



# **Chattanooga Neighborhood Enterprise, Inc.**

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

**June 30, 2020 and 2019**

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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 – with consolidating details as of June 30, 2020 and 2019, and the related consolidated statements of activities – with consolidating details, 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, 2020 and 2019, 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.

*Changes in Accounting Principles*

As discussed in Note 2 to the financial statements, the Organization adopted changes in accounting principles related to revenue recognition and presentation and disclosure of the statements of cash flows. Our opinion is not modified with respect to those matters.

*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*

September 25, 2020

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

|  | CNE                  | Operating Entities  | Consolidation<br>Eliminations | Total                |
|--|----------------------|---------------------|-------------------------------|----------------------|
| <b>ASSETS</b>  |                      |                     |                               |                      |
| <b>CURRENT ASSETS</b>  |                      |                     |                               |                      |
| Cash and cash equivalents:   |                      |                     |                               |                      |
| Operating  | \$ 2,457,862         | \$ 226,977          | \$ -                          | \$ 2,684,839         |
| Designated for investments   | 767,781              | -                   | -                             | 767,781              |
| Restricted cash  | 3,011,356            | 36,609              | -                             | 3,047,965            |
| Accounts receivable  | 134,176              | 19,652              | -                             | 153,828              |
| Grants receivable  | 123,002              | -                   | -                             | 123,002              |
| Due from affiliates  | 132,429              | -                   | (132,429)                     | -                    |
| Prepaid expenses   | 7,990                | 22,551              | -                             | 30,541               |
|  | <u>6,634,596</u>     | <u>305,789</u>      | <u>(132,429)</u>              | <u>6,807,956</u>     |
| <b>NONCURRENT ASSETS</b>   |                      |                     |                               |                      |
| Affiliated organizations receivable                                | 934,500              | -                   | (934,500)                     | -                    |
| Loans receivable:  |                      |                     |                               |                      |
| Unrestricted loans, net of allowances for loan losses of \$645,604 | 2,315,665            | -                   | -                             | 2,315,665            |
| Restricted loans   | 25,537               | -                   | -                             | 25,537               |
| Forgivable loans, net of loan reserves of \$9,918                  | -                    | -                   | -                             | -                    |
| Interest receivable  | 16,837               | -                   | -                             | 16,837               |
| Investments in Operating Entities                                  | -                    | 117,358             | (117,358)                     | -                    |
| REO properties   | 20,275               | -                   | -                             | 20,275               |
| Construction in progress   | 1,822,877            | 72,477              | -                             | 1,895,354            |
| Property and equipment at cost:                                    |                      |                     |                               |                      |
| Land   | -                    | 476,997             | -                             | 476,997              |
| Property held for sale   | 737,786              | -                   | -                             | 737,786              |
| 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>4,383,374</u>     | <u>5,274,194</u>    | <u>-</u>                      | <u>9,657,568</u>     |
|  | <u>9,519,065</u>     | <u>5,464,029</u>    | <u>(1,051,858)</u>            | <u>13,931,236</u>    |
| Total noncurrent assets  | <u>9,519,065</u>     | <u>5,464,029</u>    | <u>(1,051,858)</u>            | <u>13,931,236</u>    |
| Total assets   | <u>\$ 16,153,661</u> | <u>\$ 5,769,818</u> | <u>\$ (1,184,287)</u>         | <u>\$ 20,739,192</u> |
| <b>LIABILITIES AND NET ASSETS</b>                                  |                      |                     |                               |                      |
| <b>CURRENT LIABILITIES</b>   |                      |                     |                               |                      |
| Accounts payable and accrued expenses                              | \$ 163,946           | \$ 57,455           | \$ -                          | \$ 221,401           |
| Due to affiliates  | -                    | 132,429             | (132,429)                     | -                    |
| Loan servicing payables  | 264,435              | -                   | -                             | 264,435              |
| Escrow and contractual obligations                                 | 173,658              | 36,609              | -                             | 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>3,048,555</u>     | <u>367,248</u>      | <u>(132,429)</u>              | <u>3,283,374</u>     |
| Total current liabilities  | <u>3,048,555</u>     | <u>367,248</u>      | <u>(132,429)</u>              | <u>3,283,374</u>     |
| <b>NONCURRENT LIABILITIES</b>                                      |                      |                     |                               |                      |
| 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                                       | <u>4,347,920</u>     | <u>4,311,842</u>    | <u>(934,500)</u>              | <u>7,725,262</u>     |
| Total liabilities  | <u>7,396,475</u>     | <u>4,679,090</u>    | <u>(1,066,929)</u>            | <u>11,008,636</u>    |
| <b>NET ASSETS</b>  |                      |                     |                               |                      |
| Without donor restrictions   | 7,506,315            | 1,090,728           | (117,358)                     | 8,479,685            |
| With donor restrictions  | 1,250,871            | -                   | -                             | 1,250,871            |
|  | <u>8,757,186</u>     | <u>1,090,728</u>    | <u>(117,358)</u>              | <u>9,730,556</u>     |
| Total net assets   | <u>8,757,186</u>     | <u>1,090,728</u>    | <u>(117,358)</u>              | <u>9,730,556</u>     |
| Total liabilities and net assets                                   | <u>\$ 16,153,661</u> | <u>\$ 5,769,818</u> | <u>\$ (1,184,287)</u>         | <u>\$ 20,739,192</u> |

See notes to consolidated financial statements

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

|  | CNE                  | Operating Entities  | Consolidation<br>Eliminations | Total                |
|--|----------------------|---------------------|-------------------------------|----------------------|
| <b>ASSETS</b>  |                      |                     |                               |                      |
| <b>CURRENT ASSETS</b>  |                      |                     |                               |                      |
| Cash and cash equivalents:   |                      |                     |                               |                      |
| Operating  | \$ 2,764,414         | \$ 239,522          | \$ -                          | \$ 3,003,936         |
| Designated for investments   | 439,144              | -                   | -                             | 439,144              |
| Restricted cash  | 2,474,159            | 45,438              | -                             | 2,519,597            |
| Accounts receivable  | 4,232                | 1,405               | -                             | 5,637                |
| Grants receivable  | 242,644              | -                   | -                             | 242,644              |
| Due from affiliates  | 208,647              | -                   | (204,947)                     | 3,700                |
| Prepaid expenses   | 11,281               | 22,235              | -                             | 33,516               |
|  | <u>6,144,521</u>     | <u>308,600</u>      | <u>(204,947)</u>              | <u>6,248,174</u>     |
| <b>TOTAL CURRENT ASSETS</b>  | <b>6,144,521</b>     | <b>308,600</b>      | <b>(204,947)</b>              | <b>6,248,174</b>     |
| <b>NONCURRENT ASSETS</b>   |                      |                     |                               |                      |
| Affiliated organizations receivable                                | 934,500              | -                   | (934,500)                     | -                    |
| Loans receivable:  |                      |                     |                               |                      |
| Unrestricted loans, net of allowances for loan losses of \$830,372 | 2,511,119            | -                   | -                             | 2,511,119            |
| 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>5,608,055</u>     | <u>5,765,809</u>    | <u>(1,051,858)</u>            | <u>10,322,006</u>    |
| <b>TOTAL NONCURRENT ASSETS</b>                                     | <b>5,608,055</b>     | <b>5,765,809</b>    | <b>(1,051,858)</b>            | <b>10,322,006</b>    |
| <b>TOTAL ASSETS</b>  | <b>\$ 11,752,576</b> | <b>\$ 6,074,409</b> | <b>\$ (1,256,805)</b>         | <b>\$ 16,570,180</b> |
| <b>LIABILITIES AND NET ASSETS</b>                                  |                      |                     |                               |                      |
| <b>CURRENT LIABILITIES</b>   |                      |                     |                               |                      |
| 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              |
| Refundable advances  | 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>     |
| <b>TOTAL CURRENT LIABILITIES</b>                                   | <b>2,422,671</b>     | <b>406,438</b>      | <b>(204,947)</b>              | <b>2,624,162</b>     |
| <b>NONCURRENT LIABILITIES</b>                                      |                      |                     |                               |                      |
| 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>     |
| <b>TOTAL NONCURRENT LIABILITIES</b>                                | <b>1,059,814</b>     | <b>4,552,703</b>    | <b>(934,500)</b>              | <b>4,678,017</b>     |
| <b>TOTAL LIABILITIES</b>   | <b>3,482,485</b>     | <b>4,959,141</b>    | <b>(1,139,447)</b>            | <b>7,302,179</b>     |
| <b>NET ASSETS</b>  |                      |                     |                               |                      |
| Without donor restrictions   | 7,019,220            | 1,115,268           | (117,358)                     | 8,017,130            |
| With donor restrictions  | 1,250,871            | -                   | -                             | 1,250,871            |
|  | <u>8,270,091</u>     | <u>1,115,268</u>    | <u>(117,358)</u>              | <u>9,268,001</u>     |
| <b>TOTAL NET ASSETS</b>  | <b>8,270,091</b>     | <b>1,115,268</b>    | <b>(117,358)</b>              | <b>9,268,001</b>     |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>                            | <b>\$ 11,752,576</b> | <b>\$ 6,074,409</b> | <b>\$ (1,256,805)</b>         | <b>\$ 16,570,180</b> |

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<br>Donor Restrictions | Net Assets With<br>Donor Restrictions | Total               | Operating Entities  | Consolidation<br>Eliminations | Consolidated        |
| <b>REVENUES</b>                      |  |                                       |                     |                     |                               |                     |
| Program support:                     |  |                                       |                     |                     |                               |                     |
| Homeownership promotion              | \$ 440,465                               | \$ -                                  | \$ 440,465          | \$ -                | \$ -                          | \$ 440,465          |
| Homeownership preservation           | 581,400                                  | -                                     | 581,400             | -                   | -                             | 581,400             |
| Real estate development              | 508,667                                  | -                                     | 508,667             | -                   | -                             | 508,667             |
| Property management                  | 50,877                                   | -                                     | 50,877              | -                   | -                             | 50,877              |
| Neighborhood engagement              | 135,959                                  | -                                     | 135,959             | -                   | -                             | 135,959             |
| Loan servicing                       | 101,016                                  | -                                     | 101,016             | -                   | -                             | 101,016             |
| Small dollar loan                    | 8,872                                    | -                                     | 8,872               | -                   | -                             | 8,872               |
| Total program support                | <u>1,827,256</u>                         | <u>-</u>                              | <u>1,827,256</u>    | <u>-</u>            | <u>-</u>                      | <u>1,827,256</u>    |
| General support:                     |  |                                       |                     |                     |                               |                     |
| General revenue                      | 1,498,018                                | -                                     | 1,498,018           | -                   | (56,128)                      | 1,441,890           |
| Fundraising                          | 6,283                                    | -                                     | 6,283               | -                   | -                             | 6,283               |
| Total general support                | <u>1,504,301</u>                         | <u>-</u>                              | <u>1,504,301</u>    | <u>-</u>            | <u>(56,128)</u>               | <u>1,448,173</u>    |
| Other revenue:                       |  |                                       |                     |                     |                               |                     |
| Operating entities                   | -  | -                                     | -                   | 570,805             | -                             | 570,805             |
| Total other revenue                  | <u>-</u>                                 | <u>-</u>                              | <u>-</u>            | <u>570,805</u>      | <u>-</u>                      | <u>570,805</u>      |
| Total revenues                       | 3,331,557                                | -                                     | 3,331,557           | 570,805             | (56,128)                      | 3,846,234           |
| <b>EXPENSES</b>                      |  |                                       |                     |                     |                               |                     |
| Direct program services:             |  |                                       |                     |                     |                               |                     |
| Homeownership promotion              | 10,000                                   | -                                     | 10,000              | -                   | -                             | 10,000              |
| Homeownership preservation           | 596,660                                  | -                                     | 596,660             | -                   | -                             | 596,660             |
| Real estate development              | 38,930                                   | -                                     | 38,930              | -                   | -                             | 38,930              |
| Small business center                | 3,050                                    | -                                     | 3,050               | -                   | -                             | 3,050               |
| Neighborhood engagement              | 88,791                                   | -                                     | 88,791              | -                   | -                             | 88,791              |
| Total direct program services        | <u>737,431</u>                           | <u>-</u>                              | <u>737,431</u>      | <u>-</u>            | <u>-</u>                      | <u>737,431</u>      |
| Indirect program services:           |  |                                       |                     |                     |                               |                     |
| Homeownership promotion              | 511,025                                  | -                                     | 511,025             | -                   | -                             | 511,025             |
| Homeownership preservation           | 47,394                                   | -                                     | 47,394              | -                   | -                             | 47,394              |
| Real estate development              | 273,054                                  | -                                     | 273,054             | -                   | -                             | 273,054             |
| Property management                  | 298,818                                  | -                                     | 298,818             | -                   | -                             | 298,818             |
| Loan servicing                       | 292,624                                  | -                                     | 292,624             | -                   | -                             | 292,624             |
| Neighborhood engagement              | 350,121                                  | -                                     | 350,121             | -                   | -                             | 350,121             |
| Total indirect program services      | <u>1,773,036</u>                         | <u>-</u>                              | <u>1,773,036</u>    | <u>-</u>            | <u>-</u>                      | <u>1,773,036</u>    |
| Total program services               | 2,510,467                                | -                                     | 2,510,467           | -                   | -                             | 2,510,467           |
| Support services:                    |  |                                       |                     |                     |                               |                     |
| General and administrative           | 168,159                                  | -                                     | 168,159             | 682,094             | (56,128)                      | 794,125             |
| Fundraising                          | 119,527                                  | -                                     | 119,527             | -                   | -                             | 119,527             |
| Total support services               | <u>287,686</u>                           | <u>-</u>                              | <u>287,686</u>      | <u>682,094</u>      | <u>(56,128)</u>               | <u>913,652</u>      |
| Total expenses                       | <u>2,798,153</u>                         | <u>-</u>                              | <u>2,798,153</u>    | <u>682,094</u>      | <u>(56,128)</u>               | <u>3,424,119</u>    |
| Change in net assets from operations | 533,404                                  | -                                     | 533,404             | (111,289)           | -                             | 422,115             |
| <b>NON-OPERATING ACTIVITIES</b>      |  |                                       |                     |                     |                               |                     |
| (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                | 487,095                                  | -                                     | 487,095             | (24,540)            | -                             | 462,555             |
| Net assets at beginning of year      | <u>7,019,220</u>                         | <u>1,250,871</u>                      | <u>8,270,091</u>    | <u>1,115,268</u>    | <u>(117,358)</u>              | <u>9,268,001</u>    |
| Net assets at end of year            | <u>\$ 7,506,315</u>                      | <u>\$ 1,250,871</u>                   | <u>\$ 8,757,186</u> | <u>\$ 1,090,728</u> | <u>\$ (117,358)</u>           | <u>\$ 9,730,556</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                                      |                                       |                     |                     |                               |                     |
|--------------------------------------|--|---------------------------------------|---------------------|---------------------|-------------------------------|---------------------|
|                                      | Net Assets Without<br>Donor Restrictions | Net Assets With<br>Donor Restrictions | Total               | Operating Entities  | Consolidation<br>Eliminations | Consolidated        |
| <b>REVENUES</b>                      |  |                                       |                     |                     |                               |                     |
| 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                | <u>1,499,545</u>                         | <u>-</u>                              | <u>1,499,545</u>    | <u>-</u>            | <u>-</u>                      | <u>1,499,545</u>    |
| 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                | <u>1,803,626</u>                         | <u>-</u>                              | <u>1,803,626</u>    | <u>-</u>            | <u>(58,472)</u>               | <u>1,745,154</u>    |
| Other revenue:                       |  |                                       |                     |                     |                               |                     |
| Operating entities                   | -  | -                                     | -                   | 603,411             | -                             | 603,411             |
| Total other revenue                  | <u>-</u>                                 | <u>-</u>                              | <u>-</u>            | <u>603,411</u>      | <u>-</u>                      | <u>603,411</u>      |
| Total revenues                       | 3,303,171                                | -                                     | 3,303,171           | 603,411             | (58,472)                      | 3,848,110           |
| <b>EXPENSES</b>                      |  |                                       |                     |                     |                               |                     |
| 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        | <u>525,439</u>                           | <u>-</u>                              | <u>525,439</u>      | <u>-</u>            | <u>-</u>                      | <u>525,439</u>      |
| Indirect program services:           |  |                                       |                     |                     |                               |                     |
| Homeownership promotion              | 501,619                                  | -                                     | 501,619             | -                   | -                             | 501,619             |
| 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                       | 325,752                                  | -                                     | 325,752             | -                   | -                             | 325,752             |
| Neighborhood engagement              | 344,425                                  | -                                     | 344,425             | -                   | -                             | 344,425             |
| Small dollar loan                    | 19,540                                   | -                                     | 19,540              | -                   | -                             | 19,540              |
| Total indirect program services      | <u>1,581,713</u>                         | <u>-</u>                              | <u>1,581,713</u>    | <u>-</u>            | <u>-</u>                      | <u>1,581,713</u>    |
| 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               | <u>136,055</u>                           | <u>-</u>                              | <u>136,055</u>      | <u>558,329</u>      | <u>(58,472)</u>               | <u>635,912</u>      |
| Total expenses                       | <u>2,243,207</u>                         | <u>-</u>                              | <u>2,243,207</u>    | <u>558,329</u>      | <u>(58,472)</u>               | <u>2,743,064</u>    |
| Change in net assets from operations | 1,059,964                                | -                                     | 1,059,964           | 45,082              | -                             | 1,105,046           |
| <b>NON-OPERATING ACTIVITIES</b>      |  |                                       |                     |                     |                               |                     |
| 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 non-operating activities       | <u>1,749,962</u>                         | <u>-</u>                              | <u>1,749,962</u>    | <u>(166,587)</u>    | <u>-</u>                      | <u>1,583,375</u>    |
| Changes in net assets                | 2,809,926                                | -                                     | 2,809,926           | (121,505)           | -                             | 2,688,421           |
| Net assets at beginning of year      | <u>4,209,294</u>                         | <u>1,250,871</u>                      | <u>5,460,165</u>    | <u>1,236,773</u>    | <u>(117,358)</u>              | <u>6,579,580</u>    |
| Net assets at end of year            | <u>\$ 7,019,220</u>                      | <u>\$ 1,250,871</u>                   | <u>\$ 8,270,091</u> | <u>\$ 1,115,268</u> | <u>\$ (117,358)</u>           | <u>\$ 9,268,001</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<br/>Administrative</u> | <u>Fundraising</u> |                     |
| Bank related                   | \$ 14,615               | \$ 1,879                              | \$ 988             | \$ 17,482           |
| Communication                  | 14,577                  | 3,031                                 | 983                | 18,591              |
| Depreciation                   | 78,394                  | 214,158                               | 5,284              | 297,836             |
| Direct program expenses        | 737,431                 | -                                     | -                  | 737,431             |
| Document storage               | 547                     | 52                                    | 37                 | 636                 |
| Dues and subscriptions         | 27,789                  | 2,636                                 | 1,875              | 32,300              |
| Equipment leasing              | 4,447                   | 422                                   | 299                | 5,168               |
| Insurance                      | 58,599                  | 35,550                                | 3,949              | 98,098              |
| Interest                       | 15,917                  | 22,549                                | 1,073              | 39,539              |
| Land holding costs             | 7,666                   | 18,689                                | 517                | 26,872              |
| Office supplies                | 11,169                  | 3,605                                 | 754                | 15,528              |
| Postage                        | 5,064                   | 479                                   | 342                | 5,885               |
| Professional services          | 84,761                  | 15,559                                | 5,713              | 106,033             |
| Promotion and marketing        | 49,436                  | 22,302                                | 3,331              | 75,069              |
| Rent and utilities             | 81,597                  | 55,256                                | 5,500              | 142,353             |
| Repairs and maintenance        | -                       | 133,660                               | -                  | 133,660             |
| Salaries, benefits and bonuses | 1,246,285               | 118,202                               | 84,018             | 1,448,505           |
| Software                       | 38,932                  | 3,694                                 | 2,624              | 45,250              |
| Taxes                          | -                       | 139,250                               | -                  | 139,250             |
| Training                       | 25,707                  | 2,437                                 | 1,732              | 29,876              |
| Travel                         | 7,534                   | 715                                   | 508                | 8,757               |
| Total                          | <u>\$ 2,510,467</u>     | <u>\$ 794,125</u>                     | <u>\$ 119,527</u>  | <u>\$ 3,424,119</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>Total</u>        |
|--------------------------------|-------------------------|---------------------------------------|--------------------|---------------------|
|                                | <u>Program Services</u> | <u>General and<br/>Administrative</u> | <u>Fundraising</u> |                     |
| Bad debt                       | \$ -                    | \$ 14,721                             | \$ -               | \$ 14,721           |
| Bank related                   | 10,762                  | 1,221                                 | 234                | 12,217              |
| Communication                  | 14,642                  | 941                                   | 318                | 15,901              |
| Depreciation                   | 16,514                  | 207,898                               | 440                | 224,852             |
| Direct program expenses        | 525,439                 | -                                     | -                  | 525,439             |
| Document storage               | 457                     | 29                                    | 10                 | 496                 |
| Dues and subscriptions         | 27,416                  | 1,762                                 | 598                | 29,776              |
| Equipment leasing              | 2,192                   | 141                                   | 47                 | 2,380               |
| Insurance                      | 47,384                  | 11,541                                | 1,030              | 59,955              |
| Interest                       | 14,228                  | 40,127                                | 309                | 54,664              |
| Land holding costs             | 13,430                  | 25,672                                | 292                | 39,394              |
| Office supplies                | 16,940                  | 1,088                                 | 364                | 18,392              |
| Postage                        | 8,637                   | 315                                   | 108                | 9,060               |
| Professional services          | 163,090                 | 15,620                                | 3,544              | 182,254             |
| Promotion and marketing        | 36,905                  | 6,582                                 | 804                | 44,291              |
| Rent and utilities             | 71,171                  | 57,564                                | 1,544              | 130,279             |
| Repairs and maintenance        | -                       | 30,029                                | -                  | 30,029              |
| Salaries, benefits and bonuses | 1,043,308               | 67,074                                | 22,662             | 1,133,044           |
| Software                       | 26,926                  | 2,230                                 | 583                | 29,739              |
| Taxes                          | 10,266                  | 113,305                               | 223                | 123,794             |
| Training                       | 32,539                  | 2,090                                 | 707                | 35,336              |
| Travel                         | 24,906                  | 1,604                                 | 541                | 27,051              |
| Total                          | <u>\$ 2,107,152</u>     | <u>\$ 601,554</u>                     | <u>\$ 34,358</u>   | <u>\$ 2,743,064</u> |

See notes to consolidated financial statements

**CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the years ended June 30, 2020 and 2019

|  | 2020         | 2019         |
|--|--------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |              |              |
| Changes in net assets  | \$ 462,555   | \$ 2,688,421 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: |              |              |
| Depreciation and amortization of debt issuance costs   | 304,237      | 228,583      |
| Release of grant liability restrictions  | -            | (226,819)    |
| Bad debt income on loans receivable  | (100,000)    | -            |
| Gain on sale of assets, net  | (40,440)     | (175,109)    |
| Transfer of net assets from dissolution of CCDFI   | -            | (1,720,858)  |
| Changes in operating assets and liabilities:   |              |              |
| Accounts receivable  | (148,191)    | (31,659)     |
| Grants receivable  | 119,642      | (44,939)     |
| Due from affiliates  | 3,700        | 18,976       |
| Prepaid expenses   | 2,975        | (5,966)      |
| Loans receivable   | 312,353      | 348,552      |
| Accounts payable and accrued expenses  | 11,202       | 28,970       |
| Loan servicing payables  | (22,137)     | 229,585      |
| Escrows and contractual obligations  | (36,265)     | 28,186       |
| Refundable advances  | 955,599      | 1,035,432    |
| Small dollar line of credit  | (75,144)     | 75,144       |
|  | 1,750,086    | 2,476,499    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |              |              |
| Proceeds from dissolution of CCDFI   | -            | 1,118,831    |
| Payments of construction costs   | (1,758,477)  | -            |
| Proceeds from sale of property and equipment   | 686,313      | 1,127,220    |
| Purchases of property and equipment  | (3,006,815)  | (1,465,477)  |
|  | (4,078,979)  | 780,574      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |              |              |
| (Payment of) proceeds from construction loans  | 157,500      | (84,309)     |
| Payment of debt issuance costs   | (43,597)     | -            |
| Proceeds from long-term debt, net  | 2,752,898    | 152,134      |
|  | 2,866,801    | 67,825       |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>   | 537,908      | 3,324,898    |
| Cash, cash equivalents and restricted cash at beginning of year                              | 5,962,677    | 2,637,779    |
| Cash, cash equivalents and restricted cash at end of year                                    | \$ 6,500,585 | \$ 5,962,677 |
| Cash and cash equivalents  | \$ 3,452,620 | \$ 3,443,080 |
| Restricted cash  | 3,047,965    | 2,519,597    |
| Total cash, cash equivalents and restricted cash   | \$ 6,500,585 | \$ 5,962,677 |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>                                      |              |              |
| Cash paid for interest   | \$ 35,336    | \$ 57,743    |
| <b>SUPPLEMENTAL DISCLOSURE FOR NON-CASH INVESTING ACTIVITY</b>                               |              |              |
| Property and equipment costs incurred  | \$ 3,006,815 | \$ 1,712,659 |
| Less:  |              |              |
| Construction in progress   | -            | (200,581)    |
| Transfer of CCDFI property   | -            | (46,601)     |
| Cash paid for property and equipment   | \$ 3,006,815 | \$ 1,465,477 |

See notes to consolidated financial statements

# CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

### 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.

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.

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, 2020 and 2019

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 wholly-owned entities (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 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, 2020, CNE has developed 24 of them into single family or rental housing. Of the remaining lots, 8 are currently under development, 1 will begin development in December 2020 and 1 lot is held for future development. CNE serves as the single member of the company.

## CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

#### 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.

##### 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. 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, 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.

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, 2020 and 2019, 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.

##### Accounts receivables

Accounts 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, 2020 and 2019

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

Loans Receivables

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.

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, 2020 and 2019

#### 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, 2020 and 2019, the total amount of CIP was \$1,895,354 and \$506,758, 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, 2020 and 2019, depreciation expense was \$297,836 and \$224,852, 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 2020 or 2019.

##### 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, 2020 and 2019, debt issuance costs totaled \$92,529 and \$48,932, respectively. As of June 30, 2020 and 2019, accumulated amortization was \$12,503 and \$6,102, respectively. Amortization expense for the years ended June 30, 2020 and 2019 was \$6,401 and \$3,731, 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, 2020 and 2019

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. 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.

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.

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, 2020 and 2019

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

Promotion and marketing

The Organization incurs promotion and marketing costs for its rental units, for completed development property and for advertising lending and financial literacy programs available from the Organization. All promotion and marketing costs are expensed as incurred. For the years ended June 30, 2020 and 2019, the costs associated with promotion and marketing were \$75,069 and \$44,291, respectively.

Reclassifications

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

Change in accounting principles

On July 1, 2019, the Organization adopted a new accounting standard that affects the accounting for revenue. The Organization's revenue is mainly derived from leases and other sources which qualify as contributions, which is not impacted by this standard. Adopting this standard did not have a significant impact on the consolidated financial statements.

The new revenue standard also introduced new guidance for accounting for other income, including the accounting for sales of real estate. Adopting this standard did not have a significant impact on the financial statements.

On July 1, 2019, the Organization adopted new accounting standards that affect the statements of cash flows. These new standards address how certain cash receipts and payments are presented and classified in the statement of cash flows, including that debt prepayments and other debt extinguishment related payments are required to be classified as financing activities, when previously these payments were classified as an operating activity. The new standards also require the statement of cash flows to explain the change in cash, cash equivalents and restricted cash. Previously, changes in restricted cash were presented in the statement of cash flows as operating, investing or financing activities depending upon the intended purpose of the restricted funds. The effect of the revisions to the statements of cash flows for the year ended June 30, 2019 is as follows:

|  | <u>As Previously Reported</u> | <u>Adjustments</u> | <u>As Revised</u> |
|--|-------------------------------|--------------------|-------------------|
| Net cash flows from investing activities | \$ (19,367)                   | \$ 799,941         | \$ 780,574        |

**CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

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, 2020 and 2019:

|   | 2020         | 2019         |
|---|--------------|--------------|
| Current financial assets  |              |              |
| Cash and cash equivalents   | \$ 3,452,620 | \$ 3,443,080 |
| Restricted cash   | 3,047,965    | 2,519,597    |
| Accounts receivable   | 153,828      | 9,337        |
| Grants receivable   | 123,002      | 242,644      |
| Total current financial assets  | 6,777,415    | 6,214,658    |
| Less amounts not available to be used within one year:                              |              |              |
| Restricted cash   | 3,047,965    | 2,519,597    |
| Financial assets available to meet general expenditures over the next twelve months | \$ 3,729,450 | \$ 3,695,061 |

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, 2020 and 2019, restricted cash totaled \$3,047,965 and \$2,519,597, respectively, and consisted of amounts to or held on behalf of the following organizations, entities, municipalities, or programs:

|   | 2020         | 2019         |
|---|--------------|--------------|
| Center Centre                               | \$ 203,997   | \$ 154,504   |
| Chattanooga Opportunity Fund                | 11,232       | 13,264       |
| City of Chattanooga                         | 225,916      | 175,694      |
| Community Foundation of Greater Chattanooga | 123,649      | -            |
| Deposits held in trust                      | 65,552       | 59,652       |
| Lyndhurst Foundation/Benwood Foundation     | 1,411,156    | 1,495,410    |
| NeighborWorks America                       | 209,918      | 183,085      |
| PPP Funds                                   | 2,242        | -            |
| Real estate development funds               | 480,318      | 27,494       |
| Small dollar loan funds                     | 75,232       | 131,500      |
| State of Tennessee                          |              |              |
| Small and Minority Owned Businesses         | 54,176       | 96,975       |
| Taxes and escrow                            | 154,296      | 182,019      |
| Tennessee Housing Development Agency        | 30,281       | -            |
| Total restricted cash                       | \$ 3,047,965 | \$ 2,519,597 |

**CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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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, 2020 and 2019, grants receivable from the City of Chattanooga totaled \$123,002 and \$242,644, respectively.

6. Due from affiliates

Highland Park, an affiliated entity, owed the Organization for expenses paid on its behalf. As of June 30, 2020 and 2019, the Organization provided funds totaling \$0 and \$3,700, respectively, which is reflected on the accompanying consolidated statements of financial position.

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.

The loans receivable portfolio as of June 30, 2020 and 2019 was as follows:

|                                  | 2020         | 2019         |
|----------------------------------|--------------|--------------|
| Unrestricted loans:              |              |              |
| Amortizing loans                 | \$ 2,551,028 | \$ 2,897,636 |
| Title transfer loans             | 410,241      | 443,855      |
| Less – Allowance for loan losses | (645,604)    | (830,372)    |
|                                  | 2,315,665    | 2,511,119    |
| Restricted loans:                |              |              |
| Amortizing loans                 | 25,537       | 43,060       |
|                                  | 25,537       | 43,060       |
| Forgivable loans:                |              |              |
| Non-commercial loans             | 9,918        | 9,918        |
| Less – loan reserves             | (9,918)      | (9,918)      |
| Total loans                      | \$ 2,341,202 | \$ 2,554,179 |

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.

**CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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7. Loans receivable and allowance for loan losses (continued)

The aging of loans receivables as of June 30, 2020 and 2019 were as follows:

|                        | <u>2020</u>         | <u>2019</u>         |
|------------------------|---------------------|---------------------|
| Performing:            |                     |                     |
| Current                | \$ 2,357,490        | \$ 2,458,567        |
| 31-60 days             | 67,534              | 102,162             |
| 61-90 days             | 86,717              | 198,768             |
|                        | <u>2,511,741</u>    | <u>2,759,497</u>    |
| Nonperforming:         |                     |                     |
| Over 91 days           | 74,742              | 191,117             |
| Deferred:              |                     |                     |
| Title transfer loans   | 410,241             | 443,855             |
|                        | <u>410,241</u>      | <u>443,855</u>      |
| Total loans receivable | <u>\$ 2,996,724</u> | <u>\$ 3,394,469</u> |

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, 2020 and 2019 were as follows:

|  | <u>2020</u>       | <u>2019</u>       |
|--|-------------------|-------------------|
| Balance, beginning                               | \$ 840,290        | \$ 658,193        |
| Provision charged to income                      | (100,000)         | -                 |
| CCDFI transfer                                   | -                 | 129,969           |
| Amounts charged off,<br>net of bad debt recovery | (84,768)          | 52,128            |
|  | <u>(84,768)</u>   | <u>52,128</u>     |
| Balance, ending                                  | <u>\$ 655,522</u> | <u>\$ 840,290</u> |

**CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2020 and 2019

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, 2020 and 2019, the Organization provided servicing for \$8,308,575 and \$9,149,989, 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, 2020 and 2019 were as follows:

|                                    | 2020                    | 2019                    |
|------------------------------------|-------------------------|-------------------------|
| Center Centre                      | \$ 428,070              | \$ 473,290              |
| Chattanooga Opportunity Fund Loans | 57,227                  | 126,284                 |
| City of Chattanooga                | <u>7,823,278</u>        | <u>8,550,415</u>        |
| <br>Total servicing loans          | <br><u>\$ 8,308,575</u> | <br><u>\$ 9,149,989</u> |

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, 2020 and 2019, loan servicing payables consisted of the following:

|                                    | 2020                  | 2019                  |
|------------------------------------|-----------------------|-----------------------|
| Center Centre                      | \$ 202,691            | \$ 154,504            |
| Chattanooga Opportunity Fund Loans | 4,943                 | 11,310                |
| City of Chattanooga                | <u>56,801</u>         | <u>120,758</u>        |
| <br>Total loan servicing payables  | <br><u>\$ 264,435</u> | <br><u>\$ 286,572</u> |

10. 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 \$1,887,857 and \$1,593,341 that have not been recognized at June 30, 2020 and 2019, 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, 2020 and 2019, the grant advance balance was \$319,888 and \$0, respectively.

**CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
June 30, 2020 and 2019

10. Refundable advances (continued)

Grant advances (continued)

As of June 30, 2020 and 2019, grant advances in the amount of \$619,771 and \$552,178, respectively, had been released from grant advances and are included in revenue on the accompanying consolidated statements of activities.

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, 2020 and 2019, the loan balance was \$274,500 and \$0, respectively. Amounts received prior to forgiveness is 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, 2020 and 2019, the loan balance was \$66,695 and \$0, respectively. Amounts received prior to forgiveness is included in refundable advances on the accompanying consolidated statements of financial position.

11. 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 June 15, 2021 when the entire principal and accrued interest are due in full. As of June 30, 2020 and 2019, the principal balance outstanding was \$157,500 and \$0, respectively.

**CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2020 and 2019

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, bears interest at Prime minus 4 percentage points, and requires monthly interest and principal payments. As of June 30, 2020 and 2019, the principal balance outstanding was \$0 and \$75,144, respectively.

13. Long-term debt

As of June 30, 2020 and 2019, debt consisted of the following:

|     |  | <u>2020</u> | <u>2019</u> |
|-----|--|-------------|-------------|
| 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.  | \$ 54,773   | \$ 123,486  |
| 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.   | 177,513     | 183,777     |
| 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, 2020 and 2019, the effective interest rate was 1.14% and 1.82%, respectively. | 604,301     | 680,141     |
| 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, 2020 and 2019, the effective interest rate was 0.50% and 1.84%, respectively.                               | 2,574,377   | 194,419     |



**CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
June 30, 2020 and 2019

13. Long-term debt (continued)

As of June 30, 2020 and 2019, debt consisted of the following (continued):

|               |   | 2020         | 2019         |
|---------------|---|--------------|--------------|
| 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, 2020 and 2019, the effective interest rate was 0.29% and 0.00%, respectively. | 757,058      | -            |
| CNE           | Note payable to FirstBank; interest at the prime lending rate minus 4%; maturity date of May 8, 2035 with remaining balance then due; collateralized by property. As of June 30, 2020, the loan had not been drawn on.  | -            | -            |
| 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.   | 540,389      | 586,055      |
| Highland Park | Loans payable to City of Chattanooga; interest at 1%; interest is payable on 19 <sup>th</sup> of each month starting September 19, 2015; payment is due upon sale of collateralized land.   | 177,675      | 269,982      |
| 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.   | 2,800,033    | 2,895,361    |
|               | Total long-term debt  | \$ 7,686,119 | \$ 4,933,221 |

**CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
June 30, 2020 and 2019

13. Long-term debt (continued)

Long-term debt consists of the following as of June 30, 2020 and 2019:

|   | 2020         | 2019         |
|---|--------------|--------------|
| Principal balance   | \$ 7,686,119 | \$ 4,933,221 |
| Less: unamortized debt issuance costs-                    | (80,026)     | (42,830)     |
| Long-term debt, net of unamortized debt<br>issuance costs | \$ 7,606,093 | \$ 4,890,391 |

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

| Year ending June 30, |              |
|----------------------|--------------|
| 2021                 | \$ 245,182   |
| 2022                 | 343,612      |
| 2023                 | 416,049      |
| 2024                 | 361,276      |
| 2025                 | 353,716      |
| Thereafter           | 5,966,284    |
| Total                | \$ 7,686,119 |

14. 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, 2020 and 2019. 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.

The components of the NWA capital fund grant assets as of June 30, 2020 and 2019 consisted of the following:

|                                      | 2020         | 2019         |
|--------------------------------------|--------------|--------------|
| Restricted cash                      | \$ 209,918   | \$ 183,085   |
| Loans receivable                     | 325,600      | 293,939      |
| Affiliated organizations receivables | 677,853      | 736,347      |
| 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. The funds have been utilized in the surrounding communities for property development. Any losses in the perpetual restricted net assets become an obligation of the Organization and must be restored. As of June 30, 2020 and 2019, other restricted net assets consisted of \$37,500.

**CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2020 and 2019

15. 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, 2020 and 2019, 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 six years are as follows:

| Year ending June 30, |                   |
|----------------------|-------------------|
| 2021                 | \$ 51,865         |
| 2022                 | 51,865            |
| 2023                 | 51,865            |
| 2024                 | 51,865            |
| 2025                 | <u>8,644</u>      |
| Total                | <u>\$ 216,104</u> |

16. 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, 2020 and 2019, the Organization's discretionary contribution was \$39,539 and \$31,626, respectively.

17. 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.

**CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2020 and 2019

18. Subsequent events

Subsequent events have been evaluated through September 25, 2020, which is the date the consolidated financial statements were available to be issued. The following is a summary of significant transactions through September 25, 2020.

The spread of a novel strain of coronavirus (COVID-19) beginning in the first quarter of 2020 has caused significant volatility in the U.S markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. economy. The extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and the impact on tenants, employees, and vendors, all of which are uncertain and cannot be determined at this time.

On September 4, 2020, the Organization was awarded a grant in the amount of \$1,011,448 through the Tennessee Community CARES program.

**SUPPLEMENTARY INFORMATION**

**CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES**  
**SUPPLEMENTARY INFORMATION - OPERATING ENTITIES STATEMENTS OF FINANCIAL POSITION**  
 June 30, 2020

|   | CARE              | CAHLP V           | HIGHLAND<br>PARK  | MAI BELL            | TOTAL               |
|---|-------------------|-------------------|-------------------|---------------------|---------------------|
| <b>ASSETS</b>                           |                   |                   |                   |                     |                     |
| <b>CURRENT ASSETS</b>                   |                   |                   |                   |                     |                     |
| Cash and cash equivalents               | \$ -              | \$ 47,174         | \$ 68,062         | \$ 111,741          | \$ 226,977          |
| Restricted cash                         | -                 | 8,842             | -                 | 27,767              | 36,609              |
| Accounts receivable                     | -                 | 1,587             | -                 | 18,065              | 19,652              |
| Prepaid expenses                        | -                 | 6,305             | -                 | 16,246              | 22,551              |
| <b>Total current assets</b>             | <b>-</b>          | <b>63,908</b>     | <b>68,062</b>     | <b>173,819</b>      | <b>305,789</b>      |
| <b>NONCURRENT ASSETS</b>                |                   |                   |                   |                     |                     |
| Investments in Operating Entity         | 117,358           | -                 | -                 | -                   | 117,358             |
| 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           |
| <b>Total noncurrent assets</b>          | <b>117,358</b>    | <b>775,451</b>    | <b>303,823</b>    | <b>4,267,397</b>    | <b>5,464,029</b>    |
| <b>Total assets</b>                     | <b>\$ 117,358</b> | <b>\$ 839,359</b> | <b>\$ 371,885</b> | <b>\$ 4,441,216</b> | <b>\$ 5,769,818</b> |
| <b>LIABILITIES AND NET ASSETS</b>       |                   |                   |                   |                     |                     |
| <b>CURRENT LIABILITIES</b>              |                   |                   |                   |                     |                     |
| Accounts payable and accrued expenses   | \$ -              | \$ 11,725         | \$ 1,179          | \$ 44,551           | \$ 57,455           |
| Due to affiliates                       | -                 | 56,311            | -                 | 76,118              | 132,429             |
| Escrow and contractual obligations      | -                 | 8,842             | -                 | 27,767              | 36,609              |
| Current portion of long-term debt       | -                 | 45,667            | -                 | 95,088              | 140,755             |
| <b>Total current liabilities</b>        | <b>-</b>          | <b>122,545</b>    | <b>1,179</b>      | <b>243,524</b>      | <b>367,248</b>      |
| <b>NONCURRENT LIABILITIES</b>           |                   |                   |                   |                     |                     |
| Long-term debt                          | -                 | 494,722           | 177,675           | 2,704,945           | 3,377,342           |
| Long term debt, affiliates              | -                 | -                 | -                 | 934,500             | 934,500             |
| <b>Total noncurrent liabilities</b>     | <b>-</b>          | <b>494,722</b>    | <b>177,675</b>    | <b>3,639,445</b>    | <b>4,311,842</b>    |
| <b>Total liabilities</b>                | <b>-</b>          | <b>617,267</b>    | <b>178,854</b>    | <b>3,882,969</b>    | <b>4,679,090</b>    |
| <b>NET ASSETS</b>                       |                   |                   |                   |                     |                     |
| Without donor restrictions              | 117,358           | 222,092           | 193,031           | 558,247             | 1,090,728           |
| <b>Total liabilities and net assets</b> | <b>\$ 117,358</b> | <b>\$ 839,359</b> | <b>\$ 371,885</b> | <b>\$ 4,441,216</b> | <b>\$ 5,769,818</b> |

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

|   | CARE              | CAHLP V           | HIGHLAND<br>PARK  | MAI BELL            | TOTAL               |
|---|-------------------|-------------------|-------------------|---------------------|---------------------|
| <b>ASSETS</b>                           |                   |                   |                   |                     |                     |
| <b>CURRENT ASSETS</b>                   |                   |                   |                   |                     |                     |
| Cash and cash equivalents               | \$ -              | \$ 43,920         | \$ 99,298         | \$ 96,304           | \$ 239,522          |
| Restricted cash                         | -                 | 11,109            | -                 | 34,329              | 45,438              |
| Accounts receivable                     | -                 | 1,152             | -                 | 253                 | 1,405               |
| Prepaid expenses                        | -                 | 6,410             | -                 | 15,825              | 22,235              |
| <b>Total current assets</b>             | <b>-</b>          | <b>62,591</b>     | <b>99,298</b>     | <b>146,711</b>      | <b>308,600</b>      |
| <b>NONCURRENT ASSETS</b>                |                   |                   |                   |                     |                     |
| 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           |
| <b>Total noncurrent assets</b>          | <b>117,358</b>    | <b>816,119</b>    | <b>471,357</b>    | <b>4,360,975</b>    | <b>5,765,809</b>    |
| <b>Total assets</b>                     | <b>\$ 117,358</b> | <b>\$ 878,710</b> | <b>\$ 570,655</b> | <b>\$ 4,507,686</b> | <b>\$ 6,074,409</b> |
| <b>LIABILITIES AND NET ASSETS</b>       |                   |                   |                   |                     |                     |
| <b>CURRENT LIABILITIES</b>              |                   |                   |                   |                     |                     |
| 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             |
| <b>Total current liabilities</b>        | <b>-</b>          | <b>84,913</b>     | <b>176,429</b>    | <b>145,096</b>      | <b>406,438</b>      |
| <b>NONCURRENT LIABILITIES</b>           |                   |                   |                   |                     |                     |
| Long-term debt                          | -                 | 540,388           | 269,982           | 2,807,833           | 3,618,203           |
| Long term debt, affiliates              | -                 | -                 | -                 | 934,500             | 934,500             |
| <b>Total noncurrent liabilities</b>     | <b>-</b>          | <b>540,388</b>    | <b>269,982</b>    | <b>3,742,333</b>    | <b>4,552,703</b>    |
| <b>Total liabilities</b>                | <b>-</b>          | <b>625,301</b>    | <b>446,411</b>    | <b>3,887,429</b>    | <b>4,959,141</b>    |
| <b>NET ASSETS</b>                       |                   |                   |                   |                     |                     |
| Without donor restrictions              | 117,358           | 253,409           | 124,244           | 620,257             | 1,115,268           |
| <b>Total liabilities and net assets</b> | <b>\$ 117,358</b> | <b>\$ 878,710</b> | <b>\$ 570,655</b> | <b>\$ 4,507,686</b> | <b>\$ 6,074,409</b> |

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**CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES**  
**SUPPLEMENTARY INFORMATION - OPERATING ENTITIES STATEMENTS OF ACTIVITIES**  
For the year ended June 30, 2020

|                                    | CARE        | CAHLP V            | HIGHLAND<br>PARK | MAI BELL           | TOTAL              |
|------------------------------------|-------------|--------------------|------------------|--------------------|--------------------|
| <b>REVENUES</b>                    |             |                    |                  |                    |                    |
| Gross residential rental income    | \$ -        | \$ 132,203         | \$ -             | \$ 429,939         | \$ 562,142         |
| Other income                       | -           | 1,053              | -                | 7,610              | 8,663              |
| Total revenues                     | -           | 133,256            | -                | 437,549            | 570,805            |
| <b>EXPENSES</b>                    |             |                    |                  |                    |                    |
| General and administrative         | -           | 4,681              | -                | 12,535             | 17,216             |
| Marketing and advertising          | -           | 86                 | -                | 4,998              | 5,084              |
| Repairs and maintenance            | -           | 47,065             | 9,550            | 86,595             | 143,210            |
| Tax and insurance                  | -           | 38,131             | 5,767            | 131,113            | 175,011            |
| Utilities                          | -           | 12,966             | -                | 34,552             | 47,518             |
| Professional fees                  | -           | 7,520              | 444              | -                  | 7,964              |
| Management fees                    | -           | 13,456             | -                | 42,672             | 56,128             |
| Depreciation                       | -           | 40,668             | -                | 166,055            | 206,723            |
| Interest expense                   | -           | -                  | 2,201            | 21,039             | 23,240             |
| Total expenses                     | -           | 164,573            | 17,962           | 499,559            | 682,094            |
| <b>OTHER CHANGES IN NET ASSETS</b> |             |                    |                  |                    |                    |
| Gain on sale of assets             | -           | -                  | 86,749           | -                  | 86,749             |
| Total other changes in net assets  | -           | -                  | 86,749           | -                  | 86,749             |
| Changes in net assets              | <u>\$ -</u> | <u>\$ (31,317)</u> | <u>\$ 68,787</u> | <u>\$ (62,010)</u> | <u>\$ (24,540)</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<br>PARK    | MAI BELL          | TOTAL               |
|------------------------------------|---------------|------------------|---------------------|-------------------|---------------------|
| <b>REVENUES</b>                    |               |                  |                     |                   |                     |
| 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             |
| <b>EXPENSES</b>                    |               |                  |                     |                   |                     |
| 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             |
| <b>OTHER CHANGES IN NET ASSETS</b> |               |                  |                     |                   |                     |
| 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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