



Independent Auditors' Report  
December 31, 2016

Cohen & Co

[cohencpa.com](http://cohencpa.com)

CLEVELAND HOUSING NETWORK, INC. AND AFFILIATES

DECEMBER 31, 2016

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT.....	2 - 3
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	
December 31, 2016, with comparative totals for 2015 .....	4
CONSOLIDATED STATEMENT OF ACTIVITIES	
Year ended December 31, 2016, with comparative totals for 2015.....	5
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES	
Year ended December 31, 2016, with comparative totals for 2015.....	6
CONSOLIDATED STATEMENT OF CASH FLOWS	
Year ended December 31, 2016, with comparative totals for 2015.....	7
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.....	8 - 18
SUPPLEMENTAL FINANCIAL INFORMATION .....	19

BOARD OF TRUSTEES  
CLEVELAND HOUSING NETWORK, INC. AND AFFILIATES

Independent Auditors' Report

**Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Cleveland Housing Network, Inc. and Affiliates (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

***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 Affiliates as of December 31, 2016, 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 Title 2 U.S Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 June 9, 2017, on our consideration of Cleveland Housing Network, Inc. and Affiliates' 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 Affiliates' internal control over financial reporting and compliance.

## **Report on Summarized Comparative Information**

We have previously audited Cleveland Housing Network, Inc. and Affiliates' 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated June 1, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

June 9, 2017  
Cleveland, Ohio

*Cohen & Company Ltd.*

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2016, WITH COMPARATIVE TOTALS FOR 2015

	2016	2015		2016	2015
ASSETS			LIABILITIES		
CURRENT ASSETS			CURRENT LIABILITIES		
Cash and cash equivalents	\$ 10,529,917	\$ 6,654,992	Current portion of notes payable	\$ 1,649,982	\$ 969,110
Accounts receivable - Net			Current portion of long-term debt	507,560	134,000
Affiliated entities	2,483,619	4,306,217	Current portion of deferred interest payable	835	835
Other	543,046	1,553,024	Accounts payable and accrued expenses		
Grants and contracts	2,012,888	2,714,211	Trade	1,395,660	1,092,093
Current portion of mortgages receivable	890,933	885,194	Affiliated entities	339,825	252,874
Inventory - Net	318,005	191,181	Income taxes payable	305,000	
Prepaid and other assets	215,082	234,868	Other	987,727	804,005
Land and buildings held for sale	<u>2,196,251</u>	<u>2,392,777</u>	Deferred revenue	<u>1,198,378</u>	<u>946,110</u>
	<u>19,189,741</u>	<u>18,932,464</u>		<u>6,384,967</u>	<u>4,199,027</u>
			LONG-TERM LIABILITIES		
			Notes payable	391,250	1,188,475
			Long-term debt	32,917,784	36,589,238
			Deferred interest payable	770,926	674,736
			Deferred income taxes	<u>316,075</u>	
				<u>34,396,035</u>	<u>38,452,449</u>
				<u>40,781,002</u>	<u>42,651,476</u>
FURNITURE AND EQUIPMENT - AT COST	738,690	867,203			
Less: Accumulated depreciation	<u>669,666</u>	<u>634,480</u>	COMMITMENTS AND CONTINGENCIES		
	<u>69,024</u>	<u>232,723</u>			
OTHER ASSETS			NET ASSETS		
Long-term notes receivable - Net	27,451,070	27,760,962	UNRESTRICTED		
Other long-term receivable	750,000		Designated	6,713,243	7,024,559
Investments in limited partnerships	7,134,063	6,637,567	Undesignated	<u>17,139,668</u>	<u>14,147,076</u>
Mortgages receivable - Net	1,593,864	2,022,496		23,852,911	21,171,635
Interest receivable - Deferred	<u>9,271,151</u>	<u>9,061,899</u>	PERMANENTLY RESTRICTED	<u>825,000</u>	<u>825,000</u>
	<u>46,200,148</u>	<u>45,482,924</u>		<u>24,677,911</u>	<u>21,996,635</u>
	<u>\$ 65,458,913</u>	<u>\$ 64,648,111</u>		<u>\$ 65,458,913</u>	<u>\$ 64,648,111</u>

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

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016, WITH COMPARATIVE TOTALS FOR 2015

	2016			2015
	Unrestricted	Permanently Restricted	Totals	Totals
REVENUES				
Public support	\$ 20,327,902		\$ 20,327,902	\$ 16,053,909
Rental income	779,721		779,721	962,709
Management fees - Affiliated entities	3,401,092		3,401,092	3,576,187
Interest income - Affiliated entities	1,405,649		1,405,649	1,423,685
Gain on sale of inventory and land and buildings	118,812		118,812	783,621
Gain on redemption of general partnership interest in limited partnership	1,928,545		1,928,545	
Maintenance services - Affiliated entities	2,321,142		2,321,142	2,383,711
Other interest income and miscellaneous	2,637,666		2,637,666	1,353,399
	<u>32,920,529</u>		<u>32,920,529</u>	<u>26,537,221</u>
EXPENSES				
Program services	28,327,693		28,327,693	25,191,121
Supporting services				
Management and general	1,502,107		1,502,107	756,301
Fundraising	443,827		443,827	237,908
	<u>30,273,627</u>		<u>30,273,627</u>	<u>26,185,330</u>
GAIN ON DISSOLUTION OF SUBSIDIARIES - NET	<u>34,374</u>		<u>34,374</u>	
CHANGE IN NET ASSETS	2,681,276		2,681,276	351,891
NET ASSETS - BEGINNING OF THE YEAR	<u>21,171,635</u>	\$ 825,000	<u>21,996,635</u>	<u>21,644,744</u>
NET ASSETS - END OF THE YEAR	<u>\$ 23,852,911</u>	<u>\$ 825,000</u>	<u>\$ 24,677,911</u>	<u>\$ 21,996,635</u>

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

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016, WITH COMPARATIVE TOTALS FOR 2015

	PROGRAM SERVICES				SUPPORTING SERVICES		TOTAL EXPENSES	
	Weatherization	Partnerships and Development	Community Resource Center	Total Program Services	Management and General	Fundraising	2016	2015
Personnel	\$ 3,065,048	\$ 6,248,971	\$ 930,369	\$ 10,244,388	\$ 428,805	\$ 211,950	\$ 10,885,143	\$ 10,414,908
Rent	129,659	191,805	83,039	404,503	45,054	3,483	453,040	441,589
Maintenance	26,343	140,347	7,366	174,056	2,915	564	177,535	217,133
Telephone and utilities	22,982	280,147	12,355	315,484	3,469	671	319,624	340,746
Equipment and supplies	140,927	163,232	25,517	329,676		7,057	336,733	240,303
Contract materials	1,844,904			1,844,904			1,844,904	405,751
Construction rehab		377,230		377,230			377,230	338,484
Housewarming materials and labor	8,461,359			8,461,359			8,461,359	5,661,416
Electric wiring materials and labor	1,018,837			1,018,837			1,018,837	1,213,876
Energy assistance and water conservation materials and labor	2,440,439			2,440,439			2,440,439	3,008,374
Family development			83,675	83,675			83,675	39,318
Insurance	33,822	126,043	5,991	165,856	6,632	1,284	173,772	79,311
Professional fees	755,245	222,317	54,985	1,032,547	77,193	209,105	1,318,845	846,346
Management fees		138,501		138,501			138,501	221,237
Interest expense	26,579	187,340		213,919	21,712		235,631	251,917
Real estate taxes		87,801		87,801			87,801	145,625
Loss on collection of notes and accounts receivable		215,199		215,199			215,199	2,084,868
Impairment of notes receivable		112,450		112,450			112,450	
Impairment of land and buildings held for sale								87,016
Bad debts		491,415		491,415			491,415	
Miscellaneous	51,264	119,315	4,875	175,454	5,066	9,713	190,233	103,145
Total expenses before income taxes and depreciation	18,017,408	9,102,113	1,208,172	28,327,693	590,846	443,827	29,362,366	26,141,363
Provision for income taxes					876,075		876,075	
Depreciation					35,186		35,186	43,967
	<u>\$ 18,017,408</u>	<u>\$ 9,102,113</u>	<u>\$ 1,208,172</u>	<u>\$ 28,327,693</u>	<u>\$ 1,502,107</u>	<u>\$ 443,827</u>	<u>\$ 30,273,627</u>	<u>\$ 26,185,330</u>

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2016, WITH COMPARATIVE TOTALS FOR 2015

	2016	2015		2016	2015
CASH FLOW PROVIDED FROM (USED IN) OPERATING ACTIVITIES			NONCASH INVESTING AND FINANCING ACTIVITIES		
Change in net assets	\$ 2,681,276	\$ 351,891	Collection of notes and interest receivable via receipt of land and building held for sale	\$ 1,790,500	\$ 1,896,500
Noncash items included in change in net assets			Debt and deferred interest forgiven or transferred to lease purchase buyers	\$ 1,735,423	\$ 2,119,436
Depreciation	35,186	43,967	Mortgages provided to lease purchase buyers	\$ 495,066	\$ 1,007,825
Loss on disposal of furniture and equipment	128,513		Inventory, payables, and debt transferred from the Network		\$ (390,676)
Deferred interest income	(1,405,649)	(1,423,685)	Investment in limited partnership funded through debt		\$ 5,051,800
Deferred income taxes	316,075		Conversion of accounts receivable to investment in limited partnership	\$ 550,000	
Loss on collection of notes and accounts receivable	215,199	2,084,868	Increase in other long-term receivable due to redemption of general partnership interest in limited partnership	\$ 750,000	
Debt forgiven upon completion of development projects	(550,000)				
Gain on sale of land and buildings	(118,812)	(783,621)			
Gain on redemption of general partnership interest in limited partnership	(1,928,545)				
Gain on dissolution of subsidiaries	(34,374)				
Collection of developer fee income through investment in limited partnerships and notes receivable	(896,196)				
Reserve on mortgages receivable	30,298				
Impairment of notes receivable	112,450				
Impairment of land and buildings held for sale		87,016			
Increase (decrease) in cash caused by changes in current items					
Accounts receivable - Net	2,647,795	(2,970,404)			
Inventory - Net	(126,824)	1,132			
Prepaid and other assets	19,786	(36,538)			
Accounts payable and accrued expenses	879,240	158,187			
Deferred revenue	252,268	546,209			
Net cash flow provided from (used in) operations	2,257,686	(1,940,978)			
CASH FLOW PROVIDED FROM INVESTING ACTIVITIES					
Acquisition of furniture and equipment		(39,855)			
Proceeds on sale of land and buildings held for sale	147,828	339,394			
Proceeds on redemption of general partnership interest in limited partnership	2,053,545				
Renovation costs on land and buildings held for sale	(7,105)	(36,759)			
Investment in limited partnerships	(125,300)	(2,253)			
Advances under notes receivable	(370,529)	(374,471)			
Repayment of notes, mortgages, and interest receivable	951,434	1,452,628			
	2,649,873	1,338,684			
CASH FLOW PROVIDED FROM (USED IN) FINANCING ACTIVITIES					
Additional financing	370,529	946,807			
Repayment of debt and deferred interest	(1,403,163)	(285,917)			
	(1,032,634)	660,890			
INCREASE IN CASH AND CASH EQUIVALENTS	3,874,925	58,596			
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	6,654,992	6,596,396			
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 10,529,917	\$ 6,654,992			

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



## 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, Cleveland New Construction Limited Partnership I (CNC I), Cleveland Housing Network Limited Partnership XIV (LP14), and Rainbow Place Apartments Inc. (Rainbow), and its affiliate, NHI, Inc. (NHI), (collectively, the Network). The wholly owned subsidiaries and certain affiliates are consolidated with Cleveland Housing Network 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. also has 27 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, lease, and provide tenants with the opportunity to purchase low-income housing.

The Network accounts for its ownership interest in these affiliates that are not consolidated and that act as general partners in limited partnerships on the equity method in accordance with GAAP. The limited partners have substantive kick-out and participation rights and, accordingly, the Network has not consolidated the limited partnerships in these accompanying consolidated financial statements. In 2016, the Network obtained \$1,371,496 of investments in limited partnerships. The Network made equity contributions of \$125,300 to limited partnerships. In lieu of receiving payment of \$696,196 for developer fees from certain limited partnerships, the Network received an investment in those limited partnerships. Also, there was debt forgiven by the City of Cleveland in the amount of \$550,000, and the corresponding receivable due from a limited partnership was converted into an investment for the Network in the limited partnership.

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 (IRC). 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 14 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., 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 IRC. NHI, Inc. was established for the purpose of holding real property to be used to support the charitable activities of the Network. During 2016, NHI had no income statement activity and any assets held at December 31, 2016, had no value.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nature of Operations and Presentation (continued)

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 qualified for the federal low-income housing tax credit pursuant to Section 42 of the IRC. In 2016, CNC I was terminated. All assets and liabilities were transferred to Cleveland Housing Network and a loss was recorded on dissolution of \$222,681.

LP14 is an Ohio limited partnership organized in January 1997 to acquire, rehabilitate, own, lease, and operate 144 units of low-income housing in Cleveland, Ohio. All of the units qualified for the federal low-income housing credit pursuant to Section 42 of the IRC. In 2016, LP14 was terminated. All assets and liabilities were transferred to Cleveland Housing Network and a gain was recorded on dissolution of \$257,055.

Rainbow is an Ohio corporation organized in January 2006 to invest in Rainbow Place Apartments, LP (the Limited Partnership), a 181 unit low-income housing project. In May 2016, an affiliate of Millennia Housing Development, Ltd. (Millennia) paid Rainbow approximately \$2,804,000 for its general partner interest in the Limited Partnership. A gain on the sale of approximately \$1,929,000 was reflected in the consolidated statement of activities. In addition, as part of this transaction, Cleveland Housing Network received \$1,200,000 to relinquish its right of first refusal to acquire the project and its option to acquire the interest of the Limited Partner at the end of the tax credit compliance period. The \$1,200,000 is included in other interest income and miscellaneous revenue in the consolidated statement of activities. As of December 31, 2016, a \$750,000 promissory note is due from Millennia in 2018 for the remainder of the purchase price. The note is unsecured, does not bear interest, and is included in other long-term receivable in the consolidated statement of financial position.

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

Weatherization

These programs assist low income families in maintaining and improving the properties which they occupy. Since inception, approximately 158,400 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.

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 5,900 units have been completed.

Partnerships and Development also includes properties that were acquired, developed and will be sold to low and moderate income families 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 program.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nature of Operations and Presentation (continued)Community Resource Center

These programs provide pathways out of poverty for low and moderate income households and include social services, training, and counseling. 6,734 families have received foreclosure prevention counseling and/or direct assistance. In addition, 24,940 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.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Net income derived from unrelated business activity by Cleveland Housing Network, Inc., is subject to income taxes. Dividends received from Rainbow are subject to unrelated business income tax. The gain recognized on Rainbow's redemption of its general partner interest in the Limited Partnership generated income tax.

The Network has recorded a current tax provision of \$560,000 and a deferred tax provision of \$316,075. The temporary difference which gave rise to the deferred tax liability was an excess of book gain over tax gain in connection with the Rainbow redemption.

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, 2016, the Network does not have a liability for unrecognized tax benefits.

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, 2015, from which the summarized information was derived.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue RecognitionGrants

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.

The Network received approximately 60% of its public support from two grant contracts: the Ohio Department of Development under the Home Weatherization Assistance Program and Dominion East Ohio under the Housewarming Program. Grants and contracts receivable from these funding sources amounted to approximately 48% of grants and contracts receivable at December 31, 2016.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (continued)Construction Rehab Services

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

Rental Income

The Network rents land and buildings held for sale to low income individuals. Rental income is recorded on a monthly basis through the date of sale.

Accounts Receivable

Accounts receivable includes program service fees, rent, 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 identified on the remittance advice (if applicable) 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 collectability. When receivables are determined to be uncollectible, they are written off against the allowance for uncollectible accounts receivable. At December 31, 2016, management determined that no allowance for uncollectible accounts was necessary.

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 three months or less.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

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, 2016, the Network has a reserve for impairment as management expects to sell the inventory for less than its carrying value.

Inventory - Homeward program	\$ 1,206,483
Reserve for impairment	<u>(1,015,500)</u>
	190,983
Inventory - Other programs	<u>127,022</u>
Inventory - Net	<u>\$ 318,005</u>

The balance in inventory from other programs consists of properties purchased for resale to individuals, affiliated partnerships, vacant lots, and other miscellaneous properties. The Network records its inventory and land and buildings held for sale at the lower of cost or market and records a reserve for impairment when the expected sales price of the inventory and land and buildings held for sale is below the carrying value of the 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.

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 the date received and held for sale to qualified low income purchasers. During 2016, 81 of these properties were sold and a gain on the sale of these properties of \$118,812 was reflected in the consolidated statement of activities. The gain includes the related income from the forgiveness of debt and interest by the City of Cleveland and the State of Ohio of approximately \$1,504,000 relating to these properties.

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 June 9, 2017, the date the consolidated financial statements were available to be issued.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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 after a certain number of years. The properties are developed using low income housing tax credits. Interest rates on the notes receivable range from 0% 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 2021 through 2064. 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. In most cases, amounts due to the City of Cleveland by the Network related to these properties are forgiven at the time of sale.

During 2016, the Network received properties as repayment for notes and interest receivable, which were accounted for as follows:

Fair value of homes received	\$ 1,790,500
Debt forgiven	231,000
Other receivables forgiven	(336,105)
Notes receivable forgiven	(816,000)
Interest receivable forgiven	(1,084,594)
Loss on collection of notes and accounts receivable	<u>\$ (215,199)</u>

The Network reviews its long-term notes and interest receivable for collectability whenever events or changes in circumstances indicate that the notes and interest receivable or 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 notes and interest receivable are not considered fully collectible, management records an allowance for estimated losses. At December 31, 2016, an allowance for estimated losses of \$200,000 was recorded.

## 3. MORTGAGES RECEIVABLE

The Network provides second and third deferred mortgages to finance the purchase of Homeward homes by low and moderate income individuals. No principal is due on these loans. No interest is due on these loans unless the homes are sold within 5 years of ownership. Mortgages provided to buyers of the 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 2042. At December 31, 2016, the outstanding balance on these mortgages was approximately \$590,000.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. MORTGAGES RECEIVABLE (Continued)

Mortgages are also available to buyers of homes in the lease-purchase program. At December 31, 2016, the outstanding balance on these mortgages was approximately \$2,496,000. The mortgages bear interest at 0%. Mortgages outstanding at December 31, 2016, in the amount of approximately \$1,677,000 are paid monthly and mature between 2017 and 2020. The remaining \$819,000 of the mortgages receivable outstanding at December 31, 2016, are due upon the sale of the homes.

For mortgages receivable where monthly payments are due, management reviews these mortgages receivable 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 collectability and current economic conditions. There was a \$58,000 allowance for uncollectible mortgages receivable where monthly payments are due at December 31, 2016. Approximately \$79,000 of these mortgages receivable are past due at December 31, 2016.

For mortgages receivable where the Network will receive payment upon sale of the properties, the Network reviews these mortgages receivable for collectability 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, 2016, the Network has an allowance for estimated losses on these mortgages of approximately \$543,000, and this allowance specifically relates to second and third mortgages on those properties sold under the Homeward program.

## 4. NOTES PAYABLE

The Network has lines of credit with two banks and two community development lending institutions, totaling \$3,391,250, of which \$2,041,232 was outstanding at December 31, 2016. The interest rates are fixed from 0% to 4% or prime (3.75% at December 31, 2016) plus .50%, as defined. Approximately \$1,691,000 of the total lines may be used for acquisition and construction of properties purchased for inventory. Interest is payable monthly with principal to be repaid from proceeds of properties sold. The balance of the lines is secured by specified assets of the Network as defined. The notes payable are classified as current or long-term liabilities in accordance with the terms of the agreements, with maturity dates ranging from July 2017 through December 2018.

The lines of credit with one of the community development lending institutions and one bank have certain financial covenants, which require the maintenance of a current ratio.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5. LONG-TERM DEBT

Long-term debt at December 31, 2016, 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 2017 through 2062; certain of the mortgages have provisions for forgiveness of principal and interest	\$ 26,473,544
0% note, payable to the US Department of Housing and Urban Development with all interest and principal deferred; due June 2054; the mortgage has provisions for forgiveness of principal and interest	5,051,800
0% note, payable to Cuyahoga County with all interest and principal deferred; due May 2044; secured by a mortgage on the property; the mortgage has provisions for forgiveness of principal and interest	350,000
4% unsecured note, payable to a bank with interest payable quarterly; due July 2017	500,000
0% note, payable to Cuyahoga County with all interest and principal deferred; due December 2044; secured by a mortgage on the property; the mortgage has provisions for forgiveness of principal and interest	450,000
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
	33,425,344
Less: Current portion	507,560
	<u>\$ 32,917,784</u>

Future maturities of long-term debt are as follows:

2017	\$ 507,560
2018	-
2019	-
2020	29,762
2021	-
Thereafter	32,888,022
	<u>\$ 33,425,344</u>

## 6. BOARD DESIGNATED UNRESTRICTED NET ASSETS

Unrestricted net assets at December 31, 2016, were designated by the Board of Trustees as follows:

Designated for reducing the sale price of homes to future lease purchase buyers	<u>\$ 6,713,243</u>
---	---------------------

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7. 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 \$583,562 at December 31, 2016, 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 invests in cash any endowment funds not invested in (loaned to) these projects.

Endowment assets totaling \$241,438 are invested in one low-income housing project at December 31, 2016. These endowment assets yield the greater of 6% or the prime rate plus 1% with interest due quarterly. The income generated from the endowment asset was insignificant for 2016.

## 8. COMMITMENTS AND CONTINGENCIES

Leases

The Network leases office space and office equipment under long-term operating leases through 2018.

Minimum annual rentals are as follows:

2017	\$	388,322
2018		<u>215,206</u>
		<u>\$ 603,528</u>

Total rent expense for office space and equipment for 2016 amounted to approximately \$408,000.

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.

## 9. 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 2016 amounted to \$218,783. The plan also allows for additional contributions at the discretion of the Board of Trustees. There were no discretionary contributions for 2016.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 10. RELATED PARTY TRANSACTIONS

During the ordinary course of its business, the Network conducts transactions with related parties. During 2016, the Network paid \$109,446 for property management and \$516,139 for weatherization to its neighborhood constituent community development corporations.

In 2016, the Network charged the affiliated partnerships \$80,187 for accounting services.

In 2016, the Network gave \$122,500 in grants (included in program expenses) to its affiliated partnerships.

## 11. GUARANTEES

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

<u>Partnership</u>	<u>Amount Outstanding at December 31, 2016</u>	<u>Source of Loan</u>
Westerly I LP	\$ 6,169,455	Bank
Emerald Alliance VIII LP	\$ 4,589,294	Bank
Emerald Alliance IX LP	\$ 1,831,606	Bank
Hough Heritage LP	\$ 3,845,910	Bank
Menwa Apartments LP	\$ 3,047,559	Bank

The term of the guarantees is the life of the loans through the construction periods, which are expected to mature in 2017. 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 the partnerships' collateral.

CLEVELAND HOUSING NETWORK, INC. AND AFFILIATES

SUPPLEMENTAL FINANCIAL INFORMATION

DECEMBER 31, 2016

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	
Year ended December 31, 2016 .....	20 - 21
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	
Year ended December 31, 2016 .....	22
INDEPENDENT AUDITORS' 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 .....	23 - 24
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE .....	25 - 26
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	
Year ended December 31, 2016 .....	27
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	28
INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL FINANCIAL INFORMATION .....	29
CONSOLIDATING STATEMENT OF FINANCIAL POSITION	
December 31, 2016 .....	30
CONSOLIDATING STATEMENT OF ACTIVITIES	
Year ended December 31, 2016 .....	31
SCHEDULE OF OHIO DEVELOPMENT SERVICES AGENCY ADMINISTERED GRANTS	
Year ended December 31, 2016 .....	32
SCHEDULE OF LONG-TERM NOTES RECEIVABLE	
December 31, 2016 .....	33 - 34
SCHEDULE OF NOTES PAYABLE	
December 31, 2016 .....	35
SCHEDULE OF MORTGAGES PAYABLE TO CITY OF CLEVELAND AND STATE OF OHIO	
December 31, 2016 .....	36

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2016

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA #</u>	<u>Expenditures</u>
United States Department of Energy passed through the State of Ohio		
Home Weatherization Assistance Program - 15-111	81.042	\$ 613,409
Home Weatherization Assistance Program - 16-111	81.042	<u>715,594</u>
		<u>1,329,003</u>
United States Department of Health and Human Services passed through Cuyahoga County		
Utility Assistance Program - CE1400046	93.558	<u>180,132</u>
United States Department of Health and Human Services passed through the State of Ohio		
Home Energy Assistance Program - 16-HA-135 (\$403,662 passed through to subrecipients)	93.568	891,164
Home Energy Assistance Program - 17-HA-135 (\$99,677 passed through to subrecipients)	93.568	282,891
Home Weatherization Assistance Program - 15-111	93.568	1,005,220
Home Weatherization Assistance Program – 16-111	93.568	<u>354,646</u>
		<u>2,533,921</u>
United States Department of Health and Human Services Assets for Independence – 90EI0924-01-00	93.602	<u>35,600</u>
Total United States Department of Health and Human Services		<u>2,749,653</u>
United States Department of Housing and Urban Development passed through City of Cleveland		
Neighborhood Stabilization Program	14.218	270,000
United States Department of Housing and Urban Development passed through Cuyahoga County		
Foreclosure Prevention Counseling - CE1600258-01	14.218	<u>68,590</u>
		<u>338,590</u>

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

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

YEAR ENDED DECEMBER 31, 2016

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA #</u>	<u>Expenditures</u>
United States Department of Housing and Urban Development passed through Cuyahoga County Home Investment Partnership Loan Program	14.239	35,000
United States Department of Housing and Urban Development passed through the City of Cleveland Home Investment Partnership Loan Program	14.239	<u>65,529</u> <u>100,529</u>
United States Department of Housing and Urban Development passed through Enterprise Community Partners Capacity Building Program - 15SG0009 and 15SG0059	14.252	<u>85,715</u>
United States Department of Housing and Urban Development passed through Housing Partnership Network Housing Counseling Programs	14.169	<u>48,448</u>
Total United States Department of Housing and Urban Development		<u>573,282</u>
United States Department of Treasury passed through Enterprise Community Partners Low Income Tax Assistance - 15-0018	21.009	<u>40,000</u>
United States Department of Treasury passed through Housing Partnership Network National Foreclosure Mitigation Counseling	21.000	<u>100,500</u>
Total United States Department of Treasury		<u>140,500</u>
Total Federal Expenditures		<u>\$ 4,792,438</u>

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS****YEAR ENDED DECEMBER 31, 2016****2015-01 - INTERNAL CONTROL OVER REPORTING THE SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS**

**CONDITION:** During 2015, controls over compliance were not designed effectively to ensure that all federal awards were included on the schedule of expenditures of federal awards (SEFA).

**CRITERIA:** Controls should be in place to ensure that the SEFA is accurate and complete.

**CAUSE:** Systems and procedures were not in place to ensure the 2015 SEFA was complete.

**EFFECT:** By not fulfilling reporting requirements, there is a potential for noncompliance with federal programs.

**RECOMMENDATION:** Controls should be improved to ensure completeness and accuracy of the SEFA.

**CURRENT YEAR STATUS:** The 2015 SEFA has been corrected and management has implemented control procedures to ensure the completeness and accuracy of the SEFA.

BOARD OF TRUSTEES  
CLEVELAND HOUSING NETWORK, INC. AND AFFILIATES

Independent Auditors' 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, 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 Affiliates (a nonprofit organization) which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated June 9, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Cleveland Housing Network, Inc. and Affiliates' 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 Affiliates' internal control. Accordingly we do not express an opinion on the effectiveness of Cleveland Housing Network, Inc. and Affiliates' 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 Affiliates' 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 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 Cleveland Housing Network, Inc. and Affiliates' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Cohen & Company Ltd.*

June 9, 2017  
Cleveland, Ohio

BOARD OF TRUSTEES  
CLEVELAND HOUSING NETWORK, INC. AND AFFILIATES

Independent Auditors' Report on Compliance for The Major Program  
and on Internal Control over Compliance Required by The Uniform Guidance

Report on Compliance for The Major Program

We have audited Cleveland Housing Network, Inc. and Affiliates' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2016. Cleveland Housing Network, Inc. and Affiliates' major federal program is 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Cleveland Housing Network, Inc. and Affiliates' major federal program 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Affiliates' 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 the major federal program. However, our audit does not provide a legal determination of Cleveland Housing Network, Inc. and Affiliates' compliance.

Opinion on The Major Federal Program

In our opinion, Cleveland Housing Network, Inc. and Affiliates complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2016.

## Report on Internal Control Over Compliance

Management of Cleveland Housing Network, Inc. and Affiliates 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 Affiliates' internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major program and to test and report on internal control over compliance for the major program in accordance with the Uniform Guidance, 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 Affiliates' 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 internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Cohen & Company Ltd.*

June 9, 2017  
Cleveland, Ohio

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2016

## 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	_____ <input checked="" type="checkbox"/> No
Significant deficiency(ies) identified not considered to be material weaknesses?	_____ Yes	_____ <input checked="" type="checkbox"/> None
Noncompliance material to consolidated financial statements noted?	_____ Yes	_____ <input checked="" type="checkbox"/> No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	_____ Yes	_____ <input checked="" type="checkbox"/> No
Significant deficiency(ies) identified not considered to be material weaknesses?	_____ Yes	_____ <input checked="" type="checkbox"/> 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 the Uniform Guidance, section 200.516?	_____ Yes	_____ <input checked="" type="checkbox"/> No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
81.042	Home Weatherization Assistance Program

Dollar threshold used to distinguish between Type A and Type B programs:		\$ <u>750,000</u>
Auditee qualified as low-risk auditee?	_____ <input checked="" type="checkbox"/> Yes	_____ No

## SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

## SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2016

## 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Cleveland Housing Network, Inc. and Affiliates under the programs of the federal government for the year ended December 31, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Cleveland Housing Network, Inc. and Affiliates, it is not intended to and does not present the consolidated financial position, changes in net assets, or cash flows of Cleveland Housing Network, Inc. and Affiliates.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Cleveland Housing Network, Inc. and Affiliates have not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

BOARD OF TRUSTEES  
CLEVELAND HOUSING NETWORK, INC. AND AFFILIATES

Independent Auditors' Report on Supplemental Financial Information

We have audited the consolidated financial statements of Cleveland Housing Network, Inc. and Affiliates as of and for the year ended December 31, 2016, and our report thereon dated June 9, 2017, which expressed an unmodified opinion on those consolidated financial statements appears on pages 2 - 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 – 36 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.

*Cohen & Company Ltd.*

June 9, 2017  
Cleveland, Ohio



CONSOLIDATING STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016

	CHN	Subsidiaries and Affiliates	Eliminations	Total
REVENUES				
Public support	\$ 20,327,902			\$ 20,327,902
Rental income	779,721			779,721
Management fees - Affiliated entities	3,401,092			3,401,092
Interest income - Affiliated entities	1,405,649			1,405,649
Gain on sale of inventory and land and buildings	118,812			118,812
Gain on redemption of general partnership interest in limited partnership		\$ 1,928,545		1,928,545
Maintenance services - Affiliated entities	2,321,142			2,321,142
Dividend income	901,045		\$ (901,045)	
Other interest income and miscellaneous	2,637,666			2,637,666
	<u>31,893,029</u>	<u>1,928,545</u>	<u>(901,045)</u>	<u>32,920,529</u>
EXPENSES				
Program services	28,327,693			28,327,693
Supporting services				
Management and general	1,123,182	378,925		1,502,107
Fundraising	443,827			443,827
	<u>29,894,702</u>	<u>378,925</u>		<u>30,273,627</u>
GAIN ON DISSOLUTION OF SUBSIDIARIES - NET	<u>34,374</u>			<u>34,374</u>
CHANGE IN NET ASSETS	<u>\$ 2,032,701</u>	<u>\$ 1,549,620</u>	<u>\$ (901,045)</u>	<u>\$ 2,681,276</u>



## SCHEDULE OF OHIO DEVELOPMENT SERVICES AGENCY ADMINISTERED GRANTS

YEAR ENDED DECEMBER 31, 2016

<u>Grant Name</u>	<u>Number</u>	<u>Cash Received</u>	<u>Expenses Charged</u>	<u>Remaining Grant Balance</u>
Housing Trust Fund	S-Y-15-7DR-1	\$ 33,033	\$ 33,033	\$ 25,867
Housing Trust Fund	S-R-14-7DR-1	\$ 66,827	\$ 66,827	\$ -

## SCHEDULE OF LONG-TERM NOTES RECEIVABLE

DECEMBER 31, 2016

Description	Amount	Interest Rate	Maturity Date
Cleveland Housing Network Limited Partnership XVIII	\$ 525,336	8%	December 2031
Cleveland Housing Network Limited Partnership XVIII	300,000	7%	December 2032
Cleveland Housing Network Limited Partnership XVIII	300,000	2%	December 2032
Cleveland Housing Network Limited Partnership XIX	750,000	5%	December 2029
Cleveland Housing Network Erieview Homes I, Ltd.	446,000	5%	December 2029
Cleveland Housing Network Limited Partnership XX	1,850,000	5%	December 2030
Erie Square LP	500,000	5%	December 2030
Erie Square LP	48,030	4%	May 2034
New Construction Limited Partnership III	516,000	.25%	December 2031
Cleveland Housing Network Limited Partnership XXI	1,500,000	5%	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%	December 2027
Cleveland Green Homes East	1,090,280	.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

## SCHEDULE OF LONG-TERM NOTES RECEIVABLE (Continued)

DECEMBER 31, 2016

Description	Amount	Interest Rate	Maturity Date
Cleveland NSP Homes LP	4,750,000	1.15%	December 2062
Cleveland NSP Homes LP	1,250,000	1.15%	December 2062
Edgewood Park LP	750,000	2%	December 2037
Emerald Alliance VII LP	1,601,000	2%	June 2043
New Construction Limited Partnership IV	600,000	5.09%	September 2038
Cleveland Green Homes III LP	387,000	7.5%	December 2044
Emerald Alliance VI LP	420,783	0%	December 2044
Maple Park Place LP	450,000	.25%	December 2044
Emerald Alliance VIII LP	125,000	0%	December 2046
Emerald Alliance VIII LP	270,000	0%	December 2046
Westerly III LP	350,000	.25%	December 2064
Eastside Neighborhood Homes LP	250,000	2%	April 2049
Menwa Apartments LP	<u>200,000</u>	2.5%	December 2060
	27,651,070		
Less: Reserve for impairment	<u>200,000</u>		
	<u>\$27,451,070</u>		

## SCHEDULE OF NOTES PAYABLE

DECEMBER 31, 2016

<u>Lender</u>	<u>Interest Rate</u>	<u>Due Date</u>	<u>Total Available Line of Credit</u>	<u>Amount Outstanding at December 31, 2016</u>
Enterprise Community Loan Fund	0%	December 2018	\$ 391,250	\$ 391,250
Key Bank	Prime +.5%	July 2017	800,000	500,600
Key Bank	Prime +.5%	July 2017	1,200,000	520,000
Housing Partnership Network	4%	December 2017	500,000	500,000
PNC Bank	3%	September 2017	<u>500,000</u>	<u>129,382</u>
			<u>\$ 3,391,250</u>	<u>\$ 2,041,232</u>

SCHEDULE OF MORTGAGES PAYABLE TO CITY OF CLEVELAND  
AND STATE OF OHIO

DECEMBER 31, 2016

Description	Interest Rate	Due Date	Amount
P1	0%	*	\$ 2,500
P2	0%	*	12,500
P5	6.5% (Deferred)	*	8,640
P7 (State)	0%	2032	40,000
P8	1%	*	7,536
P8 (State)	0%	2017	7,560
P11	0%	2020	29,762
P12	0%	2022	66,527
P13	0%	2023	58,201
P14	0%	2024	126,478
P15	0%	2025	169,856
P16	0%	2026	384,616
P17	0%	2027	348,000
P17 (State loan)	0%	*	63,888
P18	0%	2028	492,000
P18 (State loan)	0%	*	300,000
P19/Erievew Homes	0%	2029	1,130,000
P20	0%	2030	1,850,000
NC1 (State loan)	1%	2029	9,678
Cleveland New Homes	0%	2027	806,421
P21	0%	2031	1,500,000
NC3	0%	2033	516,000
Erie Square	0%	2037	500,000
Erievew 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	1,090,280
Cleveland Green Homes East (State)	2%	*	508,000
Edgewood Park (State)	2%	2038	750,000
Eastside Neighborhood Homes	2%	2033	250,000
Cleveland Green Homes II (State)	1.5%	2060	3,789,318
Cleveland NSP Homes	0%	2062	6,000,000
Cleveland Green Homes III	0%	2044	387,000
Emerald Alliance VI	0%	2044	420,783
Emerald Alliance VII	0%	2043	500,000
Emerald Alliance VII (State)	2%	2043	1,101,000
Emerald Alliance VIII	0%	2046	125,000
Emerald Alliance VIII	0%	2046	270,000
			<u>\$ 26,473,544</u>

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