cleveland housing network

AND AFFILIATE

INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2012

CLEVELAND HOUSING NETWORK, INC. AND AFFILIATE

DECEMBER 31, 2012

TABLE OF CONTENTS

Cohen & Company
Certified Public Accountants

Cohen & Company, Ltd.

www.cohencpa.com
800.229.1099

Akron
Cleveland
Columbus
Orlando
Youngstown

BOARD OF TRUSTEES
CLEVELAND HOUSING NETWORK, INC. AND AFFILIATE

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Cleveland Housing Network, Inc. and Affiliate (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities, functional expenses, and cash flows for the year 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 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 auditor's 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 auditor considers 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 consolidated financial position of Cleveland Housing Network, Inc. and Affiliate as of December 31, 2012, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated May 31, 2013, on our consideration of Cleveland Housing Network, Inc. and Affiliate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cleveland Housing Network, Inc. and Affiliate's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited Cleveland Housing Network, Inc. and Affiliate's 2011 financial statements, and our report dated June 5, 2012, expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

May 31, 2013
Cleveland, Ohio

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2012, WITH COMPARATIVE TOTALS FOR 2011

ASSETS	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	$ 8,448,186	$ 7,842,401
Accounts receivable - Net		
Affiliated entities	2,359,228	5,120,001
Other	1,504,441	1,384,473
Grants and contracts	1,802,885	1,663,187
Current portion of notes receivable		32,824
Inventory - Net	1,284,584	1,995,207
Prepaid and other assets	168,056	245,661
Land and buildings held for sale	2,216,612	5,143,215
	17,783,992	23,426,969
FURNITURE AND EQUIPMENT - AT COST	770,819	663,814
Less: Accumulated depreciation	541,137	535,793
	229,682	128,021
OTHER ASSETS		
Notes receivable - Long-term	33,884,473	30,771,014
Investments in limited partnerships	1,322,510	1,223,830
Mortgages receivable	1,959,270	2,448,772
Interest receivable - Deferred	13,522,619	11,287,862
	50,688,872	45,731,478
	$ 68,702,546	$ 69,286,468

LIABILITIES	2012	2011
CURRENT LIABILITIES		
Notes payable	$ 2,130,496	$ 4,111,198
Current portion of long-term debt	2,015,352	231,013
Current portion of deferred interest payable	7,428	27,483
Accounts payable and accrued expenses		
Trade	1,004,224	1,668,609
Affiliated entities	580,571	387,418
Other	816,555	1,214,037
Deferred revenue	760,140	1,178,129
	7,314,766	8,817,887
LONG-TERM LIABILITIES		
Long-term debt	39,293,449	37,782,550
Deferred interest payable	241,427	117,348
	39,534,876	37,899,898
	46,849,642	46,717,785
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
UNRESTRICTED		
Designated	10,705,605	9,050,046
Undesignated	10,272,899	12,620,437
	20,978,504	21,670,483
TEMPORARILY RESTRICTED	49,400	73,200
PERMANENTLY RESTRICTED	825,000	825,000
	21,852,904	22,568,683
	$ 68,702,546	$ 69,286,468

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

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2012, WITH COMPARATIVE TOTALS FOR 2011

	2012				2011
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	Totals
REVENUES					
Public support	$ 21,727,616			$ 21,727,616	$ 23,635,665
Rental income	701,150			701,150	1,667,514
Management fees - Affiliated entities	3,905,696			3,905,696	4,767,937
Interest income - Affiliated entities	2,113,193			2,113,193	1,747,945
Gain (loss) on sale of inventory and land and buildings	(991,967)			(991,967)	1,850,404
Maintenance services - Affiliated entities	1,576,407			1,576,407	1,365,137
Construction rehab - Affiliated entities	3,718,552			3,718,552	6,560,212
Other interest income and miscellaneous	1,083,204			1,083,204	1,496,846
	33,833,851			33,833,851	43,091,660
NET ASSETS RELEASED FROM RESTRICTIONS	23,800	$ (23,800)			
Total revenues	33,857,651	(23,800)		33,833,851	43,091,660
EXPENSES					
Program services	33,096,555			33,096,555	40,059,578
Supporting services					
Management and general	1,176,318			1,176,318	1,051,105
Fundraising	219,774			219,774	212,038
	34,492,647			34,492,647	41,322,721
LOSS ON DISSOLUTION OF SUBSIDIARIES	56,983			56,983	
Total expenses	34,549,630			34,549,630	41,322,721
CHANGE IN NET ASSETS	(691,979)	(23,800)		(715,779)	1,768,939
NET ASSETS - BEGINNING OF THE YEAR	21,670,483	73,200	$ 825,000	22,568,683	19,691,254
ACQUISITION OF CONTROLLING INTEREST IN SUBSIDIARY NET ASSETS ASSUMED					1,108,490
NET ASSETS - END OF THE YEAR	$ 20,978,504	$ 49,400	$ 825,000	$ 21,852,904	$ 22,568,683

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2012, WITH COMPARATIVE TOTALS FOR 2011

	PROGRAM SERVICES				SUPPORTING SERVICES		TOTAL EXPENSES	
	Weatherization	Partnerships and Development	Community Training Center	Total Program Services	Management and General	Fundraising	2012	2011
Personnel	$ 3,763,834	$ 3,160,954	$ 1,009,210	$ 7,933,998	$ 925,543	$ 124,765	$ 8,984,306	$ 8,350,814
Rent	133,685	85,293	51,385	270,363	43,594	3,791	317,748	240,372
Maintenance	46,166	170,455	4,383	221,004	5,198	452	226,654	686,637
Telephone and utilities	37,516	189,513	10,900	237,929	4,519	393	242,841	444,425
Equipment and supplies	184,428	93,962	31,375	309,765	44,956	5,146	359,867	258,405
Contract materials	1,031,653			1,031,653			1,031,653	2,101,171
Construction rehab		4,860,559		4,860,559			4,860,559	7,128,356
Housewarming materials and labor	6,411,651			6,411,651			6,411,651	7,129,969
Electric wiring materials and labor	1,814,375			1,814,375			1,814,375	671,638
Lead relocation and abatement	1,346,146			1,346,146			1,346,146	1,445,730
Energy assistance and water conservation materials and labor	3,747,830			3,747,830			3,747,830	4,446,357
Family development			1,339,371	1,339,371			1,339,371	1,450,917
Insurance	46,313	72,294	3,822	122,429	6,762	588	129,779	131,364
Professional fees	412,753	152,234	33,228	598,215	44,324	81,316	723,855	663,903
Management fees		342,070		342,070			342,070	461,680
Interest expense	4,831	35,927		40,758	88,456		129,214	293,499
Real estate tax		67,292		67,292			67,292	163,564
Loss on collection of notes and accounts receivable		32,824		32,824			32,824	4,439,695
Impairment of land and buildings held for sale		949,064		949,064			949,064	
Reserve for notes receivable impairment		800,000		800,000			800,000	
Reserve for inventory impairment								214,420
Reserve on mortgages receivable		500,000		500,000			500,000	
Miscellaneous	61,679	(27,680)	4,771	38,770	7,622	3,323	49,715	316,635
Total expenses before depreciation	19,042,860	11,484,761	2,488,445	33,016,066	1,170,974	219,774	34,406,814	41,039,551
Depreciation		80,489		80,489	5,344		85,833	283,170
	$ 19,042,860	$ 11,565,250	$ 2,488,445	$ 33,096,555	$ 1,176,318	$ 219,774	$ 34,492,647	$ 41,322,721

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2012, WITH COMPARATIVE TOTALS FOR 2011

	PROGRAM SERVICES				SUPPORTING SERVICES		TOTAL EXPENSES	
	Weatherization	Partnerships and Development	Community Training Center	Total Program Services	Management and General	Fundraising	2012	2011
Personnel	$ 3,763,834	$ 3,160,954	$ 1,009,210	$ 7,933,998	$ 925,543	$ 124,765	$ 8,984,306	$ 8,350,814
Rent	133,685	85,293	51,385	270,363	43,594	3,791	317,748	240,372
Maintenance	46,166	170,455	4,383	221,004	5,198	452	226,654	686,637
Telephone and utilities	37,516	189,513	10,900	237,929	4,519	393	242,841	444,425
Equipment and supplies	184,428	93,962	31,375	309,765	44,956	5,146	359,867	258,405
Contract materials	1,031,653			1,031,653			1,031,653	2,101,171
Construction rehab		4,860,559		4,860,559			4,860,559	7,128,356
Housewarming materials and labor	6,411,651			6,411,651			6,411,651	7,129,969
Electric wiring materials and labor	1,814,375			1,814,375			1,814,375	671,638
Lead relocation and abatement	1,346,146			1,346,146			1,346,146	1,445,730
Energy assistance and water conservation materials and labor	3,747,830			3,747,830			3,747,830	4,446,357
Family development			1,339,371	1,339,371			1,339,371	1,450,917
Insurance	46,313	72,294	3,822	122,429	6,762	588	129,779	131,364
Professional fees	412,753	152,234	33,228	598,215	44,324	81,316	723,855	663,903
Management fees		342,070		342,070			342,070	461,680
Interest expense	4,831	35,927		40,758	88,456		129,214	293,499
Real estate tax		67,292		67,292			67,292	163,564
Loss on collection of notes and accounts receivable		32,824		32,824			32,824	4,439,695
Impairment of land and buildings held for sale		949,064		949,064			949,064	
Reserve for notes receivable impairment		800,000		800,000			800,000	
Reserve for inventory impairment								214,420
Reserve on mortgages receivable		500,000		500,000			500,000	
Miscellaneous	61,679	(27,680)	4,771	38,770	7,622	3,323	49,715	316,635
Total expenses before depreciation	19,042,860	11,484,761	2,488,445	33,016,066	1,170,974	219,774	34,406,814	41,039,551
Depreciation		80,489		80,489	5,344		85,833	283,170
	$ 19,042,860	$ 11,565,250	$ 2,488,445	$ 33,096,555	$ 1,176,318	$ 219,774	$ 34,492,647	$ 41,322,721

CONSOLIDATED STATEMENT OF CASH FLOWS

DECEMBER 31, 2012, WITH COMPARATIVE TOTALS FOR 2011

	2012	2011
CASH FLOW PROVIDED FROM OPERATING ACTIVITIES		
Change in net assets	$ (715,779)	$ 1,768,939
Noncash items included in change in net assets		
Depreciation and amortization	85,833	283,170
Deferred interest income	(2,113,193)	(1,741,283)
Loss on collection of notes and accounts receivable	32,824	4,439,695
Loss (gain) on land and buildings held for sale	165,281	(1,850,404)
Loss on dissolution of subsidiaries	56,983	
Reserve for inventory impairment		214,420
Reserve on mortgages receivable	500,000	
Reserve for notes receivable impairment	800,000	
Impairment of land and buildings held for sale	949,064	
Increase (decrease) in cash caused by changes in current items		
Accounts receivable - Net	2,444,124	(2,618,266)
Inventory - Net	710,623	90,306
Prepaid and other assets	77,605	(102,557)
Accounts payable and accrued expenses	(868,714)	201,193
Deferred revenue	(417,989)	(248,402)
Net cash flow provided from operations	1,706,662	436,811
CASH FLOW USED IN INVESTING ACTIVITIES		
Acquisition of furniture and equipment	(107,005)	
Proceeds on sale of land and buildings held for sale	600,666	1,290,658
Renovation costs on land and buildings held for sale	(173,914)	(165,458)
Investment in limited partnerships	(98,680)	(473,830)
Advances under notes and mortgages receivable	(4,659,843)	(7,828,878)
Repayment of notes, mortgages, and interest receivable	590,522	1,077,958
	(3,848,254)	(6,099,550)
CASH FLOW PROVIDED FROM FINANCING ACTIVITIES		
Additional financing	6,017,166	9,169,488
Repayment of debt and deferred interest	(3,269,789)	(2,769,750)
	2,747,377	6,399,738
INCREASE IN CASH AND CASH EQUIVALENTS	605,785	736,999
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	7,842,401	7,105,402
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 8,448,186	$ 7,842,401

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

	2012	2011
NONCASH INVESTING AND FINANCING ACTIVITIES		
Collection of notes and interest receivable via receipt of land and building held for sale		$ 2,268,000
Debt and deferred interest forgiven upon the sale of properties to lease purchase buyers	$ 1,328,817	$ 4,104,842
Acquisition of controlling interest in subsidiary - Net assets assumed		
Cash		$ 321,246
Accounts receivable		4,566
Land and buildings held for sale		2,192,870
Accounts payable		(36,630)
Long-term debt		(1,174,828)
Deferred interest payable		(198,734)
		$ 1,108,490
SUPPLEMENTAL INFORMATION		
Interest paid	$ 308,319	$ 390,438

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Presentation

The accompanying consolidated financial statements of Cleveland Housing Network, Inc. include the accounts of its wholly owned subsidiaries, West One Limited Partnership (West One), Cleveland New Construction Limited Partnership I (CNC I) and Cleveland New Construction Limited Partnership II (CNC II), and its affiliate, NHI, Inc. (NHI), (collectively, the Network), consolidated on the basis of control and economic interest in accordance with accounting principles generally accepted in the United States of America (GAAP). 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 15 neighborhood constituent community development corporations (CDCs), all of which are tax exempt. These CDCs are Buckeye Shaker Square Development Corporation, Burten Bell Carr 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, Inc., Shaker Square Area Development Corporation, Slavic Village Development, St. Clair-Superior Development Corporation, 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. During 2012, NHI had no income statement activity and any assets held at December 31, 2012, had no value.

West One is an Ohio limited partnership organized on September 30, 1992, to acquire, rehabilitate, own, lease, and operate affordable apartment buildings totaling 60 units of low-income housing in Cleveland, Ohio. West One sold the majority of its assets in prior years. In 2012, West One was terminated and a loss was recorded on dissolution of $49,049 in accordance with GAAP.

CNC I is an Ohio limited partnership organized in February 1995 to acquire, rehabilitate, own, lease, and operate 31 units of low-income housing in Cleveland, Ohio. All of the units qualify for the federal low-income housing tax credit pursuant to Section 42 of the Internal Revenue Code. There are 9 CNC I units remaining in land and buildings held for sale at December 31, 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nature of Operations and Presentation (continued)

CNC II is an Ohio limited partnership organized in April 1995 to develop, construct, own, lease, and operate 45 units of low-income housing Cleveland, Ohio. All of the units qualify for the federal low-income housing tax credit pursuant to Section 42 of the Internal Revenue Code. On January 1, 2012, CNC II transferred its land and buildings held for sale to the Network as repayment of the notes receivable due to the Network. At the time of transfer, management believed the land and buildings held for sale were impaired and they were therefore written down to their estimated selling price (fair value) and a loss equivalent to the difference between the fair value of the properties received and the carrying amount of the properties of $949,064 was included in the consolidated financial statements in accordance with GAAP. In October 2012, CNC II was terminated and a loss was recorded on dissolution of $7,934 in accordance with GAAP.

The Network operates many different programs. They are summarized in the consolidated 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 properties with the goal of generating pathways out of poverty or providing low income individuals a 15-year pathway to homeownership. The Network receives federal, state, and local grants and loans which it in turn loans to the partnerships. Since inception, over 4,950 units have been completed.

Partnerships and development also includes properties that were acquired, developed and sold to low and moderate income families under the Homeward program where sales price of the properties is based on market value. Through mortgage financing packages arranged by the Network, many families not otherwise able to afford home ownership become homeowners through the Homeward program.

Weatherization

These programs assist low income families in maintaining and improving the properties which they occupy. Since inception, approximately 129,000 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.

Community Training Center

These programs provide pathways out of poverty for low and moderate income households and include social services, training, and counseling. 3,097 families have received foreclosure prevention counseling and/or direct assistance. In addition, 17,000 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Affiliates

The Network has 30 for-profit and not-for-profit affiliates with ownership of 25% to 100%. The sole purpose of these affiliates 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 affiliates in accordance with GAAP. The limited partners have substantive kick-out and participation rights and, accordingly, the Network has not consolidated the affiliates in these accompanying consolidated financial statements.

The Network has equity investments in limited partnerships at December 31, 2012. The Network owns less than 1% of these limited partnerships. In accordance with GAAP, the Network accounts for its investment in these limited partnerships under the cost method.

Income Taxes

The Network accounts for uncertain tax positions in accordance with GAAP, which requires recognition of and disclosures related to uncertain tax positions. As of and during the year ended December 31, 2012, the Network does not have a liability for unrecognized tax benefits. The Network is no longer subject to examination by federal and state taxing authorities prior to 2009.

Comparative Totals

The consolidated 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 GAAP. Accordingly, such information should be read in conjunction with the Network's consolidated financial statements for the year ended December 31, 2011, 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.

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 disallowed 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (continued)

Grants (continued)

The Network received approximately 59% of its public support from three funding sources, the Ohio Department of Development under the Electric Partnership Program, Dominion East Ohio under the Housewarming Program, and the Ohio Partners for Affordable Energy under the Community Connections Program. Grants and contracts receivable from these three funding sources amounted to approximately 33% of grants and contracts receivable at December 31, 2012.

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.

Construction Rehab Services

The Network acts as the general contractor for certain partnerships in development and recognizes revenue as construction services are performed.

Accounts Receivable

Accounts receivable includes program service fees, escrow, grants, proceeds from houses sold, and fees and advances due from various related 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable (continued)

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, 2012, an allowance of approximately $292,000 has been recorded for uncollectible accounts receivable.

Accounting Estimates

Management uses estimates and assumptions in preparing its consolidated financial statements in accordance with GAAP. 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 - Net

Inventory includes vacant lots purchased for development under the Homeward program. This program acquires, develops, and sells properties to low and moderate income families. At December 31, 2012, the Network has a reserve for impairment as management expects to sell the inventory for less than its cost.

Inventory – Homeward program	$ 2,020,217
Reserve for impairment	(1,854,400)
	165,817
Inventory – Other programs	1,118,767
Inventory – Net	$ 1,284,584

The balance in inventory from other programs consists of properties purchased for resale to individuals, 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 of 5 to 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 include properties received in payment of notes and interest receivable which are recorded at fair value at date received and held for sale to qualified low income purchasers. During 2012, approximately 80 of these properties were sold and a loss on the sale of certain of these properties of approximately $165,000 was included in the loss on sale of inventory and land and buildings in the consolidated statement of activities. The loss is shown net of income from the forgiveness of debt and interest by the City of Cleveland of $876,928.

Functional Allocation of Expenses

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

Subsequent Events

Management has evaluated subsequent events through May 31, 2013, the date the consolidated financial statements were available to be issued.

2. NOTES RECEIVABLE

Long-term notes receivable are due from various limited partnerships in which the Network's affiliates 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 .25% to 8%. 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 2023 through 2062. 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. In many cases, amounts due to the City of Cleveland by the Network related to these properties are forgiven at the same time. The Network will then sell the properties to tenants or other qualified low-income purchasers.

During 2012, the Network recorded a loss on collection of a note receivable due from a limited partnership of $32,824. No properties were received as repayment for this receivable and the loss is attributable to the Network forgiving the notes receivable due from the limited partnership.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. NOTES RECEIVABLE (Continued)

The Network reviews its long-term notes and interest receivable for impairment whenever events or changes in circumstances indicate that the value of the receivable or the underlying collateral may not be recoverable. Recoverability is measured by comparison of the notes receivable and deferred interest balances to the expected future sales price of the properties net of assumed debt owed on the properties. If the realizable value of the properties is considered potentially impaired, management records a reserve for an estimate of the loss. At December 31, 2012, an allowance for impairment of $800,000 was recorded.

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. The mortgages have maturities through 2014. Forgiveness in 2012 was approximately $23,800. At December 31 2012, the outstanding balance on these mortgages was approximately $49,400.

The Network provides second and third deferred mortgages to finance the purchase of homes by low and moderate income individuals. No principal is due on these loans and no interest is due on these loans unless they are sold within 5 years of ownership. Mortgages provided to buyers of the Homeward homes are due in full if the home buyer sells the home within the first 30 years of ownership. Provided the house is not sold for 30 years, the mortgages are forgiven. The mortgages have maturities through 2041. At December 31, 2012, the outstanding balance on these mortgages was approximately $699,000.

Mortgages are also available to buyers of homes in the lease-purchase program. At December 31, 2012, the outstanding balance on these mortgages was approximately $1,713,000. The mortgages bear interest at 0%. Mortgages outstanding at December 31, 2012, in the amount of approximately $994,000, are paid monthly and mature between 2013 and 2017. The remaining $719,000 of the mortgages receivable outstanding at December 31, 2012, are due upon the sale of the homes.

For mortgages receivable where monthly payments are due, management reviews these mortgages receivables and estimates the portion, if any, of the balances that will not be collected. Additionally, management estimates an allowance for these mortgages receivable based on historical collectibility and current economic conditions. There was no allowance for uncollectible mortgages receivable at December 31, 2012. Approximately $42,000 of these mortgages receivable is past due at December 31, 2012.

For mortgages receivable where the Network will receive payment upon sale of the properties, the Network reviews these mortgages receivable for impairment whenever events or changes in circumstances indicate that the value of the receivable or the underlying collateral may not be recoverable. Recoverability is measured by comparison of the mortgages receivable balances to the fair value of the properties less other debt owed on the properties. At December 31, 2012, the Network has a reserve for impairment on these mortgages of $500,000, and this reserve specifically relates to second and third mortgages on those properties sold under the Homeward program.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. NOTES PAYABLE

The Network has lines of credit with two banks and two community development lending institutions, totaling $4,450,000, of which $2,130,496 was outstanding at December 31, 2012. The interest rates are fixed from 3% to 7% or vary at prime (3.25%) plus 1.25% (as defined). Approximately $3,250,000 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. The balance of the lines is secured by receivables and future developer fees. The notes payable are classified as current liabilities in accordance with the terms of the agreements.

The line of credit with one of the community development lending institutions has certain financial covenants, which include the maintenance of a current ratio.

5. LONG-TERM DEBT

Long-term debt at December 31, 2012, consists of the following:

0% - 6.5% mortgages, payable to the City of Cleveland and the State of Ohio with all interest and principal deferred; due 2016 through 2062; certain of the mortgages have provisions for forgiveness of principal and interest	$ 35,018,297
Construction notes, payable to the City of Cleveland; accrue no interest and require no payments until month 7, at which point monthly interest payments at 6% are required (3% if a qualified lease purchase agreement is signed); outstanding principal amounts are due at the earlier of when the associated inventory is sold or within 30 months of the contract dates (through 2015); a portion of the notes are convertible to second mortgages; further, a portion is forgiven upon the sale of the inventory; notes are secured by a second mortgage position on each property	353,832
Construction notes, payable to Cuyahoga County; accrue no interest and require no payments; outstanding principal amounts are due when the associated inventory is sold; a portion is forgiven upon the sale of the inventory; notes are secured by mortgages on each property	292,288
Non-interest bearing, unsecured Community Development Block Grants; the debt will be forgiven if certain provisions are met; net of a cumulative amount of $3,664,596 forgiven and considered as grant income	7,962
4% unsecured note, payable to a bank with interest payable quarterly; due July 2017	500,000
4% note, payable to a bank with interest payable quarterly; due April 2017	2,000,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. LONG-TERM DEBT (Continued)

4.5% unsecured notes, payable to ESIC New Markets Partners X Limited Partnership, interest at 2.5% payable monthly; principal due December 2013	2,007,390
2.5% note, payable to the Cuyahoga County Land Reutilization Corporation, with interest payable quarterly; principal due July 2020, with quarterly payments beginning July 2015; collateralized by mortgage receivables	500,000
5.09% note, payable to a non-profit organization with interest and principal deferred; interest compounded annually; due September 2038; collateralized by notes receivable	600,000
1% note, payable by CNC 1 to the City of Cleveland with interest and principal deferred; $2,500 due upon the sale of properties and the remaining pro rata share of principal may be forgiven; collateralized by property and improvements	29,032
	41,308,801
Less: Current portion	2,015,352
	$ 39,293,449

Future maturities of long-term debt are as follows:

2013	$ 2,015,352
2014	68,000
2015	471,832
2016	134,000
2017	3,131,136
Thereafter	35,488,481
	$ 41,308,801

6. BOARD DESIGNATED UNRESTRICTED NET ASSETS

Unrestricted net assets at December 31, 2012, were designated by the Board of Trustees as follows:

Designated for reducing the sale price of homes to future lease purchase buyers	$ 10,705,605

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2012, were restricted for the following purpose:

Hope 3 loans	$ 49,400

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. PERMANENTLY RESTRICTED NET ASSETS

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

The Network's endowment funds consist of donor restricted funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions. Endowment net assets totaling $825,000 at December 31, 2012, are included in cash balances.

It is the investment objective of the Board of Trustees to invest (loan) the funds to low income housing projects in development in the form of notes receivable. The Board has determined to invest in cash any endowment funds not invested in (loaned to) these projects.

The endowment assets are non-income producing and are not invested in (loaned to) any low-income housing projects at December 31, 2012.

There were no changes in the permanently restricted endowment assets for the year ended December 31, 2012.

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:

2013	$ 337,644
2014	339,468
2015	274,692
2016	167,291
2017	9,456
	$ 1,128,551

Total rent expense for office space and equipment for 2012 amounted to $317,748.

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 requires an employer contribution of 3% of all eligible wages. Employer contributions for 2012 amounted to $187,291. The plan also allows for additional contributions at the discretion of the Board of Trustees. There were no discretionary contributions for 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. RELATED PARTY TRANSACTIONS

During the ordinary course of its business, the Network conducts transactions with related parties. During 2012, the Network paid $327,285 for property management and $707,289 for weatherization to its neighborhood constituent community development corporations.

In 2012, the Network charged the affiliated partnerships $129,098 for accounting services.

In 2012, the Network gave $82,000 in grants (included in program expenses) to its affiliated partnerships.

12. GUARANTEES

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

Partnership	Amount	Type of Loan
Cleveland Green Homes III LP	$ 875,605	Bank
Emerald Alliance VI LP	$ 67,553	Bank
Emerald Alliance VII LP	$ 3,567,267	Bank

The term of the guarantees is the life of the loans through the construction periods, which are expected to mature in 2013. In addition to the guarantee, the loans are collateralized by mortgages on the partnerships' properties for the project. The guarantees were made to assist the partnerships in obtaining construction 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, 2012

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2012

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	$ 949,143
United States Department of Health and Human Services passed through Cuyahoga County			
Utility Assistance Program		93.558	168,660
United States Department of Health and Human Services passed through the State of Ohio			
Home Energy Assistance Program	13-HA-135	93.568	177,396
Home Energy Assistance Program	12-HA-135	93.568	587,447
Home Energy and Weatherization Assistance Program (HHS)		93.568	303,190
			1,068,033
Total United States Department of Health and Human Services			1,236,693
United States Department of Housing and Urban Development passed through Cuyahoga County			
Foreclosure Prevention Counseling		14.218	60,000
United States Department of Housing and Urban Development passed through Cuyahoga County			
Healthy Homes Initiative		14.913	130,453
United States Department of Housing and Urban Development passed through Environmental Health Watch			
Green and Healthy Housing		14.913	7,550
			138,003
United States Department of Housing and Urban Development passed through the City of Cleveland			
Lead Based Paint Hazard Control Program		14.900	1,449,015

See accompanying notes to the Schedule of Expenditures of Federal Awards.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

YEAR ENDED DECEMBER 31, 2012

Federal Grantor/Pass-Through Grantor/Program Title	CFDA #	Expenditures
United States Department of Housing and Urban Development passed through the City of Cleveland		
Home Investment Partnership Program	14.239	2,966,240
United States Department of Housing and Urban Development passed through Cuyahoga County		
Neighborhood Stabilization Program ARRA	14.264	247,704
United States Department of Housing and Urban Development passed through the State of Ohio		
Neighborhood Stabilization Program	14.264	186,450
United States Department of Housing and Urban Development passed through the City of Cleveland		
Neighborhood Stabilization Program ARRA	14.264	1,912,732
Neighborhood Stabilization Program	14.264	165,459
Total Neighborhood Stabilization Program		2,512,345
United States Department of Housing and Urban Development passed through Enterprise Community Partners		
Capacity Building Program	14.252	91,009
United States Department of Housing and Urban Development passed through Housing Partnership Network		
Housing Counseling Programs	14.169	318,507
Total United States Department of Housing and Urban Development		7,535,119
United States Department of Commerce passed through One Community ARRA Broadband Technology Opportunities Program	11.557	1,677,047
United States Department of Treasury passed through Enterprise Community Partners		
Low Income Tax Assistance	21.009	28,000
Total Federal Expenditures		$ 11,426,002

See accompanying notes to Schedule of Expenditures of Federal Awards.

Cohen & Company
Certified Public Accountants

Cohen & Company, Ltd.

www.cohencpa.com
800.229.1099

Akron
Cleveland
Columbus
Orlando
Youngstown

BOARD OF TRUSTEES
CLEVELAND HOUSING NETWORK, INC. AND AFFILIATE

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Consolidated Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited, 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, the consolidated financial statements of Cleveland Housing Network, Inc. and Affiliate which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 31, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Cleveland Housing Network, Inc. and Affiliate's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cleveland Housing Network, Inc. and Affiliate's internal control. Accordingly we do not express an opinion on the effectiveness of the Network's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cleveland Housing Network, Inc. and Affiliate's consolidated 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 consolidated 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*.

Purpose of this Report

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

May 31, 2013
Cleveland, Ohio

Cohen & Company
Certified Public Accountants

Cohen & Company, Ltd.

www.cohencpa.com
800.229.1099

Akron
Cleveland
Columbus
Orlando
Youngstown

BOARD OF TRUSTEES
CLEVELAND HOUSING NETWORK, INC. AND AFFILIATE

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance required by OMB Circular A-133

Report on Compliance for Each Major Program

We have audited Cleveland Housing Network, Inc. and Affiliate's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Cleveland Housing Network, Inc. and Affiliate's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 a major federal program 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Cleveland Housing Network, Inc. and Affiliate's compliance.

Opinion on Each Major Federal Program

In our opinion, Cleveland Housing Network, Inc. and Affiliate complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of Cleveland Housing Network, Inc. and Affiliate is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered Cleveland Housing Network, Inc. and Affiliate's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance for each major program in accordance with OMB Circular A-133, 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 *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

May 31, 2013
Cleveland, Ohio

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2012

SECTION I – SUMMARY OF AUDITORS' RESULTS

Consolidated Financial Statements

Type of auditors' report issued:		Unmodified
Internal control over financial reporting:		
Material weakness(es) identified?	______Yes	√ No
Significant deficiency(ies) identified not considered to be material weaknesses?	______Yes	√ None
Noncompliance material to consolidated 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
Type of auditors' report issued on compliance for major programs:		Unmodified
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
81.042	Home Weatherization Assistance Program (DOE)
11.557	Broadband Technology Opportunities Program, ARRA
14.264	Neighborhood Stabilization Program
14.264	Neighborhood Stabilization Program, ARRA
14.900	Lead Based Paint Hazard Control Program
14.239	Home Investment Partnership Act
93.568	Home Energy and Weatherization Assistance Program (HHS)

Dollar threshold used to distinguish between Type A and Type B programs:		$ 342,780
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, 2012

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2012

1. SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

2. SUBRECIPIENTS

Of the federal expenditures presented in the schedule, Cleveland Housing Network, Inc. and Affiliate provided federal awards to subrecipients under CFDA numbers 11.557 and 93.568 in the amounts of $826,499 and $367,957, respectively.

& Company
Certified Public Accountants

Cohen & Company, Ltd.

www.cohencpa.com
800.229.1099

Akron
Cleveland
Columbus
Orlando
Youngstown

BOARD OF TRUSTEES
CLEVELAND HOUSING NETWORK, INC. AND AFFILIATE

Independent Auditors' Report on Supplemental Financial Information

We have audited the consolidated financial statements of Cleveland Housing Network, Inc. and Affiliate as of and for the year ended December 31, 2012, and our report thereon dated May 31, 2013, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 2 and 3. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying information on pages 30 – 37 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 audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or 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.

May 31, 2013
Cleveland, Ohio

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2012

	CHN	Subsidiaries	Eliminations	Consolidated
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$ 8,381,064	$ 67,122		$ 8,448,186
Accounts receivable - Net				
Affiliated entities	2,381,084	1,818	$ (23,674)	2,359,228
Other	1,445,897	58,544		1,504,441
Grants and contracts	1,802,885			1,802,885
Inventory - Net	1,284,584			1,284,584
Prepaid and other assets	168,056			168,056
Land and buildings held for sale	1,850,329	366,283		2,216,612
	17,313,899	493,767	(23,674)	17,783,992
FURNITURE AND EQUIPMENT - AT COST	770,819			770,819
Less: Accumulated depreciation	541,137			541,137
	229,682			229,682
OTHER ASSETS				
Notes receivable - Long-term	33,971,570		(87,097)	33,884,473
Investments in limited partnerships	1,322,510			1,322,510
Mortgages receivable	1,959,270			1,959,270
Interest receivable - Deferred	13,632,731		(110,112)	13,522,619
	50,886,081		(197,209)	50,688,872
	$ 68,429,662	$ 493,767	$ (220,883)	$ 68,702,546

	CHN	Subsidiaries	Eliminations	Consolidated
LIABILITIES				
CURRENT LIABILITIES				
Notes payable	$ 2,130,496			$ 2,130,496
Current portion of long-term debt	2,015,352			2,015,352
Current portion of deferred interest payable	7,428			7,428
Accounts payable and accrued expenses				
Trade	1,000,942	$ 3,282		1,004,224
Affiliated entities	582,389	21,856	$ (23,674)	580,571
Other	806,233	10,322		816,555
Deferred revenue	760,140			760,140
	7,302,980	35,460	(23,674)	7,314,766
LONG-TERM LIABILITIES				
Long-term debt	39,264,417	116,129	(87,097)	39,293,449
Deferred interest payable	238,909	112,630	(110,112)	241,427
	39,503,326	228,759	(197,209)	39,534,876
	46,806,306	264,219	(220,883)	46,849,642
NET ASSETS				
UNRESTRICTED				
Designated	10,705,605			10,705,605
Undesignated	10,043,351	229,548		10,272,899
	20,748,956	229,548		20,978,504
TEMPORARILY RESTRICTED	49,400			49,400
PERMANENTLY RESTRICTED	825,000			825,000
	21,623,356	229,548		21,852,904
	$ 68,429,662	$ 493,767	$ (220,883)	$ 68,702,546

CONSOLIDATING STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2012

	Unrestricted				Cleveland Housing Network, Inc.		
	CHN	Subsidiaries	Eliminations	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES							
Public support	$ 21,727,616			$ 21,727,616			$ 21,727,616
Rental income	611,733	$ 89,417		701,150			701,150
Management fees - Affiliated entities	3,913,676		$ (7,980)	3,905,696			3,905,696
Interest income - Affiliated entities	2,125,134		(11,941)	2,113,193			2,113,193
Gain (loss) on sale of inventory and land and buildings	(965,708)	86,381	(112,640)	(991,967)			(991,967)
Maintenance services - Affiliated entities	1,596,528		(20,121)	1,576,407			1,576,407
Construction rehab - Affiliated entities	3,718,552			3,718,552			3,718,552
Other interest income and miscellaneous	1,084,224	6	(1,026)	1,083,204			1,083,204
	33,811,755	175,804	(153,708)	33,833,851			33,833,851
NET ASSETS RELEASED FROM RESTRICTIONS	23,800			23,800	$ (23,800)		
Total revenues	33,835,555	175,804	(153,708)	33,857,651	(23,800)		33,833,851
EXPENSES							
Program services	32,149,189	1,101,074	(153,708)	33,096,555			33,096,555
Supporting services							
Management and general	1,176,318			1,176,318			1,176,318
Fundraising	219,774			219,774			219,774
	33,545,281	1,101,074	(153,708)	34,492,647			34,492,647
LOSS ON DISSOLUTION OF SUBSIDIARIES	56,983			56,983			56,983
CHANGE IN NET ASSETS	$ 233,291	$ (925,270)	$ -	$ (691,979)	$ (23,800)	$ -	$ (715,779)

SCHEDULE OF OHIO DEPARTMENT OF DEVELOPMENT ADMINISTERED GRANTS

YEAR ENDED DECEMBER 31, 2012

Grant Name	Number	Cash Received	Expenses Charged	Remaining Grant Balance
Housing Trust Fund	S-R-10-7DR-1	$ 139,392	$ 145,842	$ 4,158
Housing Trust Fund	S-H-11-7DR-1	$ 36,262	$ 48,235	$ 51,765
Neighborhood Stabilization Program	N-Z-08-505-1	$3,789,319	$3,789,319	$ -
Housing Development Assistance Program	N-B-10-7DR-1	$ 733,607	$ 733,607	$ 366,393

SCHEDULE OF LONG-TERM NOTES RECEIVABLE

DECEMBER 31, 2012

Description	Amount	Interest Rate	Maturity Date
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
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 2029
Cleveland Housing Network Erieview Homes I, Ltd.	446,000	5% (Deferred)	December 2029

SCHEDULE OF LONG-TERM NOTES RECEIVABLE (Continued)

DECEMBER 31, 2012

Description	Amount	Interest Rate	Maturity Date
Cleveland Housing Network Limited Partnership XX	1,850,000	5% (Deferred)	December 2030
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	1,005,668	7%	December 2033
Stockyard Homes LP	735,000	5.25%	December 2033
Slavic Village Homes LP	545,233	7%	December 2033
Cleveland New Homes LP	806,421	5% (Deferred)	December 2027
Cleveland Green Homes East	1,274,000	.5%	January 2041
Cleveland Green Homes East	508,000	2%	January 2041
Cleveland Green Homes LP	636,000	.5%	January 2041
Cleveland Green Homes LP	396,000	2%	January 2041
Cleveland Green Homes II LP	3,789,319	1.85%	July 2060
Cleveland NSP Homes LP	4,750,000	1.15%	December 2062
Cleveland NSP Homes LP	1,125,000	1.15%	December 2062
Edgewood Park LP	750,000	2%	December 2037
Emerald Alliance VII LP	733,607	2%	June 2043
New Construction Limited Partnership IV	600,000	5.09%	September 2038
Eastside Neighborhood Homes LP	250,000	2%	April 2049
Notes due from Houseco	212,451	-	2026 - 2030
	34,684,473		
Less: Reserve for Impairment	800,000		
	$ 33,884,473		

SCHEDULE OF NOTES PAYABLE

DECEMBER 31, 2012

Payee	Interest Rate	Due Date	Total Available Line of Credit	Amount Outstanding at December 31, 2012
Enterprise Community Loan Fund	7%	December 2014	$ 220,000	$ 220,000
Enterprise Community Loan Fund	3%	December 2014	780,000	780,000
Key Bank	Prime + 1.25%	October 2014	1,750,000	213,829
Key Bank	Prime + 1.25%	October 2014	700,000	
Housing Partnership Network	3%	December 2014	500,000	500,000
PNC Bank	3%	June 2015	500,000	416,667
			$ 4,450,000	$ 2,130,496

SCHEDULE OF LONG-TERM DEBT

DECEMBER 31, 2012

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)	*	18,600
P7	2%	*	11,514
P7 (State)	0%	2032	40,000
P8	1%	*	22,607
P8 (State)	0%	2033	30,000
P8 (State)	0%	2017	15,136
P11	0%	2020	407,384
P12	0%	2022	599,893
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 (State loan)	1%	2029	87,097
NC2	0%	2031	229,500
Cleveland New Homes	0%	2027	806,421
P21	0%	2031	1,500,000
NC3	0%	2033	516,000
Erie Square	0%	2037	500,000
Erieview Homes II	0%	2034	750,000
Slavic Village Homes	0%	2034	335,000
Stockyard Homes	0%	2033	735,000
Cleveland Green Homes	0%	2039	636,000
Cleveland Green Homes (State)	2%		396,000
Cleveland Green Homes East	0%	2040	1,274,000
Cleveland Green Homes East (State)	2%		508,000
Edgewood Park (State)	2%	2038	750,000
Lease purchase buyers (State)	0%	2016	170,000
Eastside Neighborhood Homes	2%	2033	250,000
Cleveland Green Homes II (State)	1.5%	2060	3,789,318
Cleveland NSP Homes	0%	2062	5,875,000

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

SCHEDULE OF LONG-TERM DEBT (Continued)

DECEMBER 31, 2012

Description	Interest Rate	Due Date	Amount
Mortgages Payable to City of Cleveland and State of Ohio (Continued)			
Cleveland Green Homes III	0%	2044	$ 12,645
Emerald Alliance VI	0%	2044	227,050
Emerald Alliance VII	0%	2043	628,038
Emerald Alliance VII (State)	2%	2043	733,607
			$ 35,018,297
CDBG Loans Payable			
Year 14	0%	Due upon sale	$ 4,500
Year 16	0%	Due upon sale	3,462
			$ 7,962