

Forensic Budget Stress Test: FY2026-27 Proposed Budget Review

175 East Delaware Place
Homeowners Association
(Floors 44-92, Chicago, IL)



Property Asset
Transparency Score
(PATScore™):

15/100

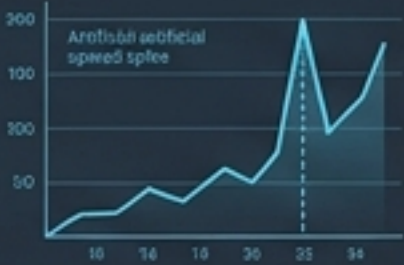
Major Areas of Exposure

Primary Finding:
The Board lacks
sufficiently reliable
financial information
to approve the
proposed budget.

Revenue



**Double-counted revenue
masking deficits.**



Reserves



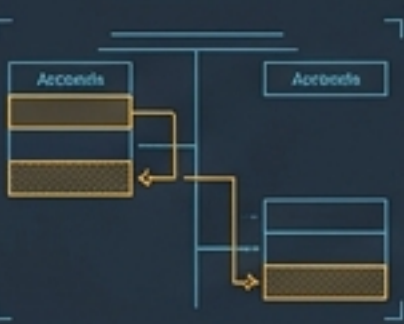
**Unauthorized reserve waivers
violating statutory requirements.**

Tax

TAX CALCULATION	
	Amount
Tax obligation	99,000
Top deduction	100
Exemption deduction	500
Charitable deduction	10,000
Donation deduction	100
	0.00
TOTAL	99,600



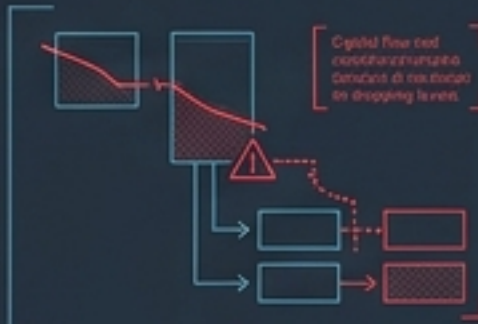
**Incorrect tax accounting
understating liabilities.**



Capital



**Hollowing out of critical
working capital.**



The \$325,146 Comparative Revenue Duplication

Budget comparative columns count the exact same cable/internet fee revenue twice. This presentation defect masked a projected operating deficit.

CABLE/INTERNET	
Category	Revenue
Residential	\$100,000
Commercial	\$150,000
Government	\$100,000
Non-Profit	\$100,000
Other	\$100,000
TOTAL	\$500,000

Cable/Internet Fee Revenue: \$325,146



Bucket 1:
Budget
Comparative Column



Bucket 2:
Separate
Revenue Line



CABLE/INTERNET	
Category	Revenue
Residential	\$100,000
Commercial	\$150,000
Government	\$100,000
Non-Profit	\$100,000
Other	\$100,000
TOTAL	\$500,000



~~Budget Surplus~~
True Structural Deficit

The Result: What appears to be a budget surplus is actually a mathematical artifact covering a structural deficit.

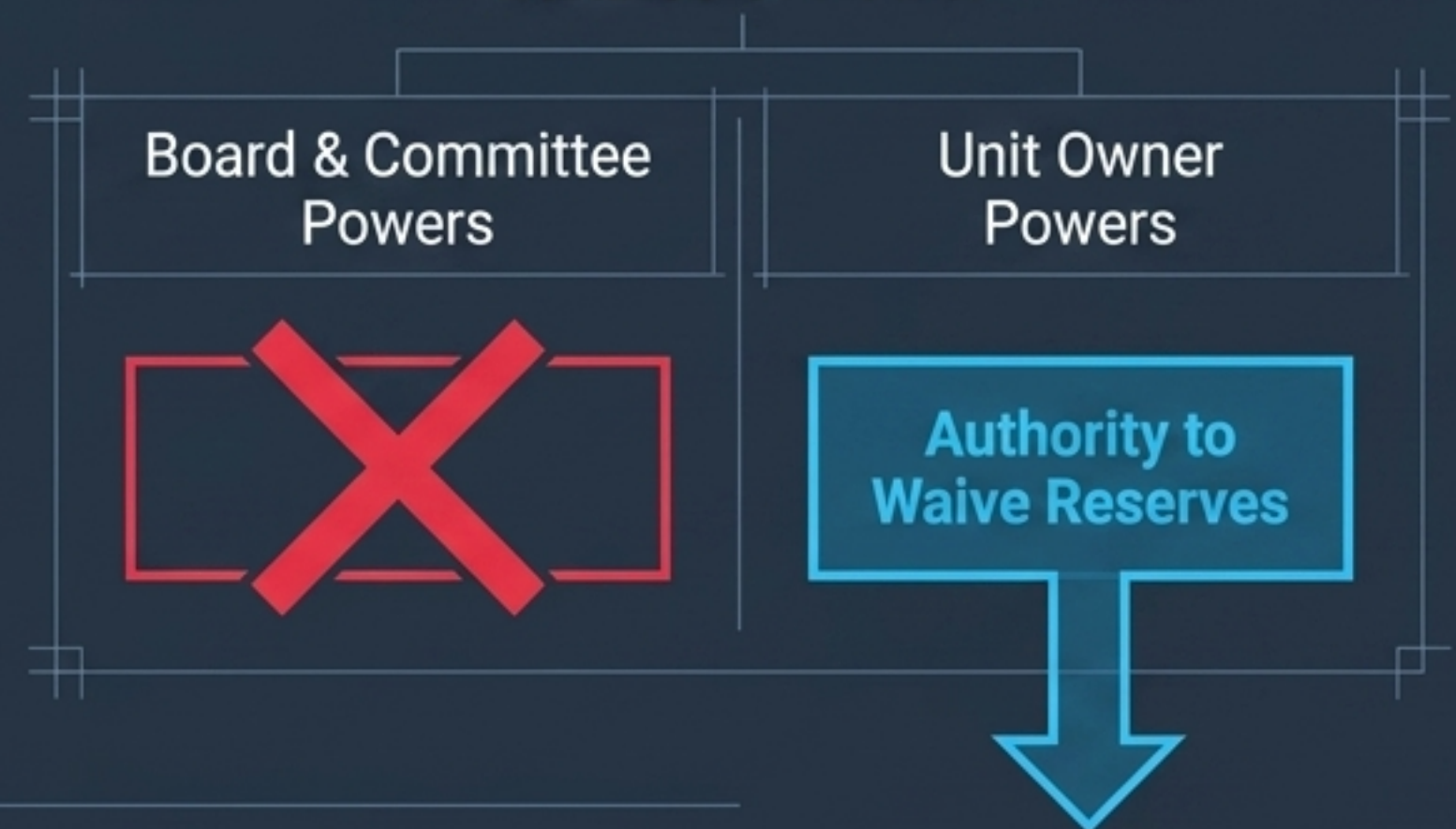
The Unauthorized \$973,400 Reserve Funding Waiver

Recommended Reserve Amount: \$2,453,400



Finance Committee unilaterally cut reserve funding to 60.3% (\$1,480,000 proposed vs. \$2,453,400 recommended).

Balance of Power



Statutory Failure: Under Illinois law and the Declaration, waiving or reducing reserves **requires a 2/3 majority vote of the unit owners**, not a committee decision.

Forensic Observation: No valid, disclosed owner waiver exists.

Lending Warrantability & Financing Risks

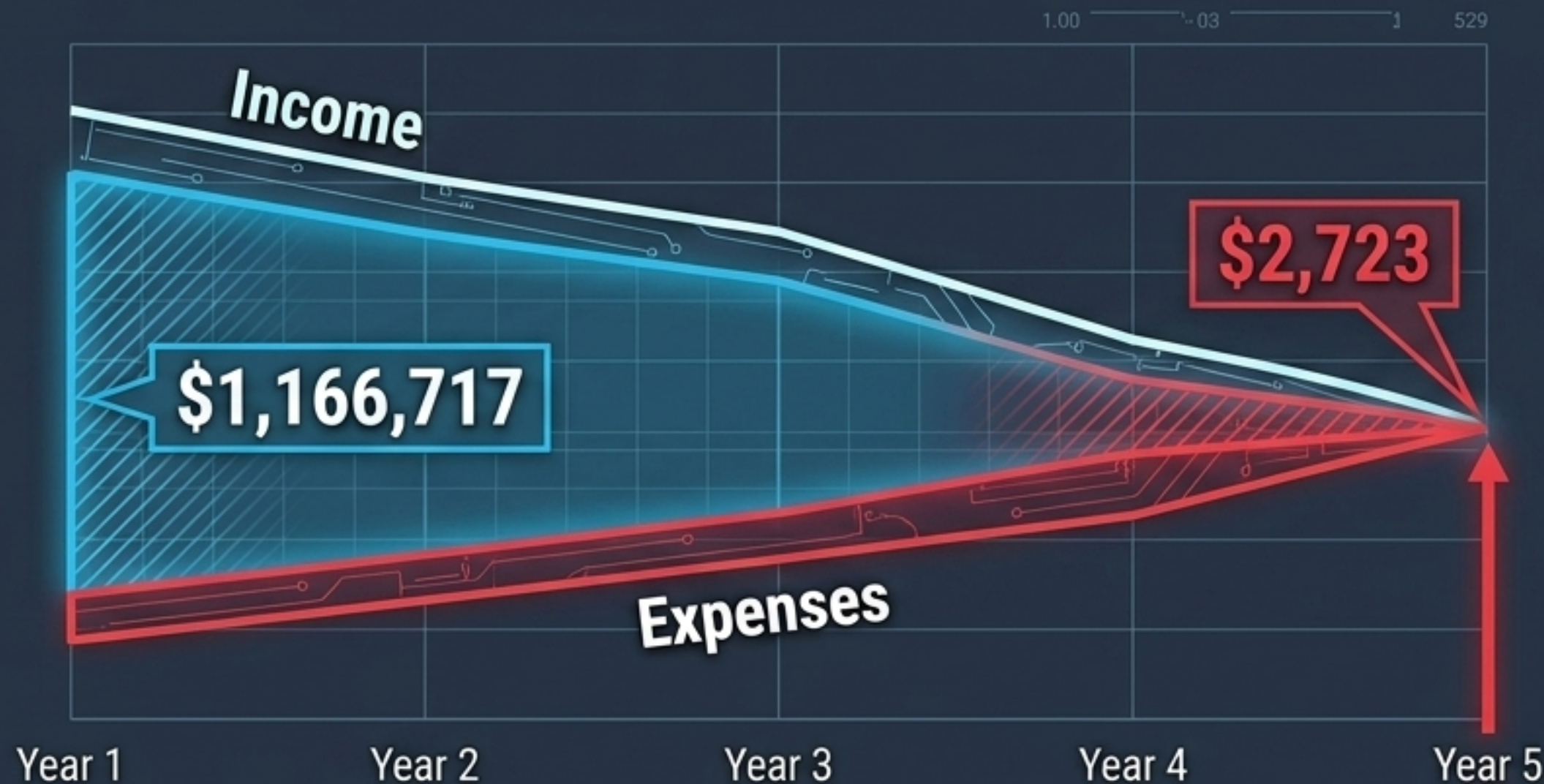


Under Fannie Mae LL-2026-03 and Freddie Mac Bulletin 2026-C, buildings with underfunded reserves or unilateral waivers face strict mortgage blocks.

This creates severe warrantability risks.

The Threat: Property sales and refinancing capabilities are threatened building-wide.

Five-Year Erosion of the Operating Cushion



99.8% collapse in operating surplus: plummeted from \$1,166,717 to just **\$2,723** over five years.

Stagnant operating fund target has been frozen since 2009.

Fund target is currently falling \$625,420 below the inflation-adjusted standard.

\$625,420 below inflation-adjusted safety standard.

Monthly Bookkeeping Basis Distortions

What You See (Market Value)



3,363.74

2,238.11

4,123.58

UNSTABLE

-\$1,098.24

What Is Real (GAAP Held-to-Maturity)

STABLE

\$1,166,717

Ledger Anomaly

\$95,597.84

Accrual Failure: An Accrued Interest Receivable from the prior year remained unreversed on the ledger.

Monthly general ledger is kept on a market-value basis rather than the GAAP held-to-maturity amortized cost.

- **Risk:** Severe risk of double-counting interest income.

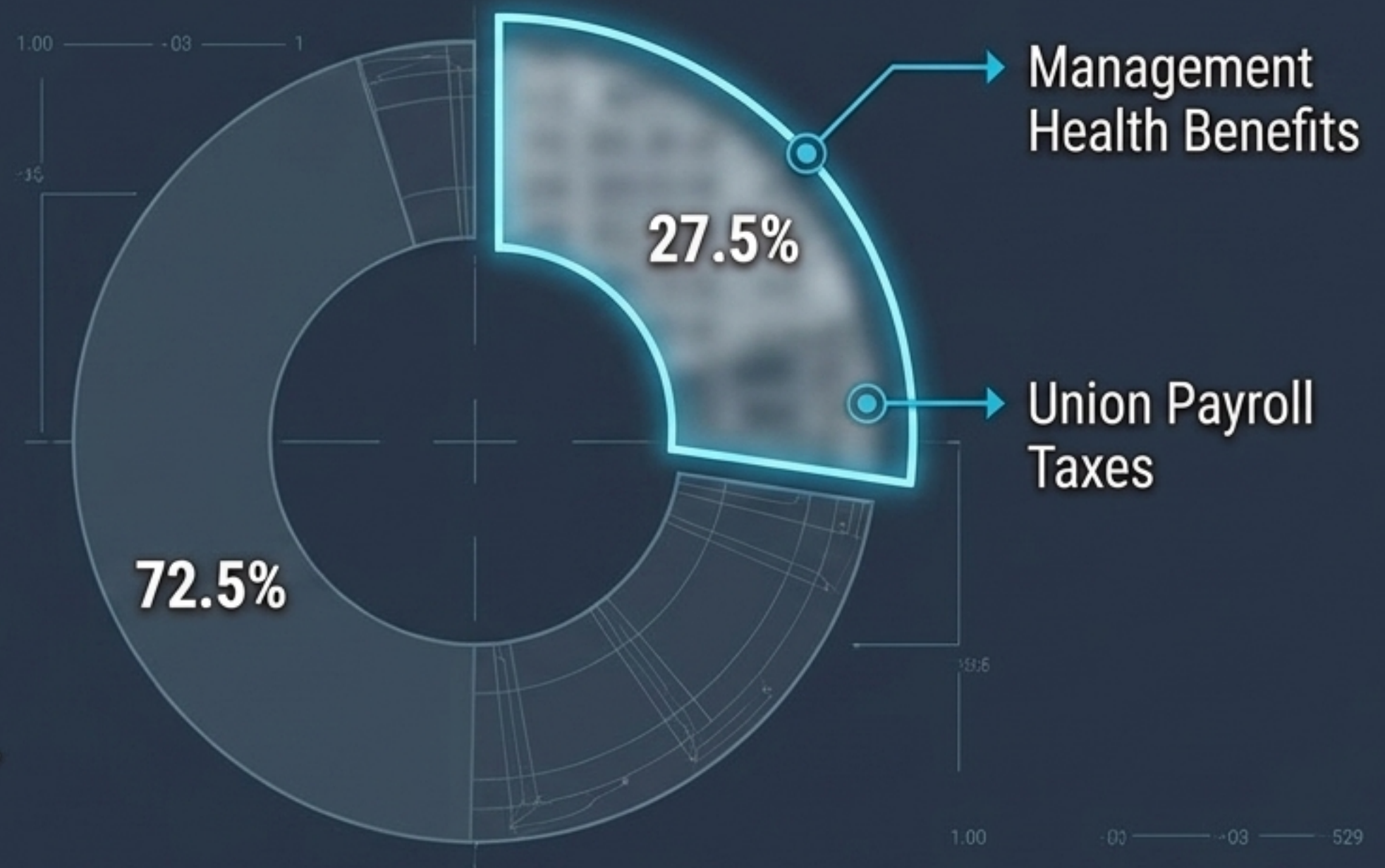
Technical Note: Divergence in bookkeeping leads directly to blind spots for the Board.

Workforce Spending Opacity

- Total workforce cost of **\$3,011,292** represents **27.5%** of the entire budget.

- **The Problem:** The budget lacks any position-by-position staffing plan.

- Sudler management health benefits and payroll taxes are commingled with union accounts.



Finding: The Board is voting on over \$3 Million of spend completely blind.

Material Understatement of Taxable Income



Detail on the Association's most recent Form 1120-H return:

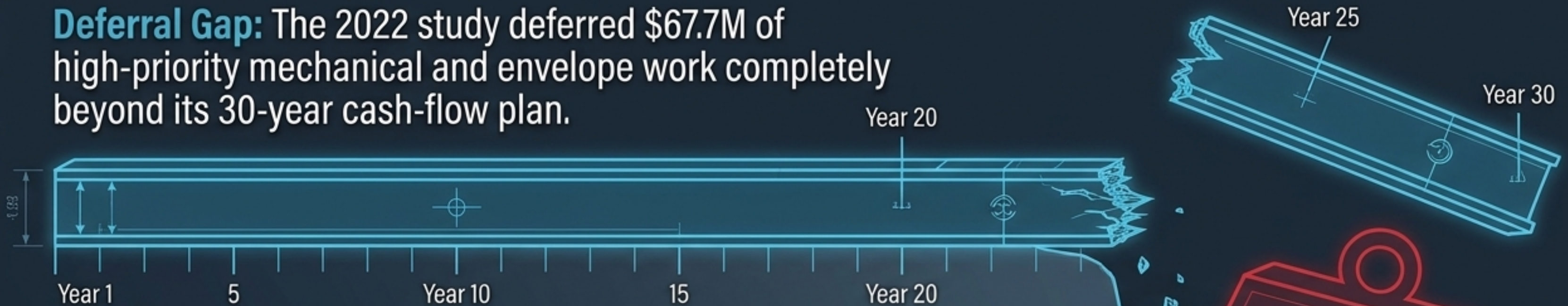
- Excluded nonexempt **Operating Interest Income** and **Unit Charges** from taxable income.
- Erroneously **deducted full expenses** from below-market amenities that generate persistent structural losses (Potash/Hancock Market, JHC 44th Floor Lease).



The Exposure: Cumulative mismatch understated taxable income by approximately **\$150,000, creating a material federal income tax liability.**

Evaluation of Professional Work Products: Reserve Study

Deferral Gap: The 2022 study deferred \$67.7M of high-priority mechanical and envelope work completely beyond its 30-year cash-flow plan.



Deficient Assumptions:

~~0%~~
Tax Assumption

Warning Amber

**Actual Six-Figure
Tax Reality**

Modeled reserve interest taxes at 0%, when the Association actually pays six-figure annual income taxes from the reserve fund.

\$67.7M
**High-Priority
Work Deferred**
Mechanical & Envelope Work

Analysis: Foundation planning documents contain catastrophic blind spots.

Evaluation of Professional Work Products: Federal Tax Filings



What Was Filed (Systematic Inconsistency)

- Successive returns applied **completely different, non-comparable methodologies** for identifying nonexempt income and allocating overhead.
- **Improperly** treated below-market **member-facing amenities** as wholly deductible loss-generating commercial businesses.



What The Law Requires (Portland Golf Club)

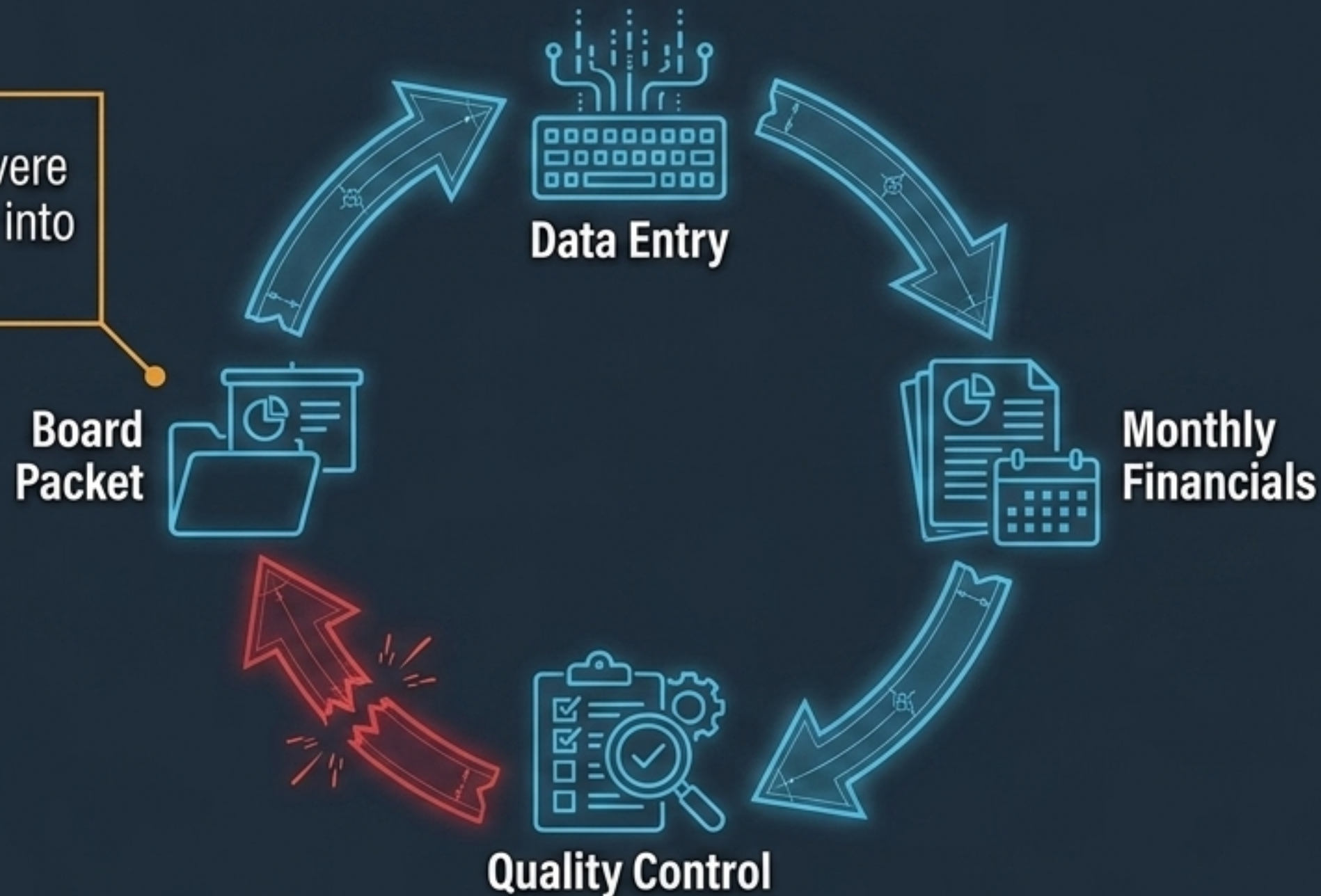
- Deductions **must be legally capped at matching revenue** under Portland Golf Club precedent.

Systematic inconsistency proves that complex tax precedents are being ignored, embedding flawed methodologies directly into the financial plan.

Evaluation of Professional Work Products: Management Accounting & Quality Control

⚠ Warning Amber

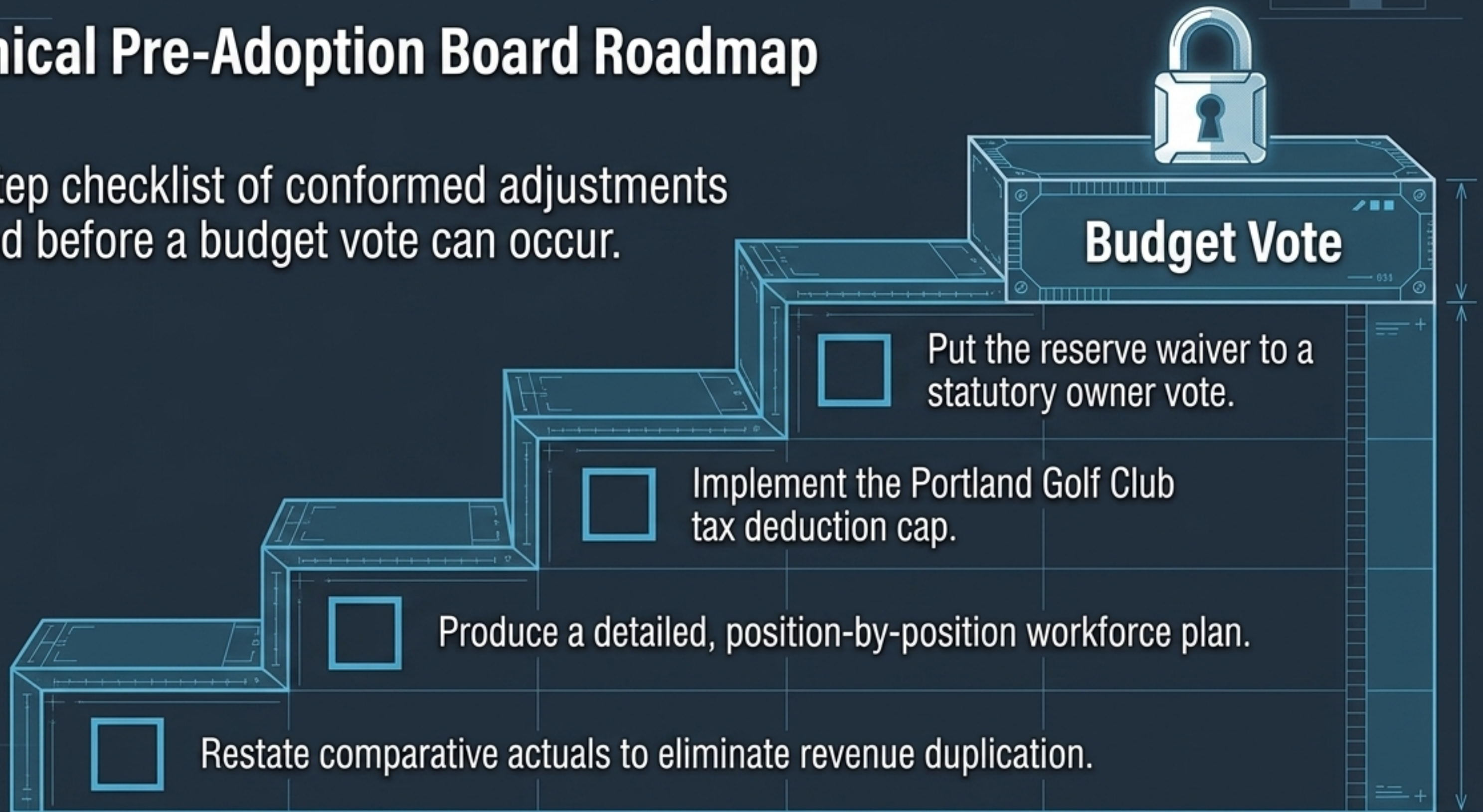
Result: Embedding severe double-counts directly into the final board packet.



- Monthly financials are prepared on a basis divergent from year-end financial statements, requiring retroactive corrections months after the fact.
- Quality control completely failed to reconcile current budget comparative columns to prior year actuals before publication.

Technical Pre-Adoption Board Roadmap

A 10-step checklist of conformed adjustments required before a budget vote can occur.



(Plus 6 additional technical conformances outlined in the forensic report)