MCL/ASD LIMITED LIABILITY COMPANY III

REPORT ON FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

MCL/ASD LIMITED LIABILITY COMPANY III

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	2-3
FINANCIAL STATEMENTS	
Balance Sheet	4-5
Statement of Operations	6
Statement of Members' Equity (Deficit)	7
Statement of Cash Flows	8
NOTES TO THE FINANCIAL STATEMENTS	9-12
SUPPLEMENTARY INFORMATION	
Statement of Operations – Cash Basis	13
Schedule of Expenses	14

INDEPENDENT AUDITOR'S REPORT

To the Members of
MCL/ASD LIMITED LIABILITY COMPANY III
Chicago, Illinois

We have audited the accompanying financial statements of MCL/ASD LIMITED LIABILITY COMPANY III (an Illinois Limited Liability Company), which comprise the balance sheet as of December 31, 2019, and the related statements of operations, members' equity (deficit), and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of MCL/ASD LIMITED LIABILITY COMPANY III as of December 31, 2019 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information shown on pages 13 and 14 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 financial statements as a whole.

Haran & Associates Ltd

HARAN & ASSOCIATES LTD
Certified Public Accountants

March 21, 2020

MCL/ASD LIMITED LIABILITY COMPANY III
BALANCE SHEET
DECEMBER 31, 2019

ASSETS

CURRENT ASSETS		
Cash - operations	$	132,734
Accounts receivable - tenant		584
Accounts receivable - CHA		15,133
Total current assets	$	148,451
RESTRICTED DEPOSITS		
Authority reserve	$	73,569
Tenant security deposits		4,463
Total restricted deposits	$	78,032
FIXED ASSETS		
Rental units	$	2,000,201
Equipment		6,020
Less: Accumulated depreciation		(1,566,766)
Net fixed assets	$	439,455
Total assets	$	665,938

The accompanying notes are an integral part of this statement.

MCL/ASD LIMITED LIABILITY COMPANY III
BALANCE SHEET (CONTINUED)
DECEMBER 31, 2019

LIABILITIES AND MEMBERS' EQUITY (DEFICIT)

CURRENT LIABILITIES		
Accounts payable	$	40,529
Deferred development cost income		40,400
Prepaid rent		948
Note payable		9,231
Total current liabilities	$	91,108
DEPOSITS		
Tenant security deposits	$	3,336
LONG-TERM LIABILITIES		
Note payable	$	249,421
Due to the Chicago Housing Authority		180,546
Deferred development cost income		710,367
Total long-term liabilities	$	1,140,334
Total liabilities	$	1,234,778
MEMBERS' EQUITY (DEFICIT)		
Members' equity (deficit)	$	(568,840)
Total liabilities and members' equity (deficit)	$	665,938

The accompanying notes are an integral part of this statement.

MCL/ASD LIMITED LIABILITY COMPANY III
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2019

REVENUES		
Tenant rental income	$	55,305
CHA lease payments		89,631
Development cost income		40,400
Interest		73
Total revenues	$	185,409
EXPENSES		
Administrative	$	23,095
Utilities		552
Operating and maintenance		93,652
Taxes and insurance		6,102
Total expenses	$	123,401
OPERATING INCOME	$	62,008
FINANCIAL EXPENSES		
Interest	$	11,857
INCOME BEFORE DEPRECIATION	$	50,151
Depreciation		72,735
NET INCOME (LOSS)	$	(22,584)

The accompanying notes are an integral part of this statement.

MCL/ASD LIMITED LIABILITY COMPANY III
STATEMENT OF MEMBERS' EQUITY (DEFICIT)
FOR THE YEAR ENDED DECEMBER 31, 2019

Members' equity (deficit) at January 1, 2019	$	(546,256)
Net income (loss)		(22,584)
Members' equity (deficit) at December 31, 2019	$	(568,840)

The accompanying notes are an integral part of this statement.

MCL/ASD LIMITED LIABILITY COMPANY III
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from:		
Tenant rent payments	$	56,198
Chicago Housing Authority lease payments		85,133
Interest income		73
Total cash receipts	$	141,404
Cash payments for:		
Administrative expenses	$	736
Utilities		783
Operating and maintenance expenses		88,956
Taxes and insurance		6,102
Financial expenses		12,863
Tenant security deposits		(973)
Total cash payments	$	108,467
Net cash provided by (used in) operating activities	$	32,937
CASH FLOWS FROM FINANCING ACTIVITIES		
Note payable principal payments	$	(9,580)
Net cash provided by (used in) financing activities	$	(9,580)
Net increase (decrease) in cash, cash equivalents, and restricted cash	$	23,357
Cash, cash equivalents, and restricted cash at beginning of year		187,409
Cash, cash equivalents, and restricted cash at end of year	$	210,766
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid during the year for interest	$	12,863

The accompanying notes are an integral part of this statement.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT POLICIES

The Company is organized as a limited liability company and was formed May 30, 1996, to acquire an interest in 16 condominium units in Chicago, Illinois, and operate said units under a 40-year lease expiring August 15, 2038, with the Chicago Housing Authority (CHA). The terms of the lease provide for monthly lease payments to be made to the Company in return for making the 16 condominium units available to eligible public housing households and operating the units under a Regulatory Agreement between the CHA and the Company.

The following significant accounting policies have been followed in the preparation of the financial statements:

Depreciable assets are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Expenditures for repairs and maintenance are expensed as incurred.

No income tax provision has been included in the financial statements since income or loss of the Company is required to be reported by the members on their respective income tax returns. The Company’s tax returns for the years ended December 31, 2016, 2017 and 2018 remain open to examination by the Internal Revenue Service and state taxing agencies.

Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates used.

Rental revenue is recorded as earned. Prepaid rent is recorded as a liability until earned.

Tenant receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write off method is not materially different from the results that would have been obtained under the allowance method.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic230): Restricted Cash. This ASU is intended to provide guidance on the presentation of restricted cash or restricted cash equivalents and reduce the diversity in practice. This ASU requires amounts generally described as restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts on the statement of cash flows. The accompanying statement of cash flows has been presented in accordance with this ASU.

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

The Company reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to future net undiscounted cash flows expected to be generated by the rental property, including any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There was no impairment loss recognized during the year ended December 31, 2019.

Subsequent events have been evaluated through March 21, 2020, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events requiring disclosure.

NOTE 2 - TENANT SECURITY DEPOSITS

Tenant security deposits are held in a separate bank account in the name of the Company.

NOTE 3 - DUE TO THE CHICAGO HOUSING AUTHORITY

The amount of $180,546 shown as due to the Chicago Housing Authority, represents the cumulative total of tenant rental payments and CHA lease payments in excess of monthly operating expenses. These amounts are to be paid to the CHA on or before the termination date of the lease entered into between the Company and the CHA.

NOTE 4 - NOTE PAYABLE

The Company has entered into an agreement, dated July 30, 1998, with the Chicago Metropolitan Housing Development Corporation for a note in the original amount of $384,000. The note bears interest at 4.5% and is being amortized over a 40-year period. The agreement calls for monthly payments to be made in the amount of $1,726, including interest. The outstanding balance of the note at December 31, 2019, was $258,652.

The following are the maturities of long-term debt for each of the next five years and thereafter:

2020	$ 9,231
2021	9,656
2022	10,099
2023	10,563
2024	11,048
Thereafter	208,055
Total	$ 258,652

NOTE 5 - DEFERRED DEVELOPMENT COST INCOME

The CHA provided funds to the Company to cover a portion of the development costs for the units leased to it by the Company. Provided the terms of the lease are complied with, the amount provided by the CHA will not be repaid. Due to the fact that the funds provided by the CHA will not be repaid, the amount is being amortized over the term of the 40-year lease and recognized as income by the Company on a pro-rata basis. The following is a breakdown of the amount received from the CHA as of December 31, 2019:

Total funds provided	$	1,616,000
Less: Accumulated amortization		(865,233)
Deferred income at December 31, 2019	$	750,767

NOTE 6 - STATEMENT OF CASH FLOWS

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the accompanying balance sheet that sum to the total of the same such amounts shown in the accompanying statement of cash flows:

	December 31, 2018		December 31, 2019	
Cash and cash equivalents	$	110,528	$	132,734
Tenant security deposits		3,318		4,463
Authority reserve		73,563		73,569
Total	$	187,409	$	210,766

Tenant security deposits represent deposits collected from tenants in accordance with their lease agreement. Authority reserve deposits represent deposits made for the future repair or replacement of Company assets as mandated by the lease agreement entered into with the CHA.

NOTE 7 - PROPERTY MANAGEMENT

The Company had entered into a Management Agreement with East Lake Management Group, Inc. for the period January 1, 2019 through March 31, 2019. That agreement was replaced with a new Management Agreement with Realty & Mortgage Company for the period April 1, 2019 through December 31, 2019. The agreements provide for the management agent to manage the day-to-day operations and provide the financial reporting required for the 16 condominium units leased to the CHA. The Agreements state that the management agent will manage the units in compliance with the Regulatory Agreement entered into between the Company and the CHA. The Management Agreements provide for a monthly fee of $46 per unit per month for the period January 1, 2019 through March 31, 2019 and $44 per unit per month for the period April 1, 2019 through December 31, 2019.

NOTE 8 - AUTHORITY RESERVE

The Regulatory Agreement entered into between the Company and the CHA requires that an authority reserve be established and that the reserve be funded in an amount of $1,008 ($63 per unit) on a monthly basis out of rent paid by the CHA. The funds in the reserve will be available, with written permission from the CHA, to cover the cost of major replacements to any one or more of the residential condominium units comprising the leased premises. If at any time the balance in the authority reserve exceeds $60,480, the amount in excess shall be paid to the Chicago Metropolitan Housing Development Corporation to pay any permitted accrued amounts set forth in the loan documents. At the expiration of the term of the lease, all amounts remaining in the authority reserve shall be paid to the CHA. No monthly deposits were made to the authority reserve during the year ended December 31, 2019.

MCL/ASD LIMITED LIABILITY COMPANY III
STATEMENT OF OPERATIONS – CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2019

REVENUES		
Tenant rental payments	$	56,198
CHA lease payments		85,133
Miscellaneous		73
Total revenues	$	141,404
EXPENSES		
Administrative	$	736
Utilities		783
Operating and maintenance		88,956
Taxes and insurance		6,102
Financial		12,863
Total expenses	$	109,440
Excess of revenues over expenses	$	31,964

See independent auditor's report.

MCL/ASD LIMITED LIABILITY COMPANY III
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

ADMINISTRATIVE EXPENSES		
Management fees	$	8,544
Accounting expenses		5,065
Office expenses		2,097
Bad debts		996
Payroll		6,393
Total administrative expenses	$	23,095
UTILITIES EXPENSES		
Electricity	$	118
Gas		434
Total utilities expenses	$	552
OPERATING AND MAINTENANCE EXPENSES		
Maintenance and repairs	$	32,475
Exterminating		630
Association fees		55,995
Payroll		4,552
Total operating and maintenance expenses	$	93,652
TAXES AND INSURANCE EXPENSES		
Property insurance	$	4,115
Payroll taxes		1,143
Miscellaneous taxes and insurance expenses		844
Total taxes and insurance expenses	$	6,102