STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Compliance Examination

(In accordance with the Single Audit Act
and OMB Circular A-133)

Year ended June 30, 2006

Performed as Special Assistant
Auditors for the Auditor General,
State of Illinois

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Compliance Examination

(In accordance with the Single Audit Act
and OMB Circular A-133)

Year ended June 30, 2006

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The Authority's financial statement report for the year ending June 30, 2006, which includes the report of independent auditors, management's discussion and analysis, basic financial statements, supplementary information, and independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of basic financial statements performed in accordance with *Governmental Auditing Standards* has been issued separately.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Compliance Examination

(In accordance with the Single Audit Act
and OMB Circular A-133)

Year ended June 30, 2006

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STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Agency Officials

Executive Director	Kelly King Dibble
General Counsel	Mary R. Kenney
Chief Financial Officer	Robert W. Kugel
Controller	James J. Kregor

Agency Officials are located at:

401 North Michigan Avenue, Suite 700
Chicago, Illinois 60611

Rod Blagojevich, Governor

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

401 N. Michigan Ave.
Chicago, IL 60611

312-836-5200 Main
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Management Assertion Letter

KPMG LLP
303 East Wacker Drive
Chicago, Illinois 60601

January 26, 2007

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Illinois Housing Development Authority (Authority). We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the Authority's compliance with the following assertions during the year ended June 30, 2006. Based on this evaluation, we assert that during the year ended June 30, 2006, the Authority has materially complied with the assertions below.

A. The Authority has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The Authority has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.

C. The Authority has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. The State revenues and receipts collected by the Authority are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.

E. The money or negotiable securities or similar assets handled by the Authority on behalf of the State or held in trust by the Authority have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

F. The foregoing representations by DeShana L. Forney, Executive Director, are made with direct knowledge from January 19, 2007, her date of employment by the Members of the Authority.

Very truly yours,

Illinois Housing Development Authority

DeShana L. Forney
Executive Director

Robert W. Kugel
Chief Financial Officer

James J. Kregor
Controller

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Compliance Report Summary

Year ended June 30, 2006

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

Auditors' Reports

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant nonstandard language.

Summary of Findings

Number of	This report	Prior report
Findings	9	10
Repeated findings	6	8
Prior recommendations implemented or not repeated	4	2

Details of findings are presented in a separately tabbed report section.

Schedule of Findings and Questioned Costs

Findings and Questioned Costs (Federal Compliance)

Item No.	Page	Description
06-01	12	Inadequate Review of the Maximum Per Unit Subsidy Calculation
06-02	13	Inaccurate Calculation and Reporting of Match Expenditures
06-03	15	Inadequate Cash Management Procedures
06-04	17	Failure to Obtain Suspension and Debarment Certifications

(Continued)

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Compliance Report Summary

Year ended June 30, 2006

Findings (State Compliance)

Item No.	Page	Description
06-05	19	Inadequate Process for Timely Preparation of Financial Information and Statements
06-06	21	Documentation of Internal Control Structure
06-07	23	Inadequate Process for the Establishment of New Loans in the Loan Subsidiary System
06-08	24	Loan Loss Reserve Calculation Does Not Consider All Relevant Factors
06-09	29	Office of Internal Audit Deficiencies

Prior Findings Not Repeated (Federal Compliance)

Item No.	Page	Description
06-10	32	Inadequate Monitoring of Subrecipients Receiving Federal Awards
06-11	32	Failure to Obtain Suspension and Debarment Certifications for Subrecipients

Prior Findings Not Repeated (State Compliance)

Item No.	Page	Description
06-12	32	Time Sheets Not Maintained in Compliance With the State Officials and Employees Ethics Act
06-13	32	Accounting for Program Loans Receivable

Exit Conference

The Authority reviewed the findings and recommendations in this report and waived a formal exit conference. The responses to the recommendations were provided by Jim Kregor, Controller, in a letter dated March 22, 2007.

KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes

The Honorable William G. Holland, Auditor
General of the State of Illinois, and the Members of the
Illinois Housing Development Authority:

As Special Assistant Auditors for the Auditor General, we have examined the Illinois Housing Development Authority's, a component unit of the State of Illinois, compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2006. The management of the Illinois Housing Development Authority (the Authority) is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Authority's compliance based on our examination.

A. The Authority has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The Authority has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.

C. The Authority has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. The State revenues and receipts collected by the Authority are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.

E. Money or negotiable securities or similar assets handled by the Authority on behalf of the State or held in trust by the Authority have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Authority's compliance with specified requirements.

In our opinion, the Illinois Housing Development Authority complied, in all material respects, with the aforementioned requirements during the year ended June 30, 2006. However, the results of our procedures disclosed an instance of noncompliance with those requirements which is required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which is described in the accompanying schedule of State findings and questioned costs as finding 06-09.

As required by the Audit Guide, immaterial findings related to instances of noncompliance excluded from this report have been reported in a separate letter to your office dated January 26, 2007.

Internal Control

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations. In planning and performing our examination, we considered the Authority's internal control over compliance with the aforementioned requirements in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General.

Our consideration of internal control over compliance with the aforementioned requirements would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations caused by error or fraud that would be material in relation to one or more of the aforementioned requirements being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance that we consider to be material weaknesses. However, the results of our procedures disclosed other matters involving internal control which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of State findings and questioned costs as findings 06-05, 06-06, 06-07, 06-08 and 06-09.

As required by the Audit Guide, immaterial findings relating to internal control deficiencies excluded from this report have been reported in a separate letter to your office dated January 26, 2007.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Authority as of and for the year ended June 30, 2006, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 7, 2006. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2006, taken as a whole.

We have also previously audited, in accordance with auditing standards generally accepted in the United States, the Authority's basic financial statements for the years ended June 30, 2005 and June 30, 2004. In our reports dated October 28, 2005 and October 28, 2004, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, and each major fund. In our opinion, the 2005 and 2004 Supplementary Information for State Compliance Purposes, except for the portion marked "unaudited," is fairly stated in all material respects in relation to the basic financial statements for the years ended June 30, 2005 and June 30, 2004, taken as a whole.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and Authority management, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Chicago, Illinois
January 26, 2007, except for paragraph eight as to which the date is November 7, 2006.

KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133, and on the Schedule of Expenditures of Federal Awards

The Honorable William G. Holland, Auditor
General of the State of Illinois, and the Members of the
Illinois Housing Development Authority:

Compliance

We have audited the compliance of the Illinois Housing Development Authority (the Authority), a component unit of the State of Illinois, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Authority's major federal programs are identified in the Summary of Auditors' Results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Illinois Housing Development Authority, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as findings 06-02 and 06-03.

KPMG

Internal Control over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Authority's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as findings 06-01, 06-02, 06-03, and 06-04.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider finding 06-04 to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the governmental activities, the business-type activities, and each major fund of the Authority as of and for the year ended June 30, 2006, and have issued our report thereon dated November 7, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, Authority management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Chicago, Illinois
January 26, 2007, except for paragraph seven as to which the date is November 7, 2006

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: ***unqualified opinions***

Internal control over financial reporting:

• Material weakness(es) identified?		Yes	✓	No
• Reportable condition(s) identified that are not considered to be material weakness(es)?		Yes	✓	None reported
• Noncompliance material to financial statements noted?		Yes	✓	No

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	✓	Yes		No
• Reportable condition(s) identified that are not considered to be material weakness(es)?	✓	Yes		None reported

Type of auditors' report issued on compliance for major programs: ***unqualified opinion***

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	✓	Yes		No

Identification of major programs:

CFDA number(s)	Name of federal program or cluster
14.182 and 14.856	Section 8 Project-Based Cluster
14.239	HOME Investment Partnerships Program

Dollar threshold used to distinguish between type A and type B programs: $ 3,000,000

Auditee qualified as low-risk auditee?		Yes	✓	No

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

(2) Findings Relating to the Financial Statements in Accordance with *Government Auditing Standards*: None

(3) Findings and Questioned Costs Relating to Federal Awards: Yes

(Continued)

06-01 Inadequate Review of the Maximum Per Unit Subsidy Calculation

Federal Agency:	***U.S. Department of Housing and Urban Development***
Program Name:	***HOME Investment Partnerships Program***
CFDA# and Program Expenditures:	***14.239 ($31,248,000)***
Award Number:	***M-06-SG-17-0100***
Questioned Costs:	***None***

The Illinois Housing Development Authority (Authority) did not review the maximum per unit subsidy calculation during the year ended June 30, 2006.

During our testing of the maximum per unit subsidy special test for the HOME Investment Partnership Program (HOME), we selected all new HOME loan projects that closed during the year totaling $16,554,100, and noted the Authority used incorrect subsidy limits for one out of eight new loans selected. Upon our request, the Authority reperformed the calculation using the correct subsidy limits, and determined the projects were in compliance with the maximum per unit subsidy requirement.

The A-102 Common Rule requires non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to document the maximum per unit calculations and document a supervisory review of such calculations to ensure accuracy prior to HOME loan funds being disbursed.

Authority management stated that when the Authority receives financing requests that utilize HOME funds, there is a per unit subsidy review performed by the underwriter to confirm if the request is within the allowable limits. This test is used to determine if the initial request is too large or if additional units must be allocated to HOME financing to justify the financing. If the request is within the limits, then no additional testing is being performed.

Failure to review the maximum per unit calculation could result in HOME funds being expended for unallowable purposes. (Finding Code No. 06-01, 05-02, 04-03)

Recommendation

We recommend the Authority implement procedures to ensure all maximum per unit subsidy calculations are reviewed by a supervisor and document such review prior to HOME loan funds being disbursed.

Authority Response

The Authority concurs with the recommendation to implement procedures to ensure all maximum per unit subsidy calculations are reviewed by a supervisor prior to HOME loan funds being disbursed. The Authority during fiscal year 2006 implemented such supervisory review procedures and will continue to work to achieve accurate calculations.

(Continued)

06-02 Inaccurate Calculation and Reporting of Match Expenditures

Federal Agency:	***U.S. Department of Housing and Urban Development***
Program Name:	***HOME Investment Partnerships Program***
CFDA# and Program Expenditures:	***14.239 ($31,248,000)***
Award Number:	***M-06-SG-17-0100***
Questioned Costs:	***None***

The Illinois Housing Development Authority (Authority) inaccurately calculated and reported its match for the HOME Investment Partnerships Program (HOME).

The Authority uses below market interest rate loans from borrowed funds as its match for the HOME program. The match contribution for loans made with borrowed funds should equal the present cash value of the difference between payments made and payments received, based upon a discount rate equal to the interest rate on the borrowed funds, of new loan funds issued during the fiscal year. The Authority uses an excel spreadsheet to perform this calculation. The Authority is required to submit on an annual basis a HOME Match report, which documents the amount of match taken on each loan.

During our testing of the match calculations for the HOME program, we selected nine loans for a total of $4,441,200 out of $7,843,506 of loans used and reported as match for the HOME program. We noted one of the nine (11%) calculations used loan terms that did not agree to the final loan documents, resulting in an under reporting of match funds totaling $28,666.

24 CFR 92.220 (a)(1)(iii)(A) requires that the match contribution for loans made with borrowed funds should equal the present cash value of the difference between payments made and payments received, based upon a discount rate equal to the interest rate on the borrowed funds. The A-102 Common Rule requires non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the accuracy of the match calculations.

Authority management stated that miscalculations were due to oversight at the time the report was compiled.

Failure to accurately calculate match expenditures results in the Authority providing incorrect information on their required annual HOME Match Report. (Finding Code No. 06-02, 05-03, 04-04)

Recommendation

We recommend the Authority implement procedures to ensure match calculations are accurate, and the HOME match report is reviewed by a supervisor and document such review prior to submission.

(Continued)

Authority Response

The Authority concurs with the recommendations to implement procedures to ensure that match calculations are accurate, and the HOME match report is reviewed by a supervisor prior to submission. The match calculation will change if the final rate charged differs from that included in the initial underwriting, and this change is not communicated. During fiscal year 2006 the Authority implemented a procedure to ensure that all revisions are communicated, and that a supervisor will review the match report. The Authority reduced the errors on the match report from $165,258 as noted in the prior audit to $28,666 in the current audit and will continue its efforts to ensure accurate reporting.

(Continued)

06-03 Inadequate Cash Management Procedures

Federal Agency:	***U.S. Department of Housing and Urban Development***
Program Name:	***Section 8 Project-Based Cluster***
CFDA# and Program Expenditures:	***14.182 ($141,001,000)***
	14.856 ($7,454,000)
Award Number:	***None***
Questioned Costs:	***None***

The Illinois Housing Development Authority (Authority) does not have procedures in place to ensure cash draws are performed in accordance with U.S. Treasury Regulations.

The Authority receives its Section 8 project funding during the first week of each month, based upon a budgeted amount approved at the beginning of the year by the U.S. Department of Housing and Urban Development. The Authority either applies the amount to the loan balance or transfers the amount to the development during the third week of the month. During our testing we selected thirty-five Section 8 project developments receiving federal funds for test work, and we noted that the Authority held funds for six to twenty days before the funds were either applied to the loan balances or disbursed to the development.

31 CFR Part 205.33 (a) of the U.S. Treasury Regulations requires that a Federal Program Agency must limit a funds transfer to a recipient to the minimum amounts needed by the recipient and must time the disbursement to be in accord with the actual, immediate cash requirements of the recipient in carrying out a federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to the Authority's actual cash outlay for direct program costs. This section has been interpreted to mean that funds should be disbursed within 3 – 5 business days from receipt. The A-102 Common Rule requires non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure federal funds are disbursed in accordance with the U.S. Treasury Regulations.

Authority management stated that the timing of passing through the Section 8 project funding is a long-standing practice that is performed in conjunction with the billing cycle, which is around the middle of the month. Through the billing cycle, a number of reports are generated that document the transfer process.

Failure to draw funds in accordance with the U.S. Treasury Regulations could result in the cognizant agency, the U.S. Department of Housing and Urban Development, to sanction the Authority for noncompliance or possibly reduce the funding of the Section 8 Project Programs. (Finding Code No. 06-03, 05-04, 04-05)

(Continued)

Recommendation

We recommend the Authority implement procedures to ensure federal funds are disbursed in accordance with the U.S. Treasury Regulations.

Authority Response

The Authority concurs with the recommendation and implemented procedures to ensure federal funds are disbursed in accordance with the U.S. Treasury Regulations. The Authority examined the feasibility of accelerating its billing cycle, and, as a result in January 2006 accelerated its cycle one week in order to further limit the number of days before it transfers federal funds.

The timing of passing through Section 8 project funding is performed in conjunction with the billing cycle, which has been accelerated to the second week of the month. Through the billing cycle, a number of reports are generated that document the transfer process. A large portion of the Section 8 funds are not passed through directly to the recipient, but instead are retained by the Authority to pay the recipient's debt service payments and fund escrow accounts. Any amounts in excess of the debt service and escrow funding requirements are then transferred to the recipient from the 8^{th} to the 14^{th} day of the month. These amounts, if any, are normally nominal in amount. This process assists recipients to streamline administrative process for the payment of debt service and escrow funding. Section 8 project funds to recipients that do not have loans to the Authority are transferred to these recipients on either the first or second Thursday of each month. The Authority will investigate whether the above processes can be further accelerated.

06-04 Failure to Obtain Suspension and Debarment Certifications

Federal Agency:	***U.S. Department of Housing and Urban Development***
Program Name:	***Section 8 Project-Based Cluster***
CFDA# and Program Expenditures:	***14.182 ($141,001,000)***
	14.856 ($7,454,000)
Award Number:	***None***
Questioned Costs:	***None***

The Illinois Housing Development Authority (the Authority) did not obtain certifications or perform a verification check with the "Excluded Parties List System" (EPLS) that subrecipients were not suspended or debarred from participation in Federal assistance programs for its Section 8 Project-Based Cluster (Section 8) program.

During our review of 30 subrecipients of the Section 8 program, we noted the Authority did not include a suspension and debarment certification in its subrecipient agreements. As a result, the Authority did not receive certifications that any of the subrecipients of the Section 8 program were not suspended or debarred from participation in Federal assistance programs. Additionally, the Authority did not perform a verification check with the EPLS maintained by the General Services Administration for any of its subrecipients; however, as a result of our audit test work we noted that none of these subrecipients were suspended or debarred from participation in Federal assistance programs. During the year ended June 30, 2006, the Authority passed through approximately $148,455,000 to subrecipients of the Section 8 program.

According to 45 CFR 92.35, grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, ''Debarment and Suspension.'' The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the required certifications for covered contracts and subawards are received, documented, and not made with a debarred or suspended party.

Authority management indicated the lack of certifications was an oversight.

Failure to obtain the required certifications or perform verification procedures with the EPLS could result in the awarding of Federal funds to subrecipients that are suspended or debarred from participation in Federal assistance programs. (Finding Code No. 06-04)

(Continued)

Recommendation

We recommend the Authority establish procedures to ensure grantees receiving individual awards for $25,000 or more certify that their organization is not suspended or debarred or otherwise excluded from participation in Federal assistance programs.

Authority Response

The Authority concurs with the recommendation to implement procedures to ensure grantees receiving individual awards for $25,000 or more certify that their organization is not suspended or debarred or otherwise excluded from participation in Federal Assistance programs. As noted above, it was confirmed that none of the subrecipients were suspended or debarred from participation in federal assistance programs. The Authority will amend its procedures so that all subrecipients, including those in the Section 8 Program, will be certified as not suspended or debarred, either through a requirement to provide the Authority with a suspension and debarment certification or through the Authority's performing a verification check of subrecipients. The subrecipients in the Section 8 Program have been receiving funds for a number of years and no new funds have been authorized.

(Continued)

06-05 Inadequate Process for Timely Preparation of Financial Information and Statements

The Illinois Housing Development Authority (the Authority) does not have an adequate process to ensure financial reporting is completed in a timely manner.

The Authority has a total of approximately $1,422,700,000 bonded debt outstanding as of June 30, 2006. The Authority's debt covenants require the audited financial statements of the Authority, accompanied by the related report of an accountant, be filed within 120 days of the end of each fiscal year with the trustee and each rating agency of each of its bond issuances. Thus, the June 30, 2006 financial statements were required to be filed no later than midnight on October 28, 2006. In the planning stages of the financial audit, the Authority agreed to provide draft financial statements to the auditors on September 15, 2006 to allow the auditors approximately thirty business days to complete the testing of the Authority's financial information and financial statements. However, the first complete draft of the financial statements was not received until September 29, 2006, which was ten business days later than what had been planned. An accounting issue was identified related to the financial statement presentation which delayed the finalization of the audit past the 120 day deadline. The independent auditors' report was delivered to the Authority on November 8, 2006.

Authority management stated the process for preparing the financial statements involves numerous reconciliations of the various subsidiary ledgers that account for the different loan program receivables. Additionally, a detail review of the collectibility of the loan balances is conducted only at year-end to determine the proper reserve balances. This analysis takes a substantial amount of time and effort and is not finalized and approved until the Authority's October board meeting.

Because the Authority did not meet the 120 day deadline, a violation of the debt covenant was disclosed in the June 30, 2006 financial statements. (Finding Code No. 06-05, 05-06)

Recommendation

We recommend the Authority review the current process for preparing the financial statements and incorporate changes that will allow for the completion of the financial statements in a timely manner so the auditors' testing can be completed well in advance of the financial statement required filing date.

Authority Response

The Authority concurs with the recommendations and continues to implement procedures to streamline the preparation of annual financial statements. The Authority in March 2006 reorganized its accounting department to streamline the functioning of the department, achieve greater specialization and to implement a number of procedural controls. In addition, the Authority has continued to improve the linkages of its various sub-systems to its general ledger with the result that monthly financial statements are now being prepared. These enhancements enabled the Authority to improve its timeliness such that the submission of the first draft of the financial statements was ten days earlier than the prior year, although still ten days late. However, the trial balance and portions of the financial statements were made available on the due date. In addition, the Authority's operations were severely disrupted during the financial statement preparation period for nearly two weeks due to the relocation of the Authority's offices to different floors. The Authority will continue to further incorporate changes that will allow for the completion of the financial statements in a timely manner so the auditors' testing can be completed well in advance of the financial statement required filing date.

(Continued)

06-06 Documentation of Internal Control Structure

The Illinois Housing Development Authority (Authority) does not have adequate documentation of its internal control structure.

Organizations are placing greater emphasis on their control environment and the specific controls in place to ensure transactions recorded are complete and accurate. Although control procedures have been developed, we noted the Authority has not formally documented the specific internal controls in place to ensure transactions are recorded in accordance with the applicable financial statement risks and assertions (i.e., completeness, existence, accuracy, valuation, rights and obligations, and presentation and disclosure).

Although employees are familiar with the processes and controls in place, an in-depth written description of the Authority's control environment should be developed and should include the internal controls over the key transaction processes including cash receipts, cash disbursements, investment management, payroll, program funding, and lending. Internal control processes should be flowcharted in order to identify how segregation of duties is achieved. This documentation should be reviewed and assessed periodically to identify any changes required to provide an accurate reflection of the current system of internal control.

Formal internal control documentation will provide a tool for training accounting personnel in new positions, increased standardization of the control efforts, clarification of accounting responsibilities and consistent application of management's policies and procedures.

Authority management stated they are now beginning to document the processes.

Failure to document the internal control structure can weaken controls and does not allow them to function as mitigating deterrents to prevent fraud and other factors appropriately or for management policies and procedures to be applied consistently. (Finding Code No. 06-06, 05-07, 04-06.)

Recommendation

We recommend the Authority develop in-depth written documentation of their internal control structure, including flow charts of the internal controls.

Authority Response

The Authority concurs with the recommendation to develop in-depth written documentation of the Authority's internal control structure, including flow charts of the internal controls and risk assessment in every area. The Authority, as part of its program to re-engineer its financial processes, developed documentation, which included flow-charting of many of its financial processes. Accounting Department processes and tasks were also restructured such that all tasks are specifically assigned to certain staff members, along with the backup personnel to perform these, and duties have been separated. The Authority is implementing this recommendation primarily through the use of its Internal Audit Department, which is preparing flow-charts, which document the internal control structure, of every process being audited.

(Continued)

The Authority also documents its internal controls through the preparation of the annual Control Certification Letter and supporting Questionnaire, due May 1, as required by the Office of the Auditor General. Although the Authority has begun the project, the recommended project constitutes a major undertaking of the Authority involving the use of considerable resources and will not be completed until at least fiscal year 2007.

(Continued)

06-07 Inadequate Process for the Establishment of New Loans in the Loan Subsidiary System

The Illinois Housing Development Authority (the Authority) does not have an adequate process for the establishment of new loans in the loan subsidiary system.

The Authority implemented a loan subsidiary system (Benedict billing and receivable system) in prior years to track loan activity and the outstanding loan balances of its Multi-Family, HOME, and Affordable Trust Fund programs. The implementation of this system was meant to provide Authority management with a formal platform to monitor program loans. The system is updated for program loans issued to or redeemed by developments on an ongoing basis. The system will then automatically generate principal and interest billing statements for distribution to developments based on the input information.

During our testing we noted the Authority does not have an adequate process to ensure that new loans are accurately entered into the Benedict system. Specifically, we noted that one individual is responsible for entering new loan information into the Benedict system without a supervisory review of the information added or changed.

Authority management stated that the supervisory review of the new loans entered in the Benedict system was addressed during the reorganization plan, but had not yet been finalized during the fiscal year ended June 30, 2006.

Without ensuring controls embedded within the Benedict system are functioning properly and can be relied upon to input and update these loan balances, the risk exists that the true outstanding loan balance and activity will not be known by management and properly reported in the financial statements. (Finding Code No. 06-07)

Recommendation

We recommend the Authority implement procedures to include a supervisory review of new loans entered into the Benedict system to ensure the loan terms agree to the final loan documents.

Authority Response

The Authority concurs with the recommendations to implement procedures to include a supervisory review of new loans entered in the Benedict system to ensure the loan terms agree to the final loan documents. The Authority is currently developing a process whereby loan information to be entered into the Benedict system will arise from, and be reviewed by, the loan origination departments, whose personnel are more familiar with the loan documents and more able to ensure that the loan terms agree to the final loan documents.

06-08 Loan Loss Reserve Calculation Does Not Consider all Relevant Factors

The key processes used by the Illinois Housing Development Authority (Authority) to monitor the commercial loan portfolio includes annual/semiannual property inspections, annual independent audit reports, comprehensive annual loan rating reports, and monthly meetings to review problem assets. On an annual basis, the asset manager uses a standard loan rating form, and rates all loans based upon the results from the annual independent audit report of the property, the property inspection report, as well as other periodic cash flow information submitted by the borrower. The four main areas rated are as follows:

- Financial – factors consider current budget, adequacy of replacement reserves, timely submission of financial reports, etc.
- Management – factors consider compliance reports, rent collection procedures, tenant waiting list, etc.
- Physical condition – factors include interior-exterior condition, vacant apartment preparation, building code violations, etc.
- Market – factors consider surrounding neighborhood, housing demand, etc.

Loans are rated A (best) through D (lowest) based on a score assigned to each component in the four sections. The score is then totaled for each section and an overall risk rating is assigned based on the cumulative score of the components. General reserves are assigned for each loan based on the rating. Specific reserves are generally assigned when management feels that foreclosure and liquidation of the underlying asset will be required, or there is a recognized weakness in the property. The Authority has approximately $1,645,399,000 of loans outstanding for a total of approximately $962,255,000 subject to the loan loss reserve rating review process at June 30, 2006.

We tested ninety loans in the multi-family, single family, and trust fund programs totaling approximately $301,105,000 or 18% of the Authority's receivables as of June 30, 2006. During our testing of the loans we noted that required and scheduled property inspections were not completed in accordance with the Authority's policy. We identified 2 loans totaling approximately $7,800,000 that did not have inspections performed in 2005 and still had not been inspected as of September 30, 2006. In addition, we identified 43 other loans totaling approximately $152,287,000 that had not yet been inspected in calendar year 2006 as of September 30, 2006. We also noted the following:

- The Authority does not utilize a trend and forecast analysis of the reserves based upon actual historical experience of the portfolio. The Authority should review actual historical experience in the portfolio and prepare a trend analysis, including projections based on key assumptions about future portfolio growth, housing data and demand, the economy, and other relevant factors.
- The Authority does not rate loans at inception, but rather gives a period of time for loans to season and judges loans based on historical performance. Industry practices indicate that loans should be rated at inception based on forecasts and later changed if anticipated performance does not meet projections.

(Continued)

- The Authority performs its formal loan review analysis at year-end only. The size and complexity of the loan portfolio indicates the need for a formal loan review function throughout the year to provide senior management an independent assessment of loan policy and procedure compliance.
- The Authority does not require its managing agents (developers) to establish operating and maintenance plans and to obtain appraisals for all troubled properties. The developers should establish operating and maintenance plans and report the progress on a quarterly basis to the Authority's loan portfolio management.
- The Authority's rating scale for the loans only provides four grades which are intended to reflect the operating condition of the housing project and not necessarily emphasizing the repayment capacity of the borrower. The definitions for each grade are general and are applied judgmentally by the various asset managers depending on how the loan rating form is completed. One result of the grade scale is that loans with significant differences may receive the same letter grade because one area's lower score may be offset by another area's higher score. Industry practice utilizes a more robust scale consisting of as few as eight and as many as 30 grades. Increasing the number of grades and assigning specific definitions that place a greater emphasis on the financial collectibility of the loans to each grade will permit the Authority to differentiate the loans with greater precision and will in turn impact the reserves calculation.
- The Authority's reporting does not include a detailed liquidation analysis and recovery prospects for D rated loans. Detailed liquidation analyses supported by financial projections should be performed for all D and in some cases C rated properties.
- The Authority has not established a policy to describe the circumstances under which a property needs an appraisal, and collateral appraisals are infrequent. The Authority should require appraisals for all C and D rated properties, and those appraisals should be utilized when determining the loan ratings.
- Underlying investor support and real estate tax credits are not considered in the documentation for the loan rating process. These factors should be analyzed to determine possible benefits, and formally documented in each loan review file.
- The Single Family loans are fully insured through a trustee bank. Original copies of the collateral documentation (the recorded mortgage and title policy) are sent to the trustee, who is required to sign a receipt that they have received the documents. The Authority does not have a tracking system in place to ensure all receipts from the trustee are returned, and is not tracking what documents might be outstanding.

Authority management stated that in October of 2006, an external consulting firm was hired to analyze the loan loss reserve methodology, and the recommendations of that report will be considered in conjunction with these recommendations.

(Continued)

Without taking these factors into consideration, the loan loss reserve estimate may not include the most accurate and complete information for the preparation of internal management reports and external financial statements. (Finding Code No. 06-08, 05-09, 04-09.)

Recommendation

We recommend the Authority:

- Implement procedures to ensure all required and scheduled property inspections are completed during the year per the Authority's policy.
- Adopt a trend and forecast methodology based upon the historical performance of the portfolio and utilize this analysis when establishing the loan reserves.
- Rate loans at inception based on forecasts and later change the rating if anticipated performance does not meet projections.
- Establish a formal loan review function throughout the year to provide senior management an independent assessment of loan policy and procedure compliance.
- Require developers to establish operating and maintenance plans and report the progress on a quarterly basis to the Authority's loan portfolio management.
- Consider expanding the rating scale and formally document the definitions of each grade, taking into account the estimated collectibility of each loan within the grade definitions.
- Perform detailed liquidation analyses supported by financial projections for all D and in some cases C rated properties.
- Establish a formal policy to describe the circumstances under which a property needs an appraisal. Require appraisals for all C and D rated properties, and utilize the appraisals when determining the loan ratings. When appraisals are not feasible, a formal analysis of potential exposure should be documented in the loan files.
- Formally document the consideration of investor support and real estate tax credits within each loan file.
- Implement a tracking system for Single Family loan documents to ensure all have been received by the trustee and have been accounted for.

Authority Response

The Authority will continue to make every effort to ensure that all required and scheduled property inspections are completed during the year per the Authority's policy. The Authority has not been able to complete all planned inspections within the required one-year time frame due to staffing turnover issues, and not due to a lack of procedures to ensure that all required and scheduled property inspections are completed during the year.

(Continued)

The Authority is currently drafting revisions to the Loan Rating and Loan Loss Reserve procedures based on recommendations submitted herein, and from the external consulting audit report received in January 2007. The Authority intends to apply the revised Loan Rating and Loan Loss Reserve procedures for its evaluation of the June 30, 2007 portfolio.

The Authority will investigate the adoption of a trend and forecast methodology based upon the historical performance of the portfolio to utilize when establishing the loan reserves, but believes that this analysis would only be of limited benefit. The Authority loan portfolios differ materially in their nature and vary in their age and ultimate maturities.

The Authority concurs with the recommendation to rate loans at inception, and will base the ratings on the initial underwriting of the loan to be made and also incorporating a new set of loan rating criteria that the Authority is currently developing.

The Authority concurs with the recommendation to establish a formal loan review function throughout the year to provide senior management an independent assessment of loan policy and procedure compliance. The Authority also contracted with an outside firm to provide an independent assessment of loan policy and procedure compliance. This assessment has been completed and the Authority is in the process of implementing similar recommendations from this assessment.

The Authority does have an existing monthly process in which problem loan situations are reviewed and acted upon. Results are reported to its management. The Authority during fiscal year 2006 adjusted its loans loss reserves on two occasions to reflect these reviews.

The Authority concurs in principle with the recommendation to require developers to establish operating and maintenance plans and report the progress on a quarterly basis to the Authority's loan portfolio management. The Authority, for its first position loans, continuously collects operating and maintenance information from developments through its annual and periodic inspections. In addition, budgets, audited financial statements and monthly operating reports/tenant selection plans are reviewed. If problems are noted, the Authority requests that the development management prepare plans to correct the situation noted. The Authority will take measures to document these requests, plans and the progress made towards their successful plan implementation. The Authority's agreements for loans in which the Authority has a subordinate position, however, do not require the submission of such reports, and the Authority, as a result, may not be able to obtain such reports.

The Authority concurs with the recommendation to consider expanding the rating scale and formally document the definitions of each grade, taking into account the estimated collectibility of each loan within the grade definitions. The Authority is in the process of developing such a rating scale.

The Authority concurs with the recommendation to perform detailed liquidation analyses supported by financial projections for all D and in some cases C rated properties. However, the development of a new rating scale, as discussed above, likely will change the applicability as to which loans would be subject to such an analysis.

The Authority concurs with the recommendation to establish a formal policy to describe the circumstances under which a property needs an appraisal. The Authority is currently ordering appraisals for D rated properties in which the Authority has a significant financial position in a primary loan position and in some

(Continued)

instances for the Authority's subordinate loans. These appraisals are being utilized when considering the loan loss reserve pertaining to these properties.

The Authority concurs with the recommendation to formally document, when applicable, the consideration of investor support and real estate tax credits in each loan review file, and will also incorporate these factors in the development of its new rating system.

The Authority concurs with the recommendation to implement a tracking system for Single Family loan documents to ensure all have been received by the trustee and have been accounted for. The Authority has recently implemented such a system that will enable it to compare the Authority's and the trustee's records of documents sent by the Authority.

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06-09 Office of Internal Audit Deficiencies

The Authority's Office of Internal Audit did not perform auditing procedures in conformity with International Standards for the Professional Practice of Internal Auditing, and did not comply with the Fiscal Control and Internal Auditing Act of the State of Illinois.

During fiscal year 2006, the Authority's Office of Internal Audit (OIA) conducted a quality assurance self-assessment to determine whether the OIA's activities conform with the Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing, the IIA's Code of Ethics, and the Fiscal Control and Internal Auditing Act of the State of Illinois. The self-assessment was validated by an independent external party. The final report indicated significant findings and recommendations as follows:

Significant findings related to Standards for the Professional Practice of Internal Auditing:

- There is no documentation that the audit charter was presented to the Board.
- There is no process in place to periodically disclose annual or engagement basis impairment of independence and objectivity of the Office of Internal Audit.
- There is no policy in place to require internal auditors from refraining from assessing specific operations for which they were previously responsible.
- Documentation of continuing professional education (CPE) was not available, and there is no process in place to ensure the staff obtain appropriate and adequate CPE.
- There is no periodic internal quality assessment or ongoing monitoring of the Internal Audit Division.
- The policy and procedures manual for the OIA does not cover many key aspects of the audit process, including audit planning, supervision, performance appraisals, project control techniques, developing audit findings and continuing education.
- Documentation of planning needs to be strengthened.
- The auditor preparing the workpapers did not always sign off as the preparer, and there was no evidence of supervisory review. Work programs were not always prepared to document procedures.
- No written policies or procedures have been established for audit follow-up, and the performance of follow-up procedures did not always exist.

Significant findings related to the Fiscal Control and Internal Auditing Act of the State of Illinois:

- The Authority's Office of Internal Audit did not have the two-year audit plan approved by the Chief Executive Officer prior to the beginning of the fiscal year.
- Audits of major systems of internal accounting and administrative control are not conducted on a periodic basis so that all major systems are reviewed at least once every two years.

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According to the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing, the purpose, authority, and responsibility of the internal audit activity should be formally defined in a charter, consistent with the Standards, and approved by the board. The internal audit function should be independent and objective from the engagement client, and engagements should be performed with proficiency and due professional care. The chief audit executive should develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and continuously monitor its effectiveness, and should effectively manage the internal audit activity to ensure it adds value to the organization. The internal auditors should develop and record a plan for each engagement, including the scope, objectives, timing and resource allocations, and should identify, analyze, evaluate, and record sufficient information to achieve the engagement's objectives. Additionally, the chief audit executive should establish and maintain a system to monitor the disposition of results communicated to management.

According to the Fiscal Control and Internal Auditing Act (30 ILCS 10/2003) (the Act), the two-year audit plan must be approved by the Chief Executive Officer prior to the beginning of the fiscal year. The Act also requires that the Authority's executive director shall ensure that audits of major systems of internal accounting and administrative control be conducted on a periodic basis so that all major systems are reviewed at least once every two years.

Authority management stated that staffing shortages led to the deficiencies in the internal audit department.

Without performing internal audits in accordance with professional standards and without completing audits timely in accordance with an approved audit plan, the Authority may fail to detect weaknesses in its internal control in a timely manner. (Finding Code No. 06-09)

Recommendation

We recommend the Authority implement procedures to ensure the Office of Internal Audit conforms with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. Further, the chief internal auditor should implement procedures to ensure the audit plan is properly approved by the chief executive officer prior to the beginning of the fiscal year, and also implement procedures to ensure all major systems are reviewed at least once every two years.

Authority Response

The observations and findings presented in the auditors' report were that of an independent external validator conducting a required peer review, and were based upon a questionnaire completed by the Authority's Chief Internal Auditor.

The Authority concurs in principle with the recommendations that the Authority implement procedures to ensure the Office of Internal Audit conforms with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and that the chief internal auditor should implement procedures to ensure the audit plan is properly approved by the chief executive officer prior to the beginning of the fiscal year, and also implement procedures to ensure all major systems are reviewed at least once every two years.

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A number of the recommendations and deficiencies cited involve practices that the Authority already follows but has not documented. These include the documentation that the audit charter was presented to the Board (the Authority's chief internal auditor reports to the Authority's Audit Committee, which is comprised of Board Members), the disclosure of engagement basis impairment of independence or the requirement that internal auditors refrain from assessing specific operations for which they were previously responsible (the Authority's internal auditors for the past eleven years were hired from outside the Authority and never have had any operating responsibilities), and documentation of various existing procedures in the procedure manual.

In addition, it has not always been possible to include supervisory review of auditor work papers because at times the Authority employed only one internal auditor.

The Authority's chief internal auditor is addressing the various documentation issues noted and will present these to the Authority's Audit Committee, executive director, deputy executive director and chief financial officer for approval. The Two Year Audit Plan, 2007 Internal Audit Budget and the Internal Audit Policies and Procedures Manual were presented to and approved by the Authority's audit committee at the committee's March 16, 2007 meeting.

(Continued)

Federal Compliance

06-10 Inadequate Monitoring of Subrecipients Receiving Federal Awards

The Illinois Housing Development Authority (Authority) did not properly notify all of its subrecipients of the Federal award information and did not document its process in place to follow up on delinquent OMB Circular A-133 reports. Additionally, the Authority did not have a process in place to ensure management decisions on program findings are issued within six months, and did not adequately document a supervisory review of the desk review and on-site monitoring checklists.

In the current audit period, the Authority notified its subrecipients of the federal award information and documented its follow-up of delinquent OMB Circular A-133 reports. We noted management decisions on program findings were made within six months of receipt of the reports. Additionally, we noted the on-site and the desk review monitoring checklists were reviewed and signed by a supervisor. (Finding Code No. 05-01, 04-01, 03-01, 02-01)

06-11 Failure to Obtain Suspension and Debarment Certifications for Subrecipients

The Authority did not obtain required certifications that subrecipients were not suspended or debarred from participation in federal assistance programs for its Home Investment Partnerships Program.

In the current audit period, the Authority obtained the required certifications from its subrecipients of the HOME program. However, Finding 06-04 noted required certifications were not obtained from its subrecipients of the Section 8 program. (Finding Code No. 05-05)

State Compliance

06-12 Time Sheets Not Maintained in Compliance With the State Officials and Employees Ethics Act

The Authority did not maintain time sheets for its employees in compliance with the State Officials and Employees Ethics Act (Act), which requires the Authority to maintain a positive timekeeping process.

In the current audit period, the Authority began keeping time sheets in accordance with the Act. (Finding Code No. 05-10, 04-10)

06-13 Accounting for Program Loans Receivable

The Authority did not properly reconcile the loan subsidiary system for the Affordable Trust Fund program loans to the general ledger as of June 30, 2005. Additionally, the Authority did not have an adequate process for the establishment of new loans in the loan subsidiary system.

In the current audit period, the Authority reconciled the loan subsidiary system for the Affordable Trust Fund program loans to the general ledger as of June 30, 2006. However, the Authority has not developed an adequate process for the establishment of new loans in the loan subsidiary system. Please refer to Finding Code No. 06-07. (Finding Code No. 05-08, 04-08, 03-03, 02-04, 01-03)

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Supplementary Information for State Compliance Purposes

Year ended June 30, 2006

Summary

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:

  Schedule of Expenditures of Federal Awards
  Notes to Schedule of Expenditures of Federal Awards
  Comparative Schedule of Cash Receipts
  Schedule of Changes in Authority Property
  Furniture, Equipment, and Leasehold Improvements
  Analysis of Significant Account Balances
  Analysis of Significant Variations in Revenue and Significant Variations in Expenses
  Analysis of Administrative Costs
  Description of Cash Accounts
  Description of Investments
  Affordable Housing Trust Fund

- Analysis of Operations:

  Authority Functions and Planning Program
  Average Number of Employees (Unaudited)
  Emergency Purchases
  Service Efforts and Accomplishments (Unaudited)
  Multi-family and Single Family Production – Activities Closed or Placed into Service Since Inception (Unaudited)
  Unit Production by Percent of Area Median Income Since Inception (Unaudited)
  Unit Production by Economic Development Region Since Inception (Unaudited)
  Summary Production Data (Unaudited)
  Schedule of Federal and Nonfederal Expenditures

This information relates to the Authority's proprietary funds unless otherwise noted.

The auditors' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditors' opinion, except for that portion marked "unaudited," on which they express no opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

Federal grant/program title	CFDA number	Award amount	Due to (from) HUD June 30, 2005	Revenue	Expense/ expenditure	Due to (from) HUD June 30, 2006
U.S. Department of Housing and Urban Development:						
Major programs:						
Section 8 Project-Based Cluster:						
Section 8 New Construction and Substantial Rehabilitation	14.182	$ —	549,764	151,994,827	141,001,473	11,543,118
Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation	14.856	—	(3,521,504)	11,786,305	7,454,467	810,334
Total Section 8 Project-Based Cluster		—	(2,971,740)	163,781,132	148,455,940	12,353,452
HOME Investment Partnerships Program	14.239	31,248,364	—	31,248,364	31,248,364	—
Nonmajor program:						
Interest reduction payments – Rental and Cooperative Housing for Lower Income Families	14.103	5,233,666	—	5,233,666	5,233,666	—
Total		$ 36,482,030	(2,971,740)	200,263,162	184,937,970	12,353,452

See accompanying notes to the schedule of expenditures of federal awards and accompanying independent auditors' report.

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Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

(1) General

The Schedule of Expenditures of Federal Awards (Schedule) presents the activity of all federal financial assistance programs of the Authority. The amount due to the U.S. Department of Housing and Urban Development (HUD) at June 30, 2006 is included in the business-type activities of the Authority's Statement of Net Assets.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting for proprietary funds and modified accrual basis of accounting for governmental funds.

Relation to the Schedule of Expenditures of Federal Awards

Amounts reported in the Schedule of Expenditures of Federal Awards reconcile with the amounts reported in the related federal financial reports. For the HOME program, amounts reported as expenditures include $11,641,977 in grant expenditures. The amount of HOME loans disbursed during the year ended June 30, 2006 is $20,368,713. The amount of HOME loans outstanding at June 30, 2006 is $144,447,284.

Expense/Expenditure

Amounts reported as expenses on this Schedule include approximately $5,700,000 in administrative fees retained by the Authority.

Subrecipients

The following amounts were passed through to subrecipients during the year ended June 30, 2006:

CFDA number		Subrecipient amount
14.182 and 14.856	$	148,455,940
14.239		11,641,977
14.103		5,233,666
	$	165,331,583

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Fiscal Schedules and Analysis

Comparative Schedule of Cash Receipts

Years ended June 30, 2006 and 2005

		2006	2005
Administrative Fund:			
Cash received from:			
Interest from program loans	$	2,424,541	3,632,926
Service fees from program loans		11,989,827	8,325,217
Principal from program loans		3,879,059	5,099,405
		18,293,427	17,057,548
Proceeds from federal assistance programs		148,171,776	149,198,655
Interest on investments		1,490,516	1,522,834
Interest on escrow deposits		5,423,047	3,653,977
Proceeds from sales and maturities of investment securities		846,485,146	669,266,692
Transfer of funds from mortgage loan program funds		5,734,786	275,000
Transfer of funds from single family program funds		9,324	1,894
Receipts for amounts held on behalf of others		40,423,973	—
Total	$	1,066,031,995	840,976,600
Mortgage Loan Program Fund – Multi-Family Housing Bonds:			
Cash received from:			
Interest from program loans	$	9,723,163	10,951,390
Principal from program loans		8,715,333	22,147,726
		18,438,496	33,099,116
Proceeds from federal assistance programs		152,725	153,169
Interest on investments		2,797,220	3,245,733
Proceeds from sales and maturities of investment securities		110,260,388	171,543,767
Other		8,743	—
Total	$	131,657,572	208,041,785
Mortgage Loan Program Fund – Multi-Family Program Bonds:			
Cash received from:			
Interest from program loans	$	4,832,627	10,233,108
Principal from program loans		51,340,447	91,273,925
		56,173,074	101,507,033
Interest on investments		1,541,982	2,627,668
Proceeds from sales and maturities of investment securities		91,530,591	162,640,781
Other		1,297,559	—
Total	$	150,543,206	266,775,482

(Continued)

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Fiscal Schedules and Analysis

Comparative Schedule of Cash Receipts

Years ended June 30, 2006 and 2005

	2006	2005
Mortgage Loan Program Fund – Housing Bonds:		
Cash received from:		
Interest from program loans	$ 13,413,094	11,306,922
Service fees from program loans	89,122	—
Principal from program loans	14,652,720	11,478,375
	28,154,936	22,785,297
Proceeds from sale of revenue bonds	80,935,000	36,900,000
Proceeds from federal assistance programs	4,815,341	5,032,244
Interest on investments	2,446,076	1,095,686
Proceeds from sales and maturities of investment securities	428,568,904	213,567,436
Transfer of funds from administrative funds	277,701	258,147
Receipts for amounts held on behalf of others	3,195,585	—
Total	$ 548,393,543	279,638,810
Mortgage Loan Program Fund – Multi-Family Variable Rate Demand Bonds:		
Cash received from:		
Interest from program loans	$ 505,495	631,289
Service fees from program loans	—	1,250
Principal from program loans	5,174,544	51,805
	5,680,039	684,344
Interest on investments	102,760	77,335
Proceeds from sales and maturities of investment securities	16,500,023	8,699,685
Total	$ 22,282,822	9,461,364
Mortgage Loan Program Fund – Multi-Family Housing Revenue Bonds:		
Cash received from:		
Interest from program loans	$ 4,239,066	249,532
	4,239,066	249,532
Interest on investments	330,612	160,266
Proceeds from sales and maturities of investment securities	46,529,367	19,807,793
Other	5,434,786	3,554,284
Total	$ 56,533,831	23,771,875

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ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Fiscal Schedules and Analysis

Comparative Schedule of Cash Receipts

Years ended June 30, 2006 and 2005

		2006	2005
Single Family Program Fund:			
Cash received from:			
Interest from program loans	$	32,261,558	34,328,828
Principal from program loans		85,873,085	96,781,889
		118,134,643	131,110,717
Interest on investments		9,310,499	10,616,426
Proceeds from sale of revenue bonds		99,997,950	338,433,372
Proceeds from sales and maturities of investment securities		743,691,613	918,152,142
Transfer of funds from administrative funds		1,655,860	13,552,035
Other		1,650,073	—
Total	$	974,440,638	1,411,864,692
Illinois Affordable Housing Trust Fund:			
Cash received from:			
Interest from program loans	$	—	1,184,862
Principal from program loans		—	4,487,348
		—	5,672,210
Application fees		—	34,375
Interest on investments		2,237,516	1,335,006
Private donation		—	500,000
Real estate transfer taxes		—	53,486,272
Grant from State of Illinois		15,574,118	—
Total	$	17,811,634	61,027,863
Mortgage Loan Program Fund – Affordable Housing Program Trust Fund Bonds:			
Cash received from:			
Interest from program loans	$	2,308,414	2,444,189
Service fees from program loans		4,353	42,406
Principal from program loans		3,128,695	3,262,959
		5,441,462	5,749,554
Interest on investments		1,094,538	943,250
Proceeds from sale of revenue bonds		—	79,860,000
Transfer of fund from Illinois Affordable Housing Trust Fund		5,200,000	5,200,000
Proceeds from sales and maturities of investment securities		57,794,389	37,914,519
Other		—	539,411
Total	$	69,530,389	130,206,734

(Continued)

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Fiscal Schedules and Analysis

Comparative Schedule of Cash Receipts

Years ended June 30, 2006 and 2005

		2006	2005
Home Program Fund:			
Cash received from:			
Interest from program loans	$	1,009,982	1,111,626
Principal from program loans		1,097,999	957,077
		2,107,981	2,068,703
Interest on investments		43,001	16,253
Federal HOME Funds		31,248,364	19,088,699
Total	$	33,399,346	21,173,655
Mortgage Loan Program Fund – Housing Finance Bonds:			
Cash received from:			
Interest from program loans	$	866,216	876,925
Principal from program loans		224,897	211,343
		1,091,113	1,088,268
Interest on investments		61,744	59,977
Proceeds from sales and maturities of investment securities		1,116,085	1,048,843
Total	$	2,268,942	2,197,088
Mortgage Loan Program Fund – Multi-Family Housing Revenue Bonds (Marywood):			
Cash received from:			
Interest from program loans	$	402,242	—
		402,242	—
Interest on investments		22,998	65,186
Proceeds from sales and maturities of investment securities		8,854,206	8,184,822
Other		1,138	—
Total	$	9,280,584	8,250,008

(Continued)

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Fiscal Schedules and Analysis

Comparative Schedule of Cash Receipts

Years ended June 30, 2006 and 2005

		2006	2005
Mortgage Loan Program Fund – Multi-Family Bonds (Turnberry):			
Cash received from:			
Interest from program loans	$	269,306	267,790
Service fees from program loans		—	18,174
Principal from program loans		42,796	20,595
		312,102	306,559
Interest on investments		5,265	2,017
Proceeds from sales and maturities of investment securities		398,417	361,911
Other		1,463	—
Total	$	717,247	670,487

See accompanying independent accountants' report.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Fiscal Schedules and Analysis

Schedule of Changes in Authority Property

Year ended June 30, 2006

Description		Balance at June 30, 2005	Additions	Depreciation and amortization expense	Retirement	Balance at June 30, 2006
Furniture and equipment	$	570,334	46,824	—	(62,889)	554,269
Accumulated depreciation – furniture and equipment		(510,558)	—	(29,221)	42,866	(496,913)
Computer equipment		499,019	5,275	—	(66,298)	437,996
Accumulated depreciation – computer		(475,922)	—	(15,165)	66,298	(424,789)
Computer software		1,543,620	11,408	—	—	1,555,028
Amortized software		(1,128,404)	—	(135,387)	—	(1,263,791)
Leasehold improvements		1,805,108	—	—	—	1,805,108
Amortized leasehold improvements		(1,805,108)	—	—	—	(1,805,108)
	$	498,089	63,507	(179,773)	(20,023)	361,800

See accompanying independent accountants' report.

Furniture, Equipment, and Leasehold Improvements

The Authority leases office facilities under a lease which extends through July 31, 2006, which provides the Authority an option to extend the lease five years beyond that date and, during certain time periods, to lease additional office facilities.

Capital assets of the Authority consist of investments in furniture, fixtures, and equipment, computer hardware, and computer software. For such investments made beginning and after July 1, 2002, capital assets are defined by the Authority as assets with an initial, individual cost of $5,000 or more and are depreciated or amortized on a straight-line basis over a period of five to ten years, depending on the nature of the asset. The limitation amount in prior fiscal years was $1,000. Purchases of furniture and equipment in the amount of $15,463 were expensed during fiscal year 2006.

During the year ended June 30, 2006, the Authority capitalized $46,824 of fixed asset purchases, $5,275 of computer equipment purchases, and $11,408 of computer software.

See accompanying independent accountants' report.

(Continued)

Analysis of Significant Account Balances

Cash and investments of the Authority's proprietary funds decreased approximately $105.1 million from June 30, 2005 to $665.9 million at June 30, 2006. This decrease is primarily a net result of the following factors:

(a) Payments for loan originations totaled $242.3 million.

(b) Payments of bond principal exceeded proceeds of bond issuances by $70.3 million.

(c) The fiscal year 2006 reclassification ($29.6 million) of the Authority's carrying value in a real estate investment to real estate owned.

(d) Cash receipts from interest, service fees, and principal on program loans exceeded interest paid on revenue bonds and notes and cash payments for operating expenses by $169.6 million.

(e) Receipts for amounts held on behalf of others were $40.4 million.

(f) Interest received on investments and transfers in (net) totaled $24.4 million.

Net program loans receivable of the Authority's proprietary funds increased approximately $66.6 million during fiscal year 2006. This increase is attributable to an increase in the Authority's Single Family Program Fund ($80.9 million), partially offset by a decrease in the Authority's Mortgage Loan Program Fund ($14.3 million). The increase in the program loans receivable of the Single Family Program was the second straight year-to-year increase following a three year period of decreases caused by declining interest rates, which resulted in loan principal payments and loan prepayments exceeding originations. Interest rate increases over the past two years have resulted in a slowing of the prepayment rate to the extent that program loans receivable are again increasing. The fiscal year 2006 decline in program loan receivables of the Mortgage Loan Program Funds was substantially below the $67.5 and $91.9 million declines of the prior two years as the Authority was able to originate new loans and refinance a number of existing loans.

Net assets of the Authority's governmental funds decreased $260.3 million from the June 30, 2005 balance due to the transfer of the interest in equity of the Illinois Affordable Housing Program (Housing Program) to the State of Illinois. Prior to fiscal year 2006, the Authority considered the real estate transfer tax used to fund the program to be a derived tax revenue of the Authority with the interest in the equity of the Housing Program recorded in the financial statements of the Authority. Based on statutory amendments to the Illinois Affordable Housing Act during fiscal year 2006 in relation to the Housing Program, the Authority believes that it is now only the administrator of the Housing Program and the real estate transfer tax and interest in the equity of the Housing Program to be that of the State of Illinois. Accordingly, the Authority recorded an expenditure (expense) of $280.0 million during fiscal year 2006 for the transfer of interest in equity of the Housing Program to the State of Illinois.

Total program loans receivable of the Authority's governmental funds increased by $46.7 million due to strong demand in both the Housing Program and the HOME program for loans to support low and very low income housing. Cash and investments decreased by $33.0 million as the Authority, due to a change in revenue recognition of State of Illinois' real estate transfer tax revenues, discontinued the reporting of Funds held by the

State treasurer as funds held within the Housing Program. Due to the State of Illinois increased $276.5 million to reflect a liability for the State of Illinois' interest in the equity of the Housing Program.

At June 30, 2006, total outstanding bonds and notes payable was approximately $70.3 million below the prior fiscal year-end. Issuance of the following bonds and notes (with a balance outstanding at June 30, 2006) occurred during fiscal year 2006:

		Balance June 30, 2006 (In millions)
Housing Bonds, 2005 Series C	$	10.7
Housing Bonds, 2005 Series D		6.6
Housing Bonds, 2005 Series E		24.8
Housing Bonds, 2005 Series F		19.4
Housing Bonds, 2006 Series B		13.7
Housing Bonds, 2006 Series C		5.7
Homeowner Mortgage Revenue Bonds, 2006 Series A		84.6
Homeowner Mortgage Revenue Bonds, 2006 Series B		15.0

The Authority redeemed $166.3 million of various Single Family Program Fund Bonds and $84.9 million of Mortgage Loan Program Bonds during the fiscal year.

Accretion of capital appreciation bonds and the amortization of bond discount amounted to approximately $0.2 million.

(Continued)

As of June 30, 2006, the Authority had the following debt outstanding (net of unamortized discount, thereon):

	Number of outstanding issues		Balance June 30, 2006 (In millions)
Multi-Family Housing Bond	9	$	119.4
Multi-Family Program Bond	3		61.9
Housing Bond	15		265.8
Housing Finance Bond	2		14.2
Multi-Family Variable Rate Demand Bond	1		2.9
Multi-Family Housing Revenue Bond	2		54.0
Multifamily Housing Revenue Bond (Marywood)	1		15.8
Multifamily Bond (Turnberry II)	1		5.3
Affordable Housing Program Trust Fund Bond	3		79.5
Total Mortgage Loan Program Fund	37		618.8
Residential Mortgage Revenue Bond	7		0.3
Homeowner Mortgage Revenue Bond	39		803.5
Total Single Family Program Fund	46		803.8
Total Proprietary Funds	83	$	1,422.6

Deposits held in escrow decreased approximately $0.7 million, due to the refunding of escrows held by developments that prepaid their loans and various withdrawals for physical improvements. Capital assets decreased approximately $0.1 million as depreciation more than offset purchases. Net assets designated by resolution of the Authority ($81.0 million) were $4.5 million higher than the amount designated as of June 30, 2005, as the Members of the Authority increased by $5.0 million the designation to provide to purchase single family mortgage loans which will eventually be purchased with proceeds from future issuances of Authority bonds, and decreased by $1.5 million the designation to the Housing Partnership Program, due to lower amounts outstanding under the program. In addition, the designation to pay expenses for programs under commitment or contract increased $1.0 million to allow for additional spending for various planned computer system enhancements.

Analysis of Significant Variations in Revenue and Significant Variations in Expenses

Interest earned on program loans decreased by $3.9 million, or 5.5% due to decreases of $5.4 million within the Authority's Mortgage Loan Program Fund, due to prepayments of mortgage loans and lower interest income on existing loans, as the interest portion of debt service decreased due to the scheduled amortizations of these loans and the Authority's Administrative Fund ($1.2 million), due to decreased accelerations of deferred fees due to a lower number of loan prepayments during the year. Interest earned on program loans of the Authority's Single Family Program Fund increased $2.8 million as the previous years' high prepayment rates declined, and the Authority was again able to increase the size of the loan portfolio after several years of declines. Investment income increased $1.2 million, or 6.4%. Investment income before the adjustment of investments to fair value increased $5.8 million from the prior year due to higher market interest rates, but a large portion of the increase was offset by the adjustment of investments to fair value. In fiscal year 2006, the adjustments to fair value decreased investment income by $2.7 million, whereas in fiscal year 2005 the impact was to increase investment income $1.8 million. The increases in investment income were primarily within the Mortgage Loan Program Fund ($0.5 million) and the Single Family Program Fund ($0.6 million).

Interest expense decreased $3.0 million, or 3.8% due to decreased expenses within the Mortgage Loan Program Fund ($5.1 million, due primarily to lower debt outstanding), partially offset by increased expenses within the Single Family Program Fund (1.9 million).

Operating expenses, other than interest expense and federal assistance programs, increased approximately $4,378,000. The major components of the change were:

a. A $103,000 (0.9%) decrease in salaries and benefits primarily due to increased reimbursements from the Affordable Housing Trust Fund and the HOME program ($427,000). Gross salary and benefit expenses (before allocations and deferrals) increased $386,000 or 2.8%. The average number of full-time equivalent employees for fiscal years 2003 through 2006 is listed in the Analysis of Operations Average Number of Employees section of this report.

b. A $145,000 (10.5%) decrease in professional fees primarily due to an increased proportion of reimbursable costs incurred to administer the Affordable Housing Trust Fund and the HOME program.

c. A $137,000 (4.1%) increase in general and administrative expenses due primarily to increased rent expense and purchases of office equipment.

d. A $44,000 (2.8%) increase in financing costs due to increased expenses within the Authority's Administrative Fund, primarily from the expensing of debt issuance costs in excess of the designated amounts per the bond agreements.

e. A $4,445,000 increase in the allowance for estimated losses on program loans receivable compared to a $400,000 increase the prior year. Most of the fiscal year 2006 increase was from an initial provision ($3.2 million) for estimated losses from the Mortgage Participation Certificate Program (Risk Sharing and Ambac) loans, which are not included in the Authority's financial statements, but for which the Authority would have potential losses or other liabilities should any of these loans default. In addition, the Authority increased the allowance for estimated losses on program loans receivable by $1.3 million for its Mortgage Loan Program Fund, compared to a $0.4 million increase the prior fiscal year.

Total revenues of the Authority's governmental funds decreased by $30.2 million from the prior year, mainly from the Authority's change in revenue recognition of real estate transfer taxes partially offset by an increase in federal programs funds of $7.9 million due to the continuing high demand for HOME Program funding to support low and very low income housing. Prior to fiscal year 2006, the Authority considered the real estate transfer tax used to fund the Housing Program to be a derived tax revenue of the Authority with the interest in the equity of the Housing Program recorded in the financial statements of the Authority. Based on statutory amendments to the Illinois Affordable Housing Act during fiscal year 2006 in relation to the Housing Program, the Authority believes that it is now only the administrator of the Housing Program and the real estate transfer tax to be that of the State of Illinois. Accordingly, the Authority now records amounts received to administer the Housing Program as grant revenue which are classified as program revenues. At June 30, 2006, loan and grant commitments authorized by the Members of the Authority for the HOME program totaled $18.4 million.

Total expenditures of the Authority's governmental funds increased by $275.4 million from the prior year, mainly from the Authority recording an expense of $280.0 million during fiscal year 2006 for the transfer of interest in equity of the Housing Program to the State of Illinois.

See accompanying independent accountants' report.

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STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Fiscal Schedules and Analysis

Year ended June 30, 2006

Analysis of Administrative Costs

The Authority's administrative costs include the following employee benefits:

Description		2006	2005	2004
Employee holiday reception	$	12,061	15,280	11,850
Employee retirement, recognition parties		9,048	8,550	3,250
	$	21,109	23,830	15,100

The Authority's current policy allows for amounts to be spent on food and gifts to acknowledge the tenure of individuals, beginning with a minimum of ten years of service.

See accompanying independent accountants' report.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Fiscal Schedules and Analysis

Description of Cash Accounts

Year ended June 30, 2006

The Authority's cash and cash equivalents for proprietary funds at June 30, 2006 were maintained in bank accounts, as follows:

Administrative Fund:		
JP Morgan	$	40,423,973
Amalgamated Trust & Savings Bank		1,490
Bank of New York		24,147
The Northern Trust Company – HUD Section 8 Depository		563
LaSalle Bank		830
Lakeside Bank		17,325
Total Administrative Fund		40,468,328
Multi-Family Housing Bonds:		
LaSalle Bank		37,230
Housing Bonds:		
LaSalle Bank		617,281
JP Morgan		630,802
Total Housing Bonds		1,248,083
Multi-Family Variable Rate Demand Bonds:		
JP Morgan		123,178
Multi-Family Housing Revenue Bonds:		
JP Morgan		64,660
Multi-Family Housing Revenue Bonds (Marywood):		
JP Morgan		28,389
Multifamily Bonds (Turnberry):		
LaSalle Bank		318
Affordable Housing Program Trust Fund Bonds		
LaSalle Bank		24,836
Total Mortgage Loan Program Fund		1,526,694
Homeowner Mortgage Revenue Bonds:		
JP Morgan		4,150,249
Residential Mortgage Revenue Bonds:		
JP Morgan		593
Total Single Family Program Fund		4,150,842
Total Proprietary Funds	$	46,145,864

See accompanying independent accountants' report.

Description of Investments

The carrying value of investments for the Authority's governmental and proprietary funds at June 30, 2006 are delineated by type, as follows:

Type		Carrying value
Demand Repurchase Agreements	$	130,435,713
United States Agency Obligations		460,635,988
United States Government Obligations		79,969,452
Municipal Obligations and Other		2,134,573
	$	673,175,726

Affordable Housing Trust Fund

The Authority is designated the administrator of the Illinois Affordable Housing Program. The program is funded by the Illinois Affordable Housing Trust Fund with funds generated from the state real estate transfer tax collected by the Illinois Department of Revenue and held within the State Treasury. At June 30, 2006, total funds held were $54,366,831, which consisted of cash and investments held by Authority escrow agents for pending disbursement of loans and grants.

See accompanying independent accountants' report.

Authority Functions and Planning Program

The Authority is governed by a bipartisan Board of nine members appointed by the Governor and confirmed by the State Senate. Ms. Kelly King Dibble is the Executive Director of the Authority. In addition, the Authority employs a staff of approximately 190 persons, including persons who have experience and responsibilities in the areas of finance, accounting, mortgage loan underwriting, housing development, market analysis, law, and housing marketing and management.

The statutory mandate of the Authority is to increase the production and supply of low and moderate income housing within the State of Illinois. This goal is currently accomplished through several programs. *The Mortgage Loan Program and The Affordable Housing Bond Program* (initiated in fiscal year 1995) provides mortgage financing at rates lower than those available from commercial lenders for housing developments meeting Authority criteria. Through *The Homeowner Mortgage Purchase Program*, the Authority purchases mortgage loans on which it provides below market rate financing from certain institutions which have made home purchase loans available to eligible borrowers. The Authority also provides technical and marketing assistance to sponsors of housing for occupancy by persons or families of low to moderate income, serves as the state administrator for Federal Low Income Housing Tax Credits (primarily outside of Chicago) and, through its Partnership and Financial Assistance Factor (FAF) Earnings Programs, makes loans from its Administrative Funds at below market rates to such groups.

The Authority also is designated the administrator of the *Illinois Affordable Housing Program*. The program is funded by the Illinois Affordable Housing Trust Fund, with funds derived from a portion of the state real estate transfer tax collected by the Illinois Department of Revenue and held within the State Treasury. The funds are appropriated to the Illinois Department of Revenue by the General Assembly. In accordance with state statute, the Authority directs funds to make grants, low or no interest mortgages, or other loans, some with deferred repayment terms, to acquire, construct, rehabilitate, develop, operate, ensure, and retain affordable single-family and multi-family housing for low and very low income households.

In addition, the Authority has been designated as the statewide administrator of the Federal HOME program. Under this program, $303.3 million and $22.8 million for federal fiscal years 1992 through 2005 and 2006, respectively, have been allocated to be administered by the Authority under the HOME provisions of the 1990 National Affordable Housing Act.

A federal tax credit program created by the Tax Reform Act of 1986, the Low Income Housing Tax Credit Program, was designed to encourage the production of affordable housing, providing an income tax credit to qualifying investors of low-income housing. Project developers typically syndicate these credits up front at a discounted rate to raise cash equity to help finance developments. The limited partner tax credit investor pays a fee in exchange for dollar-for-dollar reduction in federal tax liability. The Authority is the State-level Tax Credit administrator, and the City of Chicago serves in the same capacity as a local tax credit administrator for its allowed home rule proportional allotment of credits.

In fiscal year 1992, the Authority formed the Office of Housing Coordination Services, which coordinates housing policy development and housing programs, initiates and responds to public input on housing programs, and acts as a housing information resource for nonprofit organizations, local governments, state agencies, and others.

(Continued)

In early fiscal year 2002 the Illinois General Assembly created the Illinois Affordable Housing Tax Credit Program, which was designed to assist nonprofit organizations to solicit corporate and other donations for assisting with a variety of affordable housing projects, providing the donating entity with a 50% state income tax credit for every dollar donated. The Authority is the administrator of this program, which began during fiscal year 2002.

The Authority also serves as the Chair of the State's Housing Task Force. During fiscal year 2004 the Authority worked to create the first statewide housing plan in Illinois history. The plan, entitled Building for Success: Illinois' Housing Plan, was submitted to the Illinois legislature in January 2005, and will guide the work of the Authority and all the State agencies that rely on housing to serve their populations for years to come.

The Authority's operations are financed by fees and charges paid by borrowers, interest income from investment securities, and other administration fees. No State appropriations are received by the Authority and no State tax dollars are provided directly to the Authority, except as a partial reimbursement of expenses related to the administration of the Affordable Housing Trust Fund.

The Authority is generally able to make loans at rates lower than those of commercial lenders because interest on its qualified bonds and notes are tax-exempt. Except for the Affordable Housing Bond Program, which receives funds to use in support of the Program Bonds, the interest rates charged by the Authority on loans are directly related to interest paid by the Authority on its bonds and notes. The Authority obtains favorable interest rates on its debt because the Authority has consistently received high Moody's and Standard & Poor's ratings on such debt. During fiscal year 2006, the Authority's Issuer Credit Ratings remained at A+/A1/A+ by Fitch Ratings, Moody's Investors Service and Standard & Poor's Ratings Services, respectively. No bonds or notes of the Authority are debts of the State of Illinois. With respect to certain outstanding debt, in the event the Authority determines at any time that its moneys are insufficient to pay principal of and interest on its bonds in the next State fiscal period, the Chairman of the Authority shall certify the deficiency to the Governor, who shall include the amount in the State budget. However, payment of any amounts by the State on behalf of the Authority is subject to appropriation by the General Assembly. Accordingly, the Illinois Housing Development Act does not create a legally enforceable obligation on the part of the State for the payment of such moneys nor does it create a debt enforceable against the State.

Some developments financed by the Authority are eligible for the federal subsidies for interest and/or rents. In the past, the Authority obtained commitments for subsidies from the U.S. Department of Housing and Urban Development (HUD) and then solicited applications for loans from prospective developers. The Authority makes mortgage loan commitments after an extensive study of the feasibility of a development and the development's compliance with applicable federal, state, and local laws and rules and regulations. All commitments are authorized by the Members of the Authority.

New Program Development

In December, 1983, the United States Congress officially terminated new production of housing under the Section 8 Housing Payments Program. With the elimination of these subsidies, the Authority's ability to provide mortgage financing rates at lower than those of commercial lenders was reduced. The elimination of federal subsidies has also driven up interest rates on multi-family housing bonds, which do not provide financial security similar to that afforded by the Section 8 program. The advantage of providing lower financing rates was further restricted by the Tax Reform Act of 1986, which included provisions for statewide limits on bond issuance. It has therefore become necessary to devise other types of credit enhancements, such as insurance or other surety protection, to ensure that the Authority is able to issue its bonds and notes at the lowest possible interest rates.

In June 1994, the Authority entered into a Risk Sharing Agreement (Agreement) with HUD, which permits the Authority to participate in HUD's Pilot Risk Sharing Program, which has since been converted to a permanent program. Under this program, HUD will insure certain mortgage loans on multi-family housing developments (Risk Sharing Loans). HUD has authorized the Authority to make an unlimited amount of loans for such developments. Under the Agreement, the Authority underwrites Risk Sharing Loans following its underwriting guidelines. HUD insures the Risk Sharing Loans and bears 10% to 90% of the loss, as elected by the Authority, in the event of a foreclosure. The Authority bears the remainder of the risk.

The Authority has entered into thirty-three Risk Sharing Loans totaling $185,577,148 and elected that HUD assume 10% to 90% of the loss. Except for eight loans totaling $59,719,148 which were financed through various Authority bond issuances, these loans are not included in the Authority's financial statements as the Authority sold 100% participation interests to outside parties. The program's service and insurance fee incomes are recorded in the Administrative and Other Funds of the Authority.

In December 2000, the Authority received a commitment from Ambac Assurance Corporation (Ambac) under which Ambac will insure mortgage loans (Ambac Loans) on multi-family housing developments under the Authority's Mortgage Participation Certificate Program. Ambac has guaranteed repayment of principal and interest due on a timely or accelerated basis in accordance with the agreement between the Authority and Ambac. Once Ambac Loans are issued and minimum threshold requirements are met, Ambac and the Authority will enter into a sharing agreement on the remaining principal balance on each mortgage loan. As of June 30, 2006, the Authority has entered into seventeen Ambac Loans totaling $154,830,700.

As a result of the July 2005 enactment of the Rental Housing Support Program Act, the Authority will administer the Rental Housing Support Program and award funds to local administering agencies, which will contract with local landlords to make rental units affordable to households who earn less than 30% of the area median income. The program is funded by a surcharge for the recordation of any real estate-related document. The funds are appropriated to the Illinois Department of Revenue by the General Assembly. Initial fund awards will occur in fiscal year 2007. Fiscal year 2006 Authority activities consisted of planning and establishing administrative procedures.

Planning Program

The Authority's planning program is designed to identify and accept those developments that best achieve the Authority's goals of providing low and moderate economically integrated housing throughout the State while maintaining the financial viability of the Authority.

The Authority utilizes internal planning primarily through the development of a strategic plan and its annual budgeting process, in which Authority goals for the ensuing fiscal year are established and departmental goals and expense budgets are developed in support of the established Authority goals. In developing the goals and the departmental support level to achieve them, consideration is given to the availability of staff and other resources. To effectively measure achievement of the goals and objectives, the Authority monitors on an ongoing basis the units of housing produced through its programs. The Authority's plans are geared to its authorizing legislation and the needs of Illinois citizens. The Authority's programs are being implemented as planned in coordination with the goals and objectives of other governmental entities providing similar services.

Auditors' Assessment of Authority's Planning Program

The information above constitutes Authority representations. The Authority has developed an adequate and comprehensive planning program to meet its objectives. Management's continuous monitoring of Authority programs and evaluation of available resources appears to be effective in achieving and updating its objectives.

Average Number of Employees (Unaudited)

		2006	2005	2004	2003
Financial and computer services	$	48	47	50	46
Human resources, administration, and legal		26	26	27	28
Director's office and housing programs		115	120	121	121
Total	$	189	193	198	195

The average number of full-time employees decreased to 189 in fiscal year 2006 from 193 in fiscal year 2005. The decrease primarily reflects staffing decreases in the Director's office and housing programs.

Emergency Purchases

The Authority had one emergency purchase during the year ended June 30, 2006 totaling $358,995. The vendor was W.J. McGuire Company, and the purchase was for window maintenance at a housing development owned by the Authority which if not repaired would place the public's safety at risk.

Service Efforts and Accomplishments (Unaudited)

The Authority has included key statistical and programmatic data to reflect its service efforts and accomplishments and activity measures.

The data presented in the first table (Multi-Family and Single Family Production – Activities Closed or Placed into Service) represents initially closed multi-family loans, purchased single family Mortgage Revenue Bond (MRB) loans, issued Mortgage Credit Certificates (MCC), and low income housing tax credits (LIHTC) units which have been placed in service since the inception of the programs. The multi-family data includes projects that received permanent, construction, or conduit financing, as well as projects where the Authority provides only contract administration. This data does not include multi-family or single family loans that are currently "in process" or multi-family developments recently allocated in the case of Tax Credits.

The data presented in the second table (Unit Production by Percent of Area Median Income (AMI)) provides a breakdown of unit production by targeted AMI since the inception of the programs.

STATE OF ILLINOIS
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Analysis of Operations

Service Efforts and Accomplishments

Multi-Family and Single Family Production – Activities Closed or Placed into Service Since Inception

June 30, 2006

(Unaudited)

	Active		No Longer Active (3)		Total	
Portfolio	**Developments**	**Units**	**Developments**	**Units**	**Developments**	**Units**
Multi-family Programs	1,111	85,024	251	15,487	1,362	100,511
Single Family Programs (1)	796	19,100	4	250	800	19,350
MCC & MRB (2)	n/a	13,680	n/a	37,546	n/a	51,226
Totals	1,907	117,804	255	53,283	2,162	171,087

(1) Includes HOME, Housing Trust Fund, and State Housing Tax Credit programs
(2) MCC = Mortgage Credit Certificate; MRB = Mortgage Revenue Bond
(3) No longer being monitored for either loan servicing or housing program participation

See accompanying independent accountants' report.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Analysis of Operations

Service Efforts and Accomplishments

Unit Production by Percent of Area Median Income Since Inception

June 30, 2006

(Unaudited)

Percent of Area Median Income	Multi-Family and Single Family Programs	MCC and MRB (1) (2)	Total
Less than 30%	1,327	4,998	6,325
31% – 50%	44,170	5,586	49,756
51% – 80%	61,786	20,040	81,826
81% – 100%	n/a	11,855	11,855
101% – 120%	—	5,517	5,517
Greater than 121% or Market	12,225	3,230	15,455
Subtotal	119,508	51,226	170,734
Variance	353	—	353
Totals	119,861	51,226	171,087

(1) MCC = Mortgage Credit Certificate; MRB = Mortgage Revenue Bond

(2) HUD income limits were used as the standard. Due to the inconsistency between IRS income limits and HUD income limits, the data for the MCC and MRB portions are close approximations.

See accompanying independent accountants' report.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Analysis of Operations

Service Efforts and Accomplishments

Unit Production by Economic Development Region Since Inception

June 30, 2006

(Unaudited)

	Programs			
Region (1)	**Multi-Family**	**Single Family**	**MCC & MRB (2)**	**Total Developments**
Central	4,905	516	3,351	8,772
East Central	3,230	566	2,023	5,819
North Central	5,129	1,382	3,671	10,182
Northeast	69,357	5,248	26,870	101,475
Northern Stateline	2,696	500	3,028	6,224
Northwest	4,497	1,110	3,171	8,778
Southeastern	1,655	613	1,285	3,553
Southern	2,122	3,897	1,734	7,753
Southwestern	3,231	1,915	4,054	9,200
West Central	1,951	854	1,832	4,637
Statewide	1,738	2,749	207	4,694
Total	100,511	19,350	51,226	171,087

(1) Counties included in each region are as follows:
Central – Cass, Christian, Greene, Logan, Macon, Menard, Montgomery, Morgan, Moultrie, Sangamon, Scott, and Shelby (Metro areas Decatur and Springfield)
East Central – Champaign, Douglas, Ford, Iroquois, Platt, and Vermilion (Metro area Champaign)
North Central – Dewitt, Fulton, Livingston, Marshall, Mason, McLean, Peoria, Seark, Tazewell, and Woodford (Metro areas Bloomington Normal and Peoria)
Northeast – Cook, DeKalb, DuPage, Grundy, Kane, Kankakee, Kendall, Lake, McHenry, and Will (Metro areas Chicago, DeKalb, and Kankakee)
Northern Stateline – Boone, Ogle, Stephenson, and Winnebago (Metro area Rockford)
Northwest – Bueau, Carroll, Henry, Jo Daviess, La Salle, Lee, Mercer, Rock Island, Putnam, and Whiteside (Metro area Rock Island)
Southeastern – Clark, Clay, Coles, Crawford, Cumberland, Edgar, Effingham, Fayette, Jasper Lawrence, Marion, and Richland
Southern – Alexander, Edwards, Franklin, Gallatin, Hamilton, Hardin, Jackson, Jefferson, Johnson, Massac, Perry, Pope, Pulaski, Saline Union, Wabash, Wayne, White, and Williamson
Southwestern – Bond, Calhoun, Clinton, Jersey, Madison, Macoupin, Monroe, Randolph, St. Clair, and Washington (Metro area East St. Louis)
West Central – Adams, Brown, Hancock, Henderson, Knox, Mcdonough, Pike, Schuyler, and Warren

(2) MCC = Mortgage Credit Certificate; MRB = Mortgage Revenue Bond

See accompanying independent accountants' report.

Summary Production Data (Unaudited)

Unit production for fiscal year 2006 was 8,161 units, and total production since Authority inception was 171,087 units.

Over 80% of the Authority's production since inception has been to households with 80% or below of the area median income.

See accompanying independent accountants' report.

(Continued)

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Analysis of Operations

Year ended June 30, 2006 and 2005

Schedule of Federal and Nonfederal Expenditures

Year ended June 30, 2006		Amounts (In thousands)	Percent
Federal expenditures (Note 1)	$	184,938	32%
Nonfederal expenditures (Note 2)		395,553	68
Total expenditures	$	580,491	100%
Year ended June 30, 2005			
Federal expenditures (Note 1)	$	182,962	60%
Nonfederal expenditures		119,985	40
Total expenditures	$	302,947	100%

Note 1: Federal expenditures represent “federal expenditures” as presented in the respective schedules of expenditures of federal awards for the years ended June 30, 2006 and 2005.

Note 2: Nonfederal expenditures for the year ended June 30, 2006 included a one time transfer of interest in equity of the Affordable Housing Trust program to the State of Illinois totaling approximately $279,955,000.

See accompanying independent accountants’ report.