

Forensic Budget Stress Test: FY2026-27 Proposed Budget Review

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

Version 1.1 • August 23, 2026

*Based on the Forensic Review of the Proposed FY2026-27 Budget
(Version 1.1, issued August 23, 2026; Version 1.0 issued July 27, 2026)*

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Where this presentation and the full report differ in any respect, the full report controls.



Major Areas of Exposure

Revenue

Double-counted revenue masking deficits.

Tax

Inconsistent tax methodology understating taxable income.

Primary Finding

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

Reserves

Reserve waiver made without the owner vote the Declaration and the Act require.

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 Fee Revenue

\$325,146

Eight months (Jan-Aug 2026) at \$40,643.25 per month under the Board-adopted per-unit billing schedule.



Bucket 1

Budget Comparative Column
(inside Account 3000, \$10,142,869)



Bucket 2

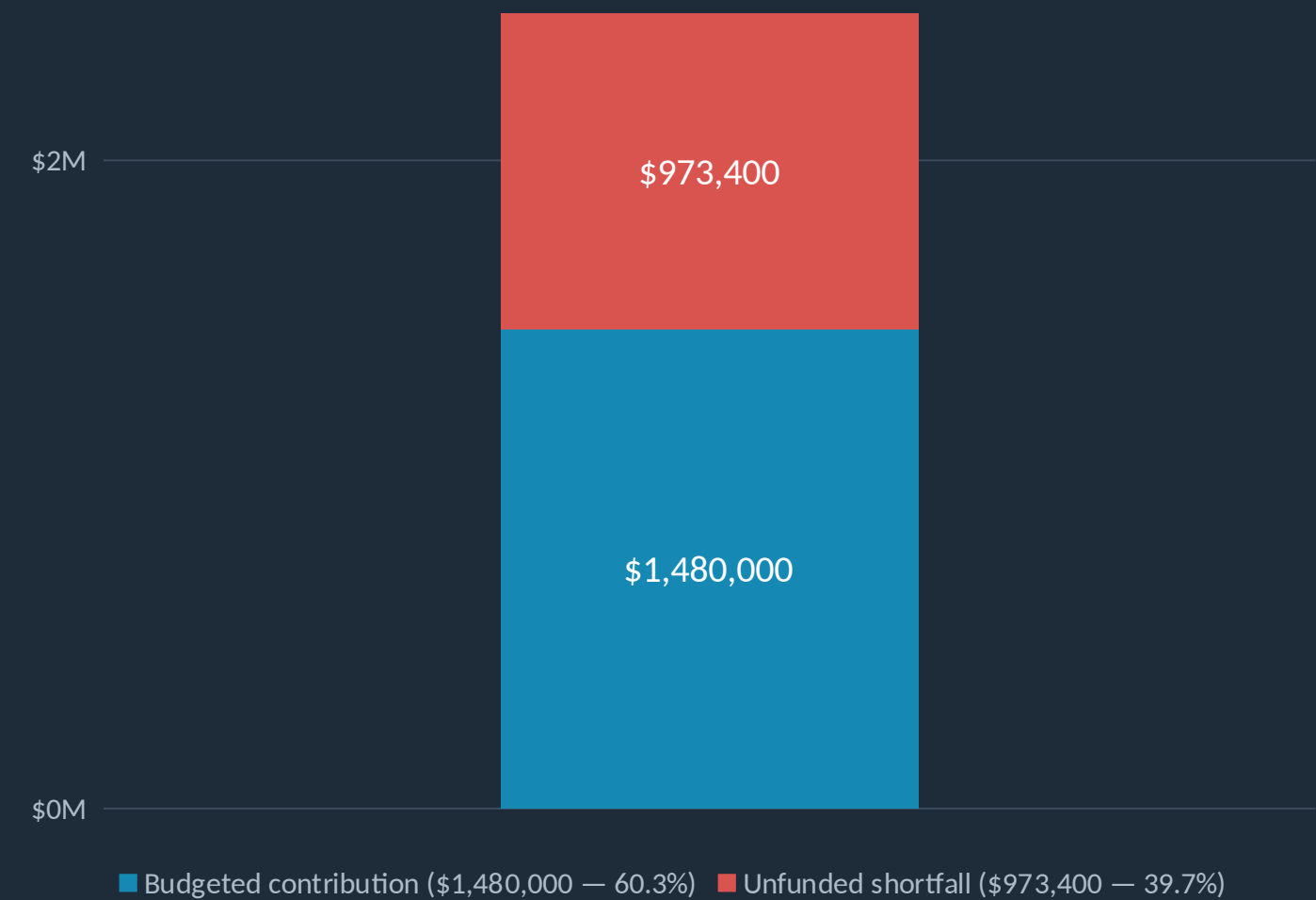
Separate Revenue Lines
(cable \$255,251 + internet \$69,986)

~~Budget Surplus~~ → True Structural Deficit

The Result: What appears to be a budget surplus is a presentation artifact covering a projected operating deficit.

The \$973,400 Reserve Funding Reduction

Recommended annual reserve contribution: \$2,453,400



Balance of Power

Board & Committee

No authority to waive reserves

Unit Owners

Authority to waive reserves (2/3 of total votes)

Funding level: The Finance Committee set reserve funding at 60.3% of the recommendation (\$1,480,000 proposed against \$2,453,400 recommended).

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

Forensic observation: No valid, disclosed owner waiver exists.

60.3% is a contribution-to-recommendation ratio, not a percent-funded measure.

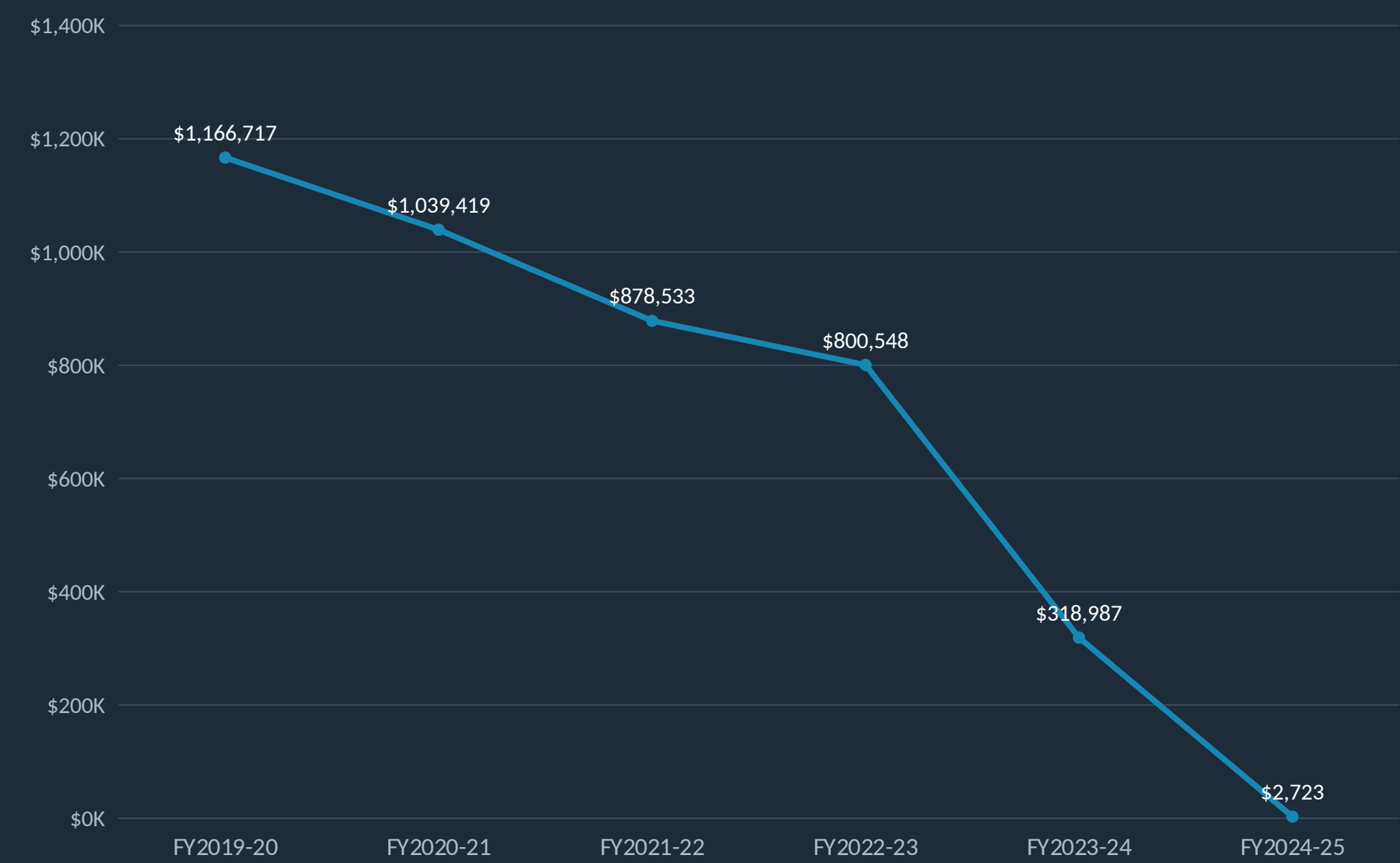
Lending Warrantability & Financing Risks



Effective for loan applications dated on or after August 3, 2026 — fourteen days before the adoption vote — Fannie Mae LL-2026-03 and Freddie Mac Bulletin 2026-C retire the Limited Review process: every conventional loan in a project of more than ten units undergoes Full Review of the association's budget, reserve funding, insurance, litigation and special assessments. A contribution below the study's highest recommended allocation fails the reserve test by the waiver amount — \$973,400, dollar for dollar. A 15%-of-assessment-income floor takes effect January 4, 2027, which the contribution misses by roughly \$21,000.

The threat: Impaired conventional financing and refinancing availability for every unit in the building, with depressed values building-wide.

Five-Year Erosion of the Operating Cushion



99.8% collapse in operating surplus

from \$1,166,717 in FY2019-20 to \$2,723 in FY2024-25.

Expenses outran income

operating expenses grew about 2.6 times faster than income across the period (income 1.87% CAGR; expenses 4.95%).

Operating-fund target frozen

the ~\$1.425M target has been in place since at least 2009.

\$625,420.50 below standard

the erosion against the level the Board's own liquidity standard would set today.

Monthly Bookkeeping Basis Distortions

What the monthly books show

Reserve investments carried at market value. Unrealized gains and losses flow through Reserve Interest Income during the year.

\$21.9M reserve investment portfolio · roughly \$18.2M in certificates of deposit

What the audited basis requires

GAAP held-to-maturity amortized cost. The auditor corrects the portfolio back to that basis every year — a recurring, retroactive correction rather than a one-time event.

Ledger anomaly

\$95,597.84

An Accrued Interest Receivable (account 1410) from the prior year remained unreversed; the June 30, 2026 balance sheet continued to report it at \$95,597.84.

Risk. Prior-year interest income is positioned to be recognized a second time in the current year, depending on how later interest receipts were applied.

Technical note. The monthly statements the Board relies on are prepared on a different accounting basis than the audited statements.

Workforce Spending Opacity

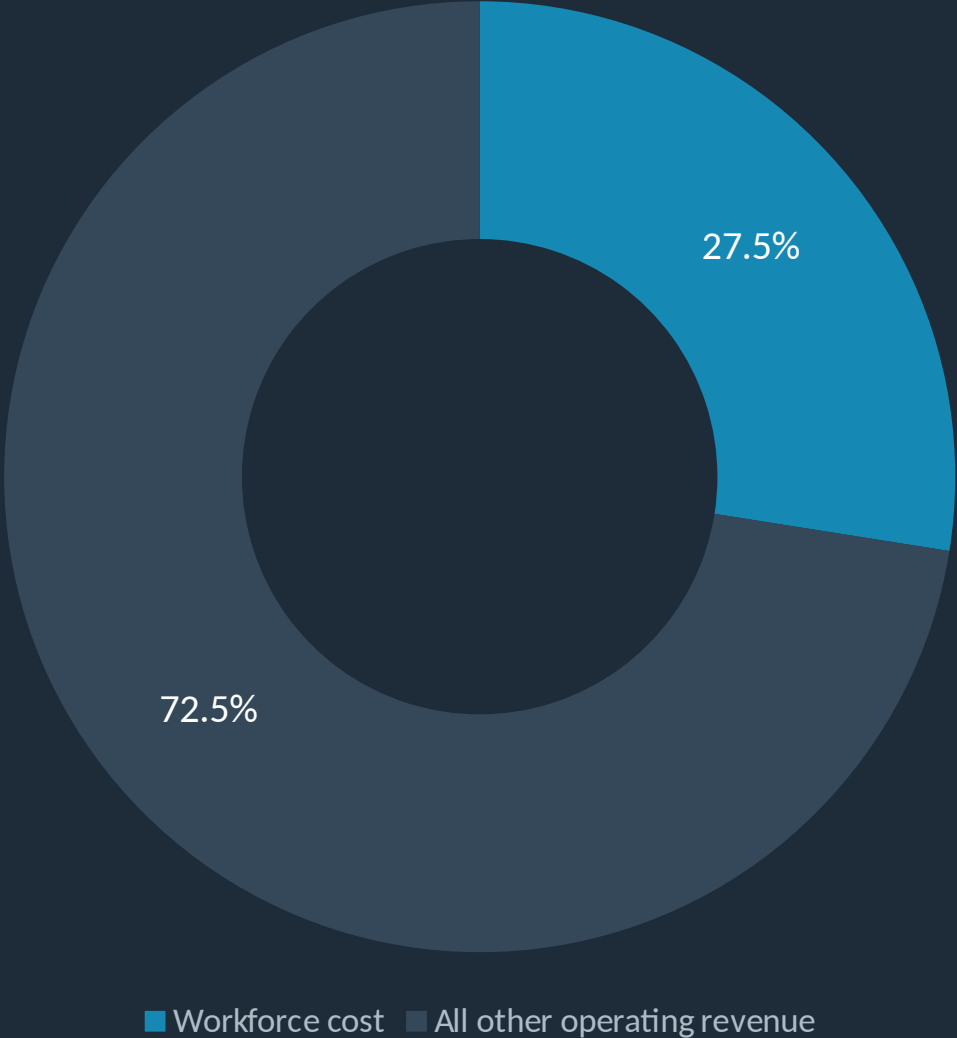
Total workforce cost of **\$3,011,292** represents **27.5% of total operating revenue**; 30.1% of assessment income.

No staffing plan. The budget contains no position-by-position roster, shift-coverage model, overtime assumption or staffing benchmark.

Two workforces commingled. The Association's union employees and the management company's contracted personnel are presented together, with no total for either.

Cost split three ways. Management-office cost is distributed across Administrative wages, Payroll Taxes and Fringes (accounts 4400, 4420, 4600) and Insurance, so it never appears as one number.

Bonus not presented. The management bonus has not been separately presented for Board approval.



Finding: The Board approves its largest expense category without visibility into headcount, coverage, or the fully-burdened management-office cost.

Material Understatement of Taxable Income



Detail on the Association's Form 1120-H returns:

The Association's two return preparers applied materially different methodologies for identifying nonexempt income and allocating deductions. The filings diverge on Unit Charges, operating Interest Income, Sale & Lease Processing Fees, Moving Fees, Miscellaneous Income, the Hancock Market deductions and the JHC 44th Floor Lease deductions.

Full expenses were deducted from below-market member-facing amenities that generate persistent structural losses (Hancock Market; JHC 44th Floor Lease). The operative question is comparability, consistency and reliability — not whether either preparer's individual allocation decisions were defensible.

The exposure: CIA's reconstructed tax analysis identifies approximately **\$150,000** of additional taxable income, producing approximately **\$45,000** of additional estimated federal tax before further adjustments.

Evaluation of Professional Work Products: Reserve Study

Deferral gap. On CIA's totaling, approximately \$67.7M of high-priority mechanical and envelope replacement scope is scheduled beyond the study's own 30-year cash-flow plan (through August 31, 2052), so it carries no scheduled expenditure or reserve funding inside the plan.



~\$67.7M

High-priority replacement scope scheduled beyond the 30-year study period (CIA totaling)

Assumptions carried in the 2022 study

The study uses the Cash Flow Method and assumes reserve interest reinvested at 0.20%, 2022 inflation, and 0% income taxes on reserve interest — while the Association pays six-figure annual income taxes out of the reserve fund.

Analysis: The Association's foundational planning document omits scope and assumptions material to the funding decision.

Evaluation of Professional Work Products: Federal Tax Filings

What was filed

Systematic inconsistency

Successive returns applied materially different, non-comparable methodologies for identifying nonexempt income and allocating deductions.

Full expenses were deducted from below-market member-facing amenities that run at sustained structural losses, as though they were loss-generating commercial activities.

What the authorities indicate

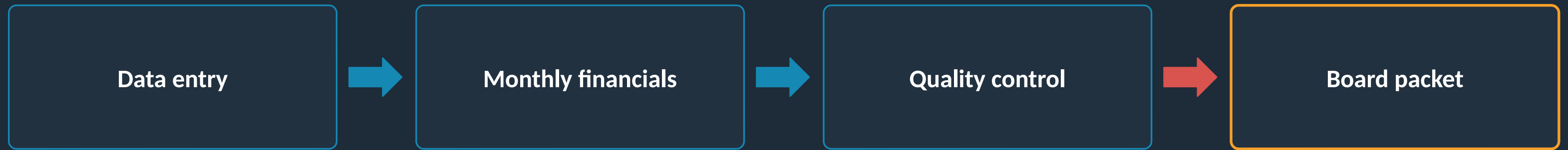
Portland Golf Club v. Commissioner

Under *Portland Golf Club v. Commissioner*, as this report reads that authority, a nonexempt expense is limited to the nonexempt revenue it offsets — so a below-market amenity's excess cost cannot carry a deductible ancillary loss and falls to assessment.

Losses from activities lacking a genuine profit motive cannot shelter the Association's taxable reserve-interest income.

Systematic inconsistency shows the Association has lacked a consistently applied tax methodology — and the proposed budget's assessment/ancillary columns would carry that methodology forward into the Association's official financial plan.

Evaluation of Professional Work Products: Management Accounting & Quality Control



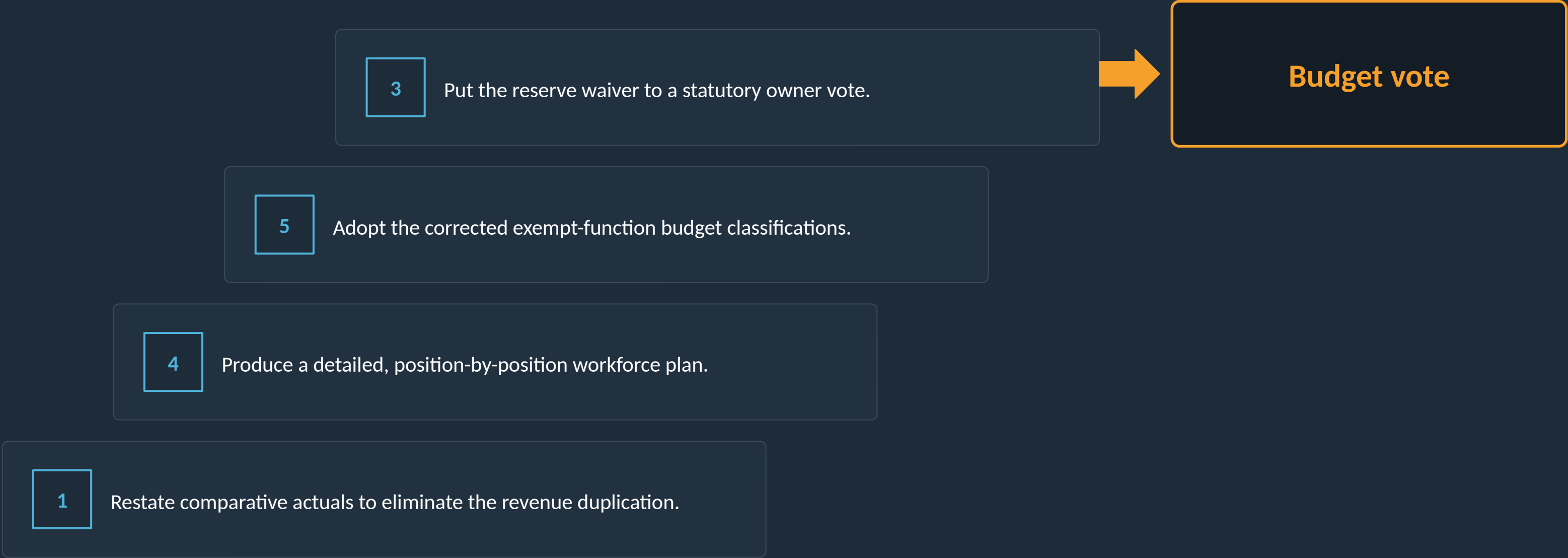
Result: Double-counted comparative revenue is carried through the cycle and embedded in the final Board packet.

Divergent basis. Monthly financials are prepared on a basis divergent from the year-end financial statements, requiring retroactive correction months after the fact.

Reconciliation failure. Quality control did not reconcile the current budget's comparative columns to prior-year actuals before publication.

Technical Pre-Adoption Board Roadmap

A ten-step checklist of conformed adjustments the report asks the Board to complete before the budget-adoption vote.



(Plus six additional technical conformances set out in the forensic report's Roadmap.)