



CHN
Housing PartnersSM
and Affiliates

Consolidated Financial Statements
December 31, 2017

Cohen & Co

cohencpa.com

CHN HOUSING PARTNERS AND AFFILIATES

DECEMBER 31, 2017

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	2 - 3
CONSOLIDATED STATEMENT OF FINANCIAL POSITION December 31, 2017, with comparative totals for 2016	4
CONSOLIDATED STATEMENT OF ACTIVITIES Year ended December 31, 2017, with comparative totals for 2016	5
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES Year ended December 31, 2017, with comparative totals for 2016	6
CONSOLIDATED STATEMENT OF CASH FLOWS Year ended December 31, 2017, with comparative totals for 2016	7
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	8 - 18
SUPPLEMENTAL FINANCIAL INFORMATION	19

BOARD OF TRUSTEES
CHN HOUSING PARTNERS AND AFFILIATES

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of CHN Housing Partners (a nonprofit organization) and Affiliates, which comprise the consolidated statement of financial position as of December 31, 2017, 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 CHN Housing Partners and Affiliates as of December 31, 2017, 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.

Report on Summarized Comparative Information

We have previously audited CHN Housing Partners and Affiliates' 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated June 9, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated ____, 2018, on our consideration of CHN Housing Partners 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the CHN Housing Partners and Affiliates' 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 CHN Housing Partners and Affiliates' internal control over financial reporting and compliance.

June 6, 2018
Cleveland, Ohio

Cohen & Company Ltd.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017, WITH COMPARATIVE TOTALS FOR 2016

	2017	2016		2017	2016
ASSETS			LIABILITIES		
CURRENT ASSETS			CURRENT LIABILITIES		
Cash and cash equivalents	\$ 11,468,881	\$ 10,529,917	Current portion of notes payable	\$ 1,882,930	\$ 1,649,982
Accounts receivable - Net			Current portion of long-term debt	7,560	507,560
Affiliated entities	2,237,552	2,483,619	Current portion of deferred interest payable	835	835
Other	1,348,516	543,046	Accounts payable and accrued expenses		
Grants and contracts	2,053,229	2,012,888	Trade	856,927	1,395,660
Current portion of mortgages receivable	793,974	890,933	Affiliated entities	442,072	339,825
Inventory - Net	372,448	318,005	Other	1,957,554	987,727
Prepaid and other assets	194,719	215,082	Deferred revenue	1,341,340	1,198,378
Land and buildings held for sale	2,032,825	2,196,251	Deferred income taxes	180,468	305,000
	20,502,144	19,189,741		6,669,686	6,384,967
			LONG-TERM LIABILITIES		
FURNITURE AND EQUIPMENT - AT COST	738,690	738,690	Notes payable		391,250
Less: Accumulated depreciation	696,747	669,666	Long-term debt	32,797,584	32,917,784
	41,943	69,024	Deferred interest payable	881,796	770,926
			Deferred income taxes		316,075
				33,679,380	34,396,035
OTHER ASSETS				40,349,066	40,781,002
Long-term notes receivable - Net	26,980,735	27,451,070	COMMITMENTS AND CONTINGENCIES		
Other long-term receivable		750,000			
Investments in limited partnerships	7,531,863	7,134,063	NET ASSETS		
Mortgages receivable - Net	1,191,901	1,593,864	UNRESTRICTED		
Interest receivable - Deferred	9,495,340	9,271,151	Designated	6,937,432	6,713,243
	45,199,839	46,200,148	Undesignated	17,632,428	17,139,668
				24,569,860	23,852,911
	\$ 65,743,926	\$ 65,458,913	PERMANENTLY RESTRICTED	825,000	825,000
				25,394,860	24,677,911
				\$ 65,743,926	\$ 65,458,913

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

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017, WITH COMPARATIVE TOTALS FOR 2016

	2017		2016 Totals
	Unrestricted	Permanently Restricted	
REVENUES			
Public support	\$ 21,267,441		\$ 21,267,441
Rental income	811,510		811,510
Management fees - Affiliated entities	5,724,257		5,724,257
Interest income - Affiliated entities	1,301,361		1,301,361
Gain (loss) on sale of inventory and land and buildings	(362,666)		(362,666)
Gain on redemption of general partnership interest in limited partnership			1,928,545
Maintenance services - Affiliated entities	2,025,626		2,025,626
Other interest income and miscellaneous	1,441,174		1,441,174
	<u>32,208,703</u>		<u>32,208,703</u>
EXPENSES			
Program services	30,720,205		30,720,205
Supporting services			
Management and general	721,928		721,928
Fundraising	490,228		490,228
	<u>31,932,361</u>		<u>31,932,361</u>
	276,342		276,342
			28,327,693
INCOME TAX PROVISION (BENEFIT)	(440,607)		(440,607)
GAIN ON DISSOLUTION OF SUBSIDIARIES - NET			<u>34,374</u>
CHANGE IN NET ASSETS	716,949		716,949
NET ASSETS - BEGINNING OF THE YEAR	<u>23,852,911</u>	\$ 825,000	<u>24,677,911</u>
NET ASSETS - END OF THE YEAR	<u>\$ 24,569,860</u>	<u>\$ 825,000</u>	<u>\$ 25,394,860</u>

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017, WITH COMPARATIVE TOTALS FOR 2016

	PROGRAM SERVICES			SUPPORTING SERVICES		TOTAL EXPENSES		
	Weatherization	Partnerships and Development	Community Resource Center	Total Program Services	Management and General	Fundraising	2017	2016
Personnel	\$ 3,690,980	\$ 6,216,033	\$ 966,772	\$ 10,873,785	\$ 425,371	\$ 241,675	\$ 11,540,831	\$ 10,885,143
Rent	177,935	191,783	79,181	448,899	23,548	7,436	479,883	453,040
Maintenance	47,317	202,452	5,795	255,564	4,509	1,424	261,497	177,535
Telephone and utilities	26,334	228,149	12,024	266,507	4,674	1,476	272,657	319,624
Equipment and supplies	136,046	99,134	20,190	255,370	36,233	13,261	304,864	336,733
Contract materials	2,467,985			2,467,985			2,467,985	1,844,904
Construction rehab		2,689,849		2,689,849			2,689,849	377,230
Housewarming materials and labor	5,646,736			5,646,736			5,646,736	8,461,359
Electric wiring materials and labor	1,472,324			1,472,324			1,472,324	1,018,837
Energy assistance and water conservation materials and labor	3,873,693			3,873,693			3,873,693	2,440,439
Family development			102,131	102,131			102,131	83,675
Insurance	41,056	126,756	5,929	173,741	9,012	2,846	185,599	173,772
Professional fees	805,129	262,405	63,421	1,130,955	156,855	211,722	1,499,532	1,318,845
Management fees		95,434		95,434	19,402		114,836	138,501
Interest expense	26,701	159,843		186,544			186,544	235,631
Real estate taxes		98,927		98,927			98,927	87,801
Loss on collection of notes and accounts receivable		179,714		179,714			179,714	215,199
Reserve on notes receivable		300,000		300,000			300,000	112,450
Bad debts		133,223		133,223			133,223	491,415
Miscellaneous	21,838	43,536	3,450	68,824	15,243	10,388	94,455	190,233
Total expenses before income taxes and depreciation	18,434,074	11,027,238	1,258,893	30,720,205	694,847	490,228	31,905,280	29,362,366
Depreciation					27,081		27,081	35,186
	<u>\$ 18,434,074</u>	<u>\$ 11,027,238</u>	<u>\$ 1,258,893</u>	<u>\$ 30,720,205</u>	<u>\$ 721,928</u>	<u>\$ 490,228</u>	<u>\$ 31,932,361</u>	<u>\$ 29,397,552</u>

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

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017, WITH COMPARATIVE TOTALS FOR 2016

	<u>2017</u>	<u>2016</u>		<u>2017</u>	<u>2016</u>
CASH FLOW PROVIDED FROM OPERATING ACTIVITIES			NONCASH INVESTING AND FINANCING ACTIVITIES		
Change in net assets	\$ 716,949	\$ 2,681,276	Collection of notes and interest receivable via receipt of land and building held for sale	\$ 1,712,000	\$ 1,790,500
Noncash items included in change in net assets			Debt and deferred interest forgiven or transferred to lease purchase buyers	\$ 972,785	\$ 1,735,423
Depreciation	27,081	35,186	Mortgages provided to lease purchase buyers	\$ 427,418	\$ 495,066
Loss on disposal of furniture and equipment		128,513	Conversion of accounts receivable to investment in limited partnership		\$ 550,000
Deferred interest income	(1,295,811)	(1,405,649)	Increase in other long-term receivable due to redemption of general partnership interest in limited partnership		\$ 750,000
Deferred interest expense	147,460				
Deferred income taxes	(440,607)	316,075	SUPPLEMENTAL INFORMATION		
Loss on collection of notes and accounts receivable	179,714	215,199	Interest paid	\$ 52,934	\$ 116,464
Debt forgiven upon completion of development projects		(550,000)	Income taxes paid		\$ 255,000
Loss (gain) on sale of land and buildings	362,666	(118,812)			
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	(127,411)	(896,196)			
Reserve on mortgages receivable	43,723	30,298			
Reserve on notes receivable	300,000	112,450			
Increase (decrease) in cash caused by changes in current items					
Accounts receivable - Net	120,305	2,647,795			
Inventory - Net	(54,443)	(126,824)			
Prepaid and other assets	20,363	19,786			
Accounts payable and accrued expenses	533,341	879,240			
Deferred revenue	<u>142,962</u>	<u>252,268</u>			
Net cash flow provided from operations	<u>676,292</u>	<u>2,257,686</u>			
CASH FLOW PROVIDED FROM INVESTING ACTIVITIES					
Proceeds on sale of land and buildings held for sale	152,266	147,828			
Proceeds on redemption of general partnership interest in limited partnership		2,053,545			
Renovation costs on land and buildings held for sale		(7,105)			
Investment in limited partnerships	(270,389)	(125,300)			
Advances under notes receivable	(955,000)	(370,529)			
Repayment of notes, mortgages, and interest receivable	<u>1,187,860</u>	<u>951,434</u>			
	<u>114,737</u>	<u>2,649,873</u>			
CASH FLOW PROVIDED FROM (USED IN) FINANCING ACTIVITIES					
Additional financing	1,025,000	370,529			
Repayment of debt and deferred interest	<u>(877,065)</u>	<u>(1,403,163)</u>			
	<u>147,935</u>	<u>(1,032,634)</u>			
INCREASE IN CASH AND CASH EQUIVALENTS	938,964	3,874,925			
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>10,529,917</u>	<u>6,654,992</u>			
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 11,468,881</u>	<u>\$ 10,529,917</u>			

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 CHN Housing Partners, formerly known as Cleveland Housing Network, Inc., include the accounts of its wholly owned subsidiaries, Rainbow Place Apartments Inc. (Rainbow), CHN Partner Services Inc. (PSI), CHN Affordable Housing Services LLC (AH), and CHN SLP LLC (SLP), and its affiliate, NHI, Inc. (NHI), (collectively, CHN). The wholly owned subsidiaries and certain affiliates are consolidated with CHN Housing Partners 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.

CHN Housing Partners also has approximately 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, lease, and provide tenants with the opportunity to purchase low-income housing.

CHN 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, CHN has not consolidated the limited partnerships in these accompanying consolidated financial statements. In 2017, CHN made equity contributions of \$389 to limited partnerships. In lieu of receiving payment of \$127,411 for developer fees from a certain limited partnership, CHN received an investment in the limited partnership. Also, CHN received a grant from the State of Ohio in the amount of \$270,000, which was used as an equity contribution in a certain limited partnership.

CHN Housing Partners is an Ohio nonprofit corporation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). CHN 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 nonprofit 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 CHN. During 2017, NHI had no income statement activity and any assets held at December 31, 2017, had no value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nature of Operations and Presentation (continued)

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 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 for the year ended December 31, 2016. In addition, as part of this transaction, CHN 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 was included in other interest income and miscellaneous revenue in the consolidated statement of activities for the year ended December 31, 2016. As of December 31, 2017, 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 accounts receivable in the accompanying consolidated statement of financial position.

PSI is an Ohio corporation organized in February 2017 to provide construction management services and property management services to third parties with respect to single family and multi-family housing developments. PSI has two wholly owned subsidiaries. CHN Real Estate Services LLC provides property management within Ohio. CHN Construction LLC provides construction management services. The operations of the subsidiaries are reflected in the accompanying consolidated statement of activities.

AH is an Ohio Limited Liability Company organized in August 2017 for the purpose of providing property management services outside the state of Ohio. There was no activity in 2017.

SLP is an Ohio Limited Liability Company organized in February 2017 for the purpose of acquiring and holding equity interests in entities that own low-income housing tax credit developments, and ultimately selling or disposing of such interests. There was no activity in 2017.

CHN 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 168,900 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)

CHN 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. CHN receives federal, state, and local grants and loans which it in turn loans to the partnerships. Since inception, over 6,025 units have been completed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nature of Operations and Presentation (continued)Partnerships and Development (Low Income Housing) (continued)

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 CHN, many families not otherwise able to afford home ownership become homeowners through the program.

Community Resource Center

These programs provide pathways out of poverty for low and moderate income households and include social services, training, and counseling. 6,999 families have received foreclosure prevention counseling and/or direct assistance. In addition, 25,268 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 CHN Housing Partners is subject to income taxes. Dividends received from Rainbow are subject to unrelated business income tax. The 2016 gain recognized on Rainbow's redemption of its general partner interest in the Limited Partnership generated income tax.

CHN has recorded a deferred income tax benefit of approximately \$441,000 due to remeasurement of their deferred income tax position at the new corporate tax rate of 21 percent (from 35 percent) and the revision of the prior year unrelated business income tax estimate for CHN Housing Partners. The temporary difference which gives rise to the deferred tax liability is an excess of book gain over tax gain in connection with the Rainbow redemption.

CHN 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, 2017, CHN does not have a liability for unrecognized tax benefits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 CHN's consolidated financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Revenue RecognitionGrants

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

CHN 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 CHN with the terms of a grant. On certain grants, if advances exceed eligible costs, the funds must be returned to the grantor.

CHN received approximately 72% of its public support from four grant contracts: the Ohio Department of Development under the Home Weatherization Assistance Program and the Electric Partnership Program, Ohio Partners for Affordable Energy under the Community Connection Program, and Dominion East Ohio under the Housewarming Program. Grants and contracts receivable from these funding sources amounted to approximately 76% of grants and contracts receivable at December 31, 2017.

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 CHN 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (continued)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

CHN acts as the general contractor for certain partnerships in development and recognizes revenue as construction services are performed. Construction rehab service revenue is included in management fees in the accompanying consolidated statement of activities.

Rental Income

CHN 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 receivables for program service fees, rent, escrow, grants, and proceeds from houses sold and fees and advances due from various related limited partnerships. These amounts are due under various payment terms.

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, 2017, 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.

CHN'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, 2017, CHN has a reserve for impairment as management expects to sell the inventory for less than its carrying value.

Inventory - Homeward program	\$ 1,214,795
Reserve for impairment	<u>(1,025,500)</u>
	189,295
Inventory - Other programs	<u>183,153</u>
Inventory - Net	<u>\$ 372,448</u>

The balance in inventory from other programs consists of properties purchased for resale to individuals, affiliated partnerships, vacant lots, and other miscellaneous properties. CHN 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 2017, 86 of these properties were sold and a loss on the sale of these properties of \$362,666 was reflected in the consolidated statement of activities. The loss includes the related income from the forgiveness of debt and interest by the City of Cleveland of approximately \$820,000 relating to these properties. CHN also recorded \$258,000 in sales fee revenue for the property sales in 2017 that was recognized in other interest income and miscellaneous in the accompanying consolidated statement of activities.

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 6, 2018, 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 CHN'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 7.5%. 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, CHN expects, in substantially all cases, to receive partnership properties as repayment for these receivables. CHN will then sell or rent the properties to tenants or other qualified low-income purchasers. In most cases, amounts due to the City of Cleveland by CHN related to these properties are forgiven at the time of sale.

During 2017, CHN received properties as repayment for notes and interest receivable, which were accounted for as follows:

Fair value of homes received	\$ 1,712,000
Debt forgiven	150,000
Other receivables	(41,876)
Notes receivable	(1,125,336)
Interest receivable	(874,502)
Loss on collection of notes and accounts receivable	<u>\$ (179,714)</u>

CHN 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, 2017, the allowance for estimated losses was \$500,000. During 2017, a reserve of \$300,000 was recorded on notes receivable.

3. MORTGAGES RECEIVABLE

CHN 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, 2017, the outstanding balance on these mortgages was approximately \$483,000.

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, 2017, the outstanding balance on these mortgages was approximately \$2,095,000. The mortgages bear interest at 0%. Mortgages outstanding at December 31, 2017, in the amount of approximately \$1,265,000 are paid monthly and mature between 2018 and 2021. The remaining \$830,000 of the mortgages receivable outstanding at December 31, 2017, 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 \$162,000 allowance for uncollectible mortgages receivable where monthly payments are due at December 31, 2017. Approximately \$162,000 of these mortgages receivable are past due at December 31, 2017.

For mortgages receivable where CHN will receive payment upon sale of the properties, CHN 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, 2017, CHN has an allowance for estimated losses on these mortgages of approximately \$430,000, and this allowance specifically relates to second and third mortgages on those properties sold under the Homeward program.

4. NOTES PAYABLE

CHN has lines of credit with two banks and two community development lending institutions, totaling \$2,891,250, of which \$1,882,930 was outstanding at December 31, 2017. The interest rates are fixed from 0% to 4% or are at prime (4.50% at December 31, 2017) 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 CHN as defined. The notes payable are classified as current in accordance with the terms of the agreements, with maturity dates ranging from May 2018 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, 2017, 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 2018 through 2062; certain of the mortgages have provisions for forgiveness of principal and interest	\$ 25,503,344
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
0% note, payable to Cuyahoga County with all interest and principal deferred; due December 2047; secured by a mortgage on the property; the mortgage has provisions for forgiveness of principal and interest	400,000
0% note, payable to Cuyahoga County with all interest and principal deferred; due December 2047; secured by a mortgage on the property; the mortgage has provisions for forgiveness of principal and interest	450,000
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 nonprofit organization with interest and principal deferred; interest compounded annually; due September 2038; collateralized by notes receivable	<u>600,000</u>
	32,805,144
Less: Current portion	<u>7,560</u>
	<u>\$ 32,797,584</u>

Future maturities of long-term debt are as follows:

2018	\$ 7,560
2019	-
2020	29,762
2021	-
2022	66,527
Thereafter	<u>32,701,295</u>
	<u>\$ 32,805,144</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. BOARD DESIGNATED UNRESTRICTED NET ASSETS

Unrestricted net assets at December 31, 2017, were designated by the Board of Trustees as follows:

Designated for reducing the sale price of homes to future lease purchase buyers	<u>\$ 6,937,432</u>
--	---------------------

7. PERMANENTLY RESTRICTED NET ASSETS

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

CHN'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, 2017, 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.

There were no endowment assets invested in low-income housing projects at December 31, 2017. Invested 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 2017.

8. COMMITMENTS AND CONTINGENCIES

Leases

CHN leases office space and office equipment under long-term operating leases through March 2023.

Minimum annual rentals are as follows:

2018	\$ 438,054
2019	319,682
2020	119,849
2021	102,912
2022	66,199
Thereafter	<u>13,278</u>
	<u>\$ 1,059,974</u>

Total rent expense for office space and equipment for 2017 amounted to approximately \$455,000.

Litigation

CHN 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 CHN's financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. PROFIT SHARING PLAN

CHN 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 2017 amounted to \$242,995. The plan also allows for additional contributions at the discretion of the Board of Trustees. There were no discretionary contributions for 2017.

10. RELATED PARTY TRANSACTIONS

During the ordinary course of its business, CHN conducts transactions with related parties. During 2017, CHN paid \$91,457 for property management and \$581,944 for weatherization to its neighborhood constituent community development corporations.

In 2017, CHN charged the affiliated partnerships \$65,955 for accounting services.

In 2017, CHN gave \$85,000 in grants (included in program expenses) to its affiliated partnerships.

11. GUARANTEES

CHN has guaranteed loans for six of its affiliated partnerships as follows:

<u>Partnership</u>	<u>Amount Outstanding at December 31, 2017</u>	<u>Source of Loan</u>
Westerly II LP	\$ 1,768,961	Bank
Slavic Green Homes I LP	\$ 2,666,902	Bank
Emerald Alliance X LP	\$ 1,657,262	Bank
Emerald Alliance IX LP	\$ 7,330,933	Bank
Hough Heritage LP	\$ 6,384,234	Bank
Menwa Apartments LP	\$ 1,316,677	Bank

The term of the guarantees is the life of the loans through the construction periods, which are expected to mature in 2018. 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 CHN is the developer. CHN 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. CHN would expect the amount due to be reduced by the proceeds of the sale of the partnerships' collateral.

CHN HOUSING PARTNERS AND AFFILIATES

SUPPLEMENTAL FINANCIAL INFORMATION

DECEMBER 31, 2017

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	
Year ended December 31, 2017	20 - 21
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	22 - 23
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	24 - 25
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	
Year ended December 31, 2017	26
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	27
INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL FINANCIAL INFORMATION	28
CONSOLIDATING STATEMENT OF FINANCIAL POSITION	
December 31, 2017	29
CONSOLIDATING STATEMENT OF ACTIVITIES	
Year ended December 31, 2017	30
SCHEDULE OF OHIO DEVELOPMENT SERVICES AGENCY ADMINISTERED GRANTS	
Year ended December 31, 2017	31
SCHEDULE OF LONG-TERM NOTES RECEIVABLE	
December 31, 2017	32 - 33
SCHEDULE OF NOTES PAYABLE	
December 31, 2017	34
SCHEDULE OF MORTGAGES PAYABLE TO CITY OF CLEVELAND AND STATE OF OHIO	
December 31, 2017	35

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2017

Federal Grantor/Pass-Through Grantor/Program Title	CFDA #	Expenditures
United States Department of Energy passed through the State of Ohio		
Home Weatherization Assistance Program - 16-111	81.042	\$ 314,587
Home Weatherization Assistance Program - 17-111	81.042	<u>567,729</u>
		<u>882,316</u>
United States Department of Health and Human Services passed through Cuyahoga County		
Utility Assistance Program – CE1700021	93.558	<u>140,171</u>
United States Department of Health and Human Services passed through the State of Ohio		
Home Energy Assistance Program - 17-HA-135 (\$480,929 passed through to subrecipients)	93.568	924,137
Home Energy Assistance Program - 18-HA-135 (\$75,714 passed through to subrecipients)	93.568	295,612
Home Weatherization Assistance Program - 16-111	93.568	1,583,493
Home Weatherization Assistance Program - 17-111	93.568	<u>944,081</u>
		<u>3,747,323</u>
United States Department of Health and Human Services Assets for Independence – 90EI0924-01-00	93.602	<u>15,210</u>
Total United States Department of Health and Human Services		<u>3,902,704</u>
United States Department of Housing and Urban Development passed through City of Cleveland		
Neighborhood Stabilization Program	14.218	30,000
United States Department of Housing and Urban Development passed through Cuyahoga County		
Foreclosure Prevention Counseling - CE1600258-01	14.218	<u>18,410</u>
		<u>48,410</u>

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

YEAR ENDED DECEMBER 31, 2017

<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	850,000
United States Department of Housing and Urban Development passed through the City of Cleveland Home Investment Partnership Loan Program	14.239	<u>75,000</u> <u>925,000</u>
United States Department of Housing and Urban Development passed through Enterprise Community Partners Capacity Building Program - 16SG0542	14.252	<u>35,000</u>
United States Department of Housing and Urban Development passed through Housing Partnership Network Housing Counseling Programs	14.169	<u>41,501</u>
Total United States Department of Housing and Urban Development		<u>1,049,911</u>
United States Department of Treasury passed through Enterprise Community Partners Low Income Tax Assistance – 17-0856	21.009	42,000
United States Department of Treasury passed through Housing Partnership Network National Foreclosure Mitigation Counseling	21.000	<u>27,885</u>
Total United States Department of Treasury		<u>69,885</u>
Total Federal Expenditures		<u>\$ 5,904,816</u>

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

BOARD OF TRUSTEES
CHN HOUSING PARTNERS 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 CHN Housing Partners (a nonprofit organization) and Affiliates which comprise the consolidated statement of financial position as of December 31, 2017, 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 6, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered CHN Housing Partners 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 CHN Housing Partners and Affiliates' internal control. Accordingly we do not express an opinion on the effectiveness of CHN Housing Partners 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 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 CHN Housing Partners 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 CHN's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CHN Housing Partners and Affiliates' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cohen & Company Ltd.

June 6, 2018
Cleveland, Ohio

BOARD OF TRUSTEES
CHN HOUSING PARTNERS 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 CHN Housing Partners 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, 2017. CHN Housing Partners 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 CHN Housing Partners 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 CHN Housing Partners 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 CHN Housing Partners and Affiliates' compliance.

Opinion on The Major Federal Program

In our opinion, CHN Housing Partners 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, 2017.

Report on Internal Control Over Compliance

Management of CHN Housing Partners 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 of compliance, we considered CHN Housing Partners 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 CHN Housing Partners 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 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Cohen & Company Ltd.

June 6, 2018
Cleveland, Ohio

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2017

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 program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.568	Home Energy Assistance Program
93.568	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, 2017

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of CHN Housing Partners and Affiliates under the programs of the federal government for the year ended December 31, 2017. 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 CHN Housing Partners and Affiliates, it is not intended to and does not present the consolidated financial position, changes in net assets, or cash flows of CHN Housing Partners 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.

CHN Housing Partners and Affiliates have not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

BOARD OF TRUSTEES
CHN HOUSING PARTNERS AND AFFILIATES

Independent Auditors' Report on Supplemental Financial Information

We have audited the consolidated financial statements of CHN Housing Partners and Affiliates as of and for the year ended December 31, 2017, and our report thereon dated June 6, 2018, 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 29 through 35 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 6, 2018
Cleveland, Ohio

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017

	<u>CHN</u>	<u>Subsidiaries and Affiliates</u>	<u>Eliminations</u>	<u>Consolidated</u>		<u>CHN</u>	<u>Subsidiaries and Affiliate</u>	<u>Eliminations</u>	<u>Consolidated</u>
ASSETS					LIABILITIES				
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents	\$ 10,549,889	\$ 918,992		\$ 11,468,881	Current portion of notes payable	\$ 1,882,930			\$ 1,882,930
Accounts receivable - Net					Current portion of long-term debt	7,560			7,560
Affiliated entities	3,168,584	27,247	\$ (958,279)	2,237,552	Current portion of deferred interest payable	835			835
Other	598,516	750,000		1,348,516	Accounts payable and accrued expenses				
Grants and contracts	2,053,229			2,053,229	Trade	856,927			856,927
Current portion of mortgages receivable	793,974			793,974	Affiliated entities	446,534	\$ 953,817	\$ (958,279)	442,072
Inventory - Net	372,448			372,448	Other	1,957,554			1,957,554
Prepaid and other assets	293,386	1,433	(100,100)	194,719	Deferred revenue	1,341,340			1,341,340
Land and buildings held for sale	2,032,825			2,032,825	Deferred income taxes	122,955	57,513		180,468
	<u>19,862,851</u>	<u>1,697,672</u>	<u>(1,058,379)</u>	<u>20,502,144</u>		<u>6,616,635</u>	<u>1,011,330</u>	<u>(958,279)</u>	<u>6,669,686</u>
FURNITURE AND EQUIPMENT - AT COST	738,690			738,690	LONG-TERM LIABILITIES				
Less: Accumulated depreciation	696,747			696,747	Long-term debt	32,797,584			32,797,584
	<u>41,943</u>			<u>41,943</u>	Deferred interest payable	881,796			881,796
						<u>33,679,380</u>			<u>33,679,380</u>
						<u>40,296,015</u>	<u>1,011,330</u>	<u>(958,279)</u>	<u>40,349,066</u>
OTHER ASSETS					NET ASSETS				
Long-term notes receivable - Net	26,980,735			26,980,735	UNRESTRICTED				
Investments in limited partnerships	7,531,863			7,531,863	Designated	6,937,432			6,937,432
Mortgages receivable - Net	1,191,901			1,191,901	Undesignated	17,046,186	686,342	(100,100)	17,632,428
Interest receivable - Deferred	9,495,340			9,495,340		23,983,618	686,342	(100,100)	24,569,860
	<u>45,199,839</u>			<u>45,199,839</u>	PERMANENTLY RESTRICTED	825,000			825,000
						<u>24,808,618</u>	<u>686,342</u>	<u>(100,100)</u>	<u>25,394,860</u>
	<u>\$ 65,104,633</u>	<u>\$ 1,697,672</u>	<u>\$ (1,058,379)</u>	<u>\$ 65,743,926</u>		<u>\$ 65,104,633</u>	<u>\$ 1,697,672</u>	<u>\$ (1,058,379)</u>	<u>\$ 65,743,926</u>

CONSOLIDATING STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

	<u>CHN</u>	<u>Subsidiaries and Affiliates</u>	<u>Eliminations</u>	<u>Total</u>
REVENUES				
Public support	\$ 21,267,441			\$ 21,267,441
Rental income	811,510			811,510
Management fees - Affiliated entities	5,724,257			5,724,257
Interest income - Affiliated entities	1,301,361			1,301,361
Loss on sale of inventory and land and buildings	(362,666)			(362,666)
Maintenance services - Affiliated entities	2,025,626			2,025,626
Other interest income and miscellaneous	1,366,490	\$ 74,684		1,441,174
	<u>32,134,019</u>	<u>74,684</u>		<u>32,208,703</u>
EXPENSES				
Program services	30,567,028	153,177		30,720,205
Supporting services				
Management and general	702,526	19,402		721,928
Fundraising	490,228			490,228
	<u>31,759,782</u>	<u>172,579</u>		<u>31,932,361</u>
	374,237	(97,895)		276,342
INCOME TAX BENEFIT	<u>(405,045)</u>	<u>(35,562)</u>		<u>(440,607)</u>
CHANGE IN NET ASSETS	<u>\$ 779,282</u>	<u>\$ (62,333)</u>	<u>\$ -</u>	<u>\$ 716,949</u>

SCHEDULE OF OHIO DEVELOPMENT SERVICES AGENCY ADMINISTERED GRANTS

YEAR ENDED DECEMBER 31, 2017

<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	\$ 25,867	\$ 25,867	\$ -
Housing Trust Fund	S-R-16-7DR-1	\$ 31,086	\$ 31,086	\$ 88,914

SCHEDULE OF LONG-TERM NOTES RECEIVABLE

DECEMBER 31, 2017

<u>Description</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
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
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

SCHEDULE OF LONG-TERM NOTES RECEIVABLE (Continued)

DECEMBER 31, 2017

<u>Description</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
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	420,784	0%	December 2044
Maple Park Place LP	450,000	.25%	December 2044
Emerald Alliance VIII LP	200,000	0%	December 2046
Emerald Alliance VIII LP	300,000	0%	December 2046
Westerly III LP	350,000	.25%	December 2064
Emerald Alliance IX LP	400,000	0%	December 2047
Hough Heritage LP	450,000	0%	December 2047
Eastside Neighborhood Homes LP	250,000	2%	April 2049
Menwa Apartments LP	<u>200,000</u>	2.5%	December 2060
	27,480,735		
Less: Reserve for impairment	<u>500,000</u>		
	<u>\$26,980,735</u>		

SCHEDULE OF NOTES PAYABLE

DECEMBER 31, 2017

<u>Lender</u>	<u>Interest Rate</u>	<u>Due Date</u>	<u>Total Available Line of Credit</u>	<u>Amount Outstanding at December 31, 2017</u>
Enterprise Community Loan Fund	0%	December 2018	\$ 391,250	\$ 391,250
Key Bank	Prime +.5%	July 2018	800,000	401,680
Key Bank	Prime +.5%	July 2018	1,200,000	590,000
Housing Partnership Network	4%	May 2018	<u>500,000</u>	<u>500,000</u>
			<u>\$ 2,891,250</u>	<u>\$ 1,882,930</u>

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

DECEMBER 31, 2017

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%	2018	7,560
P11	0%	2020	29,762
P12	0%	2022	66,527
P13	0%	2023	19,400
P14	0%	2024	36,137
P15	0%	2025	33,971
P16	0%	2026	211,538
P17	0%	2027	180,000
P17 (State loan)	0%	*	22,218
P18	0%	2028	288,000
P18 (State loan)	0%	*	86,250
P19/Erievew Homes	0%	2029	1,130,000
P20	0%	2030	1,850,000
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	3,789,319
Cleveland NSP Homes	0%	2062	6,000,000
Cleveland Green Homes III	0%	2044	387,000
Emerald Alliance VI	0%	2044	420,785
Emerald Alliance VII	0%	2043	500,000
Emerald Alliance VII (State)	2%	2043	1,101,000
Emerald Alliance VIII	0%	2046	200,000
Emerald Alliance VIII	0%	2046	300,000
			<u>\$ 25,503,344</u>

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