CHICAGO METROPOLITAN HOUSING DEVELOPMENT CORPORATION
(AN ILLINOIS NOT-FOR-PROFIT CORPORATION)

Consolidated Financial Statements and Independent Auditors' Report

For the Year Ended December 31, 2016

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors of
CHICAGO METROPOLITAN HOUSING DEVELOPMENT CORPORATION
Chicago, Illinois

We have audited the accompanying consolidated financial statements of ***CHICAGO METROPOLITAN HOUSING DEVELOPMENT CORPORATION*** **("CMHDC")** (an Illinois not-for-profit corporation), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 CMHDC as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance 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 **CMHDC** for the year ended December 31, 2015, and we expressed an unmodified opinion on those consolidated financial statements in our report dated June 23, 2016. In our opinion, the summarized consolidated comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

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 31-33 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 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 taken as a whole.

Prado & Renteria

Chicago, Illinois
June 13, 2017

CHICAGO METROPOLITAN HOUSING DEVELOPMENT CORPORATION
(AN ILLINOIS NOT-FOR-PROFIT CORPORATION)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2015)

	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	$ 3,778,735	$ 4,032,200
Tenant accounts receivable (Less: Allowance for doubtful accounts of $40,778 and $55,555 for 2016 and 2015, respectively)	110,913	62,994
Account receivable - Consulting	53,021	34,227
Escrow	1,272,620	830,765
Prepaid expenses	296,594	313,969
Note receivable - short-term portion	14,644	14,001
Total Current Assets	5,526,527	5,288,156
Land, Buildings and Equipment		
Building Improvements in progress	-	35,600
Land, Building and Improvements	75,963,920	72,739,433
Office equipment and furniture	228,697	228,697
Automobiles	28,786	28,786
	76,221,403	73,032,516
Less: Accumulated depreciation	(20,431,070)	(20,164,253)
Total Fixed Assets	55,790,333	52,868,263
Other Assets		
Restricted investments - security deposits	135,549	231,018
Notes receivable - long-term portion	583,007	597,804
Total Other Assets	718,556	828,822
TOTAL ASSETS	$ 62,035,416	$ 58,985,241

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

CHICAGO METROPOLITAN HOUSING DEVELOPMENT CORPORATION
(AN ILLINOIS NOT-FOR-PROFIT CORPORATION)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2015)

	2016	2015
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 595,188	$ 509,026
Prepaid rent	90,680	13,413
Accrued compensated absences	28,925	31,832
Accrued real estate taxes	1,182,750	1,012,395
Accrued expenses	168,763	153,143
Tenant security deposits	73,106	170,859
NSP loan - Leland - short-term portion	68,760	68,760
Loans payable - short-term portion	2,062,853	1,245,240
Notes payables - short-term portion	53,431	51,078
Mortgages payable - short-term portion	5,314,821	711,837
1602 Grant funds - short-term portion	262,840	262,840
Total Current Liabilities	9,902,117	4,230,423
Long-Term Liabilities		
Long-Term Debt		
NSP loan - Leland - long-term portion	1,027,586	1,098,254
Loans payable - long-term portion	3,234,761	3,307,264
Notes payable - long-term portion	1,563,503	3,109,664
Mortgages payable - long-term portion	28,453,153	27,694,166
Less: Unamortized Debt Finance Cost	(187,236)	(106,696)
Net Long-Term Debt	34,091,767	35,102,652
Developer fee	85,567	85,567
Deferred interest payable	401,299	378,129
Tax Credit - IHDA-Albany	279,417	-
Subsidy - City of Chicago-Domain	-	238,624
Tax Credit - City of Chicago-Diversey	281,636	281,636
1602 Grant funds - long-term portion	2,365,580	2,628,420
Total Long-Term Liabilities	37,505,266	38,715,028
Total Liabilities	47,407,383	42,945,451
Net Assets		
Unrestricted	14,628,033	16,039,790
TOTAL LIABILITIES AND NET ASSETS	$ 62,035,416	$ 58,985,241

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

CHICAGO METROPOLITAN HOUSING DEVELOPMENT CORPORATION
(AN ILLINOIS NOT-FOR-PROFIT CORPORATION)

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2015)

	2016	2015
Revenues and Other Support		
Program income - rental income	$ 8,690,799	$ 8,343,236
Consulting revenue	103,699	110,749
Developer fee	-	172,599
Grant funds-NSP	70,668	70,670
Grant funds-1602	262,840	262,840
Income from affiliates	-	33,843
Gain (loss) on sales of properties	(16,130)	877,071
Contribution from acquisition of interest in limited partnership	-	401,999
Other operating income	66,499	330,592
Interest income	31,022	29,997
Total Revenues and Other Support	9,209,397	10,633,596
Expenses		
Program services:		
Properties	10,442,350	9,990,816
Support services:		
Management and general	178,804	182,585
Total Expenses	10,621,154	10,173,401
Change in Net Assets	(1,411,757)	460,195
Net Assets at Beginning of Year	16,039,790	15,579,595
NET ASSETS AT END OF YEAR	$ 14,628,033	$ 16,039,790

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

CHICAGO METROPOLITAN HOUSING DEVELOPMENT CORPORATION
(AN ILLINOIS NOT-FOR-PROFIT CORPORATION)

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2015)

	Program Services	Support Services	2016	2015
	Properties	Management and General	Total Expenses	Total Expenses
EXPENSES				
Employee Compensation				
Salaries	$ 591,638	$ 18,298	$ 609,936	$ 639,956
Payroll taxes	49,148	2,587	51,735	29,944
Total Employee Compensation	640,786	20,885	661,671	669,900
Other Expenses				
Advertising	148,111	-	148,111	143,145
Assessment fees	74,162	-	74,162	192,788
Automobile expense	23,618	1,243	24,861	16,425
Bad debt expense	54,927	-	54,927	18,750
Janitorial and administrative services	417,988	-	417,988	445,849
Development	150,408	-	150,408	39,314
Employee benefits	104,983	5,525	110,508	126,509
Insurance	438,781	-	438,781	373,475
Interest	1,469,544	-	1,469,544	1,391,727
Property management fees	525,879	-	525,879	478,659
Miscellaneous expenses	12,481	-	12,481	24,107
Office expense	122,731	50,825	173,556	186,699
Professional fees	309,330	54,588	363,918	521,325
Property taxes	1,126,093	-	1,126,093	968,813
Rent	82,492	44,418	126,910	47,712
Repairs and maintenance	1,441,856	-	1,441,856	1,226,859
Telephone	5,630	1,320	6,950	13,049
Utilities	1,056,766	-	1,056,766	1,058,599
Total Expenses Before Depreciation	8,206,566	178,804	8,385,370	7,943,704
Depreciation	2,235,784	-	2,235,784	2,229,697
TOTAL EXPENSES	$ 10,442,350	$ 178,804	$ 10,621,154	$ 10,173,401

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

CHICAGO METROPOLITAN HOUSING DEVELOPMENT CORPORATION
(AN ILLINOIS NOT-FOR-PROFIT CORPORATION)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (1,411,757)	$ 460,195
Adjustments to reconcile change in net assets to net cash provided by (used) in operating activities:		
Depreciation	2,235,784	2,229,697
Amortization of unamortized finance cost	14,083	25,981
Bad debts	54,927	18,750
(Gain) Loss on sales of properties	16,130	(877,071)
Contribution from acquisition of interest in limited partnership	-	(401,999)
Changes in assets and liabilities:		
Escrow	(441,855)	(24,018)
Prepaid expenses	17,375	17,551
Subsidy - City of Chicago-Domain	(238,624)	(47,040)
Tenant rents and other receivable	(121,640)	(26,525)
Tenant security deposits	(97,753)	(8,863)
Accrued real estate taxes	170,355	24,839
Accrued compensated absences	(2,907)	688
Accounts payable and accrued expenses	101,782	322,227
Prepaid rent	77,267	5,612
Net Cash Provided By Operating Activities	373,167	1,720,024
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash restricted for security deposits	95,469	61
Collections of notes receivable	14,154	13,526
Acquisition of limited partnership interest - fixed assets, net	-	(1,842,400)
Purchase of buildings	(6,913,243)	(2,172,928)
Cash paid for property improvements	(498,895)	(854,659)
Property sale proceeds	533,538	2,258,151
Net proceeds from property transfer	206,010	-
Donation tax credit proceeds	279,418	-
Contribution from acquisition of limited partnership interest	-	402,000
Purchase of financing costs	(94,623)	-
Net Cash (Used) In Investing Activities	(6,378,172)	(2,196,249)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Developer fee	-	(127,515)
Deferred interest payable	23,170	23,170
Release from NSP loan	(70,668)	(70,670)
Release from 1602 Grant funds	(262,840)	(262,840)
Proceeds from new mortgages	8,619,050	1,652,547
Proceeds from issuance of notes/loans payable and line of credit	925,000	590,000
Principal payments on mortgages	(3,256,540)	(1,855,305)
Principal payments on notes/loans payable and line of credit	(225,632)	(966,831)
Acquisition of limited partnership interest - mortgages	-	1,183,755
Net Cash Provided By Financing Activities	5,751,540	166,311
Decrease in Cash and Cash Equivalents	(253,465)	(309,914)
Cash and Cash Equivalents at Beginning of Year	4,032,200	4,342,114
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 3,778,735	$ 4,032,200
SUPPLEMENTAL DATA:		
Interest paid	$ 1,469,544	$ 1,365,746
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Carrying value of transferred property	$ 1,849,909	-
Release from debt obligation	$ 1,498,606	-

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

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

Nature of Organization

CHICAGO METROPOLITAN HOUSING DEVELOPMENT CORPORATION **("CMHDC")** is a 501(c)(3) not for profit corporation created in 1982 as an instrumentality of the Chicago Housing Authority (CHA). CMHDC was created initially to issue tax-exempt bonds under the United States Housing and Urban Development (HUD) Section 11(b) Program. CMHDC Articles of Incorporation as well as Bylaws established the instrumentality relationship between CMHDC and CHA. However, they also established controls to ensure that CMHDC operates independently of the CHA. Since 1999, CMHDC has taken on an expanded role to include active development and financing of quality affordable housing, with particular emphasis on the revitalization and redevelopment of communities throughout the Chicago area. CMHDC's mission is to expand housing opportunities, create mixed-income communities and offer a variety of housing options for lower-income individuals and families throughout the Chicago area.

The financial statements of CMHDC include the activity of CMHDC Properties, LLC, Diversey Manor, LLC, CMHDC California, LLC, CMHDC Laflin, LLC, CMHDC Lake Park, LLC, CMHDC Kenwood Oakland, LLC, 3552 W. Leland, LLC, 7722 Marshfield, LLC, CMHDC Kolin, LLC, and CMHDC-ALB, LLC. These entities are 100% owned by CMHDC and exists solely to hold title and the related mortgages to properties used in CMHDC's operations.

Affiliates

CMHDC Development Services

In 2009, CMHDC incorporated CMHDC Development Services under the Illinois "General Not-For-Profit Corporation Act". The purpose of Development Services was to expand housing opportunities, create mixed-income communities and offer a variety of housing options for lower-income individuals and families in the Chicago Metropolitan area. Since then, the affiliate has purchased eight developments - CDS Cicero NFP LLC (consists of four buildings, 54 units), CDS Southland Homes LLC (consists of 85 single homes and townhomes) and CDS Austin LLC (consists of one building, 14 units) a donated property, CDS Peoria (consists of one single house), CDS Dobson, LLC (15 units), CDS Harvard, LLC (21 units), CDS Niles, LLC (12 units) and CDS Ridge, LLC (17 units).

The majority of CMHDC's board members are members of Development Services' board. As a result, CMHDC's board controls a majority voting interest in Development Services' board. The operations of the affiliate are included in these consolidated financial statements.

See Notes 8 and 9 for additional transactions between CMHDC and the affiliate (Development Services).

Progressive Square Limited Partnership Phase I

On December 31, 2015, CMHDC acquired an interest in Progressive Square Limited Partnership Phase I ("Partnership"). The Partnership consists of two parties: CMHDC, Limited Partner, with a 99.99% interest, and CMHDC Progressive NFP, an affiliate of CMHDC Development Services, General Partner, with a .01% interest. The Partnership owns and operates a 24-unit rental apartment project located at 4752 S. Wabash in Chicago, Illinois.

See Note 14 for Partnership acquisition details.

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

Basis of Accounting

The consolidated financial statements of CMHDC 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.

Consolidation Policy

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

Basis of Presentation

In accordance with generally accepted accounting principles, CMHDC 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 Tax Status

CMHDC is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code. CMHDC had no unrelated business income during 2016 and 2015, and therefore, no provision for federal or state income taxes has been made in the accompanying financial statements. CMHDC is no longer subject to examination by the Internal Revenue Service for years prior to 2013.

Cash and Cash Equivalents

Cash equivalents are short-term, highly liquid investments (i.e., money market mutual funds or other highly liquid investments with original maturities of three months or less) that are readily convertible to known amounts of cash and have insignificant risk of changes in value because of changes in the interest rate.

Investments

The organization's investments are bought and held principally for the purpose of generating income. Investments in equity securities with readily determinable fair values and all investments in debt securities are stated at fair value. Fair value is based on quoted market prices. For the years ended December 31, 2016 and 2015 there were no investments for CMHDC.

Estimates

The preparation of 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.

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

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. 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 modified accelerated cost recovery system, which approximates methods allowable under accounting principles generally accepted in the United States of America.

Change In Accounting Principle

For the year ended December 31, 2016, CMHDC adopted FASB ASC 835-30 Interest-Imputation of Interest for the presentation of debt issuance costs. For December 31, 2015, debt issuance costs were presented as a deferred asset on the Statement of Financial Position. As of January 1, 2015, the provisions of ASC 835-30 require debt issuance costs to be presented as a reduction of the outstanding debt.

There has been no change to the recognition and measurement of the debt issuance costs after initial recognition, therefore these costs will continue to be amortized over the life of the respective mortgage using the straight-line method. However, the amortization of debt issuance costs is now required to be reported as a component of Interest expense.

The change in accounting principle resulted in the following changes in previously reported balances:

	As Previously Reported - 2015	Adjustment	Restated 2015
Capitalized Finance Costs, Net	$ 106,696	$ (106,696)	$ -
Unamortized debt issuance costs	-	106,696	106,696
Interest on first mortgage payable	1,365,746	25,981	1,391,727
Amortization expense	25,981	(25,981)	-

The change did not have a cumulative effect on total net assets.

Finance Cost and Amortization

Financing costs are amortized over the term of the mortgage loan using the straight-line method. Accounting principles generally accepted in the United States of America require that the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method.

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

Description of Programs

During 2016, CMHDC concentrated its efforts on the development and retention of affordable mixed-income housing. CMHDC operates several rental properties located in different areas of the City of Chicago and Metropolitan area (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 CMHDC receives.

Rental Portfolio

Rental units are the largest component of CMHDC's real estate holdings. As of December 31, 2016 CMHDC and its affiliate(s) owned and operated the following properties as rental units for the benefits of low and very low income families:

CMHDC Properties

	COSTS
Multi-unit buildings	
6315 South California (17 units)	$ 1,091,950
8001-03 South Dobson (15 units)	1,195,055
5337 North Damen (12 units)	1,237,202
10979 South Church (12 units)	972,669
1714 West Jonquil (15 units)	1,103,408
1530 West Wilson (18 units)	1,935,220
2923 North Long (6 units)	481,629
4700 North Beacon (12 units)	2,171,387
7955 South Paulina (15 units)	739,694
4434 West 87th (8 units)	560,717
9422 South Laflin (6 units)	636,762
5152 South Martin Luther King Drive (43 units)	2,668,004
9051-55 South Ada (6 units)	451,764
4957 North Albany (20 units)	2,111,120
1914 North Drake (19 units)	1,659,110
4412-26 North St. Louis (33 units)	3,304,048
2242 North Monticello (13 units)	1,311,344
1401-11 West 80th (13 units)	655,742
9155 South Laflin (8 units)	693,782
9101 South Beverly (37 units)	2,306,295
1700-08 West Juneway (32 units)	2,363,793
2104 West Birchwood (38 units)	4,287,857
2920-22 North Albany (13 units)	1,379,463
4151 South Berkley (6 units)	561,856
4219 South Ellis (6 units)	654,823
Progressive Square-4752 S. Wabash (24 Units)	3,698,323
4341 South Greenwood (6 units)	631,955
4356-58 South Lake Park (6 units)	923,114
3213 West Diversey (51 units)	3,984,542
7549 S. Kenwood (19 units)	989,525
3252-56 W. Leland (6 units)	1,636,001

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

CMHDC Properties - Continued

	COSTS
1501 N. Kolin (15 units)	799,593
4510 N. Central Park (4 units)	465,243
3736 W. Diversey (2 units)	318,250
5309 W. Bernice (2 units)	300,172
6720 N. Campbell (2 units)	362,945
2836 N. Spaulding (2 units)	415,786
2537 N. Lowell (2 units)	310,506
2929 N. Moody	219,818
3333 W. Pensacola	308,633
2101 N. LeClaire (2 Units)	234,095
5331 W. Barry (2 Units)	237,330
2244 W. Farragut (2 Units)	350,364
2734 W. Gregory (2 Units)	347,049
2305 N. Mango (2 Units)	140,825
5858 W. Diversey (3 Units)	335,229
6514 N. Sacramento (3 Units)	271,266
5124 W. Parker (2 Units)	209,604
2145 N. Kildare (4 Units)	388,344
2904 N. Linder (2 Units)	301,065
1811 N. Lotus (2 Units)	132,687
5000 W. Montana (2 Units)	247,852
4948-50 N. Harding (6 Units)	1,042,950
4633-35 N. Lawndale (6 Units)	1,082,089
3103-06 W. Ainsle (6 Units)	1,064,045
Total CMHDC Properties	58,283,894
CMHDC Development Services Properties - Consolidated	18, 243, 868
Cicero Gardens (54 units)	
Southland Homes (85 units)	
1336-38 South Austin (14 units)	
Niles (12 units)	
Ridge (17 units)	
Dobson (15 units)	
Harvard (20 units)	
19430 Peoria (1 unit)	
	76,527,762
Consolidated Financial Statement Eliminating Entry	(563,842)
Total Rental Portfolio	75,963,920
Accumulated depreciation	(20,222,544)
PROPERTIES, NET OF DEPRECIATION	$ 55,741,376

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

Description of Programs - Continued

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.

Public Housing Programs

CMHDC owned and operated 16 units at Domain Loft Condominiums, 900 N. Kingsbury, acquired in December 2003 on behalf of the CHA. These units were reserved and occupied by public housing residents that have been relocated from the Cabrini Green redevelopment area. CMHDC entered into an operating agreement with the CHA, whereby CMHDC would own and operate the units for a minimum of 10 years and a maximum of 20 years. The units were transferred to CHA in accordance with the operating agreement between CHA and CMHDC (See Note 5).

CMHDC provided two loans in the amount of $384,000 each to a developer to secure units at Mohawk North and Old Town Village for replacement public housing at an annual interest rate of 4.5%. The units are leased by the developer to CHA under a 40-year master lease.

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 Services, Inc., Ludwig & Company and 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, 2016 and 2015 are $135,549 and $231,018 respectively.

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 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.

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.

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 CMHDC's consolidated financial statements for the year ended December 31, 2015, from which the summarized information was derived.

NOTE 2 – NOTES RECEIVABLE

Notes receivable for Mohawk North and Old Town Village due from the developer as of December 31, 2016 and 2015, were $ 597,652 and $611,805, respectively. The interest rate on these receivables is 4.50%.

The notes receivable balance consists of the following:

	2016	2015
Mohawk North	$ 284,669	$ 292,415
Old Town Village	312,982	319,390
Total Notes Receivable	597,651	611,805
Less: Current portion	(14,644)	(14,001)
TOTAL LONG-TERM NOTES RECEIVABLE	$ 583,007	$ 597,804

NOTE 3– 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 4 – ESCROW DEPOSITS AND RESTRICTED RESERVES

CMHDC Controlled Properties:
Escrow accounts for CMHDC controlled properties have been setup at various banks/mortgage companies to fund real estate tax and insurance reserves. As of December 31, 2016 and 2015, the escrow balance was $ 418,889 and $407,269 respectively.

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

NOTE 4 – ESCROW DEPOSITS AND RESTRICTED RESERVES – Continued

Operating Reserves:
Cicero Gardens established an operating reserve in the initial amount of $65,000 in 2011. Funds can be used to fund operating deficits with the approval of IHDA.

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

	2016	2015
Balance, January 1	$ 43,323	$ 65,504
Deposits	6,050	-
Interest earnings	82	1
Withdrawals	(-)	(22,182)
BALANCE, DECEMBER 31	$ 49,455	$ 43,323

Replacement Reserves:
Cicero Gardens was required to fund a replacement reserve in the initial amount of $16,200. Monthly deposits in the amount of $522.58 are required. Funds can be used to pay costs for replacement of structural elements and mechanical equipment of the buildings with the approval of IHDA.

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

	2016	2015
Balance, January 1	$ 51,666	$ 46,446
Deposits	5,513	5,219
Interest earnings	97	1
Withdrawals	-	-
BALANCE, DECEMBER 31	$ 57,276	$ 51,666

Real Estate Tax and Insurance Reserves:
Cicero Gardens funded a real estate 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 with the approval of IHDA.

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

	2016		2015	
	Tax	Insurance	Tax	Insurance
Balance, January 1	$ 30,000	$ 27,352	$ 23,511	$ 26,501
Deposits	100,317	38,724	78,713	19,080
Interest earnings	57	23	-	-
Withdrawals	(74,940)	(22,604)	(72,224)	(18,229)
BALANCE, DECEMBER 31	$ 55,434	$ 43,495	$ 30,000	$ 27,352

NOTE 4 – ESCROW DEPOSITS AND RESTRICTED RESERVES – Continued

Initial Rent-Up Reserves:
Cicero Gardens 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:

	2016	2015
Balance, January 1	$ 36,343	$ 36,342
Deposits	-	-
Interest earnings	21	1
Withdrawals	(36,361)	-
BALANCE, DECEMBER 31	$ 3	$ 36,343

Other Properties:
Escrow accounts for other Development Services properties have been set up at various banks/mortgage companies to fund real estate tax and insurance reserves. In 2016 funds were deposited for purpose of building improvements.

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

	2016	2015
Balance, January 1	$ 184,812	$ 151,887
Deposits- R/E Taxes and Insurance	448,416	471,727
Deposits- Building Improvement	496,700	-
Interest earnings	-	-
Withdrawals	(481,860)	(438,802)
BALANCE, DECEMBER 31	$ 648,068	$ 184,812

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. In 2016, the escrow deposit of $50,000, less administrative cost, was refunded on this property.

NOTE 5 – LONG-TERM DEBT

The loans payable balance consists of the following:

	2016	2015
Loan payable to Illinois Housing Development Authority, including interest at 1% through 2031, for the financing of property located at 4700 N. Beacon, Chicago, Illinois.	$ 628,193	$ 668,015
Loans payable to Illinois Housing Development Authority, including interest at 1% through 2023, assumed during the purchase of property located at 3213 W. Diversey, Chicago Illinois.	737,031	772,399
Line of credit payable to Bank Financial in monthly installments of interest only, variable interest rate 1-Month LIBOR plus 3.25% not to fall under 3.728%. The principal is due November 2018. The line was used to facilitate acquisition and improvements of properties for CMHDC and CMHDC Development Services.	1,986,910	1,166,610
Loans payable to the Illinois Housing Development Authority in monthly installments, accruing interest at 1.50%, through 2024, assumed during the purchase of the Cicero Gardens buildings located in Cicero, Illinois.	1,945,480	1,945,480
Total Loan Outstanding	5,297,614	4,552,504
Less: Current portion	(2,062,853)	(1,245,240)
TOTAL LONG-TERM LOANS PAYABLE	$ 3,234,761	$ 3,307,264

The mortgage payable balance consists of the following:

	2016	2015
Loan payable to Bank Financial FSB in monthly installments of principal and interest of 4.5% through May 1, 2039. In April 2014 the loan was refinanced to reduce the interest rate from 5.90% to 4.50% for property located at 5337-43 North Damen, Chicago, Illinois.	$ 548,359	$ 562,041
Loan payable to Bank Financial FSB in monthly installments, of principal and interest at 4.5% through May 1, 2039. The loan was refinanced to reduce the interest rate from 5.90% to 4.5% for property located at 4434-42 W. 87th Street, Chicago, Illinois.	240,579	246,513

NOTE 5 – LONG TERM DEBT - Continued

	2016	2015
Loan payable to Bank Financial FSB in monthly installments, including principal and interest at 4.5% through May 1, 2039. The loan was refinanced to reduce the interest rate from 5.9% to 4.5% for property located at 9422-24 S. Laflin Street, Chicago, Illinois.	187,087	191,753
Loan payable to Bank Financial FSB in monthly installments, of principal and interest at 4.5% through May 1, 2039. The loan was refinanced to reduce the interest rate from 5.90% to 4.5% for property located at 7955-59 S. Paulina/1648-50-52 W. 80th Street, Chicago, Illinois.	331,840	340,119
Loan payable to Bank Financial FSB in monthly installments, of principal and interest at 4.5% through May 1, 2039. The loan was refinanced to reduce the interest rate from 5.90% to 4.5% for property located at 5152-78 (Park Ave.) South Martin Luther King Drive, Chicago, Illinois.	1,129,668	1,157,853
Loan payable to Bank Financial FSB in monthly installments, of principal and interest at 4.5% through May 1, 2039. The loan was refinanced to reduce the interest rate from 5.90% to 4.5% for property located at 1530-32 W. Wilson and 4607-13 N. Ashland, Chicago, Illinois.	856,664	878,038
Loan payable to Bank Financial FSB in monthly installments, of principal and interest at 4.5% through May 1, 2039. The loan was refinanced to reduce the interest rate from 5.90% to 4.5% for property located at 10979 S. Church, Chicago, Illinois.	381,263	390,775
Loan payable to Bank Financial FSB in monthly installments, of principal and interest at 4.5% through May 1, 2039. The loan was refinanced to reduce the interest rate from 6.375% to 4.5% for property located at 1714 W. Jonquil, Chicago, Illinois.	408,049	418,233
Loan payable to Bank Financial FSB in monthly installments, including principal and interest at 4.5%, through 2039. The loan was obtained to purchase property located at 4412-26 N. St. Louis, Chicago, Illinois.	1,694,503	1,736,781
Loan payable to Bank Financial FSB in monthly installments, including principal and interest at 4.5% through May 1, 2039 for property located at 7549-55 S. Kenwood, Chicago, Illinois.	451,867	463,141

NOTE 5 – LONG-TERM DEBT - Continued

	2016	**2015**
First mortgage payable to Community Investment Corporation (first mortgage) in monthly installments, including principal and interest at 5.75% through 2013 and 3.36% through 2028 for property located at 3213 W. Diversey, Chicago, Illinois.	1,580,919	1,629,633
Second mortgage payable to Community Investment Corporation in monthly installments, including principal and interest. The note bears a 3-year interest rate at 5.5% per annum, subject to adjustment at 3-year intervals. The first anniversary date is January 1, 2017. Monthly installments of principal and interest are based on a 15-year amortization through 2029 for property located at 3213 W. Diversey, Chicago, Illinois.	376,709	385,351
Loan payable to Bank Financial FSB in monthly installments, of principal and interest at 4.5% through May 1, 2039. The loan was refinanced to reduce the interest rate from 5.90% to 4.5% for property located at 1401-11 W. 80th Street, Chicago, Illinois.	258,889	265,342
Loan payable to Community Investment Corporation, including principal and interest at 3.675% through 2023. The loan was adjusted to reduce the interest rate from 5.675% to 3.675%; other terms remained the same for property located at 4957 N. Albany, Chicago, Illinois.	741,296	772,966
Loan payable to Lakeside Bank, including principal and interest at 4.75% through 2018. The loan was obtained for property located at 9051-55 S. Ada, Chicago, Illinois.	159,637	162,453
Loan payable to Bank Financial FSB, including principal and interest at 4.5% through May 1, 2039. The loan was refinanced to reduce the interest rate from 5.90% to 4.5% for property located at 2242-44 N. Monticello, Chicago, Illinois.	611,904	627,171
Loan payable to Bank Financial FSB, including principal and interest at 4.5% through May 1, 2039. The loan was refinanced to reduce the interest rate from 5.9% to 4.5% for property located at 2920 N. Albany, Chicago, Illinois.	597,783	612,698
Loan payable to Lakeside Bank, including principal and interest at 4% through 2023. The loan was refinanced to reduce the interest rate from 6.25% to 4% and extend the loan terms from 2014 to 2023 for property located at 2104 W. Birchwood, Chicago, Illinois.	2,172,683	2,231,385
Loan payable to Lakeside Bank in monthly installments, including principal and interest at 4% through 2024. The loan was obtained for property located at 8001-03 South Dobson, Chicago, Illinois.	491,160	504,851

NOTE 5 – LONG-TERM DEBT- Continued	2016	2015
Loan payable to Lakeside Bank in monthly installments, including principal and interest at 4% through 2023. The loan was obtained for property located at 1914 N. Drake, Chicago, Illinois.	802,695	825,336
Loan payable to Community Investment Corporation in monthly installments, including principal and interest at 3.25% through 2028. The loan was adjusted to reduce the interest rate from 5.75% to 3.25% for property located at 9101 S. Beverly, Chicago, Illinois.	1,017,534	1,049,556
Loan payable to RBS-Citizen (f/k/a Charter One) in monthly installments, including principal and interest (currently at 3.75%) at the ceiling rate of 6.75% through June, 2018. The loan was obtained to renovate property located at 4151 S. Berkeley, Chicago, Illinois.	462,208	476,304
Loan payable to RBS-Citizen (f/k/a Charter One) in monthly installments, including principal and interest (currently at 3.75%) at the ceiling rate of 6.75% through June, 2018. The loan was obtained to renovate property located at 4341 S. Greenwood, Chicago, Illinois.	501,264	516,552
Loan payable to RBS-Citizen in monthly installments, including principal and interest (currently at 3.5%) at the ceiling rate of 6.75% through June, 2018. The loan was obtained to renovate property located at 4219 S. Ellis, Chicago, Illinois.	512,502	528,132
Loan payable to The PrivateBank and Trust Company in monthly installments of principal and interest at 4.2% through 2021. The loan is secured by the 6315 S. California, 9155 S. Laflin and 4356 S. Lake Park, Chicago, Illinois properties.	1,188,351	1,209,547
Loan payable to Community Investment Corporation in monthly installments, including principal and interest at 5.50% through 2032. The construction loan was converted to a conventional loan. The loan was obtained to purchase property located at 3252-56 W. Leland, Chicago, Illinois.	185,596	189,851
Loan payable to Lakeside Bank in monthly installments, including principal and interest at 4.625% through April 7, 2024. The loan was used to purchase property located at 1501 N. Kolin, Chicago, Illinois.	498,768	507,505
Loan payable to The PrivateBank and Trust Company in monthly installments, including principal and interest at 4.2% through 2022. The loan was obtained to purchase the property located at 4510 N. Central Park Chicago, IL.	313,919	319,539

NOTE 5 – LONG-TERM DEBT - Continued

	2016	**2015**
Loan payable to the Community Investment Corporation in monthly installments, accruing interest at 3.88%, through 2019 assumed during the purchase of the Progressive Square Limited Partnership Phase I Apartments located in Chicago, Illinois.	405,469	421,575
Loan payable to the City of Chicago in connection with Progressive Square Limited Partnership Phase I Apartments. The loan is non-interest bearing and no principal payments are due until maturity on July 31, 2019.	762,180	762,180
Line of credit payable to Enterprise Community Loan Fund, Inc. in monthly installments of interest at 4.50%. The entire principal balance with all accrued and unpaid interest shall be due and payable in full on the May 31, 2018. The line was used to facilitate acquisition and improvements of properties located throughout the Albany Park neighborhood and surrounding neighborhoods of Chicago.	2,055,536	958,392
Loan payable to The PrivateBank and Trust Company in monthly installments, including principal and interest at 4.5%, through 2023. The loan was refinanced with Private Bank in 2016. The loan was obtained to purchase property located at 744 Dobson St., Evanston, Illinois.	999,212	-
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
Loan payable to The PrivateBank and Trust Company in monthly installments, including principal and interest at 4.5%, through 2023. The loan was refinanced with Private Bank in 2016. The loan was obtained to purchase property located at 1216-26 Harvard Terrace, Evanston, Illinois.	2,143,809	-
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
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 Niles Ave., Skokie, Illinois	1,013,777	1,031,334

NOTE 5 – LONG-TERM DEBT - Continued

	2016	**2015**
Loan payable to The PrivateBank and Trust Company in monthly installments, including principal and interest at 4.5%, through 2023. The loan was refinanced with Private Bank in 2016. The loan was obtained to purchase property located at 127-129 Ridge, Evanston, Illinois.	1,698,660	-
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.	-	1,294,384
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 City of Chicago.	1,861,198	1,914,667
Loan payable to The PrivateBank and Trust Company 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.	356,552	362,894
Loan payable to The PrivateBank and Trust Company in monthly installments, including principal and interest at 4.20%, through 2023. The loan is secured by a residence located at 6720 N. Campbell, Chicago, Illinois.	261,030	-
Loan payable to The PrivateBank and Trust Company in monthly installments, including principal and interest at 4.20%, through 2023. The loan is secured by a residence located at 2836 N. Spaulding, Chicago, Illinois.	261,825	-
Loan payable to The PrivateBank and Trust Company in monthly installments, including principal and interest at 4.20%, through 2023. The loan is secured by a residence located at 2537 N. Lowell, Chicago, Illinois.	190,335	-
Loan payable to The PrivateBank and Trust Company in monthly installments, including principal and interest at 4.20%, through 2023. The loan is secured by a residence located at 5309 N. Berenice, Chicago, Illinois.	219,695	-

NOTE 5 – LONG-TERM DEBT - Continued

Loan payable to Community Investment Corporation in monthly installments, including principal and interest at 4.5% through 2017. The loan is secured by the apartment buildings located at 4948 N. Harding, 4633 N. Lawndale, and 3104 W. Ainslie, Chicago, Illinois.	2,835,000	-
Total Mortgage Outstanding	33,767,974	28,406,003
Less: Current portion	(5,314,821)	(711,837)
TOTAL LONG-TERM MORTGAGES PAYABLE	$ 28,453,153	$27,694,166

The notes payable balance consists of the following:

Note payable to CHA at 0% interest rate. The loan was obtained to purchase property located at 950 N. Kingsbury (see further explanation at the end of this note).	$ -	$ 1,498,606
Note payable to RBS-Citizen (f/k/a Charter One) in monthly installments, including principal and interest (currently at 3.50%) at the ceiling rate of 6.75% through January 2018. The loan was obtained to purchase and rehab the property located at 1700-08 Juneway, Chicago, Illinois.	1,616,934	1,662,136
Total Notes Outstanding	1,616,934	3,160,742
Less: Current portion	(53,431)	(51,078)
TOTAL LONG-TERM NOTES PAYABLE	$ 1,563,503	$ 3,109,664

Leland Building
During 2011, CMHDC purchased a property located at 3252-56 W. Leland, Chicago, Illinois, using two loans: 1) a construction loan in the amount of $198,000 from Community Investment Corporation; 2) and a convertible loan from the City of Chicago (through Mercy Housing) as a part of their Neighborhood Stabilization Program (NSP) at an interest rate of 0%. The City of Chicago loan has been converted to a forgivable grant after 15 years. The outstanding balance of the forgivable loan as of December 31, 2016 and 2015 is $ 1,096,346 and $1,167,014, respectively.

Domain Loft Building
On December 31, 2003, CMHDC purchased 16 condominium units at the Domain Loft Building located at 950 N. Kingsbury. The purchase was made to assist the CHA in its redevelopment efforts. The acquisition and development costs of the units (excluding costs directly paid by CHA) were $3,816,731.

NOTE 5 – LONG-TERM DEBT Continued

As part of the operating agreement between CMHDC and CHA, the 16 condominium units were to be used exclusively for public housing purposes. At the end of the term of the agreement, or at a time agreeable to both parties, the property was to be transferred to CHA for continuous use by public housing individuals, and the note to be assumed by CHA with no payments due from CMHDC. In the year of transfer, CMHDC would receive compensation of 15% of the total development cost for public housing, as established by the U. S. Department of Housing and Urban Development.

On February 29, 2016 CMHDC transferred the property to CHA. Per the terms of the agreement between CMHDC and CHA, CMHDC received $515,135 and was released from obligation under note payable to CHA in the amount of $1,498,606. CMHDC also relinquished cash balances associated with the property totaling $309,125 to CHA. The net book value of the property totaled $1,864,909 resulting in a net loss of $160,293.

Diversey Manor Apartment Building

On January 12, 2007, CMHDC purchased the Diversey Manor Apartment Building located at 3213-23 W. Diversey at an acquisition and development cost of $3,259,403.

The financing for the purchase was provided as follows:

Mortgage payable to Community Investment Corporation	$	1,600,000
Loans payable to the Illinois Housing Development Authority		1,166,123
Seller financing – Deferred payment		150,000
Building improvements funded by proceeds from the sale of tax credit – City of Chicago		281,636
Settlement costs		28,905
Development costs		32,739
TOTAL COST	$	3,259,403

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. The outstanding balance of the loans as of December 31, 2016 and 2015 is $ 737,031 and $772,399, respectively.

On August 28, 2008, CMHDC refinanced its mortgage with Community Investment Corporation, increasing it to $1,875,000. The proceeds from the increase were used to pay off one loan from the Illinois Housing Development Authority for $89,061 and repairs and maintenance for $163,617. The balance was used for settlement costs relating to the refinancing. CMHDC also reduced its interest rate from 7.00% to 5.75% and extended its mortgage from 2027 to 2028. The outstanding balance of the loan as of December 31, 2016 and 2015 is $ 1,580,919 and $1,629,633, respectively.

NOTE 5 – LONG-TERM DEBT – Continued

On February 13, 2014, CMHDC obtained a second mortgage with Community Investment Corporation totaling $400,000. The proceeds were used to reimburse CMHDC for expenses incurred for the Diversey Manor Apartments and to open an escrow account to rehab all other apartment units. The outstanding balance of the loan as of December 31, 2016 and 2015 is $ 376,709 and $385,351, respectively.

Cicero Gardens Buildings

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

The 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; 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, 2016 and 2015, CMHDC has earned and released $1,314,200 and $1,051,360, respectively with a remaining balance of $2,628,420 and $2,891,260, respectively.

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 COST	$ 6,157,596

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.

On December 28, 2011, Development Services through CDS Southland Homes, LLC purchased a group of 85 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, 2016 and 2015 is $1,861,198 and $53,244, respectively.

NOTE 5 – LONG-TERM DEBT - Continued

Principal payments on long-term debt (including the 0% non-amortizing mortgage of $1,498,606) to maturity are as follows:

	Principal
2017	$ 7,431,105
2018	5,880,594
2019	1,055,124
2020	709,321
2021	1,058,429
All other years	24,547,949
TOTAL	$ 40,682,522

NOTE 6 – CONCENTRATIONS OF FINANCIAL INSTRUMENT RISK

CMHDC had $3,242,781 and $3,562,790 on deposit at several banks as of December 31, 2016 and 2015, respectively. Balances uninsured by the FDIC at December 31, 2016 and 2015 were $632,399 and $648,523, respectively.

NOTE 7 – LEASE RENTAL PAYMENTS

On August 16, 2010, CMHDC extended its existing lease for the office space through September 30, 2015. On August 16, 2015, CMHDC entered into a new lease agreement for the office space at 225 W. Wacker Drive, Chicago, IL for a six-year period ending August 31, 2022.

Minimum future rental payments as of December 31, 2016 are as follows:

2017	$ 78,857
2018	81,210
2019	83,637
2020	86,140
2021	88,719
Thereafter	60,306

For financial reporting purposes, the lease abatements were applied evenly through the lease. As of December 31, 2016, accrual of the deferred rent amounted to $ 33,094.

In addition to base rent the tenant's share under the current lease shall also include the tenant's proportionate share of taxes and common area expenses as defined in the lease. Rent expense for December 31, 2016 and 2015 was $126,910 and $47,712, respectively.

NOTE 7 – LEASE RENTAL PAYMENTS - Continued

Chicago Housing Authority
CHA is considered to be a related party to CMHDC due to the fact that a CMHDC board member is also an employee of CHA. All the transactions with CHA are considered to be related party transactions. (See Note 5, page 23 for details).

NOTE 8 – RELATED PARTY TRANSACTIONS

Banking Relationships
One of CMHDC's directors is the president of Community Investment Corporation from whom CMHDC has seven loans. (See Note 5 for details)

One of CMHDC's directors is the vice president of Chase Bank from whom CMHDC has three deposit bank accounts.

One of CMHDC's directors is the vice president of Enterprise Community Partners from whom CMHDC has a line of credit. (See Note 5 for details)

CMHDC Development Services
CMHDC provides administrative services and pays certain expenses of CMHDC Development Services under an operating agreement. Per the terms of the operating agreement CMHDC Development Services agrees to reimburse CMHDC for these services. These services amounted to $221,899 and $90,958 in 2016 and 2015, respectively.

In 2016 CMHDC Development Services paid CMHDC a developer fee of $517,377 in connection with financing activities to fund building property improvements.

In 2016 and 2015 CMHDC Development Services paid CMHDC a developer fee of $0 and $127,575 respectively for the development of the Cicero Gardens properties. (See Note 12 for details)

During 2016 and 2015, CMHDC entered into an operating agreement with CMHDC Development Services to provide consulting services for a Cook County Neighborhood Stabilization Program (NSP) grant awarded to CMHDC Development Services. These consulting services generated $103,699 and $110,749 in revenue to CMHDC for 2016 and 2015, respectively. The accounts receivable to CMHDC at December 31, 2016 and 2015 is $423,617 and $364,018, respectively.

Progressive Square Limited Partnership Phase I
During 2016 and 2015, CMHDC paid for certain expenses of Progressive Square Limited Partnership Phase I, for which CMHDC is a Limited Partner. The balance outstanding at December 31, 2016 and 2015 is $27,359 and $0 respectively. The 2016 balance was eliminated in consolidation at December 31, 2016.

NOTE 9 – DUE FROM AFFILIATES

At December 31, 2016 and 2015, CMHDC paid for certain capital improvements and expenses, as well as loaned funds to establish bank accounts and to buy properties to CMHDC Development Services, CDS Southland Homes, LLC, CDS Cicero NFP, LLC, CDS Austin, LLC, CDS Niles, CDS Ridge, CDS Dobson, CDS Harvard and Chicago Metropolitan Construction LLC. The balance outstanding at December 31, 2016 and 2015 is $5,688,924 and $5,286,003 respectively. These transactions have been eliminated for financial statement consolidation purposes.

NOTE 10 – LINES OF CREDIT

CMHDC has a line of credit agreement with Bank Financial for maximum borrowings of $3,260,000, which is secured by various properties with Bank Financial. The interest rate is 4.50%. The balance outstanding at December 31, 2016 and 2015 is $1,986,910 and $1,166,610, respectively. (See Note 5, page 16).

CMHDC has a line of credit agreement with Enterprise Community Loan Fund, Inc. for maximum borrowing of $2,500,000, which is secured by various properties. The interest rate is 4.50%. The balance outstanding at December 31, 2016 and 2015 is $2,055,536 and $958,392, respectively. (See Note 5, page 21).

NOTE 11 – PROPERTY MANAGEMENT FEES AGREEMENTS

Kass Management Services, Inc.
CMHDC uses Kass Management Services, Inc. for certain CMHDC properties under a negotiated management agreement with compensation as defined in the management agreement. For the years ended December 31, 2016 and 2015 Kass Management Services, Inc. earned $374,383 and $378,514 respectively.

Urban Equities Real Estate Consultants, Inc.
CMHDC and Development Services use Urban Equities Real Estate Consultants, Inc. for certain CMHDC and Development Services properties under a negotiated management agreement with compensation as defined in the management agreement. For the years ended December 31, 2016 and 2015 Urban Equities Real Estate Consultants, Inc. earned $89,226 and $48,457 respectively.

Ludwig and Company
CMHDC uses Ludwig and Company for certain CMHDC properties under a negotiated management agreement with compensation as defined in the management agreement. For the years ended December 31, 2016 and 2015 Ludwig and Company earned $62,270 and $51,688 respectively.

Total property management expense for years 2016 and 2015 were $525,879 and $478,659 respectively.

NOTE 12 – DEFERRED DEVELOPER’S FEES

In connection with the acquisition of the Kenwood property, the board of CMHDC approved developer fees of $72,000 payable to CMHDC. The developer fee from Kenwood will be recognized as additional building cost and income in future years only to the extent there is a receipt of the developer fee from future cash flow generated by the property. For 2016 and 2015, no developer fee relating to the building was recognized.

NOTE 12 – DEFERRED DEVELOPER'S FEES – Continued

As part of the 1602 Grant agreement for Cicero Gardens, $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, $54,675 was paid in 2013 and $127,575 was paid in 2015. The final $85,507 will be deferred and paid out of the operations of the buildings after certain terms have been attained. As of December 31, 2016 and 2015, outstanding developer fees payable were $85,507 and $85,507 respectively.

NOTE 13 – ACCOUNTING FOR UNCERTAIN TAX POSITIONS

CMHDC 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 CMHDC's 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 CMHDC's financial position, results of its operations, or cash flows. The tax years of 2013, 2014 and 2015 remain subject to examination by the taxing authorities.

NOTE 14 - ACQUISITION OF INTEREST IN LIMITED PARTNERSHIP

Effective December 31, 2015, National Equity Fund 1999 Limited Partnership ("NEF") transferred its interest in Progressive Square Limited Partnership Phase I ("Partnership") to CMHDC. Under the terms of the Assignment, Assumption and Amendment Agreement, NEF relinquished all claims against the Partnership, withdrew from the partnership and directed that all allocations and distributions of profits, losses, income or capital on account of the assigned interest be made to CHMDC. The Partnership owns a 24-unit rental apartment project located at 4752 S. Wabash in Chicago, Illinois.

As of the date of the transfer the Partnership consists of two parties: CMHDC, Limited Partner, with a 99.99% interest, and CMHDC Progressive NFP, an affiliate of CMHDC Development Services, General Partner, with a .01% interest. The financial statements consolidate CMHDC and the Partnership.

CMHDC exchanged consideration with a fair value of $1 to consummate the transfer of the interest in the Partnership. The fair value of each class of assets acquired and liabilities assumed are as follows:

<u>Assets</u>		
Cash	$	40,318
Investment in rental property, net		1,842,399
Tenants' security deposits		5,026
Escrows		10,411
Tenant A/R		1,834
Prepaid expenses		9,042

NOTE 14 - ACQUISITION OF INTEREST IN LIMITED PARTNERSHIP - Continued

Liabilities	
Accounts payable	(3,758)
Accrued expenses	(21,472)
Tenant security deposits	(4,260)
Other payables	(217,972)
Developer fees payable	(75,814)
Mortgage loans payable	(1,183,755)
Excess of assets over liabilities	401,999
Elimination of Due to/ Due from intercompany balances	(3,138)
Net interest in limited partnership	$ 398,861

The excess of assets over liabilities has been recorded as contribution revenue.

NOTE 15 – SUBSEQUENT EVENTS

CMHDC had several significant subsequent events and they include:

Property Sale CMHDC

On April 6, 2017, CMHDC sold the 1700-08 W. Juneway property for $2,400,000. Proceeds were used to pay off the first mortgage of $1,612,338.

On April 28, 2017, CMHDC sold the residence at 2929 N. Moody Avenue for $315,000.

Property Sale Development Services

In April 2017, Development Services entered into a $3,000,000 sales contract for the Southland portfolio. The Southland portfolio will be sold in 4 phases at various times in 2017.

	Expected Date of Sale	Contract Amount
Park Forest	Sold - April 24, 2017	$988,235
Richton Park	June 2017	$776,471
Country Club Hills, Hazel Crest, Chicago Heights and Sauk Village	August 2017	$670,588
University Park and Matteson	October 2017	$564,706

Other

Management has evaluated subsequent events through June 13, 2017, which is the date the consolidated financial statements were available to be issued. Other than the subsequent events disclosed above, there were no material subsequent events that require adjustment or disclosure in the consolidated financial statements.

SUPPLEMENTARY INFORMATION

CHICAGO METROPOLITAN HOUSING DEVELOPMENT CORPORATION
(AN ILLINOIS NOT-FOR-PROFIT CORPORATION)

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

AS OF DECEMBER 31, 2016

	CMHDC	Progressive Square	Development Services	Eliminating Entries	Consolidated Total
ASSETS					
Current Assets					
Cash and cash equivalents	$ 2,164,048	$ 89,696	$ 1,524,991	$ -	$ 3,778,735
Tenant accounts receivable (Less: Allowance for doubtful accounts of $40,778 and $55,555 for 2016 and 2015, respectively)	61,595	2,917	46,401	-	110,913
Account receivable- Consulting	423,617	-	53,021	(423,617)	53,021
Due from affiliates	5,688,924	-	-	(5,688,924)	-
Escrow	407,659	11,230	853,731	-	1,272,620
Prepaid expenses	227,322	10,121	59,151	-	296,594
Note receivable - short-term portion	14,644	-	-	-	14,644
Investment in Development Services	(652,049)	-	-	652,049	-
Total Current Assets	8,335,760	113,964	2,537,295	(5,460,492)	5,526,527
Land, Buildings and Equipment					
Building Improvements in progress	-	-	517,377	(517,377)	-
Land, Building and Improvements	54,590,799	3,693,095	17,726,491	(46,465)	75,963,920
Office equipment and furniture	228,697	-	-	-	228,697
Automobiles	28,786	-	-	-	28,786
	54,848,282	3,693,095	18,243,868	(563,842)	76,221,403
Accumulated depreciation	(15,955,825)	(1,989,701)	(2,485,544)	-	(20,431,070)
Total Fixed Assets	38,892,457	1,703,394	15,758,324	(563,842)	55,790,333
Other Assets					
Restricted investments - security deposits	84,061	4,528	46,960	-	135,549
Notes receivable - long-term portion	583,007	-	-	-	583,007
Total Other Assets	667,068	4,528	46,960	-	718,556
TOTAL ASSETS	$ 47,895,285	$ 1,821,886	$ 18,342,579	$ (6,024,334)	$ 62,035,416

CHICAGO METROPOLITAN HOUSING DEVELOPMENT CORPORATION
(AN ILLINOIS NOT-FOR-PROFIT CORPORATION)

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

AS OF DECEMBER 31, 2016

LIABILITIES AND NET ASSETS	CMHDC	Progressive Square	Development Services	Eliminating Entries	Consolidated Total
Current Liabilities					
Accounts payable	$ 247,643	$ 297,279	$ 50,266	$ -	$ 595,188
Due to CMHDC - Consulting	-	-	423,617	(423,617)	-
Prepaid rent	73,652	-	17,028	-	90,680
Accrued compensated absences	28,925	-	-	-	28,925
Accrued real estate taxes	654,385	21,971	506,394	-	1,182,750
Accrued expenses	137,062	1,309	30,392	-	168,763
Tenant security deposits	26,560	3,760	42,786	-	73,106
NSP loan - Leland- short-term portion	68,760	-	-		68,760
Loans payable - short-term portion	2,062,853	-	-	-	2,062,853
Notes payables - short-term portion	53,431	-	-	-	53,431
Mortgages payable - short-term portion	3,366,705	16,741	1,931,375	-	5,314,821
Due to CMHDC	(27,359)	27,359	5,688,924	(5,688,924)	-
1602 Grant funds - short-term portion	-	-	262,840	-	262,840
Total Current Liabilities	6,692,617	368,419	8,953,622	(6,112,541)	9,902,117
Long-Term Liabilities					
Long-Term Debt					
NSP loan - Leland - long-term portion	1,027,586	-	-	-	1,027,586
Loans payable - long-term portion	1,289,281	-	1,945,480	-	3,234,761
Notes payable - long-term portion	1,563,503	-	-	-	1,563,503
Mortgages payable - long-term portion	21,160,412	1,150,908	6,141,833	-	28,453,153
Less: Unamortized debt finance cost	(95,992)		(91,244)		(187,236)
Net Long-Term Debt	24,944,790	1,150,908	7,996,069	-	34,091,767
Developer fee	-	-	85,567	-	85,567
Deferred interest payable	-	-	401,299	-	401,299
Tax Credit - IHDA-Albany	279,417	-	-	-	279,417
Tax credit - City of Chicago-Diversey	281,636	-	-	-	281,636
1602 Grant funds - long-term portion	-	-	2,365,580	-	2,365,580
Total Long-Term Liabilities	25,505,843	1,150,908	10,848,515	-	37,505,266
Total Liabilities	32,198,460	1,519,327	19,802,137	(6,112,541)	47,407,383
Net Assets					
Unrestricted	15,696,825	-	(1,459,558)	88,207	14,325,474
Partners' equity	-	302,559	-	-	302,559
Total Net Assets	15,696,825	302,559	(1,459,558)	88,207	14,628,033
TOTAL LIABILITIES AND NET ASSETS	$ 47,895,285	$ 1,821,886	$ 18,342,579	$ (6,024,334)	$ 62,035,416

CHICAGO METROPOLITAN HOUSING DEVELOPMENT CORPORATION
(AN ILLINOIS NOT-FOR-PROFIT CORPORATION)

CONSOLIDATING SCHEDULE OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2016

	CMHDC	Progressive Square	Development Services	Eliminating Entries	Consolidated Total
Revenue and other support					
Rental income	$ 6,122,958	$ 249,892	$ 2,317,949	$ -	$ 8,690,799
Consulting revenue	103,699	-	103,699	(103,699)	103,699
Developer fee	517,377	-	-	(517,377)	-
Grant funds-NSP	70,668	-	-	-	70,668
Grant funds-1602	-	-	262,840	-	262,840
Income from affiliates	246,899	-	-	(246,899)	-
Gain (loss) on sales of properties	(16,130)	-	-	-	(16,130)
Other operating income	40,396	-	26,103	-	66,499
Interest income	30,733	6	283	-	31,022
Total Revenues	7,116,600	249,898	2,710,874	(867,975)	9,209,397
Expenses					
Salaries	579,216	30,720	221,899	(221,899)	609,936
Payroll taxes	51,735	-	-	-	51,735
Advertisement-Commissions	137,496	-	10,615	-	148,111
Assessment fee	-	-	74,162	-	74,162
Automobile expense	22,814	-	2,047	-	24,861
Bad debt expense	-	-	54,927	-	54,927
Consulting expense	-	-	103,699	(103,699)	-
Janitorial and administrative services	248,759	19,720	149,509	-	417,988
Development	150,408	-	-	-	150,408
Employee benefits	110,508	-	-	-	110,508
Insurance	247,813	11,338	179,630	-	438,781
Interest	1,045,741	18,847	404,956	-	1,469,544
Management fees	370,027	13,480	142,372	-	525,879
Miscellaneous expenses	-	-	12,481	-	12,481
Office expense	111,788	2,319	59,449	-	173,556
Professional fees	250,238	21,382	92,298	-	363,918
Property taxes	615,379	22,785	487,929	-	1,126,093
Rent	126,910	-	25,000	(25,000)	126,910
Repairs and maintenance	1,094,996	51,422	295,438	-	1,441,856
Telephone	5,533	1,116	301	-	6,950
Utilities	858,858	16,911	180,997	-	1,056,766
Depreciation	1,457,445	136,159	642,180	-	2,235,784
Total Expenses	7,485,664	346,199	3,139,889	(350,598)	10,621,154
Change in Net Assets	(369,064)	(96,301)	(429,015)	(517,377)	(1,411,757)
Net Assets - Beginning of Year	16,065,889	398,861	(1,030,543)	605,583	16,039,790
NET ASSETS - END OF YEAR	$ 15,696,825	$ 302,560	$ (1,459,558)	$ 88,206	$ 14,628,033