

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

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

**For the Year Ended December 31, 2016**

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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, 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 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*

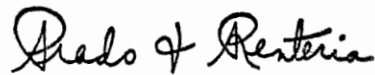
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Development Services as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Report on Summarized Comparative Information*

We have previously audited the consolidated financial statements of **Development Services** for the year ended December 31, 2015, and we expressed an unmodified audit opinion on those audited 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 21-23 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 13, 2017

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

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

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<b><u>ASSETS</u></b>	<b>2016</b>	<b>2015</b>
<b><u>Current Assets</u></b>		
Cash	\$ 1,442,173	\$ 1,151,443
Cash - Managing agent	82,818	44,419
Tenant accounts receivable (Less: Allowance for doubtful accounts of \$19,754 and \$4,839 for 2016 and 2015, respectively)	46,401	32,795
Accounts receivable - Consulting	53,021	34,227
Total Current Assets	1,624,413	1,262,884
<b><u>Fixed Assets</u></b>		
Building Improvements in progress	517,377	20,100
Land, Building and Improvements	17,726,491	17,589,890
Less: Accumulated depreciation	(2,485,544)	(1,843,364)
Total Fixed Assets	15,758,324	15,766,626
<b><u>Other Assets</u></b>		
Prepaid insurance	59,151	114,131
Restricted investments - security deposits	46,960	105,969
IHDA - Real estate escrow	55,434	30,000
IHDA - Insurance escrow	43,495	27,352
IHDA - Operating reserves	49,455	43,323
IHDA - Replacement reserves	57,276	51,666
IHDA - Rent-up reserves	3	36,343
Escrow - Real estate properties	648,068	184,812
Other escrow deposits	-	50,000
Total Other Assets	959,842	643,596
<b>TOTAL ASSETS</b>	<b>\$ 18,342,579</b>	<b>\$ 17,673,106</b>

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, 2016  
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2015)**

Page 2 of 2

<u>LIABILITIES AND NET ASSETS</u>	<u>2016</u>	<u>2015</u>
<b><u>Current Liabilities</u></b>		
Accounts payable	\$ 50,266	\$ 46,140
Due to CMHDC - Consulting	423,617	364,018
Prepaid rent	17,028	13,413
Accrued real estate taxes	506,394	500,745
Accrued mortgage interest	30,392	25,970
Tenant security deposits	42,786	102,487
Due to CMHDC - Advances	5,688,924	5,286,003
Mortgage payable - short term portion	1,931,375	157,756
1602 Grant funds - short term portion	262,840	262,840
Total Current Liabilities	8,953,622	6,759,372
<b><u>Long-Term Liabilities</u></b>		
<b><u>Long-Term Debt</u></b>		
Illinois Housing Development Authority		
loans payable - long-term portion	1,945,480	1,945,480
Mortgage payable - long term portion	6,141,833	6,906,681
Less: Unamortized debt finance cost	(91,244)	-
Net Long-Term Debt	7,996,069	8,852,161
Developer fee	85,567	85,567
Deferred interest payable	401,299	378,129
1602 Grant funds - long term portion	2,365,580	2,628,420
Total Long-Term Liabilities	10,848,515	11,944,277
Total Liabilities	19,802,137	18,703,649
<b><u>Net Assets</u></b>		
Unrestricted	(1,459,558)	(1,030,543)
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 18,342,579</b>	<b>\$ 17,673,106</b>

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, 2016  
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2015)**

	<b>2016</b>	<b>2015</b>
<b><u>Revenue</u></b>		
Rental income	\$ 2,317,949	\$ 2,204,576
Consulting revenue	103,699	110,749
Interest income	283	2
Other operating income	26,103	2,339
Grant income - 1602 funds	262,840	262,840
Total Revenues	2,710,874	2,580,506
 <b><u>Expenses</u></b>		
Program Services:		
Properties	3,083,558	2,894,844
Support Services:		
Management and general	56,331	45,354
Total Expenses	3,139,889	2,940,198
 <b>Change in Net Assets</b>	 (429,015)	 (359,692)
<b>Net Assets - Beginning of Year</b>	(1,030,543)	(670,851)
 <b>NET ASSETS - END OF YEAR</b>	 \$ (1,459,558)	 \$ (1,030,543)

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, 2016  
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2015)**

	<u>Program Services</u>	<u>Support Services</u>	<u>2016</u>	<u>2015</u>
	<u>Properties</u>	<u>Management and General</u>	<u>Total Expenses</u>	<u>Total Expenses</u>
<b><u>EXPENSES</u></b>				
Salaries & benefits	\$ 221,899	\$ -	\$ 221,899	\$ 90,598
Janitorial and administrative services	149,509	-	149,509	171,554
Advertisement	10,615	-	10,615	15,360
Automobile expense	1,945	102	2,047	1,860
Consulting expense	103,699	-	103,699	110,749
Bad debt expense	54,927	-	54,927	18,750
Insurance	179,630	-	179,630	123,528
Interest expense	404,956	-	404,956	358,676
HOA condo dues	74,162	-	74,162	69,029
Telephone	301	-	301	1,903
Property management fees	142,372	-	142,372	132,189
Miscellaneous expenses	4,744	-	4,744	10,088
Office expense	26,295	33,154	59,449	58,116
Professional fees	69,223	23,075	92,298	104,176
Property taxes	487,929	-	487,929	484,498
Rent	25,000	-	25,000	47,508
Repairs and maintenance	295,438	-	295,438	326,845
Asset management	7,737	-	7,737	11,700
Utilities	180,997	-	180,997	193,459
Total Expenses Before Depreciation	<u>2,441,378</u>	<u>56,331</u>	<u>2,497,709</u>	<u>2,330,586</u>
Depreciation	<u>642,180</u>	<u>-</u>	<u>642,180</u>	<u>609,612</u>
<b>TOTAL EXPENSES</b>	<u><u>\$ 3,083,558</u></u>	<u><u>\$ 56,331</u></u>	<u><u>\$ 3,139,889</u></u>	<u><u>\$ 2,940,198</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, 2016  
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2015)**

	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (429,015)	\$ (359,692)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	642,180	609,612
Bad debt	14,915	18,750
(Increase) decrease in:		
Tenant accounts receivable	(28,521)	(19,272)
Accounts receivable - Consulting	(18,794)	1,280
Prepaid insurance	54,980	(7,162)
Restricted investment - security deposits	59,009	(11,923)
Escrows and reserves	(16,979)	54,270
Increase (decrease) in:		
Accounts payable	4,126	(6,837)
Due to CMHDC - Consulting	59,599	18,742
Prepaid rent	3,615	5,612
Accrued expenses	10,071	14,485
Tenant security deposits	(59,701)	14,147
Net Cash Provided By Operating Activities	295,485	332,012
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Building Improvements in progress	(497,277)	-
Purchase of property	(136,601)	(210,117)
Net Cash (Used) In Investing Activities	(633,878)	(210,117)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Developer fee	-	(127,515)
Deferred interest payable	23,170	23,170
Release of 1602 grants funds	(262,840)	(262,840)
Proceeds from mortgages payable	4,845,500	370,000
Principal payments on mortgages	(3,836,729)	(149,372)
Debt finance cost	(91,244)	-
Escrow - construction	(413,256)	-
Affiliate advances	402,921	(139,428)
Net Cash Provided By (Used) In Financing Activities	667,522	(285,985)
Increase (Decrease) in Cash	329,129	(164,090)
Cash at Beginning of Year	1,195,862	1,359,952
<b>CASH AT END OF YEAR</b>	<b>\$ 1,524,991</b>	<b>\$ 1,195,862</b>
<b>SUPPLEMENTAL DATA:</b>		
Interest paid	\$ 404,956	\$ 358,676

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, 2016 AND 2015**

**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. 51<sup>st</sup> Ave, 1801 S. 50<sup>th</sup> Ave, 5700 W. 35<sup>th</sup> St., and 5741 W. 35<sup>th</sup> 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 20 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, 2016 AND 2015**

**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 2016 and 2015, 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 2013.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**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, 2016 and 2015 are \$ 46,960 and \$105,969, 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  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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

**Description of Programs**

During 2016 and 2015, 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, 2016, 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)	\$ 6,203,297
Southland Homes, a group of single family homes (85 units)	3,484,453
1336-38 South Austin (14 units)	764,402
Niles (12 units)	1,481,913
Ridge (17 units)	2,150,379
Dobson (15 units)	1,481,900
Harvard (21 units)	2,615,173
19430 Peoria (1 unit)	<u>69,482</u>
	18,250,999
Consolidated Financial Statement Eliminating Entry	( <u>7,131</u> )
Total Rental Portfolio	18,243,868
Accumulated depreciation	( <u>2,485,544</u> )
 <b>PROPERTIES, NET OF DEPRECIATION</b>	 <b>\$ <u>15,758,324</u></b>

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, 2016 and 2015, depreciation expense was \$642,180 and \$609,612, respectively.

**CMHDC DEVELOPMENT SERVICES  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**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, 2015, 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. 51<sup>st</sup> Ave, 1801 S. 50<sup>th</sup> Ave, 5700 W. 35<sup>th</sup> St., and 5741 W. 35<sup>th</sup> 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 1/15<sup>th</sup> 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, 2016, Development Services has earned and released \$1,314,200 with a remaining balance of \$2,628,420.

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
<b>TOTAL ORIGINAL COST</b>	<b><u>\$ 6,157,596</u></b>

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  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**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, 2016 and 2015 is \$1,861,198 and \$56,000.

The loans payable balance consists of the following:

	<u>2016</u>	<u>2015</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.	2,628,420	2,891,260
Loan payable to Private Bank in monthly installments, including principal and interest at 4.50%, 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 refinanced with Private Bank in 2016. The loan was obtained to purchase property located at 744 Dobson St., Evanston, Illinois.	-	882,236
Loan payable to Private Bank in monthly installments, including principal and interest at 4.50%, through 2023. The loan was refinanced with Private Bank in 2016. The loan was obtained to purchase property located at 1216-26 Harvard Ter., Evanston, Illinois.	2,143,809	-

**CMHDC DEVELOPMENT SERVICES  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

<b>NOTE 2 – LONG-TERM DEBT – Continued</b>	<u>2016</u>	<u>2015</u>
Loan payable to First Midwest Bank in monthly installments, including principal and interest at 4.6%, through 2024. The loan was refinanced with Private Bank in 2016. 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 8050-54 Niles Ave., Skokie, Illinois.	1,013,777	1,031,334
Loan payable to Private Bank in monthly installments, including principal and interest at 4.50%, 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 refinanced with Private Bank in 2016. The loan was obtained to purchase property located at 127-129 Ridge, Evanston, Illinois.	-	1,294,380
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.	1,861,198	1,914,667
Loan payable to The Private 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.	356,552	362,894
Total Loans Outstanding	12,647,108	11,901,177
Less: Current portion	(2,194,215)	(420,596)
<b>TOTAL LONG-TERM DEBT</b>	<u>\$ 10,452,893</u>	<u>\$ 11,480,581</u>



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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 2 – LONG-TERM DEBT - Continued**

Aggregate maturities of long-term debt are as follows:

December 31, 2017		\$ 2,194,215
2018		336,267
2019		340,229
2020		344,243
2021		669,177
Thereafter		8,762,977
<b>TOTAL</b>		<b>\$ 12,647,108</b>

**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:

	<b>2016</b>	<b>2015</b>
Balance, January 1	\$ 43,323	\$ 65,504
Deposits	6,050	-
Interest earnings	82	1
Withdrawals	-	22,182
<b>BALANCE, DECEMBER 31</b>	<b>\$ 49,455</b>	<b>\$ 43,323</b>

**Replacement Reserves:**

CDS Cicero NFP, LLC was required to fund a replacement reserve in the initial amount of \$16,200. Deposits of \$5,532 and \$5,300 were required in 2016 and 2015 respectively. Funds can be used to pay costs for replacement of structural elements and mechanical equipment of the buildings at the approval of IHDA.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 3 – ESCROW DEPOSITS AND RESTRICTED RESERVES - Continued**

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

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

**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:

	<b>2016</b>		<b>2015</b>	
	<b>Tax</b>	<b>Insurance</b>	<b>Tax</b>	<b>Insurance</b>
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)
<b>BALANCE, DECEMBER 31</b>	<b>\$ 55,434</b>	<b>\$ 43,495</b>	<b>\$ 30,000</b>	<b>\$ 27,352</b>

**CMHDC DEVELOPMENT SERVICES  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 3 – ESCROW DEPOSITS AND RESTRICTED RESERVES - Continued**

**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>2016</u>	<u>2015</u>
Balance, January 1	\$ 36,343	\$ 36,342
Deposits	-	-
Interest earnings	21	1
Withdrawals	<u>( 36,361)</u>	<u>-</u>
<b>BALANCE, DECEMBER 31</b>	<u>\$ 3</u>	<u>\$ 36,343</u>

**Other Properties:**

Monthly deposits to escrow accounts to fund annual real estate taxes and insurance are required by the lenders. In 2016 funds were deposited for purposes of building improvements. The following schedule shows the activity in such account during fiscal years:

	<u>2016</u>	<u>2015</u>
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	<u>(481,860)</u>	<u>(438,802)</u>
<b>BALANCE, DECEMBER 31</b>	<u>\$ 648,068</u>	<u>\$ 184,812</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. In 2016, the escrow deposit of \$50,000, less administrative cost, was refunded on this property.

**CMHDC DEVELOPMENT SERVICES  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**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 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, 2016 and 2015, outstanding developer fees payable was \$85,567 and \$85,567, 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 2016 and 2015, 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.

As of December 31, 2016 and 2015, Development Services owed CMHDC the following advances:

	<u>2016</u>	<u>2015</u>
Development Services	\$ 900,539	\$ 958,102
CDS Austin, LLC	23,323	23,323
CDS Cicero NFP, LLC	216,310	252,517
Peoria	1,315	1,315
CDS Southland Homes, LLC	1,175,920	1,175,920
CDS Dobson, LLC	468,801	432,054
CDS Harvard, LLC	916,742	700,000
CDS Niles, LLC	457,171	450,000
CDS Ridge, LLC	685,005	396,878
Chicago Metropolitan Construction, LLC	843,798	895,894
	<u>\$ 5,688,924</u>	<u>\$ 5,286,003</u>
Total Advances		

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 6 – RELATED PARTY TRANSACTIONS – Continued**

Development Services has contracted with CMHDC to perform consulting services under an operating agreement. The expense incurred for these contracting services for fiscal year 2016 and 2015 was \$103,699 and \$110,749, respectively. As of December 31, 2016 and 2015, the balance of the accounts payable for these consulting services is \$423,617 and \$364,018, 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, 2016 and 2015 uninsured balances were \$246,403 and \$39,454, 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**

Kass Management Services, Inc.

Development Services uses Kass Management Services, Inc. for certain 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 Kass Management Services, Inc. earned \$31,654 and \$32,044 respectively.

Urban Equities Real Estate Consultants, Inc.

Development Services use Urban Equities Real Estate Consultants, Inc. for certain 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 \$48,448 and \$48,458 respectively.

Ludwig and Company

Development Services uses Ludwig and Company for certain 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 Ludwig and Company earned \$62,270 and \$51,687 respectively.

The total paid for property management services in 2016 and 2015 was \$142,372 and \$132,189 respectively.

**CMHDC DEVELOPMENT SERVICES  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 9 – CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS**

As of December 31, 2016, 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 2013, 2014 and 2015 remain subject to examination by the taxing authorities.

**NOTE 11 – SUBSEQUENT EVENT**

**Property Sale**

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.

	<u>Expected Date of Sale</u>	<u>Contract Amount</u>
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

Management has evaluated subsequent events through June 13, 2017, 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  
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**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION**

**AS OF DECEMBER 31, 2016**

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	<u>Development Services</u>	<u>Chicago Metropolitan Construction, LLC</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
<b><u>ASSETS</u></b>				
<b><u>Current Assets</u></b>				
Cash	\$ 1,234,726	\$ 207,447	\$ -	\$ 1,442,173
Cash - Managing agent	82,818	-	-	82,818
Tenant accounts receivable	46,401	-	-	46,401
Accounts receivable - Consulting	53,021	-	-	53,021
Due from Development Services	-	684,338	(684,338)	-
Investment in Chicago Metropolitan Construction	(5,000)	-	5,000	-
Total Current Assets	<u>1,411,966</u>	<u>891,785</u>	<u>(679,338)</u>	<u>1,624,413</u>
<b><u>Fixed Assets</u></b>				
Building Improvements in progress	517,377	-	-	517,377
Land, Building and Improvements	17,733,622	-	(7,131)	17,726,491
Less: Accumulated depreciation	(2,485,544)	-	-	(2,485,544)
Total Fixed Assets	<u>15,765,455</u>	<u>-</u>	<u>(7,131)</u>	<u>15,758,324</u>
<b><u>Other Assets</u></b>				
Prepaid insurance	59,151	-	-	59,151
Restricted investments - security deposits	46,960	-	-	46,960
IHDA - Real estate escrow	55,434	-	-	55,434
IHDA - Insurance escrow	43,495	-	-	43,495
IHDA - Operating reserves	49,455	-	-	49,455
IHDA - Replacement reserves	57,276	-	-	57,276
IHDA - Rent-up reserves	3	-	-	3
Escrow - Real estate properties	648,068	-	-	648,068
Total Other Assets	<u>959,842</u>	<u>-</u>	<u>-</u>	<u>959,842</u>
<b>TOTAL ASSETS</b>	<u>\$ 18,137,263</u>	<u>\$ 891,785</u>	<u>\$ (686,469)</u>	<u>18,342,579</u>



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

**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION**

**AS OF DECEMBER 31, 2016**

**Page 2 of 2**

	<b>Development Services</b>	<b>Chicago Metropolitan Construction, LLC</b>	<b>Eliminating Entries</b>	<b>Consolidated Total</b>
<b><u>LIABILITIES AND NET ASSETS</u></b>				
<b><u>Current Liabilities</u></b>				
Accounts payable	\$ 50,266	\$ -	\$ -	\$ 50,266
Accounts payable - Consulting	423,617	-	-	423,617
Prepaid rent	17,028	-	-	17,028
Accrued real estate taxes	506,394	-	-	506,394
Accrued mortgage interest	30,392	-	-	30,392
Tenant security deposits	42,786	-	-	42,786
Due to CMHDC	4,792,139	896,785	-	5,688,924
Due to Chicago Metropolitan Construction	684,338	-	(684,338)	-
Mortgage payable - short term portion	1,931,375	-	-	1,931,375
1602 Grant funds - short term portion	262,840	-	-	262,840
Total Current Liabilities	8,741,175	896,785	(684,338)	8,953,622
<b><u>Long-Term Liabilities</u></b>				
<b><u>Long-Term Debt</u></b>				
Illinois Housing Development Authority loans payable - long-term portion	1,945,480	-	-	1,945,480
Mortgage payable - long term portion	6,141,833	-	-	6,141,833
Less: Unamortized debt finance cost	(91,244)	-	-	(91,244)
Net Long-Term Debt	7,996,069	-	-	7,996,069
Developer fee	85,567	-	-	85,567
Deferred interest payable	401,299	-	-	401,299
1602 Grant funds - long term portion	2,365,580	-	-	2,365,580
Total Long-Term Liabilities	10,848,515	-	-	10,848,515
Total Liabilities	19,589,690	896,785	(684,338)	19,802,137
<b><u>NET ASSETS</u></b>				
Unrestricted	(1,452,427)	-	-	(1,452,427)
Retained earnings	-	(5,000)	(2,131)	(7,131)
Total Net Assets	(1,452,427)	(5,000)	(2,131)	(1,459,558)
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 18,137,263</b>	<b>\$ 891,785</b>	<b>\$ (686,469)</b>	<b>\$ 18,342,579</b>

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

**CONSOLIDATING SCHEDULE OF ACTIVITIES**

**FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Development Services</u>	<u>Chicago Metropolitan Construction, LLC</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
<b><u>Revenue</u></b>				
Rental income	\$ 2,317,949	\$ -	\$ -	\$ 2,317,949
Consulting revenue	103,699	-	-	103,699
Interest income	283	-	-	283
Other operating income	26,103	-	-	26,103
Grant income - 1602 funds	262,840	-	-	262,840
Total Revenues	<u>2,710,874</u>	<u>-</u>	<u>-</u>	<u>2,710,874</u>
<b><u>Expenses</u></b>				
Salaries & benefits	221,899	-	-	221,899
Janitorial and administrative services	149,509	-	-	149,509
Advertisement	10,615	-	-	10,615
Automobile expense	2,047	-	-	2,047
Consulting expense	103,699	-	-	103,699
Bad debt	54,927	-	-	54,927
Office expense	59,449	-	-	59,449
Insurance	179,630	-	-	179,630
Property management fee	142,372	-	-	142,372
Professional fees	92,298	-	-	92,298
Repairs and maintenance	295,438	-	-	295,438
Utilities	180,997	-	-	180,997
Property taxes	487,929	-	-	487,929
Rent	25,000	-	-	25,000
Interest expense	404,956	-	-	404,956
HOA condo dues	74,162	-	-	74,162
Telephone	301	-	-	301
Asset management	7,737	-	-	7,737
Miscellaneous operating expenses	4,744	-	-	4,744
Total Expenses Before Depreciation	<u>2,497,709</u>	<u>-</u>	<u>-</u>	<u>2,497,709</u>
Depreciation	<u>642,180</u>	<u>-</u>	<u>-</u>	<u>642,180</u>
Total Expenses	<u>3,139,889</u>	<u>-</u>	<u>-</u>	<u>3,139,889</u>
<b>Change in Net Assets</b>	(429,015)	-	-	(429,015)
<b>Net Assets - Beginning of Year</b>	<u>(1,023,412)</u>	<u>(5,000)</u>	<u>(2,131)</u>	<u>(1,030,543)</u>
<b>NET ASSETS - END OF YEAR</b>	<u><u>\$ (1,452,427)</u></u>	<u><u>\$ (5,000)</u></u>	<u><u>\$ (2,131)</u></u>	<u><u>\$ (1,459,558)</u></u>