HARVEST HANDS COMMUNITY DEVELOPMENT CORPORATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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DEVELOPMENT CORPORATION, INC.
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BLANKENSHIP

Independent Auditor's Report

Board of Directors
Harvest Hands Community Development Corporation, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Harvest Hands Community Development Corporation, Inc. (a Tennessee not-for-profit organization, the Organization), which comprise the statements of financial position as of December 31, 2018 and 2017, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Blankenship CPA Group, PLLC

Blankenship CPA Group, PLLC
Brentwood, Tennessee
September 23, 2019

HARVEST HANDS COMMUNITY DEVELOPMENT CORPORATION, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	2018	2017
Assets		
Cash	$ 414,336	$ 257,766
Pledges receivable	5,490	14,277
Interest receivable	2,797	2,797
Investments	-	90,114
Property and equipment, net	3,051,802	2,756,794
Notes receivable	2,438,485	2,458,000
Total assets	$ 5,912,910	$ 5,579,748
Liabilities		
Accounts payable	$ 12,208	$ 9,171
Accrued expenses	34,177	52,491
Lines of credit	3,022,100	2,643,786
Total liabilities	3,068,485	2,705,448
Net assets		
Without donor restrictions	2,828,635	2,860,023
With donor restrictions	15,790	14,277
Total net assets	2,844,425	2,874,300
Total liabilities and net assets	$ 5,912,910	$ 5,579,748

The accompanying notes are an integral part of these financial statements.

HARVEST HANDS COMMUNITY DEVELOPMENT CORPORATION, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2018 AND 2017

Changes in net assets without donor restrictions	**2018**	**2017**
Revenues, gains, and other support		
Contributions	$ 529,796	$ 605,522
In-kind revenue	39,490	69,550
Special events	152,445	182,490
Merchant sales	338,468	95,938
Program fees	40,445	50,601
Interest income	140,729	48,797
Investment income	29	158
Gain on sale of property	-	2,227,951
Net realized gain on marketable securities	135,652	-
Net unrealized gain on marketable securities	-	1,500
Net assets released from restrictions	14,277	14,001
Total revenues, gains, and other support	1,391,331	3,296,508
Expenses		
Program services	1,146,191	821,683
Management and general	174,381	149,269
Fundraising	102,147	85,816
Total expenses	1,422,719	1,056,768
Change in net assets without donor restrictions	(31,388)	2,239,740
Changes in net assets with donor restrictions		
Contributions	15,790	14,277
Net assets released from restrictions	(14,277)	(14,001)
Change in net assets with donor restrictions	1,513	276
Total change	(29,875)	2,240,016
Net assets, beginning of year	2,874,300	634,284
Net assets, end of year	$ 2,844,425	$ 2,874,300

The accompanying notes are an integral part of these financial statements.

HARVEST HANDS COMMUNITY DEVELOPMENT CORPORATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Program Services	Management and General	Fundraising	Total
Salaries and wages	$ 520,457	$ 88,483	$ 69,248	$ 678,188
Interest	146,292	-	-	146,292
Contract services	133,950	10,423	-	144,373
Supplies and materials	91,635	-	-	91,635
Depreciation	77,036	-	-	77,036
Community engagement	48,108	-	-	48,108
Payroll taxes	24,037	9,370	7,334	40,741
Utilities	29,252	3,658	3,658	36,568
Start-Up Costs	-	25,033	-	25,033
Insurance	19,413	3,427	-	22,840
Office expense	-	18,041	-	18,041
Rent	15,227	1,433	1,254	17,914
Advertising	15,611	-	-	15,611
Event expense	-	-	14,948	14,948
Professional services	3,146	10,969	-	14,115
Taxes, licenses, and fees	8,609	-	2,932	11,541
Staff development	4,823	1,880	1,471	8,174
Benefits	4,269	1,664	1,302	7,235
Repairs and maintenance	3,699	-	-	3,699
Volunteer expense	627	-	-	627
	$ 1,146,191	$ 174,381	$ 102,147	$ 1,422,719

The accompanying notes are an integral part of these financial statements.

HARVEST HANDS COMMUNITY DEVELOPMENT CORPORATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	Program Services	Management and General	Fundraising	Total
Salaries and wages	$ 313,747	$ 87,302	$ 68,324	$ 469,373
Interest	110,933	-	-	110,933
Contract services	95,538	7,434	-	102,972
Supplies and materials	52,121	-	-	52,121
Depreciation	68,367	-	-	68,367
Community engagement	59,040	-	-	59,040
Payroll taxes	14,119	5,504	4,308	23,931
Utilities	29,207	3,652	3,652	36,511
Insurance	18,407	3,249	-	21,656
Office expense	-	13,903	-	13,903
Rent	16,741	1,576	1,379	19,696
Advertising	14,118	-	-	14,118
Event expense	5,326	-	4,899	10,225
Professional services	7,127	24,853	-	31,980
Taxes, licenses, and fees	5,429	-	1,849	7,278
Staff development	4,606	1,796	1,405	7,807
Repairs and maintenance	2,294	-	-	2,294
Volunteer expense	1,583	-	-	1,583
Miscellaneous	2,980	-	-	2,980
	$ 821,683	$ 149,269	$ 85,816	$ 1,056,768

The accompanying notes are an integral part of these financial statements.

HARVEST HANDS COMMUNITY DEVELOPMENT CORPORATION, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ (29,875)	$ 2,240,016
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	77,036	68,367
Amortization	-	304
Donated securities	-	(84,012)
Gain on sale of property	-	(2,227,951)
Realized gain on marketable securities	(135,652)	-
Unrealized gain on marketable securities	-	(1,500)
Change in operating assets and liabilities:		
Pledges receivable	8,787	(276)
Interest receivable	-	(2,797)
Accounts payable	3,037	(3,576)
Accrued expenses	(18,314)	16,207
Net cash (used) provided by operating activities	(94,981)	4,782
Cash flows from investing activities:		
Proceeds from sale of property	-	7,048
Purchase of property and equipment	(71,033)	(74,104)
Proceeds from securities	225,766	-
Principal payments received on notes receivable	19,515	-
Net cash provided (used) by investing activities	174,248	(67,056)
Cash flows from financing activities:		
Net borrowings on lines of credit	77,303	82,230
Principal payments on note payable	-	(41,561)
Net cash provided by financing activities	77,303	40,669
Net increase (decrease) in cash	156,570	(21,605)
Cash, beginning of year	257,766	279,371
Cash, end of year	$ 414,336	$ 257,766

The accompanying notes are an integral part of these financial statements.

Note 1 - Summary of Significant Accounting Policies

Nature of Activities
Harvest Hands Community Development Corporation, Inc. (the Organization) was incorporated in 2007 under the laws of the State of Tennessee. The Organization is a catalyst for Christ-centered, holistic community development working alongside their neighbors to further education, healthy living, spiritual formation, and economic development in South Nashville.

In 2008, the Organization began its social enterprise Humphreys Street Coffee & Soap to give students access to local jobs, mentoring, and empowerment all at once. In 2018, Humphreys Street opened its first brick and mortar coffee shop, which is expected to double the number of students Humphreys Street can employ by 2021.

Basis of Accounting
The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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

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. Some donor restrictions are temporary in nature; those restrictions 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.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Cash
Cash consists principally of checking and savings account balances with financial institutions. The Organization maintains cash accounts which occasionally may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit of $250,000. As of December 31, 2018 and 2017, cash balances in excess of the FDIC limit were $16,000 and $0, respectively.

Pledges Receivable
Pledges receivable are stated at unpaid balances. The Organization expects to fully collect these items within less than one year; therefore, no allowance for uncollectible accounts has been recorded in the financial statements in relation to pledges receivable.

Property, Equipment and Depreciation
Land, building, equipment, and furniture purchases in excess of $1,000 are capitalized and stated at acquisition cost or at estimated fair value at the time of the gift, if donated. Depreciation of property and equipment, other than land, is calculated by the straight-line method over estimated useful lives ranging from three to ten years for equipment and furniture and five to forty years for building and improvements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Notes Receivable
The Organization has granted notes receivable to borrowers in relation to property sold by the Organization to the borrowers. The ability of the Organization's debtors to honor their contracts is dependent on the real estate and general economic conditions both nationally and within the Organization's primary market.

Notes receivable that the Organization has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balance adjusted for any unearned income and the allowance for uncollectible accounts. The Organization has evaluated the notes receivable and determined that no allowance for uncollectible accounts is necessary at December 31, 2018.

Interest on notes receivable is computed on the outstanding loan principal balance.

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 the 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 on the statements of activities as net assets released from restrictions.

Contributions In-Kind
The Organization receives various types of in-kind contributions in the course of daily operations, including professional services, supplies, and materials. Contributed professional services are recognized as in-kind contributions if the services received create or enhance long-lived assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contributions. Contributions of tangible assets are capitalized at estimated fair value when received.

During the years ended December 31, 2018 and 2017, a number of volunteers have contributed significant voluntary services to the Organization which do not meet the two recognition criteria described above. Accordingly, the value of this contributed time has not been determined and is not reflected in the financial statements.

Income Taxes
The Organization is a not-for-profit corporation exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service (IRS) as other than a private Organization.

Accounting principles generally accepted in the United States of America require the Organization's management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. The Organization's management has analyzed the tax positions taken by the Organization and has concluded that as of December 31, 2018 no uncertain positions are taken or are expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization is no longer subject to routine audits by taxing jurisdictions for any tax periods beginning before December 31, 2015.

Functional Allocation of Expenses
The costs of providing program services and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

Note 1 - Summary of Significant Accounting Policies (Continued)

Program and Supporting Services
The following program and supporting services are included in the accompanying financial statements:

Program Services
Includes the direct cost of operating the Organization and all of the related programs.

Management and General
Includes the functions necessary to ensure an adequate working environment and costs not identifiable with a single program. Applicable costs include those associated with providing coordination and articulation of the Organization's program strategy, business management, general record keeping, budgeting, and related purposes.

Fundraising
Includes costs of activities directed toward appeals for financial support, including special events. Other activities include the cost of solicitations and creation and distribution of fundraising materials.

New Accounting Pronouncement
On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, the requirement of reporting expenses by both their natural and functional classification, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly.

Reclassifications
Certain prior year amounts have been reclassified to conform to current year presentation.

Note 2 - Availability and Liquidity

The following represents the Organization's financial assets at December 31, 2018:

Financial assets at year end:	
Cash	$ 414,336
Pledges receivable	5,490
Total financial assets at year end	419,826
Less amounts not available to be used within one year:	
Net assets with donor restrictions	15,790
Amounts restricted for operational use in next year	(15,790)
	-
Financial assets available to meet cash needs for general expenditures within one year	$ 419,826

As part of its liquidity plan, the Organization has a policy to structure its financial assets in order to have the funds available to meet its general expenditures, liabilities, and other obligations as they come due.

Note 3 - Investments

The Organization uses Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurement*. FASB ASC 820 provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Note 3 - Investments (Continued)

Level 1 Inputs - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active or non-active markets, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs - Inputs to the valuation methodology are observable and significant to the fair value measurement.

All of the Organization’s investments are equity securities with readily determinable fair values and are stated on the Statements of Financial Position at fair value based on quoted prices in active markets (all Level 1 measurements).

Note 4 - Property and Equipment

Property and equipment consist of the following at December 31:

	2018	2017
Land and land improvements	$ 301,487	$ 301,487
Building and improvements	2,853,990	2,545,570
Furniture and equipment	111,647	48,023
Vehicles	15,500	15,500
	3,282,624	2,910,580
Accumulated depreciation	(230,822)	(153,786)
	$ 3,051,802	$ 2,756,794

Note 5 - Notes Receivable

Notes receivable consists of the following at December 31:

	2018	2017
In August 2017 the Organization sold property and issued a note receivable to a borrower in the amount of $2,300,000. The note calls for monthly interest only payments in the amount of $11,500 with all remaining principal and interest being due August 2027. The note has an interest rate of 6.00%, and is secured by the property that was sold.	$ 2,300,000	$ 2,300,000
In December 2017 the Organization sold property and issued a note receivable to a borrower in the amount of $158,000. The note calls for monthly principal and interest payments in the amount of $1,017 and matures in December 2032. The note has an interest rate of 2.00%, and is secured by the property that was sold.	138,485	158,000
	$ 2,438,485	$ 2,458,000

Note 5 - Notes Receivable (Continued)

The future minimum collections of notes receivable are as follows:

Year Ending December 31,		
2019	$	9,308
2020		9,496
2021		9,688
2022		9,883
2023		10,083
Thereafter		2,390,027
	$	2,438,485

Note 6 - Lines of Credit

The Organization has a $2,800,000 construction line of credit with a financial institution that was originated in April 2016 and matures in April 2021. The purpose of the line of credit is for the development of a new community center and offices. Borrowings under the line bear interest at institution's prime rate (5.50% at December 31, 2018). Borrowings are collateralized by a Deed of Trust on the associated building and land and are fully guaranteed by Brentwood United Methodist Church, a related party. Outstanding borrowings on the line of credit at December 31, 2018 and 2017 totaled $2,643,786.

The Organization has a $500,000 construction line of credit with a financial institution that was originated in February 2018 and matures in August 2023. The purpose of the line of credit is for the development of a coffee shop. Borrowings under the line bear interest at The Wall Street Journal prime rate (5.50% at December 31, 2018). Borrowings are collateralized by a Deed of Trust on the associated building and land. Outstanding borrowings on the line of credit at December 31, 2018 totaled $378,314.

Note 7 - Net Assets

Net assets with donor restrictions as December 31, 2018 and 2017 consist of contributions restricted to future periods.

Note 8 - Lease Commitments

The Organization leases property at 601 Benton Avenue, Nashville, Tennessee which it uses for various program and administrative activities. The rental agreement had an original term of 1 year expiring on June 1, 2011. However, the agreement included an annual automatic renewal clause that the Organization is utilizing. The lease is cancelable on a month-to-month basis. Lease expense under this lease amounted to $18,000 for each of the years ended December 31, 2018 and 2017.

The Organization leases a portion of its facility to an individual to operate a small market. The lease expires on April 1, 2021. Rental income under this lease was approximately $16,500 for the years ending December 31, 2018 and 2017, respectively.

The Organization also leases a sign located on its property to a company. The lease expires March 31, 2025. Rental income under this lease was approximately $3,960 for the years ending December 31, 2018 and 2017, respectively.

Note 8 - Lease Commitments (Continued)

Future estimated minimum rental income required under the leases is as follows:

Year Ending December 31,		
2019	$	23,010
2020		23,610
2021		9,300
2022		4,350
2023		4,350
Thereafter		4,350
	$	68,970

Note 9 - Supplemental Cash Flow Disclosures

During the years ended December 31, 2018 and 2017 cash paid for interest totaled $143,846 and $109,743, respectively.

During the year ended December 31, 2018, the Organization purchased property and equipment with debt in the amount of $301,011.

During the year ended December 31, 2017, the Organization received donated securities in the amount of $84,012.

During the year ended December 31, 2017, the Organization issued notes receivable to borrowers in exchange for property sold by the Organization in the amount of $2,458,000.

Note 10 - Related Party Transactions

The Organization’s Executive Director is an employee of Brentwood United Methodist Church (BUMC). BUMC paid the salary of the Organization's Executive Director for the years ended December 31, 2018 and 2017. These amounts have been recognized as in-kind contributions of $39,490 and $69,550 for the years ended December 31, 2018 and 2017, respectively.

Approximately 22% and 50% of the Organization’s total contributions were received from BUMC during the years ended December 31, 2018 and 2017, respectively. The current level of the Organization’s operations and program services may be impacted or segments discontinued if the funding does not continue.

As mentioned in Note 6 BUMC fully guarantees the construction line of credit held by the Organization.

Note 11 - Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09). ASU 2014-09, along with the subsequent amendments, which supersedes most existing revenue recognition guidance and outlines a single comprehensive standard for revenue recognition across all industries. In addition, ASU 2014-09 requires expanded quantitative and qualitative disclosures, including disclosure about the nature, amount, timing and uncertainty of revenue. ASU 2014-09 was deferred by one year by ASU 2015-14 and will become effective for annual reporting periods beginning after December 15, 2018. The Organization does not expect the timing of grant or gift revenue recognition to change significantly as a result of this ASU. The Organization will adopt the provisions of ASU 2014-09 in 2019.

Note 11 - Recent Accounting Pronouncements (Continued)

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02), to supersede nearly all existing lease guidance under GAAP. ASU 2016-02 requires the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases currently classified as operating leases. ASU 2016-02 also requires qualitative disclosures along with specific quantitative disclosures and is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted. Entities are required to apply the amendments at the beginning of the earliest period presented using a modified retrospective approach. The Organization is evaluating the requirements of this guidance and has not yet determined the impact of the adoption on its financial position, results of operations and cash flows.

Note 12 - Subsequent Events

Management has evaluated subsequent events through September 23, 2019, the date which the financial statements were available to be issued.

Subsequent to year end the Organization sold land that it owned. The sale was executed on March 28, 2019 at the purchase price of $320,000. The land had a carrying value of approximately $34,000 and in turn the Organization recognized a gain of approximately $285,000.