CLEVELAND
Housing Network, Inc.

CLEVELAND HOUSING NETWORK, INC. AND AFFILIATE

INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2007

CLEVELAND HOUSING NETWORK, INC. AND AFFILIATE

DECEMBER 31, 2007

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BOARD OF TRUSTEES
CLEVELAND HOUSING NETWORK, INC. AND AFFILIATE

Independent Auditors' Report

We have audited the accompanying consolidated statement of financial position of Cleveland Housing Network, Inc. and Affiliate as of December 31, 2007, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Cleveland Housing Network, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2006 financial statements and in our report, dated June 6, 2007, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cleveland Housing Network, Inc. and Affiliate as of December 31, 2007, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2008, on our consideration of Cleveland Housing Network, Inc. and Affiliate's internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Cleveland Housing Network, Inc. and Affiliate taken as a whole. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Cohen & Company

June 3, 2008
Cleveland, Ohio

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2007, WITH COMPARATIVE TOTALS FOR 2006

ASSETS

	2007	2006
CURRENT ASSETS		
Cash and cash equivalents	$ 4,544,651	$ 3,543,469
Accounts receivable - Net		
Affiliated entities	4,731,714	7,378,603
Other	217,296	294,724
Grants and contracts	1,758,250	4,540,619
Current portion of notes receivable	1,978,824	2,092,192
Current portion of interest receivable	1,350,717	421,927
Inventory - Net	8,189,985	12,486,671
Prepaid and other assets	229,820	302,619
Land and buildings held for sale	2,588,332	1,484,246
	25,589,589	32,545,070
FURNITURE AND EQUIPMENT - AT COST	689,796	689,796
Less: Accumulated depreciation	538,347	525,220
	151,449	164,576
OTHER ASSETS		
Notes receivable - Long-term	32,380,888	32,278,449
Mortgages receivable	391,632	296,332
Interest receivable - Deferred	11,552,284	11,129,096
	44,324,804	43,703,877
	$ 70,065,842	$ 76,413,523

LIABILITIES

	2007	2006
CURRENT LIABILITIES		
Notes payable	$ 6,691,070	$ 12,413,604
Current portion of long-term debt	203,825	576,503
Current portion of deferred interest payable	147,115	143,006
Accounts payable and accrued expenses		
Trade	357	333,968
Affiliated entities	1,279,538	1,753,486
Other	864,809	1,389,652
Deferred revenue	855,755	998,202
	10,042,469	17,608,421
LONG TERM LIABILITIES		
Long-term debt	40,803,291	40,117,491
Deferred interest	407,648	454,341
	41,210,939	40,571,832
Total liabilities	51,253,408	58,180,253
COMMITMENTS AND CONTINGENCIES		

NET ASSETS

	2007	2006
UNRESTRICTED		
Designated	10,014,173	9,814,785
Undesignated	7,807,461	7,397,685
	17,821,634	17,212,470
TEMPORARILY RESTRICTED	165,800	195,800
PERMANENTLY RESTRICTED	825,000	825,000
	18,812,434	18,233,270
	$ 70,065,842	$ 76,413,523

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2007, WITH COMPARATIVE TOTALS FOR 2006

	2007				2006
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	Totals
REVENUES					
Public support	$ 16,589,979			$ 16,589,979	$ 14,896,578
Rental income	697,353			697,353	385,193
Management fees - Affiliated entities	4,483,962			4,483,962	3,863,758
Interest income - Affiliated entities	2,375,871			2,375,871	2,384,124
Loss on sale of houses	(1,035,888)			(1,035,888)	(211,977)
Maintenance services - Affiliated entities	896,490			896,490	859,911
Other interest income and miscellaneous	1,148,149			1,148,149	677,955
	25,155,916			25,155,916	22,855,542
NET ASSETS RELEASED FROM RESTRICTIONS	30,000	$ (30,000)			
Total revenues	25,185,916	(30,000)		25,155,916	22,855,542
EXPENSES					
Program services	23,502,553			23,502,553	20,310,551
Supporting services					
Management and general	898,001			898,001	820,002
Fundraising	176,198			176,198	218,699
	24,576,752			24,576,752	21,349,252
CHANGE IN NET ASSETS	609,164	(30,000)		579,164	1,506,290
NET ASSETS - BEGINNING OF YEAR	17,212,470	195,800	$ 825,000	18,233,270	16,726,980
NET ASSETS - END OF YEAR	$ 17,821,634	$ 165,800	$ 825,000	$ 18,812,434	$ 18,233,270

The accompanying notes are an integral part of these statements.

CLEVELAND HOUSING NETWORK, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2007, WITH COMPARATIVE TOTALS FOR 2006

	PROGRAM SERVICES					SUPPORTING SERVICES		TOTAL EXPENSES	
	Homeward	Weatherization	Partnerships and Development	Family Services and Community Training	Total Program Services	Management and General	Fundraising	2007	2006*
Personnel	$ 432,292	$ 2,107,228	$ 2,526,818	$ 756,253	$ 5,822,591	$ 675,316	$ 81,463	$ 6,579,370	$ 6,035,808
Rent	5,910	40,187	46,097	37,997	130,191	23,639	1,182	155,012	189,593
Maintenance	1,218	15,234	504,358	10,071	530,681	4,870	244	535,995	406,976
Telephone and utilities	3,570	50,552	202,892	10,336	267,350	11,615	581	279,546	235,050
Equipment and supplies	15,130	131,620	109,911	49,826	306,487	52,847	4,843	364,177	398,845
Contract materials		898,847			898,847			898,847	605,848
Construction rehab	111,709		1,188,416		1,300,125			1,300,125	969,782
HUD discount	700,500				700,500			700,500	381,999
Housewarming materials and labor		3,081,533			3,081,533			3,081,533	3,511,960
Electric wiring materials and labor		477,230			477,230			477,230	548,355
Lead relocation and abatement		287,868			287,868			287,868	740,482
Energy assistance and water conservation materials and labor		6,118,810			6,118,810			6,118,810	3,690,461
Family development				308,587	308,587			308,587	1,002,004
Insurance	3,180	47,563	80,265	9,539	140,547	12,719	636	153,902	110,799
Professional fees	53,549	148,021	117,153	64,873	383,596	56,290	78,728	518,614	510,721
Management fees			554,087		554,087			554,087	520,385
Interest expense		8,135	59,791		67,926	46,452		114,378	85,080
Real estate tax	130	886	127,124	391	128,531	521	26	129,078	62,127
Loss on collection of notes receivable			1,338,580		1,338,580			1,338,580	524,341
Reserve for inventory impairment	350,000				350,000			350,000	750,000
Miscellaneous	152,061	28,643	90,772	11,764	283,240	2,110	8,495	293,845	18,372
Total expense before depreciation and amortization	1,829,249	13,442,357	6,946,264	1,259,637	23,477,507	886,379	176,198	24,540,084	21,298,988
Depreciation and amortization	23,542		1,504		25,046	11,622		36,668	50,264
	$ 1,852,791	$ 13,442,357	$ 6,947,768	$ 1,259,637	$ 23,502,553	$ 898,001	$ 176,198	$ 24,576,752	$ 21,349,252

*Reclassified to conform with current year presentation

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
CASH FLOW PROVIDED FROM OPERATING ACTIVITIES		
Change in net assets	$ 579,164	$ 1,506,290
Noncash items included in income		
Depreciation and amortization	36,668	50,264
Forgiveness of long-term debt		(500,000)
Deferred interest income	(1,351,978)	(1,029,532)
Loss on collection of notes receivable	1,338,580	524,341
Reserve for inventory impairment	350,000	750,000
Increase (decrease) in cash caused by changes in current items		
Accounts receivable - Net	5,506,686	(2,592,986)
Inventory - Net	3,946,686	4,599,275
Prepaid and other assets	72,799	244,427
Accounts payable and accrued expenses	(1,332,402)	(300,182)
Deferred revenue	(142,447)	(258,153)
Net cash flow provided from operations	9,003,756	2,993,744
CASH FLOW PROVIDED FROM (USED IN) INVESTING ACTIVITIES		
Advances under notes receivable	(2,853,741)	(966,555)
Repayment of notes, mortgages, and interest receivable		2,300,000
	(2,853,741)	1,333,445
CASH FLOW USED IN FINANCING ACTIVITIES		
Additional financing	5,086,245	17,803,011
Repayment of debt	(10,235,078)	(21,498,709)
	(5,148,833)	(3,695,698)
INCREASE IN CASH AND CASH EQUIVALENTS	1,001,182	631,491
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	3,543,469	2,911,978
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 4,544,651	$ 3,543,469
NONCASH INVESTING AND FINANCING ACTIVITIES		
Collection of notes and interest receivable via receipt of property	$ 2,434,519	$ 1,510,309
Homes transferred to lease purchase buyers in exchange for forgiveness of debt	$ 569,193	$ 496,938
Assumption of debt upon receipt of homes from affiliated partnership	$ 500,000	
SUPPLEMENTAL INFORMATION		
Interest paid	$ 964,600	$ 675,659

The accompanying notes are an integral part of these statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The accompanying consolidated financial statements of Cleveland Housing Network, Inc. (the Network) include the accounts of its affiliate, NHI, Inc. (NHI), consolidated on the basis of control and economic interest in accordance with AICPA Statement of Position 94-3. All intercompany transactions and balances are eliminated in consolidation.

Cleveland Housing Network, Inc. is an Ohio non-profit corporation exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Network was established for the purpose of developing affordable housing and providing housing services in the City of Cleveland and surrounding areas in partnership with its 17 neighborhood constituent community development corporations (CDCs), all of which are tax exempt. These CDCs are Buckeye Area Development Corporation, Burten Bell Carr Development Corporation, Clark-Metro Development Corporation, Detroit Shoreway Community Development Organization, Fairfax Renaissance Development Corporation, Famicos Foundation, Inc., Glenville Development Corporation, Mount Pleasant Now Development Corporation, Northeast Shores Development Corporation, Ohio City Near West Development Corporation, Shaker Square Area Development Corporation, Slavic Village Development, St. Clair-Superior Neighborhood Development Corporation, Stockyard Redevelopment Organization, Tremont West Development Corporation, Union-Miles Development Corporation, and Westown Community Development Corporation.

NHI, Inc. is an Ohio non-profit corporation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. NHI, Inc. was established for the purpose of holding real property to be used to support the charitable activities of the Network.

The Network operates many different programs. They are summarized in the financial statements as follows:

Partnerships and Development (Low Income Housing)

The Network forms limited partnerships and utilizes private sector equity generated by the low income housing tax credits to acquire, develop, and lease (to own) properties with the goal of providing low income individuals the opportunity to maintain and own property. The Network receives Federal, state, and local grants and loans which it in turn loans to the partnerships. Since inception, over 3,000 units have been completed.

Weatherization

These programs assist low income families in maintaining and improving the properties which they occupy. Since inception, 77,000 homes have received electrical, plumbing, weatherization, furnace, and/or lead abatement improvements at no or minimal cost to the families.

Funding is provided by utility companies and Federal, state, and local grants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Homeward

This program acquires, develops, and sells properties to low and moderate income families. Since inception, 1,391 homes have been developed and sold to qualifying families at affordable prices. Sale price is set based upon development costs. Each house is completely renovated to exceed code. Through mortgage financing packages arranged by the Network, many families not otherwise able to afford home ownership become homeowners through the Homeward program.

Family Services and Community Training

These programs provide pathways out of poverty for low and moderate income households and include social services, training, and counseling. Over 320 families have received permanent housing coupled with targeted supportive services for disabled and formerly homeless households. Another 382 families received foreclosure prevention counseling and direct assistance that resulted in avoiding foreclosure. In addition, 8,500 adults and children have participated in financial literacy, homeownership, computer and technology, and after school learning programs available to assist families to gain lasting employment, avoid eviction, and achieve homeownership.

Subsidiaries

The Network has 33 for-profit and not-for-profit subsidiaries with ownership of 25% to 100%. The sole purpose of these subsidiaries is to act as general partners in limited partnerships (owning .01% - 1%) which acquire, develop, operate, and sell low income housing. The Network accounts for its ownership interest in the subsidiaries in accordance with guidance provided by EITF 04-5. The limited partners have substantive kick-out and participation rights and, accordingly, the Network has not consolidated the subsidiaries in these accompanying financial statements.

Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Network's financial statements for the year ended December 31, 2006, from which the summarized information was derived.

Revenue Recognition

Grants

The Network recognizes grants from governmental agencies as exchange transactions. The grants require the Network to provide services of approximate equal value to the amounts received under the grants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

The Network recognizes funds as support from grants when eligible costs are incurred. A receivable is recorded to the extent grants earned exceed cash advances. Conversely, deferred revenue is recorded when grant or contract cash advances exceed support earned. The grantors may, at their discretion, request reimbursement for unallowed expenses as a result of noncompliance by the Network with the terms of a grant. On certain grants, if advances exceed eligible costs, the funds must be returned to the grantor.

Contributions

All contributions are considered available for unrestricted use, unless received with donor stipulations that limit the use of the assets. When the intent of the donor is that the assets are to remain in perpetuity, the assets are reported as permanently restricted. The investment income generated by these assets is reported in accordance with the donors' stipulations. Currently, all such income is designated for general operations. When a donor restriction expires, for example, 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 statement of activities as net assets released from restrictions. Donations whose stipulations are met in the year received are recorded as unrestricted support.

Management Fees

Management fee revenue includes developer fees earned by the Network for contract and development services provided to its related limited partnerships during the pre-development and development phases of the projects. The fees are recognized upon the completion of specific performance milestones as outlined in the agreements.

Maintenance Services

Revenue from maintenance and oversight of properties is charged on a per unit basis and recognized in the year in which service is provided.

Accounts Receivable

Accounts receivable includes program service fees, escrow, and grant proceeds from houses sold, and fees and advances due from various limited partnerships. These amounts are due under various payment terms. Payments of receivables are allocated to the specific invoices (if applicable) identified on the remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews all receivable balances that exceed 90 days from invoice date and estimates the portion, if any, of the balance that will not be collected. Additionally, management estimates an allowance for the aggregate remaining receivables based on historical collectibility. At December 31, 2007, an allowance of $62,500 has been recorded for uncollectible receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Estimates

Management uses estimates and assumptions in preparing its financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates that were used.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits, money market accounts, and other investments with original maturities of six months or less.

The Network's cash is held in accounts the balances of which substantially exceed the amount of related Federal insurance.

Inventory

The substantial portion of inventory includes houses held for sale with total costs of $8,700,915 under the Homeward program. Inventory includes all costs to purchase and rehabilitate these properties, including capitalized interest of $1,270,459 and capitalized development fees of $113,250. These development fees are charged at a set amount to each house (40% at contract, 50% at sale, and 10% at closing) which approximates the personnel costs incurred by the Network in acquiring and rehabilitating each house. At December 31, 2007, the Network has a reserve for impairment as management expects to sell the inventory for less than its cost.

Inventory – Homeward program	$ 8,700,915
Reserve for impairment	(1,100,000)
	7,600,915
Inventory – Other programs	589,070
Inventory — Net	$ 8,189,985

Gross sales and cost of sales for 2007 for the Homeward program were $5,803,920 and $7,235,898, respectively. In addition, $347,517 of grants were received to reduce the cost of the houses. These transactions are recorded net in the statement of activities. At December 31, 2007, there were 86 properties in Homeward inventory, including 36 vacant lots held for future development.

The balance in inventory from other programs consists of properties purchased for resale to affiliated partnerships, vacant lots, and other miscellaneous properties.

Depreciation

Depreciation of furniture and equipment is provided by use of the straight-line method over the estimated useful lives of the assets as follows:

Furniture and equipment	5 - 7 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Land and Buildings Held for Sale

Land and buildings held for sale are received in payment of notes receivable and are recorded at cost and held for sale to qualified low income purchasers.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between program services, management and general, and fundraising.

2. NOTES RECEIVABLE

Long-term notes receivable are due from various limited partnerships in which the Network's subsidiaries are general partners. The partnerships acquire, develop, own, operate, lease, and provide tenants with the opportunity to purchase low-income housing. The properties are developed using low income housing tax credits. Interest rates on the notes receivable range from 0.5% to 8.01%. Certain of the notes require current payments of interest but a substantial portion of the interest is deferred until the maturity of the notes. All principal payments are deferred until the completion of the fifteen year requirement for low income housing tax credits. The due dates of the notes range from 2008 through 2034. The notes are collateralized by the assignment of investor limited partners' notes or mortgages on certain real and personal property.

At the due date of the principal, the Network expects, in substantially all cases, to receive partnership properties as repayment for these receivables. The Network will then sell the properties to tenants or other qualified low income purchasers.

3. MORTGAGES RECEIVABLE

The Network receives Federal funds to provide non-interest bearing deferred second mortgages which are used to finance the purchase of homes by low and moderate income individuals. The notes are due in full if the home buyer sells the home within the first 5 years of ownership. In years 6 through 20, a proportionate share of the loan is forgiven and at year 20 no amount is due. Forgiveness in 2007 totaled $23,542.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. NOTES PAYABLE

The Network has lines of credit with five banks and two community development lending institutions, totaling $24,925,000, of which $6,691,070 was outstanding at December 31, 2007. The interest rates are fixed at 5.5% and 6.0% or vary from prime less 3.5% to .5% above prime. Approximately $17,500,000 of the total lines may be used only for acquisition and construction of properties purchased for inventory. No more than 95% of the total costs per house may be financed on these lines. Interest is payable monthly with principal to be repaid from proceeds of properties sold. Approximately $2,975,000 of the lines are unsecured. The balance of the lines are secured by land and buildings held for sale, future rents, general intangibles, receivables, and contract rights. The notes payable are classified as current liabilities as management expects the notes to be repaid in 2008.

Two of the lines of credit with two community development lending institutions require certain financial covenants, including the maintenance of a current ratio and liabilities to net worth ratio.

5. LONG-TERM DEBT

Long-term debt at December 31, 2007, consists of the following:

4.5% unsecured note, payable to LISC with interest payable monthly and $10,000 due upon the sale of each property; with balance due January 2013	$ 165,973
0% - 6.5% mortgages, payable to the City of Cleveland and State of Ohio with all interest and principal deferred; due 2011 through 2037; certain of the mortgages have provisions for forgiveness of principal and interest	31,138,728
6.75% note, payable to the City of Cleveland with no interest or principal payments through 2012. $480,000 of principal forgiven in 2012 if loan conditions met. After 2012, payments of principal and interest of 5% until obligation is repaid; collateralized by mortgages	600,000
4.3% – 4.48% construction notes, payable to a bank with aggregate maximum borrowings of $2,708,000, separated into four tranches of $677,000 each. Each tranche payable in full in 2009 through 2011; collateralized by assignment of leases and second mortgages	2,708,000
Non-interest bearing, unsecured Community Development Block Grants. The debt will be forgiven if certain provisions are met; net of $3,603,513 forgiven and considered as grant income	137,025

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. LONG-TERM DEBT (Continued)

4% unsecured note, payable to a bank with interest payable quarterly; due July 2012	500,000
4% unsecured note, payable to a bank with interest payable quarterly; due April 2017	2,000,000
4.5% unsecured notes, payable to ESIC New Markets Partners X Limited Partnership, interest at 4.5% payable monthly, principal due December 2009	3,757,390
	41,007,116
Less: Current portion	203,825
	$ 40,803,291

Future maturities of long-term debt are as follows:

2008	$ 203,825
2009	5,178,190
2010	709,373
2011	2,801,995
2012	500,000
Thereafter	31,613,733
	$ 41,007,116

6. BOARD DESIGNATED UNRESTRICTED NET ASSETS

Unrestricted net assets at December 31, 2007, were designated by the Board of Trustees as follows:

Designated for lease purchase price leveling fund	$ 102,200
Designated for reducing the sale price of homes to future lease purchase buyers	9,911,973
	$ 10,014,173

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2007, were restricted for the following purpose:

Hope 3 loans	$ 165,800

8. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are restricted to assets held in perpetuity whose income is designated for general operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. COMMITMENTS AND CONTINGENCIES

Leases

The Network leases office space and office equipment under long-term operating leases through 2016.

Minimum annual rentals are as follows:

2008	$ 206,853
2009	210,218
2010	213,585
2011	192,356
2012	159,916
Thereafter	574,596
	$ 1,557,524

Total rent expense for office space and equipment for 2007 amounted to $155,012.

In June 2006, the Network signed a letter of intent to lease additional office space for a period of ten years. The letter of intent states that the Network will occupy an additional 8,193 square feet of space for ten years at $12 per square foot, or approximately $8,200 per month. The new lease will contain an escalation cause. The Network expects to occupy this additional space in 2008.

Litigation

The Network is the named defendant in several pending lawsuits. The ultimate outcome of these lawsuits cannot be presently determined. In the opinion of management, the outcome of these lawsuits will not have a material effect on the Network's financial position.

10. PROFIT-SHARING PLAN

The Network has a 401(k) profit sharing plan covering substantially all employees. The plan was changed effective January 2004, to allow for an employer contribution of 3% of all eligible wages. Employer contributions for 2007 amounted to $124,501. The plan also allows for additional contributions at the discretion of the Board. There were no discretionary contributions for 2007.

11. RELATED PARTY TRANSACTIONS

During the ordinary course of business the Network conducts transactions with related parties. During 2007, the Network paid $530,327 for property management, $594,849 for weatherization, and $32,200 for development of Homeward homes to its neighborhood constituent community development corporations.

In 2007, the Network charged the affiliated partnerships $128,087 for accounting services.

In 2007, the Network gave $255,000 in grants to its affiliated partnerships.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. GUARANTEES

The Network has guaranteed loans for seven of its affiliated partnerships as follows:

Partnership	Amount	Type of Loan
Erieview Homes II	$ 4,444,968	Bank
Slavic Village Homes	2,154,350	Bank
Stockyard Homes	1,191,420	Bank
East 65th Street Development LLC	173,091	Construction Line of Credit
Cleveland New Construction IV	3,076,996	Bank
South Pointe Commons	1,114,011	Bank
Edgewood Park	500,000	Community Development Lender

The term of the guarantees is the life of the loans through the construction periods, which are expected to mature in 2008 and 2009. In addition to Cleveland Housing Network's guarantee, the loans are collateralized by mortgages on the partnerships' properties for the project. The guarantees were made to assist the partnerships in obtaining financing for housing projects for which the Network is the developer. The Network would be required to perform under the guarantees if the partnerships defaulted on their loans. The maximum potential amount to be owed would be the balance of the loan plus accrued interest. The Network would expect the amount due to be reduced by the proceeds of the sale of collateral.

CLEVELAND HOUSING NETWORK, INC.
AND AFFILIATE

SUPPLEMENTAL FINANCIAL INFORMATION

DECEMBER 31, 2007

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2007

Federal Grantor/Pass-Through Grantor/Program Title	CFDA #	Expenditures
United States Department of Energy passed through the City of Cleveland		
Home Weatherization Assistance Program (DOE)	81.042	$ 394,206
United States Department of Health and Human Services passed through the City of Cleveland		
Home Weatherization Assistance Program (HHS)	93.568	712,666
United States Department of Health and Human Services passed through the State of Ohio		
Home Energy Assistance Program	93.568	462,056
United States Department of Health and Human Services passed through the State of Ohio		
Residential Energy Assistance Challenge	93.568	56,524
United States Department of Health and Human Services passed through the State of Ohio		
Foreclosure Prevention Counseling	93.558	83,291
United States Department of Health and Human Services passed through Cuyahoga County		
Temporary Assistance for Needy Families	93.558	84,078
		1,398,615
United States Department of Housing and Urban Development passed through Cuyahoga County		
Emergency Shelter Program	14.231	21,600
United States Department of Housing and Urban Development		
Support Service-Transitional Housing Project	14.235	24,260
United States Department of Housing and Urban Development		
Supplemental Assistance for Facilities to Assist Homeless	14.235	114,266

See accompanying note to Schedule of Expenditures of Federal Awards.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

YEAR ENDED DECEMBER 31, 2007

Federal Grantor/Pass-Through Grantor/Program Title	CFDA #	Expenditures
United States Department of Housing and Urban Development		
Supportive Housing Program	14.235	66,398
United States Department of Housing and Urban Development passed through the City of Cleveland		
Lead Based Paint Hazard Control Program	14.900	370,581
United States Department of Housing and Urban Development passed through Cuyahoga County		
Healthy Homes Initiative	14.901	49,337
United States Department of Housing and Urban Development passed through the City of Cleveland		
Home Investment Partnership Program	14.239	1,254,395
United States Department of Housing and Urban Development passed through Cuyahoga County		
Home Investment Partnership Program	14.239	140,000
United States Department of Housing and Urban Development passed through the Enterprise Community Partners		
Capacity Building Program	14.XXX	194,590
United States Department of Housing and Urban Development passed through Housing Partnership Network		
Housing Counseling Programs	14.169	100,990
		2,336,417
Total Federal Expenditures		$ 4,129,238

See accompanying note to Schedule of Expenditures of Federal Awards.

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BOARD OF TRUSTEES
CLEVELAND HOUSING NETWORK, INC. AND AFFILIATE

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

We have audited the consolidated financial statements of Cleveland Housing Network, Inc. and Affiliate as of and for the year ended December 31, 2007, and have issued our report thereon dated June 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cleveland Housing Network, Inc. and Affiliate's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we noted other minor or immaterial matters involving the internal control over financial reporting that we have reported to the management of Cleveland Housing Network, Inc. and Affiliate in a separate letter dated June 3, 2008.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Board of Trustees, others within the Organization, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cohen & Company

June 3, 2008
Cleveland, Ohio

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BOARD OF TRUSTEES
CLEVELAND HOUSING NETWORK, INC. AND AFFILIATE

Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133

Compliance

We have audited the compliance of Cleveland Housing Network, Inc. and Affiliate with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major Federal programs for the year ended December 31, 2007. Cleveland Housing Network, Inc. and Affiliate's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major Federal programs is the responsibility of Cleveland Housing Network, Inc. and Affiliate's management. Our responsibility is to express an opinion on Cleveland Housing Network, Inc. and Affiliate's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major Federal programs occurred. An audit includes examining, on a test basis, evidence about Cleveland Housing Network, Inc. and Affiliate's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Cleveland Housing Network, Inc. and Affiliate's compliance with those requirements.

In our opinion, Cleveland Housing Network, Inc. and Affiliate complied, in all material respects, with the requirements referred to above that are applicable to its major Federal programs for the year ended December 31, 2007.

Internal Control Over Compliance

The management of Cleveland Housing Network, Inc. and Affiliate is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Cleveland Housing Network, Inc. and Affiliate's internal control over compliance with the requirements that could have a direct and material effect on major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Cleveland Housing Network, Inc. and Affiliate's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in the internal control over compliance that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the Board of Trustees, management, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cohen & Company

June 3, 2008
Cleveland, Ohio

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2007

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:		Unqualified
Internal control over financial reporting:		
Material weakness(es) identified?	____ Yes	√ No
Significant deficiency(ies) identified not considered to be material weaknesses?	____ Yes	√ None reported
Noncompliance material to financial statements noted?	____ Yes	√ No

Federal Awards

Internal Control over major programs:		
Material weakness(es) identified?	____ Yes	√ No
Significant deficiency(ies) identified not considered to be material weaknesses?	____ Yes	√ None reported
Type of auditors' report issued on compliance for major programs:		Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	____ Yes	√ No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
93.568	Home Weatherization Assistance Program & Home Energy Assistance Program
81.042	Home Weatherization Assistance Program

Dollar threshold used to distinguish between Type A and Type B programs:		$ 300,000
Auditee qualified as low-risk auditee?	√ Yes	____ No

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

YEAR ENDED DECEMBER 31, 2007

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None.

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

DECEMBER 31, 2007

1. SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

   The accompanying schedule of expenditures of Federal awards was prepared on the accrual basis of accounting.

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BOARD OF TRUSTEES
CLEVELAND HOUSING NETWORK, INC. AND AFFILIATE

Independent Auditors' Report on Supplemental Financial Information

Our report on our audit of the basic financial statements of Cleveland Housing Network for 2007 appears on page 2. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental information contained on pages 27 through 33 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cohen & Company

June 3, 2008
Cleveland, Ohio

SCHEDULE OF OHIO DEPARTMENT OF DEVELOPMENT ADMINISTERED GRANTS

YEAR ENDED DECEMBER 31, 2007

Grant Name	Number	Cash Received	Expenses Charged	Remaining Grant Balance
Housing Development Assistance Program	N-03-505-1	$ 346,500	$ 346,500	$ --
Housing Development Assistance Program	N-03-505-2	$ 350,000	$ 350,000	$ --
Housing Development Assistance Program	N-06-505-7	$ 185,920	$ 255,920	$ 70,000
Housing Development Assistance Program	N-06-505-8	$ 85,710	$ 95,710	$ 10,000
Housing Development Assistance Program	N-06-505-9	$ 150,650	$ 230,650	$ 200,000
Housing Development Assistance Program	N-B-05-505-1	$ 751,000	$ 751,000	$ --
Housing Development Assistance Program	N-B-06-505-1	$ --	$ --	$ 750,000
Housing Trust Fund	R-05-505-1	$ 74,377	$ 75,000	$ 623
Housing Trust Fund	H-05-505-1	$ 401,383	$ 418,000	$ 16,617
Housing Trust Fund	H-06-505-1	$ 57,212	$ 73,407	$ 34,588

SCHEDULE OF LONG-TERM NOTES RECEIVABLE

DECEMBER 31, 2007

Description	Amount	Interest Rate	Maturity Date
Cleveland Housing Network Limited Partnership IX	$ 1,746,000	6.26% (5.26% Deferred)	December 2008
Cleveland Housing Network Limited Partnership IX	200,000	1%	January 2008
Cleveland Housing Network Limited Partnership IX	38,670	5.1% (Deferred)	December 2009
Cleveland Housing Network Limited Partnership IX	34,290	1%	December 2009
Cleveland Housing Network Limited Partnership IX	161,301	6.45%	December 2009
Cleveland Housing Network Limited Partnership IX	1,068,000	Prime	December 2009
Cleveland Housing Network Limited Partnership X	1,578,457	0.50%	December 2009
Cleveland Housing Network Limited Partnership X	994,288 1,876	7.33% (6.83% Deferred)	December 2009
Cleveland Housing Network Limited Partnership X	1,080,000	Prime	December 2009
Cleveland Housing Network Limited Partnership XI	2,187,806	AFR (6.46%)	December 2010
Cleveland Housing Network Limited Partnership XII	600,000	7.13%	July 2022
Cleveland Housing Network Limited Partnership XII	173,302	1%	December 2022
Cleveland Housing Network Limited Partnership XII	1,976,106	7.13%	December 2022
Cleveland Housing Network Limited Partnership XII	154,125	7.13%	December 2022
Cleveland Housing Network Limited Partnership XIII	1,843,125	6.42%	December 2023
Cleveland Housing Network Limited Partnership XIII	310,000	6.42%	December 2024

SCHEDULE OF LONG-TERM NOTES RECEIVABLE (Continued)

DECEMBER 31, 2007

Description	Amount	Interest Rate	Maturity Date
Cleveland Housing Network Limited Partnership XIV	2,689,397	7%	December 2024
Cleveland Housing Network Limited Partnership XIV	122,400	.50%	December 2024
Cleveland Housing Network Limited Partnership XIV	300,000	6%	December 2024
Cleveland Housing Network Limited Partnership XV	1,749,516	5.30%	December 2025
Cleveland Housing Network Limited Partnership XV	300,000	5.30%	December 2029
Cleveland Housing Network Limited Partnership XVI	1,750,000	5% (Deferred)	December 2026
Cleveland Housing Network Limited Partnership XVII	516,000	8.00%	December 2027
Cleveland Housing Network Limited Partnership XVII	300,000	8.00%	December 2031
Cleveland Housing Network Limited Partnership XVIII	525,336	8.00%	December 2031
Cleveland Housing Network Limited Partnership XVIII	300,000	7.00%	December 2032
Cleveland Housing Network Limited Partnership XVIII	300,000	2.00%	December 2032
Cleveland Housing Network Limited Partnership XIX	750,000	5% (Deferred)	December 2009
Cleveland Housing Network Erieview Homes I, Ltd.	446,000	5% (Deferred)	December 2029
Cleveland Housing Network Limited Partnership XX	1,962,075	5% (Deferred)	December 2030
Cleveland Housing Network Limited Partnership MF2	32,824	1%	December 2008
New Construction Limited Partnership I	300,000	8.01%	November 2026

SCHEDULE OF LONG-TERM NOTES RECEIVABLE (Continued)

DECEMBER 31, 2007

Description	Amount	Interest Rate	Maturity Date
New Construction Limited Partnership II	300,000	1%	December 2028
New Construction Limited Partnership II	300,000	7.04%	December 2028
Erie Square LP	500,000	5% (Deferred)	December 2030
New Construction Limited Partnership III	516,000	.25%	December 2031
Cleveland Housing Network Limited Partnership XXI	1,500,000	5% (Deferred)	December 2021
Erieview Homes II LP	1,259,064	7%	December 2033
Stockyard Homes LP	735,000	5.25%	December 2033
Slavic Village Homes LP	584,375	7%	December 2033
Cleveland New Homes LP	806,421	5% (Deferred)	December 2027
West One LP	213,497 251,381	4.39% 1%	January 2024 May 2034
Notes due from Houseco	903,080		
	34,359,712		
Less: Current portion	1,978,824		
	$ 32,380,888		

SCHEDULE OF NOTES PAYABLE

DECEMBER 31, 2007

Payee	Interest Rate	Due Date	Total Available Line of Credit	Amount Outstanding at December 31, 2007
Fifth Third Bank	Prime + .5%	September 2008	$ 2,000,000	$ 422,982
Dollar Bank	Prime + .25%	On demand	3,000,000	384,752
Enterprise Community Loan Fund	6.0%	January 2008	3,000,000	940,270
Key Bank	Prime	January 2008	3,000,000	640,553
Key Bank	Prime – 3.5%	May 2011	3,000,000	719,209
National City Bank	Prime	September 2008	2,500,000	459,473
Key Bank	Prime	January 2008	2,000,000	782,887
Key Bank	Prime	July 2008	1,500,000	650,999
Enterprise Community Loan Fund	6%	January 2008	1,100,000	635,366
Village Capital Corporation	6%	July 2010	1,000,000	
Village Capital Corporation	0%	June 2009	25,000	25,000
Charter One Bank	Prime + .5%	On demand	750,000	194,800
Village Capital Corporation	5.5%	June 2008	500,000	76,147
Fifth Third Bank	Prime + .5%	January 2009	500,000	
Key Bank	Prime	January 2008	400,000	339,836
Fifth Third Bank	Prime + .5%	January 2009	100,000	100,000
Dollar Bank	Prime + .5%	On demand	100,000	99,932
Fifth Third Bank	Prime + .25%	November 2018	450,000	218,864
			$ 24,925,000	$ 6,691,070

SCHEDULE OF LONG-TERM DEBT

DECEMBER 31, 2007

Description	Interest Rate	Due Date	Amount
Mortgages Payable to City of Cleveland and State of Ohio			
P1	0%	*	$ 17,500
P2	0%	*	15,000
P5	6.5% (Deferred)	*	48,960
P6	6.5% (Deferred)	*	38,900
P7	2%	*	333,924
P7 (State)	0%	2032	150,000
P8	1%	*	422,021
P8 (State)	0%	2033	240,000
P8 (State)	0%	2017	272,720
P9	0%		197,846
P9	1%	2020	1,846,000
P10	0.5%	2021	447,750
P10	0.5%	2011	2,124,995
P11	0%	2020	2,477,764
P12	0%	2022	2,400,000
P13	0%	2023	1,532,640
P13 (State loan)	0%	2025	310,000
P14 (State loan)	0%		300,000
P14	0%	2024	2,601,831
P15 (State loan)	0%		300,000
P15	0%	2025	1,749,516
P16	0%	2026	1,750,000
P17	0%	2017	516,000
P17 (State loan)	0%		300,000
P18	0%	2028	492,000
P18 (State loan)	0%		300,000
P19/Erieview Homes	0%	2029	1,130,000
P20	0%	2030	1,850,000
NC1	1%	2026	300,000
NC2	0%	2031	300,000
NC2 (State loan)	0%		300,000
Cleveland New Homes	0%	2027	806,421
P21	0%	2031	1,500,000
NC3	0%	2033	516,000
MF1	3%	2020	172,500
Erie Square	0%	2037	500,000
Erieview Homes II	0%	2034	1,259,064
Slavic Village Homes	0%	2034	584,376
Stockyard Homes	0%	2033	735,000
			$ 31,138,728

* *Interest and principal to be forgiven upon tenant's exercise of the lease purchase provision.*

SCHEDULE OF LONG-TERM DEBT (continued)

DECEMBER 31, 2007

Description	Interest Rate	Due Date	Amount
CDBG Loans Payable			
Year 14	0%	Due upon sale	$ 18,000
Year 15	0%	Due upon sale	18,640
Year 16	0%	Due upon sale	100,385
			$ 137,025