

**CMHDC DEVELOPMENT SERVICES
(AN ILLINOIS NOT-FOR-PROFIT CORPORATION)**

**Consolidated Financial Statements and
Independent Auditors' Report**

For the Year Ended December 31, 2015

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors of
CMHDC DEVELOPMENT SERVICES
Chicago, Illinois

We have audited the accompanying consolidated financial statements of **CMHDC DEVELOPMENT SERVICES** ("**Development Services**") (an Illinois not-for-profit corporation), which comprise the consolidated statement of financial position as of December 31, 2015, 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 Consolidated 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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

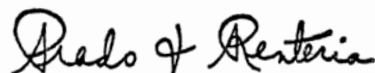
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Development Services as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the consolidated financial statements of **Development Services** for the year ended December 31, 2014, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated June 30, 2015. In our opinion, the summarized consolidated comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating schedule of financial position and consolidating schedule of activities on pages 20-22 are presented for purposes of additional analysis and are 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 financial statements or to the 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 taken as a whole.



Chicago, Illinois
June 23, 2016

**CMHDC DEVELOPMENT SERVICES
(AN ILLINOIS NOT-FOR-PROFIT CORPORATION)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**AS OF DECEMBER 31, 2015
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2014)**

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<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
<u>Current Assets</u>		
Cash	\$ 1,151,443	\$ 1,288,467
Cash - Managing agent	44,419	71,485
Tenant accounts receivable (Less: Allowance for doubtful accounts of \$4,839 and \$4,839 for 2015 and 2014, respectively)	32,795	32,273
Accounts receivable - Consulting	34,227	35,507
Total Current Assets	1,262,884	1,427,732
<u>Fixed Assets</u>		
Building Improvements in progress	20,100	-
Land, Building and Improvements	17,589,890	17,399,873
Less: Accumulated depreciation	(1,843,364)	(1,233,752)
Total Fixed Assets	15,766,626	16,166,121
<u>Other Assets</u>		
Prepaid insurance	114,131	106,969
Restricted investments - security deposits	105,969	94,046
IHDA - Real estate escrow	30,000	23,511
IHDA - Insurance escrow	27,352	26,501
IHDA - Operating reserves	43,323	65,504
IHDA - Replacement reserves	51,666	46,446
IHDA - Rent-up reserves	36,343	36,342
IHDA - Developer fee escrow	-	127,575
Escrow - Real estate properties	184,812	151,887
Other escrow deposits	50,000	-
Total Other Assets	643,596	678,781
TOTAL ASSETS	\$ 17,673,106	\$ 18,272,634

The accompanying Notes are an integral part of these consolidated Financial Statements.

**CMHDC DEVELOPMENT SERVICES
(AN ILLINOIS NOT-FOR-PROFIT CORPORATION)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**AS OF DECEMBER 31, 2015
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2014)**

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<u>LIABILITIES AND NET ASSETS</u>	<u>2015</u>	<u>2014</u>
<u>Current Liabilities</u>		
Accounts payable	\$ 46,140	\$ 52,977
Due to CMHDC - Consulting	364,018	345,276
Prepaid rent	13,413	7,801
Accrued real estate taxes	500,745	493,147
Accrued mortgage interest	25,970	19,083
Tenant security deposits	102,487	88,340
Due to CMHDC - Advances	5,286,003	5,425,431
Mortgage payable - short term portion	157,756	147,372
1602 Grant funds - short term portion	262,840	262,840
Total Current Liabilities	6,759,372	6,842,267
<u>Long-Term Liabilities</u>		
Developer fee	85,567	213,082
Deferred interest payable	378,129	354,959
Illinois Housing Development Authority loans payable - long-term portion	1,945,480	1,945,480
Mortgage payable - long term portion	6,906,681	6,696,437
1602 Grant funds - long term portion	2,628,420	2,891,260
Total Long-Term Liabilities	11,944,277	12,101,218
Total Liabilities	18,703,649	18,943,485
<u>Net Assets</u>		
Unrestricted	(1,030,543)	(670,851)
TOTAL LIABILITIES AND NET ASSETS	\$ 17,673,106	\$ 18,272,634

The accompanying Notes are an integral part of these consolidated Financial Statements.

**CMHDC DEVELOPMENT SERVICES
(AN ILLINOIS NOT-FOR-PROFIT CORPORATION)**

CONSOLIDATED STATEMENT OF ACTIVITIES

**FOR THE YEAR ENDED DECEMBER 31, 2015
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2014)**

	2015	2014
<u>Revenue</u>		
Rental income	\$ 2,204,576	\$ 1,665,512
Consulting revenue	110,749	110,999
Construction revenue	-	146,101
Interest income	2	2
Other operating income	2,339	19,263
Grant income - 1602 funds	262,840	262,840
Total Revenues	2,580,506	2,204,717
 <u>Expenses</u>		
Program Services:		
Properties	2,894,844	2,458,110
Support Services:		
Management and general	45,354	38,964
Total Expenses	2,940,198	2,497,074
 Change in Net Assets	 (359,692)	 (292,357)
Net Assets - Beginning of Year	(670,851)	(378,494)
 NET ASSETS - END OF YEAR	 \$ (1,030,543)	 \$ (670,851)

The accompanying Notes are an integral part of these consolidated Financial Statements.

**CMHDC DEVELOPMENT SERVICES
(AN ILLINOIS NOT-FOR-PROFIT CORPORATION)**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

**FOR THE YEAR ENDED DECEMBER 31, 2015
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2014)**

	<u>Program Services</u>	<u>Support Services</u>	<u>2015 Total</u>	<u>2014 Total</u>
<u>EXPENSES</u>	<u>Properties</u>	<u>Management and General</u>	<u>Expenses</u>	<u>Expenses</u>
Salaries & benefits	\$ 90,598	\$ -	\$ 90,598	\$ 83,668
Janitorial services	171,554	-	171,554	90,053
Advertisement	15,360	-	15,360	27,069
Automobile expense	1,767	93	1,860	3,877
Consulting expense	110,749	-	110,749	110,999
Development expense	-	-	-	27,941
Insurance	123,528	-	123,528	118,927
Interest expense	358,676	-	358,676	252,981
HOA condo dues	69,029	-	69,029	65,189
Telephone	1,903	-	1,903	2,328
Property management fees	132,189	-	132,189	95,560
Miscellaneous expenses	10,088	-	10,088	-
Office expense	38,899	19,217	58,116	44,145
Professional fees	78,132	26,044	104,176	110,935
Property taxes	484,498	-	484,498	458,268
Rent	47,508	-	47,508	-
Repairs and maintenance	326,845	-	326,845	368,431
Asset management	11,700	-	11,700	-
Utilities	193,459	-	193,459	152,601
Bad debt expense	18,750	-	18,750	-
Total Expenses Before Depreciation	<u>2,285,232</u>	<u>45,354</u>	<u>2,330,586</u>	<u>2,012,972</u>
Depreciation	<u>609,612</u>	<u>-</u>	<u>609,612</u>	<u>484,102</u>
TOTAL EXPENSES	<u><u>\$ 2,894,844</u></u>	<u><u>\$ 45,354</u></u>	<u><u>\$ 2,940,198</u></u>	<u><u>\$ 2,497,074</u></u>

The accompanying Notes are an integral part of these consolidated Financial Statements.

**CMHDC DEVELOPMENT SERVICES
(AN ILLINOIS NOT-FOR-PROFIT CORPORATION)**

CONSOLIDATED STATEMENT OF CASH FLOWS

**FOR THE YEAR ENDED DECEMBER 31, 2015
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2014)**

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (359,692)	\$ (292,357)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	609,612	484,102
Bad debt	18,750	-
(Increase) decrease in:		
Tenant accounts receivable	(19,272)	7,872
Accounts receivable - Consulting	1,280	5,123
Prepaid insurance	(7,162)	(26,394)
Restricted investment - security deposits	(11,923)	(46,194)
Escrows and reserves	54,270	(76,100)
Increase (decrease) in:		
Accounts payable	(6,837)	(19,763)
Due to CMHDC - Consulting	18,742	23,908
Prepaid rent	5,612	(1,262)
Accrued expenses	14,485	172,657
Tenant security deposits	14,147	40,488
Net Cash Provided By Operating Activities	332,012	272,080
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property	(210,117)	(7,468,212)
Net Cash (Used) By Investing Activities	(210,117)	(7,468,212)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Developer fee	(127,515)	-
Deferred interest payable	23,170	23,170
Release of 1602 grants funds	(262,840)	(262,840)
Proceeds from Mortgages Payable	370,000	4,924,000
Principal payments on mortgages	(149,372)	(94,867)
Affiliate advances	(139,428)	2,306,125
Net Cash (Used) Provided By Financing Activities	(285,985)	6,895,588
Decrease in Cash	(164,090)	(300,544)
Cash at Beginning of Year	1,359,952	1,660,496
CASH AT END OF YEAR	\$ 1,195,862	\$ 1,359,952
SUPPLEMENTAL DATA:		
Interest paid	\$ 358,676	\$ 252,981

The accompanying Notes are an integral part of these consolidated Financial Statements.

**CMHDC DEVELOPMENT SERVICES
(AN ILLINOIS NOT-FOR-PROFIT CORPORATION)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

CMHDC DEVELOPMENT SERVICES (“Development Services”) is a 501(c)(3) non-profit corporation formed in 2009 under the laws of the State of Illinois. The mission of Development Services is to expand housing opportunities and offer a variety of housing options for lower income individuals and families within the Chicago Metropolitan area. The consolidated financial statements of Development Services include the activity of CDS Cicero NFP, LLC, CDS Southland Homes, LLC, CDS Austin, LLC, CDS Ridge, LLC, CDS Dobson, LLC, CDS Harvard, LLC, CDS Niles, LLC and Chicago Metropolitan Construction, LLC.

On December 29, 2010, Development Services through CDS Cicero NFP, LLC purchased CDS Cicero NFP, LLC, a group of four buildings (54 units) located at 1638 S. 51st Ave, 1801 S. 50th Ave, 5700 W. 35th St., and 5741 W. 35th St., all in Cicero, IL. The acquisition and development cost of the CDS Cicero NFP, LLC totaled \$6,157,596. CDS Cicero NFP, LLC is financed in part with the proceeds of mortgage loans assumed from the Illinois Housing Development Authority (“IHDA”) and Section 1602 Grant funds.

On December 28, 2011, Development Services through CDS Southland Homes, LLC purchased 85 single family homes located in the southern suburbs of the City of Chicago. The project was purchased for \$2,510,546 subject to a first mortgage for \$2,125,000.

On May 17, 2013 Development Services received a donation of a one single home unit at 19430 Peoria Street, Chicago Heights, Illinois.

On May 23, 2013, Development Services through CDS Austin, LLC purchased a 14 unit apartment building located in Cicero, Illinois. The project was purchased for \$404,962.

On March 19, 2014, Development Services through CDS Ridge, LLC purchased a 17 unit property at 127 Ridge, Evanston, Illinois. The project was purchased for \$1,800,000.

On June 6, 2014, Development Services through CDS Dobson, LLC purchased a 15 unit property at 744 Dobson St., Evanston, Illinois. The project was purchased for \$1,400,000.

On July 18, 2014, Development Services through CDS Harvard, LLC purchased a 21 unit property at 1216-26 Harvard Ter., Evanston, Illinois. The project was purchased for \$2,350,000.

On July 29, 2014, Development Services through CDS Niles, LLC purchased a 12 unit property at 8050 Niles Ave., Skokie, Illinois. The project was purchased for \$1,450,000.

**CMHDC DEVELOPMENT SERVICES
(AN ILLINOIS NOT-FOR-PROFIT CORPORATION)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Consolidation Policy

The accompanying consolidated financial statements include the accounts of the parent company (CMHDC Development Services), and all its wholly owned subsidiaries. Inter-company transactions have been eliminated in consolidation.

Affiliate

CMHDC Development Services was incorporated in 2009 as an affiliated entity of the Chicago Metropolitan Housing Development Corporation “CMHDC” to expand housing opportunities, create mixed-income communities and offer a variety of housing options for lower-income individuals and families within the Chicago metropolitan area.

The majority of CMHDC’s board are members of Development Services’ board. As a result, CMHDC’s board controls a majority voting interest in Development Services’ board.

See Note 6 for additional transactions between Development Services and CMHDC.

Basis of Accounting

The accompanying consolidated financial statements of Development Services have been prepared on the accrual basis of accounting, whereas revenue is recognized when earned and expenses are recognized when incurred. To ensure observance of certain constraints and restrictions placed on the use of resources, separate cash accounts are maintained in accordance with the underlying programs.

Basis of Presentation

In accordance with generally accepted accounting principles, Development Services reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Income Taxes

Development Services is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Development Services had no unrelated business income during 2015 and 2014, and therefore, no provision for federal or state income taxes has been made in the accompanying consolidated financial statements. Development Services is no longer subject to examination by the Internal Revenue Service for years prior to 2012.

**CMHDC DEVELOPMENT SERVICES
(AN ILLINOIS NOT-FOR-PROFIT CORPORATION)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Rental Income

Rental income is recognized for apartment rentals as it accrues. Advance receipts of rental income are deferred and classified as a liability until earned.

Receivables

Receivables are reported at the outstanding balance less an allowance for doubtful accounts, if necessary. Accounts receivable are written off when all collection efforts have been used and the tenant has been evicted. Generally, the receivables are considered past due if not received 5 days after the due date and delinquent if not received within 30 days of the due date. However, the specific terms, including interest charges on late payments, are dependent upon the lease contracts.

Restricted Investments - Security Deposits

As required by municipalities and the State of Illinois, tenant security deposits are required to be set aside and held in separate interest bearing accounts and are not available for operating purposes. These deposits are currently held in bank accounts managed by KASS Management, Ludwig and Company, as well as Urban Equities Real Estate Consultants, Inc., the Property Managers. The deposits, including any interest accumulated, are released to the tenants according to the lease terms. The restricted deposit balances as of December 31, 2015 and 2014 are \$105,969 and \$94,046, respectively.

Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost if purchased or, fair value if contributed, plus significant expenditures required to make residences ready for occupancy. For depreciation purposes, Development Services estimates that 10% of buildings' cost is land, and as a result, not depreciable. Operating equipment purchases of \$1,000 or more are depreciated over the estimated useful life of five years using the straight-line method. Buildings are depreciated over an estimated useful life of 27.5 years using the straight line method.

**CMHDC DEVELOPMENT SERVICES
(AN ILLINOIS NOT-FOR-PROFIT CORPORATION)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Description of Programs

During 2015 and 2014, Development Services concentrated its efforts on the development and retention of affordable mixed-income housing. Development Services operates several rental properties located in different areas outside of the City of Chicago (see rental portfolio description). All of the units have been made available to qualified tenants in accordance with regulations controlling the different sources of funds that Development Services receives.

Rental Portfolio

Rental units are the largest component of Development Services' real estate holdings. As of December 31, 2015, Development Services owned and operated the following properties as rental units for the benefits of low and very low income families:

	<u>COST</u>
Cicero Gardens, a group of four buildings (54 units)	\$ 6,195,954
Southland Homes, a group of single family homes (85 units)	3,386,075
1336-38 South Austin (14 units)	759,002
Niles (12 units)	1,477,432
Ridge (17 units)	1,867,754
Dobson (15 units)	1,442,187
Harvard (21 units)	2,399,135
19430 Peoria (1 unit)	<u>69,482</u>
	17,597,021
Consolidated Financial Statement Eliminating Entry	<u>(7,131)</u>
Total Rental Portfolio	17,589,890
Accumulated depreciation	<u>(1,843,364)</u>
 PROPERTIES, NET OF DEPRECIATION	 <u>\$ 15,746,526</u>

Residences are capitalized at acquired cost, plus significant expenditures required to make the residences ready for occupancy. Residences are depreciated when they are available for occupancy.

As of December 31, 2015 and 2014, depreciation expense was \$609,612 and \$484,102, respectively.

**CMHDC DEVELOPMENT SERVICES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Comparative Financial Information

The consolidated financial statements include 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with Development Service's consolidated financial statements for the year ended December 31, 2014, from which the summarized information was derived.

NOTE 2 – LONG-TERM DEBT

On December 29, 2010, Development Services through CDS Cicero NFP, LLC purchased the CDS Cicero NFP, LLC Buildings located at 1638 S. 51st Ave, 1801 S. 50th Ave, 5700 W. 35th St., and 5741 W. 35th St. (collectively referred to as CDS Cicero NFP, LLC) at an acquisition and development cost of \$6,157,596.

1602 Grant funds were made available as part of the purchase of the building and will be forgiven in full on the forgiveness date of December 31, 2027, unless there is the occurrence of a default as stipulated in the written agreement. Development Services is amortizing the Section 1602 Grant as a forgivable loan. The grant is earned 1/15th per year and therefore the outstanding liability is reduced and amortized as deferred revenue over the 15 year compliance period, and commenced January 1, 2012. As of December 31, 2015, Development Services has earned and released \$1,051,360 with a remaining balance of \$2,891,260.

The financing for the purchase was provided as follows:

Loans payable to the Illinois Housing Development Authority (IHDA)	\$1,945,480
IHDA reserves	80,199
Seller financing	31,431
Building improvements and first loan payoff funded by proceeds from the 1602 Grant funds	3,942,620
Settlement costs	157,866
TOTAL ORIGINAL COST	<u>\$6,157,596</u>

Principal payments on long-term debts are not expected until maturity. Interest payments on the two IHDA loans are expected on a monthly basis. The monthly payment requirement for the IHDA loans is applied to accrued interest. The original terms of the loans require that the \$250 payment requirement represents collecting .27% (first loan) and .36% (second loan) of the interest rate and deferring 1.23% (first loan) and 1.14% (second loan). Also, additional interest payments can be obtained within three months of the following fiscal year based on evaluation of 65% of net cash as deemed in the regulatory agreement. The Illinois Housing Development Authority loans stipulate that additional amounts be paid towards the principal based on excess of net cash, as defined by the loan agreements.

**CMHDC DEVELOPMENT SERVICES
(AN ILLINOIS NOT-FOR-PROFIT CORPORATION)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 2 – LONG-TERM DEBT - Continued

On December 28, 2011, Development Services through CDS Southland Homes, LLC purchased a group of 85 single homes and townhomes in the southern suburbs of Chicago at an acquisition cost of \$2,510,546. It has a mortgage payable to Bank Financial in connection with the acquisition of \$2,125,000. Monthly installments including principal and interest at 4.75% are due through 2017. The short term portion of the mortgage payable at December 31, 2015 and 2014 is \$56,000 and \$53,244.

The loans payable balance consists of the following:

	<u>2015</u>	<u>2014</u>
Loan payable to the Illinois Housing Development Authority in monthly installments, including principal and interest at 1.50%, through 2024 assumed during the purchase of 1638 S. 51st Ave, 1801 S. 50th Ave, 5700 W. 35th St., and 5741 W. 35th St., all in Cicero, Illinois.	\$ 1,102,118	\$ 1,102,118
Loan payable to the Illinois Housing Development Authority in monthly installments, including principal and interest at 1.50%, through 2024, assumed during the purchase of 1638 S. 51st Ave, 1801 S. 50th Ave, 5700 W. 35th St., and 5741 W. 35th St., all in Cicero, Illinois.	843,362	843,362
1602 Grant funds outstanding until final forgiveness date of December 31, 2027 is reached, per Regulatory agreement. The grant was obtained during the purchase of 1638 S. 51st Ave, 1801 S. 50th Ave, 5700 W. 35th St., and 5741 W. 35th St., all in Cicero, Illinois.	2,891,260	3,154,100
Loan payable to Lakeside Bank in monthly installments, including principal and interest at 4.625%, through 2024. The loan was obtained to purchase property located at 744 Dobson St., Evanston, Illinois.	882,236	896,712
Loan payable to First Midwest Bank in monthly installments, including principal and interest at 4.6%, through 2024. The loan was obtained to purchase property located at 1216-26 Harvard Ter., Evanston, Illinois.	1,578,926	1,604,771
Loan payable to First Midwest Bank in monthly installments, including principal and interest at 4.6%, through 2024. The loan was obtained to purchase property located at 8050-54 Niles Ave., Skokie, Illinois.	1,031,334	1,048,221

**CMHDC DEVELOPMENT SERVICES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 2 – LONG-TERM DEBT – Continued	<u>2015</u>	<u>2014</u>
Loan payable to Bank Financial in monthly installments, including principal and interest at 3.75%, through 2039. The loan was obtained to purchase property located at 127-129 Ridge, Evanston, Illinois.	1,294,380	1,328,229
Loan payable to Bank Financial in monthly installments, including principal and interest at 4.75%, through 2017. The loan was obtained to purchase the group of 85 single family homes under CDS Southland Homes, LLC, located in the southern suburbs of the City of Chicago.	1,914,667	1,965,876
Loan payable to ThePrivate Bank and Trust in monthly installments, including principal and interest at 4.2% through November 30, 2021. The loan is secured by the 14 unit apartment building located at 1336-38 S. Austin, Cicero, Illinois.	362,894	-
Total Loans Outstanding	11,901,177	11,943,389
Less: Current portion	(420,596)	(410,212)
TOTAL LONG-TERM DEBT	\$ 11,480,581	\$ 11,533,177

Aggregate maturities of long-term debt are as follows:

December 31, 2016	\$ 420,596
2017	2,229,933
2018	375,090
2019	380,028
2020	384,865
Thereafter	8,110,665
TOTAL	\$11,901,177

**CMHDC DEVELOPMENT SERVICES
(AN ILLINOIS NOT-FOR-PROFIT CORPORATION)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 3 – ESCROW DEPOSITS AND RESTRICTED RESERVES

Cicero Gardens Property:

According to the 1602 Grant agreement and other regulatory agreements, Development Services on behalf of CDS Cicero NFP, LLC, through IHDA, is required to maintain separate accounts for certain escrow deposits and reserves.

Operating Reserves:

CDS Cicero NFP, LLC was required to establish an operating reserve in the initial amount of \$65,000 in 2011. Monthly deposits in the amount of \$501.67 are required. Funds can be used to fund operating deficits at the approval of IHDA.

The following schedule shows the activity in the reserve account during fiscal years:

	2015	2014
Balance, January 1	\$ 65,504	\$ 65,504
Deposits	-	-
Interest earnings	1	-
Withdrawals	22,182	-
BALANCE, DECEMBER 31	\$ 43,323	\$ 65,504

Replacement Reserves:

CDS Cicero NFP, LLC was required to fund a replacement reserve in the initial amount of \$16,200. Deposits of \$5,300 and \$6,271 were required in 2015 and 2014 respectively. Funds can be used to pay costs for replacement of structural elements and mechanical equipment of the buildings at the approval of IHDA.

The following schedule shows the activity in such account during fiscal years:

	2015	2014
Balance, January 1	\$ 46,446	\$ 40,175
Deposits	5,219	6,271
Interest earnings	1	-
Withdrawals	-	-
BALANCE, DECEMBER 31	\$ 51,666	\$ 46,446

**CMHDC DEVELOPMENT SERVICES
(AN ILLINOIS NOT-FOR-PROFIT CORPORATION)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 3 – ESCROW DEPOSITS AND RESTRICTED RESERVES - Continued

Real Estate Tax and Insurance Reserves:

CDS Cicero NFP, LLC funded a tax and insurance reserve in the initial amount of \$53,000 in 2011. Monthly deposits, to fund half of 105% of the prior year's real estate tax and insurance bills, are required. Funds can be used to pay real estate taxes and insurance costs of the buildings at the approval of IHDA.

The following schedule shows the activity in such accounts during fiscal years:

	<u>2015</u>		<u>2014</u>	
	<u>Tax</u>	<u>Insurance</u>	<u>Tax</u>	<u>Insurance</u>
Balance, January 1	\$ 23,511	\$ 26,501	\$ 19,799	\$ 9,463
Deposits	78,713	19,080	53,583	24,316
Interest earnings	-	-	-	-
Withdrawals	<u>(72,224)</u>	<u>(18,229)</u>	<u>(49,871)</u>	<u>(7,278)</u>
BALANCE, DECEMBER 31	<u>\$ 30,000</u>	<u>\$ 27,352</u>	<u>\$ 23,511</u>	<u>\$ 26,501</u>

Initial Rent-Up Reserves:

CDS Cicero NFP, LLC was required to fund an initial rent-up reserve in the initial amount of \$50,000. Funds shall be disbursed for operations of the building by the sole and absolute discretion of IHDA.

The following schedule shows the activity in such account during fiscal years:

	<u>2015</u>	<u>2014</u>
Balance, January 1	\$ 36,342	\$ 36,342
Deposits	-	-
Interest earnings	1	-
Withdrawals	<u>-</u>	<u>-</u>
BALANCE, DECEMBER 31	<u>\$ 36,343</u>	<u>\$ 36,342</u>

**CMHDC DEVELOPMENT SERVICES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 3 – ESCROW DEPOSITS AND RESTRICTED RESERVES - Continued

Other Properties:

Monthly deposits to escrow accounts to fund annual real estate taxes and insurance are required by the lenders. The following schedule shows the activity in such account during fiscal years:

	<u>2015</u>	<u>2014</u>
Balance, January 1	\$ 151,887	\$ 102,808
Deposits	471,727	361,708
Interest earnings	-	-
Withdrawals	<u>(438,802)</u>	<u>(312,629)</u>
BALANCE, DECEMBER 31	<u>\$ 184,812</u>	<u>\$ 151,887</u>

Other Escrow Deposits:

As part of fulfilling its mission to expand housing opportunities and offer a variety of housing options for lower income individuals and families within the Chicago Metropolitan area, Development Services continuously evaluates opportunities to acquire new rental properties. As of December 31, 2015 Development Services deposited \$50,000 into an escrow account for purposes of acquiring a new rental property.

NOTE 4 – DEFERRED DEVELOPER FEE

As part of the 1602 Grant agreement for CDS Cicero NFP, LLC, \$450,000 in developer fees was allocated to be paid. During the initial closing, \$91,125 was paid. An additional \$91,118 was paid at the end of the construction period and \$54,675 was paid in 2013. A developer fee in the amount of \$127,575 was held by IDHA in escrow and was released in 2015 according to the terms prescribed in the agreement. The final \$85,507 will be deferred and payable out of the operations of the buildings after certain terms have been attained. As of December 31, 2015 and 2014, outstanding developer fees payable was \$ 85,567 and \$213,082, respectively.

NOTE 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash, receivables, deposits and prepaid expenses and accounts payable approximate fair value due to the short maturity of these instruments. The carrying value of notes payable approximates fair value based on rates applicable to the debt and remaining maturity.

NOTE 6 – RELATED PARTY TRANSACTIONS

During 2015 and 2014, Development Services received advances from CMHDC for operating expenses as well as to establish bank accounts associated with the operations of CDS Cicero NFP, LLC, CDS Southland Homes, LLC, and Chicago Metropolitan Construction, LLC.

**CMHDC DEVELOPMENT SERVICES
(AN ILLINOIS NOT-FOR-PROFIT CORPORATION)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 6 – RELATED PARTY TRANSACTIONS - Continued

As of December 31, 2015 and 2014, Development Services owed CMHDC the following advances:

	<u>2015</u>	<u>2014</u>
Development Services	\$ 958,102	\$ 982,675
CDS Austin, LLC	23,323	373,862
CDS Cicero NFP, LLC	252,517	137,704
Peoria	1,315	3,049
CDS Southland Homes, LLC	1,175,920	1,085,920
CDS Dobson, LLC	432,054	432,055
CDS Harvard, LLC	700,000	700,000
CDS Niles, LLC	450,000	450,000
CDS Ridge, LLC	396,878	396,878
Chicago Metropolitan Construction, LLC	895,894	863,288
	<u>\$ 5,286,003</u>	<u>\$ 5,425,431</u>
Total Advances		

Development Services has contracted with CMHDC to perform consulting services under an operating agreement. The expense incurred for these contracting services for fiscal year 2015 and 2014 was \$110,749 and \$110,999, respectively. As of December 31, 2015 and 2014, the balance of the accounts payable for these consulting services is \$ 364,018 and \$345,276, respectively.

NOTE 7 – CONCENTRATION OF FINANCIAL INSTRUMENTS RISK

Development Services maintains its cash in bank deposit accounts with various financial institutions. The balances in these accounts from time to time may exceed the Federal Deposit Insurance Corporation limits. However, Development Services' management regularly monitors this risk. As of December 31, 2015 and 2014 uninsured balances were \$39,454 and \$6,340, respectively. Development Services has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its operating cash.

NOTE 8 – PROPERTY MANAGEMENT FEE

Development Services utilizes outside managing agents for its properties as follows:

Kass Management Services, Inc.

Development Services' original property management agreement with Kass Management Services, Inc. expired December 31, 2013 for the CDS Cicero NFP, LLC. On January 30, 2015, CDS Cicero NFP, LLC, management agreement was amended and extended to December 31, 2015. The management fee for these properties is 6% of gross collections, as defined in the management agreement. Kass Management also manages the property located at 1330 S. Austin in Cicero. The management fee for this property is 6%. The management agreement for the Southland and Peoria properties with Kass Management was reassigned to Ludwig and Company effective October 30, 2014.

**CMHDC DEVELOPMENT SERVICES
(AN ILLINOIS NOT-FOR-PROFIT CORPORATION)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 8 – PROPERTY MANAGEMENT FEE - Continued

Urban Equities Real Estate Consultants, Inc.

Development Services contracts out with Urban Equities for the management of 127 N. Ridge, Evanston, 744 Dobson, Evanston, 1216 W. Harvard, Evanston, and 8050 Niles Ave., Skokie. The management fee for these properties is the greater of 5% of defined gross collections or a minimum monthly amount as defined in the agreement.

Ludwig and Company

On November 1, 2014, Ludwig and Company assumed the management of the CDS Southland Homes, LLC portfolio and the Peoria Property. The management fee is 6% of defined gross collections or a minimum monthly amount as defined in the agreement.

The total paid for property management services in 2015 and 2014 was \$132,189 and \$95,560, respectively.

NOTE 9 – CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

As of December 31, 2015, Development Services' operations are concentrated in the affordable real estate market. In addition, through one of its projects (CDS Cicero NFP, LLC), it also operates in a heavily regulated environment. The operations of CDS Cicero NFP, LLC are subject to the administrative directives, rules and regulations of federal agencies and IHDA. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by IHDA. Such changes may occur with little notice or inadequate funding to pay for the related cost including the additional administrative burden, to comply with a change.

NOTE 10 – ACCOUNTING FOR UNCERTAIN TAX POSITIONS

Development Services has adopted the accounting standard regarding "Accounting for Uncertain Tax Positions". This accounting standard provides detailed guidance for financial statement recognition, measurement, and disclosure of uncertain tax positions recognized in Development Services' consolidated financial statements. It requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. The adoption of this standard had no material effect on the Development Services' financial position, results of its operations, or cash flows. The tax years of 2012, 2013 and 2014 remain subject to examination by the taxing authorities.

NOTE 11 – SUBSEQUENT EVENT

Management has evaluated subsequent events through June 23, 2016, which is the date the consolidated financial statements were available to be issued and determined that there were no significant subsequent events to be recognized or disclosed in the consolidated financial statements.

SUPPLEMENTARY INFORMATION

**CMHDC DEVELOPMENT SERVICES
(AN ILLINOIS NOT-FOR-PROFIT CORPORATION)**

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

AS OF DECEMBER 31, 2015

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	<u>Development Services</u>	<u>Chicago Metropolitan Construction, LLC</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
<u>ASSETS</u>				
<u>Current Assets</u>				
Cash	\$ 944,887	\$ 206,556	\$ -	\$ 1,151,443
Cash - Managing agent	44,419	-	-	44,419
Tenant accounts receivable	32,795	-	-	32,795
Accounts receivable - Consulting	34,227	-	-	34,227
Due from Development Services	-	684,338	(684,338)	-
Investment in Chicago Metropolitan Construction	(5,000)	-	5,000	-
Total Current Assets	<u>1,051,328</u>	<u>890,894</u>	<u>(679,338)</u>	<u>1,262,884</u>
<u>Fixed Assets</u>				
Building Improvements in progress	20,100	-	-	20,100
Land, Building and Improvements	17,597,021	-	(7,131)	17,589,890
Less: Accumulated depreciation	(1,843,364)	-	-	(1,843,364)
Total Fixed Assets	<u>15,773,757</u>	<u>-</u>	<u>(7,131)</u>	<u>15,766,626</u>
<u>Other Assets</u>				
Prepaid insurance	114,131	-	-	114,131
Restricted investments - security deposits	105,969	-	-	105,969
IHDA - Real estate escrow	30,000	-	-	30,000
IHDA - Insurance escrow	27,352	-	-	27,352
IHDA - Operating reserves	43,323	-	-	43,323
IHDA - Replacement reserves	51,666	-	-	51,666
IHDA - Rent-up reserves	36,343	-	-	36,343
IHDA - Developer fee escrow	-	-	-	-
Escrow - Real estate properties	184,812	-	-	184,812
Other escrow deposits	50,000	-	-	50,000
Total Other Assets	<u>643,596</u>	<u>-</u>	<u>-</u>	<u>643,596</u>
TOTAL ASSETS	<u>\$ 17,468,681</u>	<u>\$ 890,894</u>	<u>\$ (686,469)</u>	<u>17,673,106</u>

**CMHDC DEVELOPMENT SERVICES
(AN ILLINOIS NOT-FOR-PROFIT CORPORATION)**
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
AS OF DECEMBER 31, 2015

Page 2 of 2

	Development Services	Chicago Metropolitan Construction, LLC	Eliminating Entries	Consolidated Total
<u>LIABILITIES AND OWNER'S EQUITY</u>				
<u>Current Liabilities</u>				
Accounts payable	\$ 46,140	\$ -	\$ -	\$ 46,140
Accounts payable - Consulting	364,018	-	-	364,018
Prepaid rent	13,413	-	-	13,413
Accrued real estate taxes	500,745	-	-	500,745
Accrued mortgage interest	25,970	-	-	25,970
Tenant security deposits	102,487	-	-	102,487
Due to CMHDC	4,390,109	895,894	-	5,286,003
Due to Chicago Metropolitan Construction	684,338	-	(684,338)	-
Mortgage payable - short term portion	157,756	-	-	157,756
1602 Grant funds - short term portion	262,840	-	-	262,840
Total Current Liabilities	6,547,816	895,894	(684,338)	6,759,372
<u>Long-Term Liabilities</u>				
Developer fee	85,567	-	-	85,567
Deferred interest payable	378,129	-	-	378,129
Illinois Housing Development Authority loans payable - long-term portion	1,945,480	-	-	1,945,480
Mortgage payable - long term portion	6,906,681	-	-	6,906,681
1602 Grant funds - long term portion	2,628,420	-	-	2,628,420
Total Long-Term Liabilities	11,944,277	-	-	11,944,277
Total Liabilities	18,492,093	895,894	(684,338)	18,703,649
<u>NET ASSETS</u>				
Unrestricted	(1,023,412)	-	-	(1,023,412)
Retained earnings	-	(5,000)	(2,131)	(7,131)
Total Net Assets	(1,023,412)	(5,000)	(2,131)	(1,030,543)
TOTAL LIABILITIES AND NET ASSETS	\$ 17,468,681	\$ 890,894	\$ (686,469)	\$ 17,673,106

**CMHDC DEVELOPMENT SERVICES
(AN ILLINOIS NOT-FOR-PROFIT CORPORATION)**

CONSOLIDATING SCHEDULE OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Development Services</u>	<u>Chicago Metropolitan Construction, LLC</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
<u>Revenue</u>				
Rental income	\$ 2,204,576	\$ -	\$ -	\$ 2,204,576
Consulting revenue	110,749	-	-	110,749
Interest income	2	-	-	2
Other operating income	2,339	-	-	2,339
Grant Income - 1602 funds	262,840	-	-	262,840
Total Revenues	<u>2,580,506</u>	<u>-</u>	<u>-</u>	<u>2,580,506</u>
<u>Expenses</u>				
Salaries & benefits	90,598	-	-	90,598
Janitorial services	171,554	-	-	171,554
Advertisement	15,360	-	-	15,360
Automobile expense	1,860	-	-	1,860
Consulting expense	110,749	-	-	110,749
Bad debt	18,750	-	-	18,750
Office expense	58,116	-	-	58,116
Insurance	123,528	-	-	123,528
Property management fee	132,189	-	-	132,189
Professional fees	104,176	-	-	104,176
Repairs and maintenance	326,845	-	-	326,845
Utilities	193,459	-	-	193,459
Real estate taxes	484,498	-	-	484,498
Rent	47,508	-	-	47,508
Interest expense	358,676	-	-	358,676
HOA condo dues	69,029	-	-	69,029
Telephone	1,903	-	-	1,903
Asset management	11,700	-	-	11,700
Miscellaneous operating expenses	10,088	-	-	10,088
Total Expenses Before Depreciation	<u>2,330,586</u>	<u>-</u>	<u>-</u>	<u>2,330,586</u>
Depreciation	<u>609,612</u>	<u>-</u>	<u>-</u>	<u>609,612</u>
Total Expenses	<u>2,940,198</u>	<u>-</u>	<u>-</u>	<u>2,940,198</u>
Change in Net Assets	(359,692)	-	-	(359,692)
Net Assets - Beginning of Year	<u>(663,720)</u>	<u>(5,000)</u>	<u>(2,131)</u>	<u>(670,851)</u>
NET ASSETS - END OF YEAR	<u><u>\$ (1,023,412)</u></u>	<u><u>\$ (5,000)</u></u>	<u><u>\$ (2,131)</u></u>	<u><u>\$ (1,030,543)</u></u>