

**CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC.
AND SUBSIDIARIES**
CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018 and 2017
with
Report of Independent Auditors



TABLE OF CONTENTS

	PAGE
Report of Independent Auditors	1-2
Consolidated Financial Statements:	
Consolidated Statements of Financial Position – with Consolidating Details	3-4
Consolidated Statements of Revenues, Expenses, and Other Changes in Net Assets – with Consolidating Details	5-6
Statements of Functional Expenses	7-8
Consolidated Statements of Cash Flows	9
Notes to Consolidated Financial Statements	10-26
Supplementary Information:	
Operating Entities Balance Sheets	28-29
Operating Entities Statements of Operations	30-31



**NOVOGRADAC
& COMPANY** LLP®

CERTIFIED PUBLIC ACCOUNTANTS

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. (a nonprofit organization) and subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of revenues, expenses, and other changes in net assets, 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, 2018 and 2017, 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Norogradic & Company LLP

Alpharetta, Georgia
September 17, 2018

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

ASSETS	CNE	Operating Entities	Consolidation Eliminations	Total
CURRENT ASSETS				
Cash and cash equivalents:				
Operating	\$ 225,735	\$ 106,065	\$ -	\$ 331,800
Designated for investments	541,801	-	-	541,801
Restricted cash	1,583,862	83,816	-	1,667,678
Accounts receivable	10,070	9,185	-	19,255
Grants receivable	197,705	-	-	197,705
Due from affiliates	213,166	-	(190,490)	22,676
Prepaid expenses	20,480	7,070	-	27,550
Total current assets	2,792,819	206,136	(190,490)	2,808,465
NONCURRENT ASSETS				
Restricted cash	96,500	-	-	96,500
Affiliated organizations receivable, net of doubtful collections of \$1,078,663	934,500	-	(934,500)	-
Loans receivable:				
Unrestricted loans, net of allowances for loan losses of \$640,490	2,578,593	-	-	2,578,593
Restricted loans	55,990	-	-	55,990
Forgivable loans, net of loan reserves of \$17,703	-	-	-	-
Interest receivable	199,827	-	-	199,827
Investments in Operating Entities	-	117,358	(117,358)	-
REO properties	20,275	-	-	20,275
Construction in progress	697,672	9,667	-	707,339
Property and equipment at cost:				
Land	-	926,213	-	926,213
Property held for sale	150,685	-	-	150,685
Property held and used	769,329	5,507,741	-	6,277,070
Furniture and fixtures	337,718	16,998	-	354,716
Less accumulated depreciation	(621,936)	(323,251)	-	(945,187)
Property and equipment, net	635,796	6,127,701	-	6,763,497
Total noncurrent assets	5,219,153	6,254,726	(1,051,858)	10,422,021
Total assets	\$ 8,011,972	\$ 6,460,862	\$ (1,242,348)	\$ 13,230,486
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 170,533	\$ 45,564	\$ -	\$ 216,097
Due to affiliates	-	301,312	(190,490)	110,822
Loan servicing payables	203,127	-	-	203,127
Escrow and contractual obligations	171,038	47,308	-	218,346
Unearned restricted grants	557,909	-	-	557,909
Construction loans	84,309	-	-	84,309
Current portion of long-term debt	80,409	142,700	-	223,109
Total current liabilities	1,267,325	536,884	(190,490)	1,613,719
NONCURRENT LIABILITIES				
Obligations to Operating Entities	6,004	-	(6,004)	-
Long-term debt, net of unamortized debt issuance costs	1,051,659	3,678,093	-	4,729,752
Long term debt, affiliates	-	934,500	(934,500)	-
Grant liabilities	226,819	-	-	226,819
Total noncurrent liabilities	1,284,482	4,612,593	(940,504)	4,956,571
Total liabilities	2,551,807	5,149,477	(1,130,994)	6,570,290
Net assets:				
Unrestricted net assets	2,368,576	-	-	2,368,576
Temporarily restricted net assets	1,317,940	-	-	1,317,940
Permanently restricted net assets	1,773,649	-	-	1,773,649
Total net assets	5,460,165	-	-	5,460,165
Outside equity:				
Interests in Operating Entities	-	-	5,884	5,884
Partners' outside equity	-	1,311,385	(117,238)	1,194,147
Total outside equity	-	1,311,385	(111,354)	1,200,031
Total liabilities and net assets	\$ 8,011,972	\$ 6,460,862	\$ (1,242,348)	\$ 13,230,486

See notes to consolidated financial statements

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - WITH CONSOLIDATING DETAILS
June 30, 2017

ASSETS	CNE	Operating Entities	Consolidation Eliminations	Total
CURRENT ASSETS				
Cash and cash equivalents:				
Operating	\$ 347,101	\$ 165,235	\$ -	\$ 512,336
Designated for investments	578,563	-	-	578,563
Restricted cash	1,250,313	9,223	-	1,259,536
Accounts receivable	1,275	500,654	-	501,929
Grants receivable	196,468	-	-	196,468
Due from affiliates	212,464	7,727	(179,142)	41,049
Prepaid expenses	17,700	1,206	-	18,906
	<u>2,603,884</u>	<u>684,045</u>	<u>(179,142)</u>	<u>3,108,787</u>
Total current assets				
NONCURRENT ASSETS				
Restricted cash	75,000	-	-	75,000
Affiliated organizations receivable, net of doubtful collections of \$1,128,720	934,500	-	(934,500)	-
Loans receivable:				
Unrestricted loans, net of allowances for loan losses of \$748,585	2,930,311	-	-	2,930,311
Restricted loans	162,797	-	-	162,797
Forgivable loans, net of loan reserves of \$19,518	-	-	-	-
Interest receivable	176,252	-	-	176,252
Investments in Operating Entities	-	117,358	(117,358)	-
REO properties	34,109	-	-	34,109
Construction in progress	120,005	3,623,289	-	3,743,294
Property and equipment at cost:				
Land	-	912,218	-	912,218
Property held for sale	154,394	-	-	154,394
Property held and used	749,338	1,118,367	-	1,867,705
Furniture and fixtures	330,493	-	-	330,493
Less accumulated depreciation	(571,721)	(199,239)	-	(770,960)
Property and equipment, net	<u>662,504</u>	<u>1,831,346</u>	<u>-</u>	<u>2,493,850</u>
	<u>5,095,478</u>	<u>5,571,993</u>	<u>(1,051,858)</u>	<u>9,615,613</u>
Total noncurrent assets				
Total assets	<u>\$ 7,699,362</u>	<u>\$ 6,256,038</u>	<u>\$ (1,231,000)</u>	<u>\$ 12,724,400</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 113,577	\$ 32,378	\$ -	\$ 145,955
Due to affiliates	7,363	388,494	(185,084)	210,773
Loan servicing payables	200,575	-	-	200,575
Escrow and contractual obligations	160,732	10,273	-	171,005
Unearned restricted grants	352,797	-	-	352,797
Current portion of long-term debt	795,000	45,672	-	840,672
	<u>1,630,044</u>	<u>476,817</u>	<u>(185,084)</u>	<u>1,921,777</u>
Total current liabilities				
NONCURRENT LIABILITIES				
Obligations to Operating Entities	6,004	-	(6,004)	-
Long-term debt	500,000	3,527,180	-	4,027,180
Long-term debt, affiliates	-	934,500	(934,500)	-
Grant liabilities	480,997	-	-	480,997
	<u>987,001</u>	<u>4,461,680</u>	<u>(940,504)</u>	<u>4,508,177</u>
Total noncurrent liabilities				
Total liabilities	<u>2,617,045</u>	<u>4,938,497</u>	<u>(1,125,588)</u>	<u>6,429,954</u>
Net assets:				
Unrestricted net assets	2,046,712	-	-	2,046,712
Temporarily restricted net assets	1,156,963	-	-	1,156,963
Permanently restricted net assets	1,878,642	-	-	1,878,642
	<u>5,082,317</u>	<u>-</u>	<u>-</u>	<u>5,082,317</u>
Total net assets				
Outside equity:				
Interests in Operating Entities	-	-	4,337	4,337
Partners' outside equity	-	1,317,541	(109,749)	1,207,792
	<u>-</u>	<u>1,317,541</u>	<u>(105,412)</u>	<u>1,212,129</u>
Interests in Operating Entities				
Total liabilities and net assets	<u>\$ 7,699,362</u>	<u>\$ 6,256,038</u>	<u>\$ (1,231,000)</u>	<u>\$ 12,724,400</u>

See notes to consolidated financial statements

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND OTHER CHANGES IN NET ASSETS - WITH CONSOLIDATING DETAILS
For the year ended June 30, 2018

	CNE			Total	Operating Entities	Consolidation Eliminations	Consolidated
	Unrestricted	Temporarily Restricted	Permanently Restricted				
REVENUES							
Program support:							
Homeownership promotion	\$ -	\$ 192,886	\$ -	\$ 192,886	\$ -	\$ -	\$ 192,886
Homeownership preservation	-	119,061	-	119,061	-	-	119,061
Real estate development	-	499,747	-	499,747	-	-	499,747
Property management	-	22,461	-	22,461	-	(14,261)	8,200
Small business center	-	24,186	-	24,186	-	-	24,186
Neighborhood engagement	-	158,672	-	158,672	-	-	158,672
Loan servicing	-	127,143	-	127,143	-	-	127,143
Total program support	-	1,144,156	-	1,144,156	-	(14,261)	1,129,895
General support:							
General revenue	1,184,272	-	-	1,184,272	-	(19,167)	1,165,105
Fundraising	7,306	-	-	7,306	-	-	7,306
Total general support	1,191,578	-	-	1,191,578	-	(19,167)	1,172,411
Other revenue:							
Affordable housing income	-	-	-	-	426,960	-	426,960
Total other revenue	-	-	-	-	426,960	-	426,960
Total revenues	1,191,578	1,144,156	-	2,335,734	426,960	(33,428)	2,729,266
EXPENSES							
Direct program services:							
Homeownership promotion	-	12,429	-	12,429	-	-	12,429
Homeownership preservation	-	167,521	-	167,521	-	-	167,521
Real estate development	-	167,851	-	167,851	-	-	167,851
Neighborhood engagement	-	108,323	-	108,323	-	-	108,323
Total direct program services	-	456,124	-	456,124	-	-	456,124
Indirect program services:							
Homeownership promotion	-	435,448	-	435,448	-	-	435,448
Homeownership preservation	-	165,206	-	165,206	-	-	165,206
Real estate development	-	240,273	-	240,273	-	-	240,273
Property management	-	105,133	-	105,133	-	-	105,133
Loan servicing	-	270,331	-	270,331	-	-	270,331
Community building	-	105,133	-	105,133	-	-	105,133
Total indirect program services	-	1,321,524	-	1,321,524	-	-	1,321,524
Total program services	-	1,777,648	-	1,777,648	-	-	1,777,648
Support services:							
General and administrative	150,198	-	-	150,198	-	-	150,198
Fundraising	30,040	-	-	30,040	-	-	30,040
Total support services	180,238	-	-	180,238	-	-	180,238
Other services:							
Affordable housing expenses	-	-	-	-	433,116	(33,428)	399,688
Total other services	-	-	-	-	433,116	(33,428)	399,688
Total expenses	180,238	1,777,648	-	1,957,886	433,116	(33,428)	2,357,574
Changes in net assets	1,011,340	(633,492)	-	377,848	(6,156)	-	371,692
Reclassification of net assets	(665,925)	770,918	(104,993)	-	6,156	-	6,156
Net assets and equity at beginning of year	2,046,712	1,156,963	1,878,642	5,082,317	-	-	5,082,317
Net assets and equity at end of year	\$ 2,392,127	\$ 1,294,389	\$ 1,773,649	\$ 5,460,165	\$ -	\$ -	\$ 5,460,165

See notes to consolidated financial statements

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND OTHER CHANGES IN NET ASSETS - WITH CONSOLIDATING DETAILS
For the year ended June 30, 2017

	CNE			Total	Operating Entities	Consolidation Eliminations	Consolidated
	Unrestricted	Temporarily Restricted	Permanently Restricted				
REVENUES							
Program support:							
Homeownership promotion	\$ -	\$ 217,500	\$ -	\$ 217,500	\$ -	\$ -	\$ 217,500
Homeownership preservation	-	188,869	-	188,869	-	-	188,869
Real estate development	-	442,450	-	442,450	-	-	442,450
Property management	-	26,926	-	26,926	-	(5,953)	20,973
Small business center	-	40,751	-	40,751	-	-	40,751
Neighborhood engagement	-	77,600	-	77,600	-	-	77,600
Loan servicing	-	124,184	-	124,184	-	-	124,184
Total program support	-	1,118,280	-	1,118,280	-	(5,953)	1,112,327
General support:							
General revenue	1,273,519	-	-	1,273,519	-	-	1,273,519
Fundraising	10,199	-	-	10,199	-	-	10,199
Total general support	1,283,718	-	-	1,283,718	-	-	1,283,718
Other revenue:							
Affordable housing income	-	-	-	-	589,889	(26,428)	563,461
Total other revenue	-	-	-	-	589,889	(26,428)	563,461
Total revenues	1,283,718	1,118,280	-	2,401,998	589,889	(32,381)	2,959,506
EXPENSES							
Direct program services:							
Homeownership promotion	-	13,790	-	13,790	-	-	13,790
Homeownership preservation	-	235,661	-	235,661	-	-	235,661
Real estate development	-	141,993	-	141,993	-	(26,428)	115,565
Neighborhood engagement	-	49,071	-	49,071	-	-	49,071
Loan servicing	-	46	-	46	-	-	46
Total direct program services	-	440,561	-	440,561	-	(26,428)	414,133
Indirect program services:							
Homeownership promotion	-	130,856	-	130,856	-	-	130,856
Homeownership preservation	-	599,356	-	599,356	-	-	599,356
Real estate development	-	64,605	-	64,605	-	-	64,605
Property management	-	66,236	-	66,236	-	-	66,236
Loan servicing	-	260,084	-	260,084	-	-	260,084
Community building	-	258,454	-	258,454	-	-	258,454
Total indirect program services	-	1,379,591	-	1,379,591	-	-	1,379,591
Total program services	-	1,820,152	-	1,820,152	-	(26,428)	1,793,724
Support services:							
General and administrative	160,456	-	-	160,456	-	-	160,456
Fundraising	80,229	-	-	80,229	-	-	80,229
Total support services	240,685	-	-	240,685	-	-	240,685
Other services:							
Affordable housing expenses	-	-	-	-	213,118	(5,953)	207,165
Total other services	-	-	-	-	213,118	(5,953)	207,165
Total expenses	240,685	1,820,152	-	2,060,837	213,118	(32,381)	2,241,574
Changes in net assets	1,043,033	(701,872)	-	341,161	376,771	-	717,932
Reclassification of net assets	(1,012,983)	1,277,890	(264,907)	-	(376,771)	-	(376,771)
Net assets and equity at beginning of year	2,016,662	580,945	2,143,549	4,741,156	-	-	4,741,156
Net assets and equity at end of year	\$ 2,046,712	\$ 1,156,963	\$ 1,878,642	\$ 5,082,317	\$ -	\$ -	\$ 5,082,317

See notes to consolidated financial statements

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

Functional Expenses	Program Services	Support Services		
	Indirect Program Services	General and Administrative	Fundraising	Total
Bank related	\$ 12,920	\$ 1,471	\$ 292	\$ 1,763
Communication	12,797	1,455	291	1,746
Depreciation	43,904	5,259	1,052	6,311
Document storage	528	60	12	72
Dues and subscriptions	26,775	3,042	610	3,652
Equipment leasing	3,151	359	71	430
Insurance	48,781	5,544	1,109	6,653
Interest	5,344	350	68	418
Land holding costs	13,720	1,559	312	1,871
Loan losses	17,121	1,946	389	2,335
Office supplies	11,229	1,276	253	1,529
Postage	6,188	705	141	846
Professional services	160,093	18,194	3,640	21,834
Promotions and marketing	28,305	3,216	643	3,859
Rent and utilities	68,380	7,772	1,553	9,325
Salaries, benefits and bonuses	805,854	91,576	18,320	109,896
Software	16,057	1,826	366	2,192
Taxes	229	26	5	31
Training	29,987	3,408	685	4,093
Travel	10,161	1,154	228	1,382
Total	<u>\$ 1,321,524</u>	<u>\$ 150,198</u>	<u>\$ 30,040</u>	<u>\$ 180,238</u>

See notes to consolidated financial statements

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2017

<u>Functional Expenses</u>	<u>Program Services</u>		<u>Support Services</u>		<u>Total</u>
	<u>Indirect Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>		
Bank related	\$ 8,384	\$ 987	\$ 493	\$	1,480
Communication	8,997	1,059	531		1,590
Depreciation	67,125	7,899	3,947		11,846
Document storage	1,415	168	84		252
Dues and subscriptions	23,968	2,814	1,406		4,220
Equipment leasing	4,205	501	247		748
Insurance	44,528	5,244	2,624		7,868
Interest	4,176	-	-		-
Loan losses	11,585	-	-		-
Office supplies	13,177	1,553	777		2,330
Postage	6,437	756	378		1,134
Professional services	188,001	22,115	11,068		33,183
Promotion and marketing	17,887	2,105	1,053		3,158
Rent and utilities	73,302	8,625	4,311		12,936
Salaries, benefits and bonuses	838,018	98,586	49,293		147,879
Software	17,448	2,053	1,028		3,081
Taxes	12,172	1,434	717		2,151
Training	24,644	2,897	1,444		4,341
Travel	14,122	1,660	828		2,488
Total	<u>\$ 1,379,591</u>	<u>\$ 160,456</u>	<u>\$ 80,229</u>	<u>\$</u>	<u>240,685</u>

See notes to consolidated financial statements

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 371,692	\$ 717,932
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization of debt issuance costs	176,598	100,330
Cancellation of debt income	-	(169,633)
Loan losses	(19,456)	(11,585)
Loss on sale	1,929	-
Changes in operating assets and liabilities:		
Accounts receivable	482,674	(489,016)
Grants receivable	(1,237)	3,225
Due from affiliates	18,373	(29,214)
Prepaid expenses	(8,644)	13,876
Loans receivable, net	444,164	312,884
Accounts payable and accrued expenses	70,142	(159,645)
Due to affiliates	(99,951)	210,773
Loan servicing payables	2,552	50,421
Escrows and contractual obligations	47,341	(76,247)
Unearned restricted grants	<u>205,112</u>	<u>75,789</u>
Net cash provided by operating activities	1,691,289	549,890
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in restricted cash	(429,642)	(160,551)
Decrease in affiliated organizations receivable	-	857,247
Decrease (increase) in construction in progress	3,035,955	(3,623,501)
(Increase) decrease in property and equipment, net	<u>(4,430,040)</u>	<u>125,546</u>
Net cash used in investing activities	(1,823,727)	(2,801,259)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from construction loans	84,309	-
(Decrease) increase in grant liabilities	(254,178)	115,051
Proceeds from long-term debt, net of repayment	<u>85,009</u>	<u>2,364,334</u>
Net cash (used in) provided by financing activities	<u>(84,860)</u>	<u>2,479,385</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(217,298)	228,016
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,090,899</u>	<u>862,883</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 873,601</u>	<u>\$ 1,090,899</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 19,030</u>	<u>\$ 36,228</u>

See notes to consolidated financial statements

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

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.

The Organization operates the following programs:

Homeownership promotion - The Organization helps Chattanoogaans achieve homeownership through its nationally acclaimed homeownership education and counseling program. The Organization also offers mortgages to finance the purchase and rehabilitation of single-family residences in Chattanooga and Hamilton County to qualified low-to-moderate income persons or families. Conventional first mortgages are funded by outside lenders and CNE. Second mortgage loans are funded by federal, state and local grant awards.

Homeownership preservation - The Organization's Homeownership Center offers a full range of counseling services to assist local families avoid foreclosure and sustain their homeownership. The Organization also provides financial assistance to Tennessee homeowners facing foreclosure.

Real estate development - The Organization is involved in developing single-family and multi-family housing in the City of Chattanooga. Such development activities are for properties owned by the Organization and others for resale.

Property management - The Organization provides property management services for affordable rental housing. In addition to managing properties owned by the Organization, it also manages properties for affiliated entities and collects a property management fee for this activity.

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 home purchase and home repair loans. The Organization services these loans (see Note 6) and loans funded by other entities (see Note 7).

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

2. Summary of significant accounting policies and nature of operations

Basis of presentation

The accompanying consolidated financial statements of the Organization have been prepared on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America and include the accounts and results of operations of the Organization and its majority-controlled, for-profit subsidiaries. CNE has interests in corporations, which were formed to serve as general partners in limited partnerships organized to syndicate low-income housing tax credits on certain qualified rental properties developed by CNE.

The following are entities in which CNE has an interest (collectively, the “Operating Entities”):

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

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

Highland Park, a Tennessee limited liability company, was formed on July 7, 2014, to acquire vacant and blighted property, in the Highland Park neighborhood of Chattanooga for the purpose of neighborhood development. CNE intends to develop a mix of single-family and urban multi-family structures that complement existing structures and provide high-quality residential opportunities. As of June 30, 2018, CNE had acquired 34 parcels of vacant and blighted property in the Highland Park neighborhood. CNE serves as the single member of the company.

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

All material intercompany balances and transactions have been eliminated.

Use of estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates are made in loans receivable (see Note 6), grants receivable (see Note 4), affiliated receivables and investments in affiliated organizations (see Note 5), property held for sale and property held for development. The most significant estimates involve the determination of the allowances for loan losses and the possible impairment, under accounting principles generally accepted in the United States of America, of its investments and advances.

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

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

Financial statement presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification 958-205, *Not-for-Profit Entities - Presentation of Financial Statements*. Under Accounting Standards Codification 958-205, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Receivables

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

Deferred payment loans

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

Title transfer loan

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

Forgivable loan

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

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

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

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

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

Receivables (continued)

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.

Cash and cash equivalents

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

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

Restricted and unrestricted revenue

Under Accounting Standards Codification 958-605-25, *Not-for Profit Entities - Revenue Recognition*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets, depending on the absence or existence and nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of revenues, expenses, and other changes in net assets as net assets released from restrictions.

Federal and state grant revenues are recorded as qualifying expenses when they are incurred.

Revenue recognition

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

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

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

Grant income

Grant income is provided to the Organization to purchase distressed properties and make certain improvements. The Organization rehabilitates the properties and will resell the property to qualified buyers. Grant income received is recorded as unearned revenue. Program costs are recorded and deferred until sale of the property occurs. Upon sale, program expense is decreased or increased to reflect the gain or loss, respectively, on the sale. As program expenses are incurred, the unearned revenue is reduced, and upon the sale of the underlying assets, the net gain or loss on the sale of the property is recorded in the consolidated statements of revenues, expenses, and other changes in net assets.

Deposits held in trust

Deposits held in trust are comprised of tenant security deposits, replacement reserves, and operating reserves. As the management agent of the properties of the Operating Entities, the Organization collects, deposits, and disburses, if required, security deposits in accordance with the terms of each tenant's lease. Replacement reserves are funded based on a set amount per unit and are used for replacements and capital improvements of the properties. Operating reserves are funded based on a set amount per unit and are used to reduce or eliminate operating deficits.

REO Properties

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.

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, 2018 and 2017, the total amount of CIP was \$707,339 and \$3,743,294, 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, 2018 and 2017, depreciation expense was \$174,227 and \$100,330, respectively.

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

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

Property and equipment (continued)

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 flow 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 flows analysis, or other valuation technique. There were no impairment losses recognized during 2018 or 2017.

Amortization of debt issuance costs

Debt issuance costs are considered to be a reduction of the related debt and are being amortized over the term of the debt through a charge to interest expense using the straight line method. As of June 30, 2018 and 2017, debt issuance costs totaled \$14,871 and \$0, respectively. As of June 30, 2018 and 2017, accumulated amortization was \$2,371 and \$0, respectively. Amortization expense for the years ended June 30, 2018 and 2017 was \$2,371 and \$0, 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.

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

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

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

Functional allocation of expenses

Expenses that can be identified with a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on an evaluation by the Organization's management.

Advertising costs

The Organization incurs advertising costs for its rental units, for completed development property and for advertising lending programs available from the Organization. All advertising costs are expensed as incurred. For the years ended June 30, 2018 and 2017, the costs associated with advertising were \$39,507 and \$16,490, respectively.

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, 2018 and 2017, the Organization maintained cash at financial institutions that exceeds the federally insured limits.

Other concentrations of credit risk with respect to financial instruments include loans receivable, receivables from affiliated organizations, and other receivables. 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. Promissory notes receivable from affiliated organizations represent a concentration of real estate lending in the downtown Chattanooga area. Such receivables are indirectly collateralized by residential real estate. Accounts receivable from affiliated organizations represent concentrations in residential rental property operations in the downtown Chattanooga area. The Organization does not have collateral pledged for these advances. Other receivables represent advances by the Organization to entities whose activities involve residential rental properties in the City of Chattanooga. The majority of these receivables are indirectly collateralized by residential real estate.

Reclassifications

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

3. Restricted cash

Restricted cash represents escrow receipts from the Organization's loan servicing activity for each borrower's escrow account, as well as restricted cash related to unearned restricted grants (see Note 9).

As of June 30, 2018 and 2017, restricted cash totaled \$1,764,178 and \$1,334,536, respectively, and consisted of amounts to or held on behalf of the following organizations, entities, municipalities, or programs:

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018 and 2017

3. Restricted cash (continued)

Current:

	<u>2018</u>	<u>2017</u>
Chattanooga Community Development Financial Institution, Inc. ("CCDFI")	\$ 147,521	\$ 81,639
Center Centre	26	4,509
Chattanooga Opportunity Fund	4,696	18,257
City of Chattanooga	193,479	305,754
Taxes and escrow	174,710	156,492
Lyndhurst Foundation/Benwood Foundation	304,872	91,931
Deposits held in trust	91,067	13,498
State of Tennessee Small and Minority Owned Businesses	337,950	337,203
NeighborWorks America	331,485	250,253
Real estate development funds	<u>81,872</u>	<u>-</u>
Total current restricted cash	1,667,678	1,259,536

Noncurrent:

Lyndhurst Foundation/Benwood Foundation	<u>96,500</u>	<u>75,000</u>
Total noncurrent restricted cash	<u>96,500</u>	<u>75,000</u>
Total restricted cash	<u>\$ 1,764,178</u>	<u>\$ 1,334,536</u>

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

4. Grants receivable

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

	<u>2018</u>	<u>2017</u>
City of Chattanooga	\$ 197,705	\$ 194,468
Habitat for Humanity	-	1,000
Tennessee Housing Development Agency	<u>-</u>	<u>1,000</u>
Total grants receivable	<u>\$ 197,705</u>	<u>\$ 196,468</u>

5. Transactions with affiliated organizations

Due from affiliates

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

	<u>2018</u>	<u>2017</u>
CAHLP V	\$ -	\$ 12,199
CCDFI	1,381	11,255
Highland Park	<u>21,295</u>	<u>17,595</u>
Total due from affiliates	<u>\$ 22,676</u>	<u>\$ 41,049</u>

Due to affiliates

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

	<u>2018</u>	<u>2017</u>
CCDFI	<u>\$ 110,822</u>	<u>\$ 210,773</u>
Total due to affiliates	<u>\$ 110,822</u>	<u>\$ 210,773</u>

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

6. Loans receivable and allowance for loan losses

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

The loans receivable portfolio as of June 30, 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>
Unrestricted loans:		
Amortizing loans	\$ 2,794,773	\$ 3,184,313
Title transfer loans	424,310	494,583
Less – Allowance for loan losses	<u>(640,490)</u>	<u>(748,585)</u>
	2,578,593	2,930,311
Restricted loans:		
Amortizing loans	<u>55,990</u>	<u>162,797</u>
	55,990	162,797
Forgivable loans:		
Non-commercial loans	17,703	19,518
Less – loan reserves	<u>(17,703)</u>	<u>(19,518)</u>
Total loans	<u>\$ 2,634,583</u>	<u>\$ 3,093,108</u>

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

The aging of loans receivables as of June 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Performing:		
Current	\$ 2,299,601	\$ 2,820,290
1-30 days	-	392,606
31-60 days	133,806	-
61-90 days	<u>268,652</u>	<u>53,129</u>
	2,702,059	3,266,025
Nonperforming:		
Over 91 days	166,407	100,603
Deferred:		
Title transfer loans	<u>424,310</u>	<u>494,583</u>
Total loans receivable	<u>\$ 3,292,776</u>	<u>\$ 3,861,211</u>

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2018 and 2017

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

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

The changes in the allowance for loan losses as of June 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Balance, beginning	\$ 768,103	\$ 1,189,147
Provision charged to expense	19,456	11,585
Amounts charged off	<u>(129,366)</u>	<u>(432,629)</u>
Balance, ending	<u>\$ 658,193</u>	<u>\$ 768,103</u>

7. Loan 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, 2018 and 2017, the Organization provided servicing for \$11,077,254 and \$11,490,865, respectively, of loans receivable funded by such other entities. These loans receivable are not included in the Organization's statements of financial position.

The loans the Organization was servicing as of June 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
CCDFI Loans	\$ 547,036	\$ 971,936
Center Centre	489,420	264,640
Chattanooga Opportunity Fund Loans	168,390	209,642
City of Chattanooga	<u>9,872,408</u>	<u>10,044,647</u>
Total servicing loans	<u>\$ 11,077,254</u>	<u>\$ 11,490,865</u>

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

8. Loan servicing payables

Payments received for non-Organization loans are deposited into the Organization's cash account and recorded as a payable. As of June 30, 2018 and 2017, loan servicing payables consisted of the following:

	2018	2017
CCDFI	\$ 147,521	\$ 92,894
Center Centre	26	-
Chattanooga Opportunity Fund Loans	4,696	18,257
City of Chattanooga	<u>50,884</u>	<u>89,424</u>
 Total loan servicing payables	 <u>\$ 203,127</u>	 <u>\$ 200,575</u>

9. Unearned restricted grants

For the years ended June 30, 2018 and 2017, the Lyndhurst Foundation and Benwood Foundation provided \$306,000 and \$185,000, respectively, to be utilized for property revitalization in the St. Elmo, Alton Park, Highland Park, and Ridgedale areas.

As of June 30, 2018 and 2017, unearned restricted grants were \$557,909 and \$352,797, respectively. For the years ended June 30, 2018 and 2017, \$323,185 and \$165,231, respectively, had been released from unearned restricted grants and are included with real estate development revenue on the accompanying consolidated statements of revenues, expenses, and other changes in net assets.

10. Construction loans

Construction loan financing is provided by SmartBank for a maximum amount of \$114,526 per loan. The six loans, which are secured by property, bear interest at 4 percentage points under the index as defined in the promissory note, and require monthly interest only payments until the maturity date of May 10, 2019 when the entire principal and accrued interest are due in full. As of June 30, 2018 and 2017, the principal balance outstanding is \$84,309 and \$0, respectively.

11. Grant liabilities

CNE received loans from the City of Chattanooga through various programs to purchase or rehabilitate properties for residential purposes. These loans are recorded as grant liabilities, and are secured by property held for sale or used with a carrying amount of \$300,000 as of June 30, 2018 and 2017, and cash and cash equivalents of \$0 and \$180,997, respectively. Grant liabilities are to be repaid to the City of Chattanooga in the event of the sale of any property. As of June 30, 2018 and 2017, grant liabilities consisted of the following:

	2018	2017
Community Development Block Grant Program ("CDBG")	\$ -	\$ 162,957
HOME Investment Partnership Program ("HOME")	<u>226,819</u>	<u>318,040</u>
 Total grant liabilities	 <u>\$ 226,819</u>	 <u>\$ 480,997</u>

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018 and 2017

12. Long-term debt

As of June 30, 2018 and 2017, debt consisted of the following:

		2018	2017
CNE	Unsecured notes payable to various lenders; interest ranging from 0.0% to 1.8%; interest payable annually.	\$ 398,795	\$ 500,000
CNE	Note payable to Catholic Health Initiative; interest at 0.50%; principal payments of \$40,000 are payable annually through the extended maturity date of December 31, 2017 with remaining balance then due; collateralized by real estate property. Loan was paid off on September 26, 2017.	-	795,000
CNE	Note payable to SmartBank; interest at the prime lending rate minus 4% with a 2.5% cap; maturity date of September 11, 2023 with remaining balance then due; collateralized by third party loans. For the years ended June 30, 2018 and 2017, the effective interest rate was 0.92% and 0.00%, respectively.	745,773	-
CAHLP V	Mortgage payable to FAHE, Inc.; interest at 5.25%; interest is payable monthly; maturity date of April 30, 2017; collateralized by real estate. On August 18, 2017, CAHLP V refinanced its loan with Pinnacle Bank in the amount of \$685,000. The loan bears no interest, and principal payments of \$3,806 are payable monthly through April 18, 2032.	631,722	677,389
Highland Park	Loans payable to City of Chattanooga; interest at 1%; interest is payable on 19 th of each month starting September 19, 2015; payment is due upon sale of collateralized land.	288,444	288,444
Mai Bell	Secured construction loan payable to First Tennessee Bank; interest at the prime rate minus 4%; maturity date of August 31, 2031; collateralized by real estate property.	2,900,627	2,607,019
	Total long-term debt	\$ 4,965,361	\$ 4,867,852

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

12. Long-term debt (continued)

Long-term debt consists of the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Principal balance	\$ 4,965,361	\$ 4,867,852
Less: unamortized debt issuance costs- SmartBank	<u>(12,500)</u>	<u>-</u>
Long-term debt, net of unamortized debt issuance costs	<u>\$ 4,952,861</u>	<u>\$ 4,867,852</u>

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

Year ending June 30,	
2019	\$ 223,109
2020	232,760
2021	233,630
2022	633,300
2023	235,388
Thereafter	<u>3,407,174</u>
Total	<u>\$ 4,965,361</u>

13. Restricted net assets

Temporarily restricted

The Organization has received grants from the Lyndhurst Foundation and other state and local grantors. These funds have been utilized in the surrounding communities for property development, property revitalization, home purchase incentives, originating and servicing loans at below market rates to qualifying individuals, and relocation incentives.

The components of the temporarily restricted net assets as of June 30, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Restricted cash	\$ 1,191,709	\$ 1,034,223
Real estate	<u>126,231</u>	<u>122,740</u>
Total temporarily restricted net assets	<u>\$ 1,317,940</u>	<u>\$ 1,156,963</u>

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

13. Restricted net assets (continued)

Permanently restricted

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 permanently restricted net assets totaling \$1,213,371 as of June 30, 2018 and 2017. The NWA funds have been utilized in various loan and development programs of the Organization. The Organization is obligated to reimburse the permanently 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, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Restricted cash	\$ 231,485	\$ 200,253
Loans receivable	304,033	335,265
Affiliated organizations receivables	600,000	600,000
Real estate	<u>77,853</u>	<u>77,853</u>
Total NWA permanently restricted net assets	<u>\$ 1,213,371</u>	<u>\$ 1,213,371</u>

NWA provided funds to the Organization in the amount of \$324,674 and \$225,000 in 2018 and 2017, respectively, through expendable grants to fund portions of the Organization’s administrative expenses and certain loan programs. Any losses in the permanently restricted net assets become an obligation of the Organization and must be restored.

Other permanently restricted net assets

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

The components of other permanently restricted net assets as of June 30, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Restricted cash	\$ 257,168	\$ 260,209
Loans receivable	<u>303,110</u>	<u>405,062</u>
Total other permanently restricted net assets	<u>\$ 560,278</u>	<u>\$ 665,271</u>

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

14. 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, 2018 and 2017, 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.

Future minimum operating lease payment requirements for the next five years and thereafter are as follows:

Year ending June 30,	
2019	\$ 51,865
2020	51,865
2021	51,865
2022	51,865
2023	51,865
2024	<u>51,865</u>
Total	<u>\$ 311,190</u>

15. 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, 2018 and 2017, the Organization's discretionary contribution was \$31,984 and \$34,209, respectively.

16. 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 revenues, expenses, and other changes in net assets, or consolidated statements of cash flows.

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

17. Subsequent events

Subsequent events have been evaluated through September 17, 2018, which is the date the financial statements were available to be issued.

On August 9, 2018, the State of Tennessee Treasury Department approved a loan forgiveness request from CNE in the amount of \$263,225 from its Small and Minority Owned Business Assistance Program.

SUPPLEMENTARY INFORMATION

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES

SUPPLEMENTARY INFORMATION - OPERATING ENTITIES BALANCE SHEETS

June 30, 2018

	CARE	CAHLP V	HIGHLAND PARK	MAI BELL	TOTAL
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ -	\$ 5,084	\$ 25,876	\$ 75,105	\$ 106,065
Deposits held in trust	-	46,671	-	37,145	83,816
Accounts receivable	-	1,544	-	7,641	9,185
Prepaid expenses	-	7,070	-	-	7,070
Total current assets	-	60,369	25,876	119,891	206,136
NONCURRENT ASSETS					
Investments in Operating Entity	117,358	-	-	-	117,358
Construction in progress	-	-	-	9,667	9,667
Property and equipment at cost:					
Land	-	15,341	910,872	-	926,213
Rental property	-	1,118,367	-	4,389,374	5,507,741
Furniture and fixtures	-	-	-	16,998	16,998
Less accumulated depreciation	-	(202,309)	-	(120,942)	(323,251)
Property and equipment, net	-	931,399	910,872	4,285,430	6,127,701
Total noncurrent assets	117,358	931,399	910,872	4,295,097	6,254,726
Total assets	\$ 117,358	\$ 991,768	\$ 936,748	\$ 4,414,988	\$ 6,460,862
LIABILITIES AND CAPITAL/PARTNERS' CAPITAL					
CURRENT LIABILITIES					
Accounts payable and accrued expenses	\$ -	\$ 27,398	\$ -	\$ 18,166	\$ 45,564
Accounts payable, affiliates	120	26,025	174,832	100,335	301,312
Escrow and contractual obligations	-	10,762	-	36,546	47,308
Current portion of long-term debt	-	45,667	-	97,033	142,700
Total current liabilities	120	109,852	174,832	252,080	536,884
NONCURRENT LIABILITIES					
Long-term debt	-	586,055	288,444	2,803,594	3,678,093
Long term debt, affiliates	-	-	-	934,500	934,500
Total noncurrent liabilities	-	586,055	288,444	3,738,094	4,612,593
Total liabilities	120	695,907	463,276	3,990,174	5,149,477
Capital/partner's capital	117,238	295,861	473,472	424,814	1,311,385
Total liabilities and capital/partners' capital	\$ 117,358	\$ 991,768	\$ 936,748	\$ 4,414,988	\$ 6,460,862

See report of independent auditors

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES

SUPPLEMENTARY INFORMATION - OPERATING ENTITIES BALANCE SHEETS

June 30, 2017

	<u>CARE</u>	<u>CAHLP V</u>	<u>HIGHLAND PARK</u>	<u>MAI BELL</u>	<u>TOTAL</u>
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 71	\$ 46,777	\$ 49,296	\$ 69,091	\$ 165,235
Deposits held in trust	-	9,223	-	-	9,223
Accounts receivable	-	4,682	1,929	494,043	500,654
Due from affiliates	364	818	6,545	-	7,727
Prepaid expenses	-	1,206	-	-	1,206
Total current assets	435	62,706	57,770	563,134	684,045
NONCURRENT ASSETS					
Investments in Operating Entity	117,358	-	-	-	117,358
Construction in progress	-	-	-	3,623,289	3,623,289
Property and equipment at cost:					-
Land	-	1,346	910,872	-	912,218
Rental property	-	1,118,367	-	-	1,118,367
Less accumulated depreciation	-	(199,239)	-	-	(199,239)
Property and equipment	-	920,474	910,872	-	1,831,346
Total noncurrent assets	117,358	920,474	910,872	3,623,289	5,571,993
Total assets	\$ 117,793	\$ 983,180	\$ 968,642	\$ 4,186,423	\$ 6,256,038
LIABILITIES AND CAPITAL/PARTNERS' CAPITAL					
CURRENT LIABILITIES					
Accounts payable and accrued expenses	\$ 2,102	\$ 30,230	\$ 46	\$ -	\$ 32,378
Accounts payable, affiliates	5,942	-	181,377	201,175	388,494
Escrow and contractual obligations	-	9,473	-	800	10,273
Current portion of long-term debt	-	45,672	-	-	45,672
Total current liabilities	8,044	85,375	181,423	201,975	476,817
NONCURRENT LIABILITIES					
Long-term debt	-	631,717	288,444	2,607,019	3,527,180
Long-term debt, affiliates	-	-	-	934,500	934,500
Total noncurrent liabilities	-	631,717	288,444	3,541,519	4,461,680
Total liabilities	8,044	717,092	469,867	3,743,494	4,938,497
Capital/partner's capital	109,749	266,088	498,775	442,929	1,317,541
Total liabilities and capital/partner's capital	\$ 117,793	\$ 983,180	\$ 968,642	\$ 4,186,423	\$ 6,256,038

See report of independent auditors

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION - OPERATING ENTITIES STATEMENTS OF OPERATIONS

For the year ended June 30, 2018

	CARE	CAHLP V	HIGHLAND PARK	MAI BELL	TOTAL
REVENUES					
Gross residential rental income	\$ -	\$ 116,152	\$ -	\$ 265,669	\$ 381,821
Grant revenue	-	-	-	25,814	25,814
Other income	7,609	2,003	-	9,713	19,325
	<u>7,609</u>	<u>2,003</u>	<u>-</u>	<u>9,713</u>	<u>19,325</u>
Total revenues	7,609	118,155	-	301,196	426,960
EXPENSES					
General and administrative	120	8,043	-	30,310	38,473
Marketing and advertising	-	-	-	7,345	7,345
Repairs and maintenance	-	31,838	12,639	49,393	93,870
Insurance	-	1,206	-	10,538	11,744
Property taxes	-	21,566	8,278	36,167	66,011
Utilities	-	10,720	-	22,980	33,700
Professional fees	-	5,413	307	307	6,027
Management fees	-	6,526	-	27,760	34,286
Depreciation	-	3,070	-	120,942	124,012
Interest expense	-	-	2,150	13,569	15,719
Loss on sale of property	-	-	1,929	-	1,929
	<u>120</u>	<u>88,382</u>	<u>25,303</u>	<u>319,311</u>	<u>433,116</u>
Total expenses	120	88,382	25,303	319,311	433,116
Net income (loss)	<u>\$ 7,489</u>	<u>\$ 29,773</u>	<u>\$ (25,303)</u>	<u>\$ (18,115)</u>	<u>\$ (6,156)</u>

See report of independent auditors

CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION - OPERATING ENTITIES STATEMENTS OF OPERATIONS

For the year ended June 30, 2017

	CARE	CAHLP V	HIGHLAND PARK	MAI BELL	TOTAL
REVENUES					
Gross residential rental income	\$ -	\$ 119,534	\$ -	\$ -	\$ 119,534
Grant revenue	-	-	25,000	444,113	469,113
Other income	-	1,242	-	-	1,242
Total revenues	-	120,776	25,000	444,113	589,889
EXPENSES					
General and administrative	120	7,766	-	1,184	9,070
Repairs and maintenance	-	36,701	18,629	-	55,330
Insurance	-	6,027	-	-	6,027
Property taxes	-	15,755	5,949	-	21,704
Utilities	-	11,468	110	-	11,578
Professional fees	-	4,296	25,235	-	29,531
Management fees	-	5,953	3,657	-	9,610
Depreciation	-	21,366	-	-	21,366
Interest expense	-	29,057	2,995	-	32,052
Loss on sale of property	-	-	16,850	-	16,850
Total expenses	120	138,389	73,425	1,184	213,118
Net income (loss)	<u>\$ (120)</u>	<u>\$ (17,613)</u>	<u>\$ (48,425)</u>	<u>\$ 442,929</u>	<u>\$ 376,771</u>

See report of independent auditors