation	596,660	-	596,660	-	-	596,660
Neighborhood engagement	182,291	-	182,291	-	-	182,291
Small dollar loan	3,050	-	3,050	-	-	3,050
Total direct program services	<u>782,001</u>	<u>-</u>	<u>782,001</u>	<u>-</u>	<u>-</u>	<u>782,001</u>
Indirect program services:						
Homeownership preservation	120,220	-	120,220	-	-	120,220
Homeownership promotion	186,505	-	186,505	-	-	186,505
Lending and loan origination	442,960	-	442,960	-	-	442,960
Loan servicing	256,170	-	256,170	-	-	256,170
Neighborhood engagement	377,155	-	377,155	-	-	377,155
Property management	420,250	-	420,250	-	-	420,250
Real estate development	120,643	-	120,643	-	-	120,643
Small dollar loan	16,470	-	16,470	-	-	16,470
Total indirect program services	<u>1,940,373</u>	<u>-</u>	<u>1,940,373</u>	<u>-</u>	<u>-</u>	<u>1,940,373</u>
Total program services	2,722,374	-	2,722,374	-	-	2,722,374
Support services:						
General and administrative	70,347	-	70,347	832,717	(85,785)	817,279
Fundraising	50,002	-	50,002	-	-	50,002
Total support services	<u>120,349</u>	<u>-</u>	<u>120,349</u>	<u>832,717</u>	<u>(85,785)</u>	<u>867,281</u>
Total expenses	<u>2,842,723</u>	<u>-</u>	<u>2,842,723</u>	<u>832,717</u>	<u>(85,785)</u>	<u>3,589,655</u>
Change in net assets from operations	484,730	-	484,730	(62,615)	-	422,115
NON-OPERATING ACTIVITIES						
(Loss) gain on sale of assets	(46,309)	-	(46,309)	86,749	-	40,440
Total non-operating activities	<u>(46,309)</u>	<u>-</u>	<u>(46,309)</u>	<u>86,749</u>	<u>-</u>	<u>40,440</u>
Changes in net assets	438,421	-	438,421	24,134	-	462,555
Net assets at beginning of year	6,998,740	1,213,371	8,212,111	1,055,890	-	9,268,001
Net assets at end of year	<u>\$ 7,437,161</u>	<u>\$ 1,213,371</u>	<u>\$ 8,650,532</u>	<u>\$ 1,080,024</u>	<u>\$ -</u>	<u>\$ 9,730,556</u>

See notes to consolidated financial statements

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2021

<u>Functional Expenses</u>	<u>Support Services</u>			<u>Total</u>
	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	
Bad debt	\$ -	\$ 51,679	\$ -	\$ 51,679
Bank related	16,021	1,143	602	17,766
Communication	16,121	1,780	618	18,519
Depreciation	197,241	210,365	388	407,994
Direct program expenses	1,053,236	-	-	1,053,236
Document storage	727	54	32	813
Dues and subscriptions	19,140	759	464	20,363
Equipment leasing	5,327	149	91	5,567
Healthy neighborhoods	3,118	109	67	3,294
Insurance	56,738	60,115	2,474	119,327
Interest	8,354	-	-	8,354
Land holding costs	16,137	13,152	600	29,889
Office supplies	11,949	14,220	231	26,400
Other	150	11	7	168
Postage	5,365	355	217	5,937
Professional services	186,920	14,767	3,066	204,753
Promotion and marketing	42,401	13,111	1,382	56,894
Rent and utilities	90,826	74,954	3,755	169,535
Repairs and maintenance	-	207,964	-	207,964
Salaries, benefits and bonuses	1,662,237	31,462	19,211	1,712,910
Software	51,700	1,222	746	53,668
Taxes	196	185,724	9	185,929
Training	10,160	199	122	10,481
Travel	12,289	140	85	12,514
Total	<u>\$ 3,466,353</u>	<u>\$ 883,434</u>	<u>\$ 34,167</u>	<u>\$ 4,383,954</u>

See notes to consolidated financial statements

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2020

<u>Functional Expenses</u>	<u>Support Services</u>			<u>Total</u>
	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	
Bank related	\$ 16,117	\$ 1,761	\$ 904	\$ 18,782
Communication	14,901	2,843	849	18,593
Depreciation	91,047	206,762	27	297,836
Direct program expenses	782,001	-	-	782,001
Document storage	546	52	37	635
Dues and subscriptions	28,587	2,168	1,541	32,296
Equipment leasing	4,812	207	150	5,169
Insurance	58,820	48,890	3,857	111,567
Interest	18,497	21,039	-	39,536
Land holding costs	8,892	17,972	8	26,872
Office supplies	11,566	10,542	589	22,697
Postage	4,035	345	245	4,625
Professional services	88,301	13,489	4,242	106,032
Promotion and marketing	52,814	22,979	1,928	77,721
Rent and utilities	81,829	60,300	5,403	147,532
Repairs and maintenance	-	191,455	-	191,455
Salaries, benefits and bonuses	1,380,671	39,629	28,167	1,448,467
Software	43,496	1,025	729	45,250
Taxes	-	173,955	-	173,955
Training	27,040	1,659	1,179	29,878
Travel	8,402	207	147	8,756
Total	<u>\$ 2,722,374</u>	<u>\$ 817,279</u>	<u>\$ 50,002</u>	<u>\$ 3,589,655</u>

See notes to consolidated financial statements

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended June 30, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 967,609	\$ 462,555
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization of debt issuance costs	416,348	304,237
Bad debt income on loans receivable	-	(100,000)
Loss (gain) on sale of assets, net	71,317	(40,440)
Changes in operating assets and liabilities:		
Accounts receivable	(68,935)	(148,191)
Grants receivable	(149,982)	119,642
Due from affiliates	-	3,700
Prepaid expenses	(36,357)	2,975
Loans receivable	(72,844)	312,353
Accounts payable and accrued expenses	12,457	12,596
Prepaid rent	17,304	(1,394)
Loan servicing payables	97,138	(22,137)
Escrows and contractual obligations	(13,122)	(36,265)
Refundable advances	524,303	955,599
Small dollar line of credit	-	(75,144)
Net cash provided by operating activities	1,765,236	1,750,086
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments of construction costs	(2,129,252)	(1,758,477)
Proceeds from sale of property and equipment	-	686,313
Purchases of property and equipment	(527,700)	(3,006,815)
Net cash used in investing activities	(2,656,952)	(4,078,979)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from construction loans	-	157,500
Payment of debt issuance costs	(52,964)	(43,597)
Proceeds from long-term debt, net	1,249,786	2,752,898
Net cash provided by financing activities	1,196,822	2,866,801
NET INCREASE IN CASH AND CASH EQUIVALENTS	305,106	537,908
Cash, cash equivalents and restricted cash at beginning of year	6,500,585	5,962,677
Cash, cash equivalents and restricted cash at end of year	\$ 6,805,691	\$ 6,500,585
Cash and cash equivalents	\$ 3,450,418	\$ 3,452,620
Restricted cash	3,355,273	3,047,965
Total cash, cash equivalents and restricted cash	\$ 6,805,691	\$ 6,500,585
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 1,795	\$ 35,336
SUPPLEMENTAL DISCLOSURE FOR NON-CASH INVESTING ACTIVITY		
Property and equipment costs incurred	\$ 2,695,762	\$ 3,006,815
Less:		
Decrease in construction in progress	2,168,062	-
Cash paid for property and equipment	\$ 527,700	\$ 3,006,815

See notes to consolidated financial statements

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021 and 2020

1. Organization

Chattanooga Neighborhood Enterprise, Inc. (“CNE” or the “Organization”) was incorporated in Tennessee in 1986 as a non-profit corporation. 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.

The Organization operates the following programs:

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

Homeownership promotion - The Organization offers homebuyer education and counseling to persons interested in achieving homeownership.

Home sustainability - The Organization helps homeowners make both minor and major home repairs through grant and loan programs. CNE staff assists the homeowner identify the work needed, select a contractor and monitor the work being undertaken.

Lending and loan origination - CNE is a Certified Community Development Institution (CDFI). The organization originates down payment loans to low- and moderate-income households to assist with down payment and closing costs. These are second mortgages behind a mortgage that CNE brokers to various mortgage companies to finance the purchase of single-family residences in Chattanooga and Hamilton County.

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).

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.

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

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.

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, 2021 and 2020

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 its rental division ("CNE Rentals") and the following wholly-owned entities (collectively with CNE Rentals, the "Rental Properties").

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")

The rental properties not included in the wholly-owned entities of CAHLP V or Mai Bell are operated by CNE through CNE Rentals. The rental property assets, depreciation expense and any related debt are presented on the CNE financials.

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. As of June 30, 2021 and 2020, there was no activity for the corporation.

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.

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 and 2020

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

Principles of consolidation (continued)

Highland Park, a Tennessee limited liability company, was formed on July 7, 2014, to acquire vacant and blighted property, in the Highland Park and Ridgedale neighborhoods of Chattanooga for the purpose of neighborhood development. CNE acquired 34 parcels of vacant and blighted property with the intention of developing a mix of single-family and urban multi-family structures to provide high quality residential opportunities. As of June 30, 2021, CNE has developed 29 of them into single family or rental housing. Of the remaining lots, 2 are currently under development, and 3 lots are held for future development. CNE serves as the single member of the company.

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.

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.

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. 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.

Restricted cash is not considered cash and cash equivalents, and includes cash held with financial institutions for refunds of tenant security deposits, repairs or improvements to the property, which extend the useful lives, and annual property insurance and tax payments. Restricted cash does not fall under the criteria for net assets with donor restrictions as these funds are for operational purposes rather than donor imposed restrictions.

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, 2021 and 2020, 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.

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 and 2020

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

Accounts receivable

Accounts receivable 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.

Loans receivable

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.

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.

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, 2021 and 2020, the total amount of CIP was \$1,856,544 and \$1,895,354, respectively, and is included on the accompanying consolidated statements of financial position.

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 and 2020

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

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, 2021 and 2020, depreciation expense was \$407,994 and \$297,836, 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 either held for sale or land.

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 2021 or 2020.

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, which is not materially different from the effective interest method. As of June 30, 2021 and 2020, debt issuance costs totaled \$145,493 and \$92,529, respectively. As of June 30, 2021 and 2020, accumulated amortization was \$20,857 and \$12,503, respectively. Amortization expense for the years ended June 30, 2021 and 2020 was \$8,354 and \$6,401, 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 wholly owned entities' income are levied on the Organization in its individual capacity. Accordingly, no provision for income taxes is reflected in the accompanying consolidated financial statements.

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. Management 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 consolidated financial statements.

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 and 2020

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

Contributions

Contributions 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 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 is recognized. All other donor restricted contributions 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

Conditional contributions, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Unrecognized conditional contributions are recorded as refundable advances on the consolidated statements of financial position.

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.

Economic concentrations

The Organization, either as a direct owner or partner, has an economic interest in real estate projects that are subject to business risks associated with the economy and level of unemployment in Chattanooga, Tennessee, which affects occupancy, as well as the tenants' ability to make rental payments.

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

Reclassifications

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

Subsequent events

Subsequent events have been evaluated through September 28, 2021, which is the date the consolidated financial statements were available to be issued, and there are no subsequent events requiring disclosure.

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021 and 2020

3. Liquidity and availability of financial assets

The following represents the Organization’s financial assets available for general expenditure, that is without donor restrictions limiting their use, within one year of the statement of financial position date, at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Current financial assets		
Cash and cash equivalents	\$ 3,450,418	\$ 3,452,620
Restricted cash	3,355,273	3,047,965
Accounts receivable	212,516	143,581
Grants receivable	<u>272,984</u>	<u>123,002</u>
Total current financial assets	7,291,191	6,767,168
Less amounts not available to be used within one year:		
Restricted cash	<u>3,355,273</u>	<u>3,047,965</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 3,935,918</u>	<u>\$ 3,719,203</u>

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 refundable advances.

As of June 30, 2021 and 2020, restricted cash totaled \$3,355,273 and \$3,047,965, respectively, and consisted of amounts to or held on behalf of the following organizations, entities, municipalities, or programs:

	<u>2021</u>	<u>2020</u>
Center Centre	\$ 264,256	\$ 203,997
Chattanooga Opportunity Fund	8,567	11,232
City of Chattanooga	287,935	225,916
Community Foundation of Greater Chattanooga	88,918	123,649
Deposits held in trust	86,496	65,552
Lyndhurst Foundation/Benwood Foundation	1,852,344	1,411,156
NeighborWorks America	390,898	209,918
PPP Funds	-	2,242
Real estate development funds	121,560	480,318
Small dollar loan funds	85,598	75,232
State of Tennessee		
Small and Minority Owned Businesses	46,026	54,176
Taxes and escrow	122,675	154,296
Tennessee Housing Development Agency	-	30,281
Total restricted cash	<u>\$ 3,355,273</u>	<u>\$ 3,047,965</u>

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 and 2020

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. As of June 30, 2021 and 2020, grants receivable from the City of Chattanooga totaled \$272,984 and \$123,002, respectively.

6. 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.

The loans receivable portfolio as of June 30, 2021 and 2020 was as follows:

	<u>2021</u>	<u>2020</u>
Unrestricted loans:		
Amortizing loans	\$ 2,670,354	\$ 2,560,946
Title transfer loans	381,127	410,241
Less – Allowance for loan losses	<u>(646,685)</u>	<u>(655,522)</u>
	2,404,796	2,315,665
Restricted loans:		
Amortizing loans	<u>18,305</u>	<u>25,537</u>
Total loans	<u>\$ 2,423,101</u>	<u>\$ 2,341,202</u>

The aging of loans receivables as of June 30, 2021 and 2020 was as follows:

	<u>2021</u>	<u>2020</u>
Performing:		
Current	\$ 2,361,683	\$ 2,357,490
31-60 days	13,168	67,534
61-90 days	<u>117,985</u>	<u>86,717</u>
	2,492,836	2,511,741
Nonperforming:		
Over 91 days	195,823	74,742
Deferred:		
Title transfer loans	<u>381,127</u>	<u>410,241</u>
Total loans receivable	<u>\$ 3,069,786</u>	<u>\$ 2,996,724</u>

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021 and 2020

6. 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, 2021 and 2020 were as follows:

	2021	2020
Balance, beginning	\$ 655,522	\$ 840,290
Provision charged to income	-	(100,000)
Amounts charged off, net of bad debt recovery	(8,837)	(84,768)
Balance, ending	\$ 646,685	\$ 655,522

7. 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, 2021 and 2020, the Organization provided servicing for \$7,627,319 and \$8,308,575, 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, 2021 and 2020 were as follows:

	2021	2020
Center Centre	\$ 372,917	\$ 428,070
Chattanooga Opportunity Fund Loans	38,252	57,227
City of Chattanooga	7,216,150	7,823,278
Total servicing loans	\$ 7,627,319	\$ 8,308,575

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 and 2020

8. 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, 2021 and 2020, loan servicing payables consisted of the following:

	2021	2020
Center Centre	\$ 264,358	\$ 202,691
Chattanooga Opportunity Fund Loans	8,568	4,943
City of Chattanooga	88,647	56,801
Total loan servicing payables	\$ 361,573	\$ 264,435

9. Refundable advances

Grant advances

A portion of the Organization's revenue is derived from federal and state grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when expenditures have been incurred in compliance with specific grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances on the accompanying consolidated statements of financial position. The Organization received grants of \$2,470,022 and \$1,887,857 that have not been recognized at June 30, 2021 and 2020, respectively, because qualifying expenditures have not yet been incurred.

During 2020, the Organization was awarded a \$320,000 grant from the City of Chattanooga as part of the HOME Investment Partnership funds granted by the U.S. Department of Housing and Urban Development (HUD) under Title II of the Cranston-Gonzalez National Affordable Housing Act of 1990. The grant is conditioned upon the Organization providing 8 affordable rental units at one of its multi-family rental properties for 20 years. The grant will be recognized at the end of the 20 year compliance period. Amounts received prior to the end of the compliance period are reported as refundable advances on the accompanying consolidated statements of financial position. As of June 30, 2021 and 2020, the grant advance balance was \$319,888.

During 2021, the Organization was awarded a \$200,000 grant from the City of Chattanooga as part of the HOME Investment Partnership funds granted by the U.S. Department of Housing and Urban Development (HUD) under Title II of the Cranston-Gonzalez National Affordable Housing Act of 1990. The grant is conditioned upon the Organization providing 5 affordable rental units at one of its multi-family rental properties for 20 years. The grant will be recognized at the end of the 20 year compliance period. Amounts received prior to the end of the compliance period are reported as refundable advances on the accompanying consolidated statements of financial position. As of June 30, 2021 and 2020, the grant advance balance was \$200,000 and \$0, respectively.

As of June 30, 2021 and 2020, grant advances in the amount of \$980,767 and \$619,771, respectively, had been released from grant advances and are included in revenue on the accompanying consolidated statements of activities.

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021 and 2020

9. Refundable advances (continued)

Paycheck Protection Program (“PPP”) loan

During 2020, the Organization received a PPP loan for an amount of \$274,500 under PPP which was established under the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act. The application for the PPP loans requires the Organization to, in good faith, certify that the current economic uncertainty made the loan request necessary to support the ongoing operation of the Organization. This certification further requires the Organization to take into account its current business activity and its ability to access other sources of liquidity sufficient to support the ongoing operations in a manner that is not significantly detrimental to the business. The receipt of the funds from the PPP loan and the forgiveness of the PPP loan is dependent on the Organization having initially qualified for the PPP loan and qualifying for the forgiveness of such PPP loan based on funds being used for certain expenditures such as payroll costs and rent, as required by the terms of the PPP loan. There is no assurance that the Organization’s obligation under the PPP loan will be forgiven. If the PPP loan is not forgiven, the Organization will need to repay the PPP loan over a two-year period, commencing six months after the funding of the PPP loan, at an interest rate of 1% per annum.

As of June 30, 2021 and 2020, the loan balance was \$0 and \$274,500, respectively. On April 21, 2021, the balance of \$274,500 was forgiven and included in general revenue. Amounts received prior to forgiveness are included in refundable advances on the accompanying consolidated statements of financial position.

THDA BEP loans

During 2020, the Organization received loans from Tennessee Housing Development Agency (“THDA”) as part of the Blight Elimination Program (“BEP”). The program requires the purchased properties to be maintained greened for a period of 3 years or to be redeveloped for the benefit of the community. The loans are for a maximum amount of \$25,000. The loans bear interest at 0% interest. One third of the balance will be forgiven each year the Organization meets the program requirements. There is no assurance that the Organization’s obligation under the THDA BEP loans will be forgiven. If the THDA BEP loans are not forgiven, the Organization will need to repay the loans.

As of June 30, 2021 and 2020, the loan balance was \$83,333 and \$66,695, respectively. Amounts received prior to forgiveness are included in refundable advances on the accompanying consolidated statements of financial position.

10. Construction loan

Construction loan financing is provided by SmartBank for a maximum amount of \$157,500. The loan, which is secured by property, bears interest at 4 percentage points under the index as defined in the promissory note, and requires monthly interest only payments until the maturity date of October 15, 2021 when the entire principal and accrued interest are due in full. As of June 30, 2021 and 2020, the principal balance outstanding was \$157,500.

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 and 2020

11. Long-term debt

As of June 30, 2021 and 2020, debt consisted of the following:

		2021	2020
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.	\$ 39,282	\$ 54,773
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.	171,235	177,513
CNE	Note payable to SmartBank; interest at the prime lending rate minus 4% with a 2.5% cap; principal payments of \$6,750 plus interest are payable monthly through the maturity date of September 11, 2023 with remaining balance then due; collateralized by third party loans. For the years ended June 30, 2021 and 2020, the effective interest rate was 0.53% and 1.14%, respectively.	523,300	604,301
CNE	Note payable to SmartBank; interest at the prime lending rate minus 4%; principal payments of \$8,581 plus interest are payable monthly through the maturity date of March 7, 2034 with remaining balance then due; collateralized by property. For the years ended June 30, 2021 and 2020, the effective interest rate was 0.09% and 0.50%, respectively.	2,557,215	2,574,377
CNE	Note payable to SmartBank; interest at the prime lending rate minus 4%; interest only payments through January 5, 2022; principal payments of \$2,524 plus interest are payable monthly beginning February 5, 2022 through the maturity date of November 22, 2034 with remaining balance then due; collateralized by property. For the years ended June 30, 2021 and 2020, the effective interest rate was 0.27% and 0.29%, respectively	1,783,000	757,058

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 and 2020

11. Long-term debt (continued)

As of June 30, 2021 and 2020, debt consisted of the following (continued):

		2021	2020
CNE	Note payable to FirstBank; interest at the prime lending rate minus 4%; principal and interest payments based upon a 25 year amortization schedule, maturity date of May 8, 2035 with remaining balance then due; collateralized by property. For the years ended June 30, 2021 and 2020, the effective interest rate was 1.40% and 0.00%, respectively.	132,230	-
CNE	Note payable to Brightbridge, Inc.; interest at the prime lending rate minus 3%; maturity date of August 23, 2033 with remaining balance then due; collateralized by property. As of June 30, 2021, the loan had not been drawn on.	-	-
CNE	Note payable to SmartBank; interest at the prime lending rate minus 4%; interest only payments through August 25, 2022; principal and interest payments of \$1,986 beginning August 25, 2022 through the maturity date of July 25, 2035 with remaining balance then due; collateralized by property. For the years ended June 30, 2021 and 2020, the effective interest rate was 0.16% and 0.00%, respectively.	511,939	-
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 plus interest are payable monthly through April 18, 2032 with remaining balance then due; collateralized by real estate.	494,532	540,389
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.	18,462	177,675

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 and 2020

11. Long-term debt (continued)

As of June 30, 2021 and 2020, debt consisted of the following (continued):

		2021	2020
Mai Bell	Secured construction loan payable to First Horizon Bank: interest at the prime rate minus 4%; principal payments of \$7,924 plus interest are payable monthly through the maturity date of August 31, 2031; collateralized by real estate property.	2,704,710	2,800,033
	Total long-term debt	\$ 8,935,905	\$ 7,686,119

Long-term debt consists of the following as of June 30, 2021 and 2020:

	2021	2020
Principal balance	\$ 8,935,905	\$ 7,686,119
Less: unamortized debt issuance costs-	(124,636)	(80,026)
Long-term debt, net of unamortized debt issuance costs	\$ 8,811,269	\$ 7,606,093

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

Year ending June 30,	
2022	\$ 364,237
2023	468,731
2024	431,435
2025	431,435
2026	431,435
Thereafter	6,808,632
Total	\$ 8,935,905

12. 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 perpetual net assets with donor restrictions totaling \$1,213,371 as of June 30, 2021 and 2020. 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.

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 and 2020

12. Net assets with donor restrictions (continued)

NeighborWorks America (continued)

The components of the NWA capital fund grant assets as of June 30, 2021 and 2020 consisted of the following:

	2021	2020
Restricted cash	\$ 390,898	\$ 209,918
Loans receivable	759,571	325,600
Affiliated organizations receivables	62,902	677,853
Total NWA restricted net assets	\$ 1,213,371	\$ 1,213,371

13. 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, 2021 and 2020, 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 commencing September 1, 2014 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 four years are as follows:

Year ending June 30,	
2022	\$ 51,865
2023	51,865
2024	51,865
2025	8,644
Total	\$ 164,239

14. 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, 2021 and 2020, the Organization’s discretionary contribution was \$34,427 and \$39,539, respectively.

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021 and 2020

15. 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.

16. Vulnerability - Impact of COVID-19

The severability of the impact of COVID-19 on the Organization's operations will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic and the extent and severity of the impact on the Organization's tenants, employees, and vendors, all of which are uncertain and cannot be predicted. The Organization's future results could be adversely impacted by delays in rent collections and payments from certain grant reimbursements. Management is unable to predict with absolute certainty the impact of COVID-19 on its financial condition, results of operations or cash flows.

SUPPLEMENTARY INFORMATION

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
 SUPPLEMENTARY INFORMATION - RENTAL PROPERTIES STATEMENTS OF FINANCIAL POSITION
 June 30, 2021

	CNE RENTALS	CAHLP V	HIGHLAND PARK	MAI BELL	TOTAL
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 271,631	\$ 41,226	\$ 54,998	\$ 124,108	\$ 491,963
Restricted cash	36,467	10,794	-	37,898	85,159
Accounts receivable	10,593	989	-	17,433	29,015
Due from affiliates	26,006	-	79,215	-	105,221
Prepaid expenses	30,278	6,257	-	15,589	52,124
Total current assets	374,975	59,266	134,213	195,028	763,482
NONCURRENT ASSETS					
Property and equipment at cost:					
Land	-	15,341	65,111	157,833	238,285
Property held and used	-	1,157,726	-	4,545,492	5,703,218
Furniture and fixtures	-	-	-	16,998	16,998
Less accumulated depreciation	-	(399,295)	-	(621,617)	(1,020,912)
Property and equipment, net	-	773,772	65,111	4,098,706	4,937,589
Total noncurrent assets	-	773,772	65,111	4,098,706	4,937,589
Total assets	\$ 374,975	\$ 833,038	\$ 199,324	\$ 4,293,734	\$ 5,701,071
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable and accrued expenses	\$ 48,120	\$ 11,965	\$ -	\$ 44,714	\$ 104,799
Prepaid rent	22,738	4,533	-	16,598	43,869
Due to affiliates	11,499	88,630	-	6,924	107,053
Escrow and contractual obligations	40,513	10,794	-	29,347	80,654
Current portion of long-term debt	-	45,667	-	95,088	140,755
Total current liabilities	122,870	161,589	-	192,671	477,130
NONCURRENT LIABILITIES					
Long-term debt	-	448,865	18,462	2,609,622	3,076,949
Long term debt, affiliates	-	-	-	934,500	934,500
Total noncurrent liabilities	-	448,865	18,462	3,544,122	4,011,449
Total liabilities	122,870	610,454	18,462	3,736,793	4,488,579
NET ASSETS					
Without donor restrictions	252,105	222,584	180,862	556,941	1,212,492
Total liabilities and net assets	\$ 374,975	\$ 833,038	\$ 199,324	\$ 4,293,734	\$ 5,701,071

See report of independent auditors

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
 SUPPLEMENTARY INFORMATION - RENTAL PROPERTIES STATEMENTS OF FINANCIAL POSITION
 June 30, 2020

	CNE RENTALS	CAHLP V	HIGHLAND PARK	MAI BELL	TOTAL
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 136,844	\$ 47,174	\$ 68,062	\$ 111,741	\$ 363,821
Restricted cash	28,943	8,842	-	27,767	65,552
Accounts receivable	22,657	1,587	-	18,065	42,309
Due from affiliates	11,000	-	-	-	11,000
Prepaid expenses	18,237	6,305	-	16,246	40,788
Total current assets	217,681	63,908	68,062	173,819	523,470
NONCURRENT ASSETS					
Construction in progress	-	-	-	72,477	72,477
Property and equipment at cost:					
Land	-	15,341	303,823	157,833	476,997
Property held and used	-	1,118,367	-	4,473,015	5,591,382
Furniture and fixtures	-	-	-	16,998	16,998
Less accumulated depreciation	-	(358,257)	-	(452,926)	(811,183)
Property and equipment, net	-	775,451	303,823	4,194,920	5,274,194
Total noncurrent assets	-	775,451	303,823	4,267,397	5,346,671
Total assets	\$ 217,681	\$ 839,359	\$ 371,885	\$ 4,441,216	\$ 5,870,141
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable and accrued expenses	\$ 17,605	\$ 8,288	\$ 1,179	\$ 31,544	\$ 58,616
Prepaid rent	10,121	3,437	-	13,007	26,565
Due to affiliates	58,358	56,311	-	76,118	190,787
Escrow and contractual obligations	24,943	8,842	-	27,767	61,552
Current portion of long-term debt	-	45,667	-	95,088	140,755
Total current liabilities	111,027	122,545	1,179	243,524	478,275
NONCURRENT LIABILITIES					
Long-term debt	-	494,722	177,675	2,704,945	3,377,342
Long term debt, affiliates	-	-	-	934,500	934,500
Total noncurrent liabilities	-	494,722	177,675	3,639,445	4,311,842
Total liabilities	111,027	617,267	178,854	3,882,969	4,790,117
NET ASSETS					
Without donor restrictions	106,654	222,092	193,031	558,247	1,080,024
Total liabilities and net assets	\$ 217,681	\$ 839,359	\$ 371,885	\$ 4,441,216	\$ 5,870,141

See report of independent auditors

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION - RENTAL PROPERTIES STATEMENTS OF ACTIVITIES

For the year ended June 30, 2021

	CNE RENTALS	CAHLP V	HIGHLAND PARK	MAI BELL	TOTAL
REVENUES					
Gross residential rental income	\$ 466,669	\$ 146,186	\$ -	\$ 463,982	\$ 1,076,837
Other income	26,020	9,639	-	9,767	45,426
Total revenues	492,689	155,825	-	473,749	1,122,263
EXPENSES					
General and administrative	18,542	8,840	300	10,994	38,676
Marketing and advertising	28,295	-	-	4,080	32,375
Repairs and maintenance	103,234	40,455	5,945	70,816	220,450
Tax and insurance	100,797	31,483	4,119	109,493	245,892
Utilities	16,015	11,200	-	41,589	68,804
Professional fees	2,523	3,521	10	3,703	9,757
Management fees	77,832	18,796	-	65,689	162,317
Depreciation	*	41,038	-	168,691	209,729
Interest expense	-	-	1,795	-	1,795
Total expenses	347,238	155,333	12,169	475,055	989,795
Changes in net assets	<u>\$ 145,451</u>	<u>\$ 492</u>	<u>\$ (12,169)</u>	<u>\$ (1,306)</u>	<u>\$ 132,468</u>

* Depreciation expense in the amount of \$188,630 for CNE Rentals, the operating division of CNE, is presented on the CNE financials.

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION - RENTAL PROPERTIES STATEMENTS OF ACTIVITIES

For the year ended June 30, 2020

	CNE RENTALS	CAHLP V	HIGHLAND PARK	MAI BELL	TOTAL
REVENUES					
Gross residential rental income	\$ 192,471	\$ 132,203	\$ -	\$ 429,939	\$ 754,613
Other income	6,826	1,053	-	7,610	15,489
Total revenues	199,297	133,256	-	437,549	770,102
EXPENSES					
General and administrative	7,167	4,681	-	12,535	24,383
Marketing and advertising	2,650	86	-	4,998	7,734
Repairs and maintenance	57,795	47,065	9,550	86,595	201,005
Tax and insurance	48,174	38,131	5,767	131,113	223,185
Utilities	5,180	12,966	-	34,552	52,698
Professional fees	-	7,520	444	-	7,964
Management fees	29,657	13,456	-	42,672	85,785
Depreciation	*	40,668	-	166,055	206,723
Interest expense	-	-	2,201	21,039	23,240
Total expenses	150,623	164,573	17,962	499,559	832,717
OTHER CHANGES IN NET ASSETS					
Gain on sale of assets	-	-	86,749	-	86,749
Total other changes in net assets	-	-	86,749	-	86,749
Changes in net assets	<u>\$ 48,674</u>	<u>\$ (31,317)</u>	<u>\$ 68,787</u>	<u>\$ (62,010)</u>	<u>\$ 24,134</u>

* Depreciation expense in the amount of \$83,951 for CNE Rentals, the operating division of CNE, is presented on the CNE financials.

See report of independent auditors

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2021

<u>Federal Grantor/Pass-through Agent/Program Title</u>	<u>CFDA No.</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development ("HUD"):		
Pass-through:		
City of Chattanooga, Tennessee		
Community Development Block Grants	14.218	\$ 138,767
Pass-through:		
City of Chattanooga, Tennessee		
HOME Investment Partnership Program	14.239	230,596
Pass-through:		
City of Chattanooga, Tennessee		
Lead-Based Hazard Control	14.900	<u>149,112</u>
Total U.S. Department of HUD Awards		518,475
U.S. Department of Treasury:		
Pass-through:		
State of Tennessee Department of Finance & Administration		
Coronavirus Relief Program	21.019	329,508
Pass-through:		
Neighborworks Reinvestment Corporation		
Congressional Appropriations	21.116.26	332,500
Pass-through:		
Neighborworks Reinvestment Corporation		
Congressional Appropriations	21.116.6	5,000
Pass-through:		
Neighborworks Reinvestment Corporation		
Congressional Appropriations	21.116.9	29,619
Pass-through:		
Neighborworks Reinvestment Corporation		
Congressional Appropriations	21.116.94	<u>25,438</u>
Total U.S. Department of Treasury Awards		<u>722,065</u>
Total Expenditures of Federal Awards		<u><u>\$ 1,240,540</u></u>

See report of independent auditors and accompanying notes to schedule of expenditures of federal awards

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2021

1. Basis of presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the expenditures of Chattanooga Neighborhood Enterprise, Inc. (a Tennessee non-profit corporation) under programs of the federal government for the year ended June 30, 2021. The information in the Schedule is presented in accordance with the requirements of *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of the basic consolidated financial statements.

2. Summary of significant accounting policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowed. Catalogue of Federal Domestic Assistance numbers (“CFDA No.”) are provided when available.

The Organization elected not to use the 10% de minimis indirect cost rate.

REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Chattanooga Neighborhood Enterprise, Inc., a Tennessee nonprofit corporation, and subsidiaries (collectively, the “Organization”) which comprise the consolidated statement of financial position – with consolidating details as of June 30, 2021, and the related consolidated statements of activities – with consolidating details, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 28, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization’s internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization’s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Novogradec & Company LLP

September 28, 2021

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited Chattanooga Neighborhood Enterprise, Inc., a Tennessee nonprofit corporation, and subsidiaries' (collectively, the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal programs for the year ended June 30, 2021. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each of the major federal programs. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Novogradac & Company LLP

September 28, 2021

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 June 30, 2021

Section I - Summary of Auditor's Results

Financial Statements

Type of auditors' report issued:	Unmodified		
Internal control over financial reporting:			
Material weakness(es) identified?	_____ Yes	_____ <u>X</u> _____	No
Significant deficiency(ies) identified not considered to be material weaknesses?	_____ Yes	_____ <u>X</u> _____	None reported
Noncompliance material to financial statements noted?	_____ Yes	_____ <u>X</u> _____	No

Federal Awards

Internal Control over major programs:			
Material weakness(es) identified?	_____ Yes	_____ <u>X</u> _____	No
Significant deficiency(ies) identified not considered to be material weaknesses?	_____ Yes	_____ <u>X</u> _____	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified		
Audit findings required to be reported in accordance with 2 CFR section 200.516(a)?	_____ Yes	_____ <u>X</u> _____	No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.239	HOME Investment Partnership Program
21.019	Coronavirus Relief Program

Dollar threshold used to distinguish between Type A and Type B programs:	_____ <u>\$750,000</u> _____		
Auditee qualified as low-risk auditee?	_____ Yes	_____ <u>X</u> _____	No

Section II - Financial Statement Findings

There were no findings noted.

Section III - Federal Award Findings and Questioned Costs

There were no findings noted.