STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

Financial Statements

June 30, 2006

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

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

Financial Statements

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

Independent Auditors' Report

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 audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Illinois Housing Development Authority (the Authority), a component unit of the State of Illinois, as of and for the year ended June 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Authority as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2006 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Combining Mortgage Loan Program Fund Schedules and the Combining Single Family Program Fund Schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Combining Mortgage Loan Program Fund Schedules and the Combining Single Family Program Fund Schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

November 7, 2006

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

Management's Discussion and Analysis

June 30, 2006

(Unaudited)

This section of the Illinois Housing Development Authority's (Authority) annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

- Net assets of the Authority decreased $244.2 million, to $458.0 million as of June 30, 2006, from a decrease in the Authority's governmental ($260.3 million) activities, partially offset by an increase from business-type ($16.1 million) activities. The decrease in net assets of the Authority's governmental funds was caused primarily by changes in the accounting recognition of the Illinois Affordable Housing Trust Fund. During fiscal year 2006, statutory amendments to the Illinois Affordable Housing Act in relation to the Illinois Affordable Housing Program caused the Authority to believe that it is now only the administrator of the Illinois Affordable Housing Program and the real estate transfer tax and interest in the equity of the Illinois Affordable Housing Program to be that of the State of Illinois.
- Operating income of the Authority's business-type activities increased $1.6 million from the prior year due primarily to increases in other income ($4.4 million) and investment income ($1.2 million), partially offset by an increase in the provision for estimated losses on program loans receivable ($4.5 million).
- The Authority's debt outstanding of $1,422.7 million as of June 30, 2006 was $70.3 million lower than the amount outstanding as of June 30, 2005. Debt issuances for the year totaled $180.9 million.
- Loan originations for the year totaled $57.2 million and $242.3 million in the Authority's governmental and business-type activities, respectively.

Overview of the Financial Statements

The financial statements consist of three parts – management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the Authority:

- The first two statements are government-wide financial statements that provide information about the Authority's overall financial position and operations. These statements, which are presented on an accrual basis, consist of the statement of net assets and the statement of activities.
- The remaining statements are fund financial statements of the Authority's two governmental funds, for which activities are funded primarily from State appropriations and for which the Authority follows a modified accrual basis of accounting, and three proprietary funds, which operate similar to business activities and for which the Authority follows an accrual basis of accounting.
- The basic financial statements also include the notes to the financial statements that explain some of the information in the Authority-wide and fund financial statements and provide more detailed data.

The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of these statements. The prior year results referred to throughout this section for comparison purposes are as previously reported.

The government-wide statements report information about the Authority as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the Authority's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. Most of the Authority's activities are business-type and are reported in its proprietary funds.

The fund financial statements provide more detailed information about the Authority's most significant funds and not the Authority as a whole. The Authority has two kinds of funds:

- Governmental funds – The Authority has two governmental funds. The Authority is the administrator of these funds, the revenues of which are appropriated annually to the Illinois Department of Revenue for the purpose of making housing grants and loans. These fund statements focus on how cash and other financial assets flowing into the funds have been used. Revenues converted to long-term loans comprise a substantial portion of the funds' net assets.
- Proprietary funds – The Authority's primary activities are in its three enterprise funds, which activities are accounted for in a manner similar to businesses operating in the public sector. Funding has primarily arisen through the issuances of bonds, both tax-exempt and taxable, the proceeds of which are primarily used to make various types of loans to finance low and moderate-income housing. The net assets of these funds represent accumulated earnings since their inception and are generally restricted for program purposes.

Financial Analysis of the Authority as a Whole

Net Assets – The combined net assets of the Authority decreased by $244.2 million, or 34.8%, from the June 30, 2005 amount. The following table shows a summary of changes from prior year amounts.

Net Assets
(In millions of dollars)

	Governmental activities		Business-type activities		Total		Inc./(Dec.)	
	2006	2005	2006	2005	2006	2005	Amount	%
Current assets:								
Cash and investments – unrestricted	$ 54.8	87.8	120.1	86.0	174.9	173.8	1.1	0.6
Program loans receivable	9.9	8.3	39.7	33.8	49.6	42.1	7.5	17.8
Other current assets	0.2	(0.5)	10.9	10.3	11.1	9.8	1.3	13.3
Total current assets	64.9	95.6	170.7	130.1	235.6	225.7	9.9	4.4
Investments – restricted	—	—	545.8	685.0	545.8	685.0	(139.2)	(20.3)
Net program loans receivable	353.5	308.4	1,200.6	1,139.9	1,554.1	1,448.3	105.8	7.3
Other assets	1.8	—	56.1	31.5	57.9	31.5	26.4	83.8
Total assets	420.2	404.0	1,973.2	1,986.5	2,393.4	2,390.5	2.9	0.1
Current liabilities:								
Due to State of Illinois	63.2	—	—	—	63.2	—	63.2	N/A
Bonds and notes payable	—	—	52.4	154.1	52.4	154.1	(101.7)	(66.0)
Deposits held in escrow	—	—	142.2	142.9	142.2	142.9	(0.7)	(0.5)
Other current liabilities	—	—	94.0	52.4	94.0	52.4	41.6	79.4
Total current liabilities	63.2	—	288.6	349.4	351.8	349.4	2.4	0.7
Due to State of Illinois	213.3	—	—	—	213.3	—	213.3	N/A
Bonds and notes payable	—	—	1,370.3	1,338.9	1,370.3	1,338.9	31.4	2.3
Total liabilities	276.5	—	1,658.9	1,688.3	1,935.4	1,688.3	247.1	14.6
Net assets:								
Invested in capital assets-net	—	—	0.4	0.5	0.4	0.5	(0.1)	(20.0)
Restricted	143.7	123.9	232.7	221.4	376.4	345.3	31.1	9.0
Unrestricted	—	280.1	81.2	76.3	81.2	356.4	(275.2)	(77.2)
Total net assets	$ 143.7	404.0	314.3	298.2	458.0	702.2	(244.2)	(34.8)

Governmental Activities

Net assets of the Authority's governmental activities decreased $260.3 million, or 64.4%, to $143.7 million primarily 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 (current and non-current), increased by $46.7 million, or 14.7%, to $363.4 million due to strong demand in both the Affordable Housing Trust Fund Program and the HOME Program for loans to support low and very low income housing. Cash and investments decreased by $33.0 million, or 37.5%, 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 Affordable Housing Trust Fund Program. State statute restricts the use of the Affordable Housing Trust Fund and the HOME program to program activities.

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.

Business-type Activities

Net assets of the Authority's business-type activities increased $16.1 million, to $314.3 million from operating income of $10.9 million and the annual transfer ($5.2 million) from the Affordable Housing Trust Fund. Program loans receivable (current and non-current) increased $66.6 million, or 5.7%, to $1,240.3 million due to an increase in the Authority's Single Family Program ($80.9 million) Fund, partially offset by decreases in the Mortgage Loan Program Funds ($14.3 million). The increase in program loans receivable in 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 re-finance a number of existing loans.

Cash and investments (current and non-current) decreased $105.1 million, or 13.6% due to a fiscal year 2006 reclassification ($29.6 million) of the Authority's carrying value in a real estate investment (Lakeshore Plaza) from investments to real estate owned, and a decrease ($141.0 million) within the Authority's Single Family Program due to conversion of prior and current- year bond proceeds to originate loans and the use of funds generated from pre-payments of mortgage loans to redeem bonds. Total bonds and notes payable (current and non-current) decreased $70.3 million, or 4.7%, primarily from a $66.3 million decrease with the Single Family Program, as a prior year cash and investments build-up from a high amount of loan pre-payments was used to redeem bonds.

Other current liabilities increased $41.6 million due to an increase in funds held for future disbursement under the Authority's Mortgage Participation Certificate Program (risk sharing and Ambac) loans that are funded by participating investors. Also included in other current liabilities is an initial provision ($3.2 million) for estimated losses or other liabilities should any of these loans, which are not included in the Authority's financial statements, default.

Restricted net assets of the Authority's business-type activities increased $11.3 million, or 5.1%. The increases in net assets within the Authority's bond funds were $9.7 million, all of which are classified as restricted. The remaining restricted increases in net assets were from the FAF program, earnings of which are recorded in the Authority's Administrative Fund.

Statement of Activities

The statement of activities shows the sources of the Authority's changes in net assets as they arise through its various programs and functions. Two programs, the Illinois Affordable Housing Trust Fund and the HOME program, are shown as governmental activities. The business-type activities consist of two housing lending programs, the results of which are primarily recorded within the funds comprising the two major bond funds (the Mortgage Loan Program Fund and the Single Family Program Fund), federal assistance activities, which involve the allocation of various federal subsidy funds directly to certain of the Authority's borrowers, and the tax credit authorization and monitoring, and FAF lending programs, both of which activities are recorded in the Authority's Administrative Fund.

A condensed summary of changes in net assets for the fiscal year ended June 30, 2006 is shown in the following table.

Changes in Net Assets

(In millions of dollars)

	Governmental activities		Business-type activities		Total	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Revenues:						
Program revenues:						
Charges for services	$ 3.6	3.8	105.2	102.5	108.8	106.3
Operating/grant/federal revenues	46.8	23.3	154.6	157.9	201.4	181.2
General revenues:						
Investment income	—	—	2.0	2.0	2.0	2.0
Illinois Affordable Housing Trust Fund	—	53.5	—	—	—	53.5
Total revenues	50.4	80.6	261.8	262.4	312.2	343.0
Expenses:						
Direct	25.5	30.1	235.1	241.4	260.6	271.5
Administrative	—	—	15.8	11.7	15.8	11.7
Transfer of interest in equity of the Affordable Housing Trust to the State of Illinois	280.0	—	—	—	280.0	—
Total expenses	305.5	30.1	250.9	253.1	556.4	283.2
Increase (decrease) in net assets before transfers	(255.1)	50.5	10.9	9.3	(244.2)	59.8
Transfers	(5.2)	(5.2)	5.2	5.2	—	—
Increase (decrease) in net asset	$ (260.3)	45.3	16.1	14.5	(244.2)	59.8

Governmental Activities

Revenues of the Authority's governmental activities 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.

Expenses of the Authority's governmental activities 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. The transfer ($5.2 million) from the governmental activities to the Authority's business-type activities represents an annual transfer, pursuant to the Illinois Affordable Housing Act, from the Illinois Affordable Housing Trust Fund to the Multi-Family Mortgage Loan Programs.

Business-type Activities

Revenues of the Authority's business-type activities decreased $.6 million from the prior year as a decline in federal revenues ($3.3 million), most of which are funds passed through to the recipient, was nearly offset by an increase in charges for services ($2.7 million). Charges for services consist primarily of interest income on program loans ($67.2 million), program investment income ($17.6 million), servicing fees ($9.8 million), and other income ($9.4 million). Program investment income is that income earned within the Authority's bond funds, the investments and the income of which is restricted to those funds.

Direct expenses of the Authority's business-type activities, which consist primarily of interest expense ($75.5 million) on Authority debt incurred to fund its various lending programs and the pass-through of federal assistance programs' funds ($153.1 million), declined $6.3 million from the prior year, primarily from lower interest expense ($3.0 million, due to lower debt outstanding) and the pass through of federal assistance programs' funds ($3.6 million). The direct expenses also include Administrative Fund allocations of expenses of Authority departments directly involved in the production or monitoring activities associated with the programs, as well as certain costs, both internally and externally incurred, associated with these programs. Administrative expenses, which are incurred within the Authority's Administrative Fund and which include all other administrative and supportive functions and all overhead expenses, were $4.1 million above the prior year due mainly to increased provisions for losses on program loans receivable.

The Authority's business-type activities also generated $2.0 million of unrestricted investment income, which was used primarily to partially offset its administrative costs. Program revenues of the Multi-Family Mortgage Loan Programs exceeded direct expenses by $20.4 million (See the Statement of Activities) and thus provided most of the Authority's increase in net assets. Direct revenues of the Single-Family Mortgage Loan Program exceeded program expenses by $0.6 million, compared to a prior year shortfall of $.7 million, as the program continued to stabilize following a several year period of declining interest rates, which resulted in high loan pre-payment rates.

Proprietary Fund Results

Net assets of the Authority's proprietary funds increased from the June 30, 2005 amount by $16.1 million, to $314.3 million. The following table summarizes the statement of revenues, expenses, and changes in fund net assets of the Authority's proprietary funds for the fiscal years ended June 30, 2006 and 2005.

Changes in Net Assets/Proprietary Funds

(In millions of dollars)

	Administrative Fund		Mortgage Loan Program Fund		Single Family Program Fund	
	2006	2005	2006	2005	2006	2005
Operating revenues:						
Interest earned on program loans	$ 2.3	3.5	31.8	37.2	33.1	30.3
Investment income	2.0	1.9	8.4	7.9	9.2	8.6
Federal assistance programs	148.1	151.5	5.0	5.2	—	—
Service fees	9.8	9.4	—	—	—	—
Development fees	1.1	0.5	—	—	—	—
HUD savings	1.6	1.3	—	—	—	—
Other	5.6	2.7	3.8	2.3	—	—
Total operating revenues	170.5	170.8	49.0	52.6	42.3	38.9
Operating expenses:						
Interest expense	—	—	35.3	40.4	40.2	38.0
Federal assistance programs	148.1	151.5	5.0	5.2	—	—
Salaries and benefits	11.1	11.2	—	—	—	—
Professional fees	1.2	1.3	—	—	0.1	0.1
Other general and administrative	3.4	3.3	—	—	—	—
Financing costs	0.5	0.3	0.5	0.7	0.6	0.5
Provision for losses on program loans receivable	3.6	—	1.3	0.4	—	—
Total operating expenses	167.9	167.6	42.1	46.7	40.9	38.6
Operating income	2.6	3.2	6.9	5.9	1.4	0.3
Transfers in (out), net	3.8	(13.5)	(0.2)	5.2	1.6	13.5
Change in net assets	6.4	(10.3)	6.7	11.1	3.0	13.8
Net assets at beginning of year	101.0	111.3	151.7	140.6	45.5	31.7
Net assets at end of year	$ 107.4	101.0	158.4	151.7	48.5	45.5

Net assets of the Administrative Fund increased $6.4 million, compared to the prior year decrease of $10.3 million. In fiscal year 2006, Administrative Fund operating income was $2.6 million, a decrease of $.6 million from the prior year, and net operating transfers in were $3.8 million compared to net transfers out of $13.5 million in the prior year. The Authority during fiscal year 2005 transferred $13.5 million of net assets, including $10.0 million to be used for the purchase of mortgages, to the Single Family Program Fund. This offset operating earnings of $3.2 million. The fiscal year 2006 decrease in operating earnings was primarily 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, nearly offset by increased other income ($3.1 million) and development fees ($.6 million), as issuances of conduit bonds increased. Operating transfers were favorable as the Authority transferred $5.4 million of accumulated Lakeshore Plaza income to the Administrative Fund from the Multi-Family Housing Revenue Bonds Account, partially offset by $1.6 million of net transfers to the Single Family Program Fund.

Net assets of the Mortgage Loan Program Fund increased $6.7 million, or $4.4 million below the prior year's $11.1 million increase. Operating income increased $1.0 million, as results were favorably affected by increased income from Lakeshore Plaza. Net transfers out were $.2 million, due to a transfer of Lakeshore Plaza accumulated income to the Administrative Fund, as noted above, nearly offset by the annual transfer ($5.2 million) from the Affordable Housing Trust Fund. The prior year transfers included only the amount from the Affordable Housing Trust Fund.

Net assets of the Single Family Program Fund increased $3.0 million, or $10.8 million below the prior year increase. The prior year results included $13.5 million of transfers of net assets from the Authority's Administrative funds, $10.0 million of which was for the purpose of purchasing mortgage loans. The fiscal year 2006 operating transfers were $1.6 million and were used primarily to fund bond issuance costs. Operating income of $1.4 million was $1.1 million above the prior year as investment income increased $.6 million, due to increased interest rates. During fiscal year 2006, operating results continued to stabilize as mortgage interest rates rose, loan prepayments decelerated, and the Authority's mortgage portfolio grew from the prior year-end amounts.

Authority Debt

Authority debt issuances during fiscal year 2006 totaled $180.9 million, with activity arising from the Single Family Program ($100.0 million), and the Mortgage Loan Program Fund ($80.9 million). Debt retirements within these funds were $166.3 million and $84.9 million, respectively. Total bonds and notes payable decreased $70.3 million as debt retirements, primarily special redemptions necessitated by mortgage prepayments within the Authority's Single Family Program, exceeded debt issuances. For additional information, see note F, Bonds and Notes Payable in the Notes to Financial Statements.

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.

Contacting the Authority's Financial Management

This financial report is designed to provide the citizens of Illinois, our constituents and investors with a general overview of the Authority's finances and to demonstrate the Authority's financial accountability over its resources. If you have questions about this report or need additional financial information, contact the Controller at the Illinois Housing Development Authority, 401 North Michigan Ave, Suite 700, Chicago, IL 60611 or visit our website at: www.ihda.org.

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

Statement of Net Assets

June 30, 2006

	Governmental activities	Business-type activities	Total
Assets:			
Current assets:			
Cash and cash equivalents	$ 927,690	46,145,864	47,073,554
Funds held by State Treasurer	421,825	—	421,825
Investments	53,439,141	73,982,922	127,422,063
Investment income receivable	—	237,492	237,492
Investment income receivable – restricted	—	3,745,540	3,745,540
Program loans receivable	9,860,000	39,701,000	49,561,000
Grant receivable	1,121,884	—	1,121,884
Interest receivable on program loans	197,019	5,776,055	5,973,074
Internal balances	(1,121,884)	1,121,884	—
Total current assets	64,845,675	170,710,757	235,556,432
Noncurrent assets:			
Investments – restricted	—	545,753,663	545,753,663
Program loans receivable, net of current portion	370,586,191	1,225,251,995	1,595,838,186
Less allowance for estimated losses	(17,050,000)	(24,610,000)	(41,660,000)
Net program loans receivable	353,536,191	1,200,641,995	1,554,178,186
Unamortized bond issuance costs	—	18,016,635	18,016,635
Real estate held for sale, net	1,795,788	31,846,334	33,642,122
Capital assets, net	—	361,800	361,800
Other	—	5,880,293	5,880,293
Total noncurrent assets	355,331,979	1,802,500,720	2,157,832,699
Total assets	420,177,654	1,973,211,477	2,393,389,131
Liabilities:			
Current liabilities:			
Due to State of Illinois	63,179,660	—	63,179,660
Bonds and notes payable	—	52,375,000	52,375,000
Accrued interest payable	—	28,255,024	28,255,024
Deposits held in escrow	—	142,196,331	142,196,331
Amounts held on behalf of others	—	43,512,142	43,512,142
Accrued liabilities and other	—	22,291,414	22,291,414
Total current liabilities	63,179,660	288,629,911	351,809,571
Noncurrent liabilities:			
Due to State of Illinois	213,300,907	—	213,300,907
Bonds and notes payable, net of current portion	—	1,370,297,934	1,370,297,934
Total noncurrent liabilities	213,300,907	1,370,297,934	1,583,598,841
Total liabilities	276,480,567	1,658,927,845	1,935,408,412
Net assets:			
Invested in capital assets	—	361,800	361,800
Restricted for bond resolution purposes	—	206,885,450	206,885,450
Restricted for loan and grant programs	143,697,087	25,838,169	169,535,256
Unrestricted	—	81,198,213	81,198,213
Total net assets	$ 143,697,087	314,283,632	457,980,719

See accompanying notes to financial statements.

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

Statement of Activities

Year ended June 30, 2006

		Program revenues		Net (expenses) revenues and changes in net assets		
Functions/programs	**Expenses**	**Charges for services and interest income**	**Operating grant/federal revenues**	**Governmental activities**	**Business-type activities**	**Total**
Governmental activities:						
Illinois Affordable Housing Trust Fund	$ 292,566,395	2,146,855	15,574,118	(274,845,422)		(274,845,422)
HOME Program	12,947,610	1,436,903	31,248,364	19,737,657		19,737,657
Total governmental activities	305,514,005	3,583,758	46,822,482	(255,107,765)	—	(255,107,765)
Business-type activities:						
Administrative	15,838,143	70,147	—		(15,767,996)	(15,767,996)
Multi-Family Mortgage Loan Programs	38,996,744	59,399,148	—		20,402,404	20,402,404
Multi-Family Federal Assistance Programs	153,139,842	—	153,139,842		—	—
Single-Family Mortgage Loan Programs	42,211,047	42,853,782	—		642,735	642,735
Tax Credit Authorization and Monitoring	740,480	2,748,441	—		2,007,961	2,007,961
FAF Lending Program	—	140,661	1,488,829		1,629,490	1,629,490
Total business-type activities	250,926,256	105,212,179	154,628,671	—	8,914,594	8,914,594
Total Authority	$ 556,440,261	108,795,937	201,451,153	(255,107,765)	8,914,594	(246,193,171)
General revenues:						
Unrestricted investment income				—	1,973,864	1,973,864
Transfers				(5,200,000)	5,200,000	—
Total general revenues and transfers				(5,200,000)	7,173,864	1,973,864
Change in net assets				(260,307,765)	16,088,458	(244,219,307)
Net assets at beginning of year				404,004,852	298,195,174	702,200,026
Net assets at end of year				$ 143,697,087	314,283,632	457,980,719

See accompanying notes to financial statements.

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

Governmental Funds

Balance Sheet

June 30, 2006

Assets		Illinois Affordable Housing Trust Fund	HOME Program Fund	Total
Current assets:				
Cash	$	927,690	—	927,690
Funds held by State Treasurer		—	421,825	421,825
Investments		53,439,141	—	53,439,141
Program loans receivable		8,698,000	1,162,000	9,860,000
Grant receivable		701,056	420,828	1,121,884
Interest receivable on program loans receivable		114,829	82,190	197,019
Due from other funds		—	5,498	5,498
Total current assets		63,880,716	2,092,341	65,973,057
Noncurrent assets:				
Program loans receivable, net of current portion		227,300,907	143,285,284	370,586,191
Less allowance for estimated losses		(14,000,000)	(3,050,000)	(17,050,000)
Net program loans receivable		213,300,907	140,235,284	353,536,191
Real estate held for sale, net		—	1,795,788	1,795,788
Total noncurrent assets		213,300,907	142,031,072	355,331,979
Total assets	$	277,181,623	144,123,413	421,305,036
Liabilities and Fund Balances				
Current liabilities:				
Deferred revenue	$	—	82,190	82,190
Due to other funds		701,056	426,326	1,127,382
Due to State of Illinois		63,179,660	—	63,179,660
Total current liabilities		63,880,716	508,516	64,389,232
Noncurrent liabilities:				
Due to State of Illinois		213,300,907	—	213,300,907
Total liabilities		277,181,623	508,516	277,690,139
Fund balances:				
Reserved for loans receivable		—	140,235,284	140,235,284
Unreserved		—	3,379,613	3,379,613
Total fund balances		—	143,614,897	143,614,897
Total liabilities and fund balances	$	277,181,623	144,123,413	
Amounts reported for governmental activities in the statement of net assets are different due to interest receivable on program loans				82,190
Net assets of governmental activities				143,697,087

See accompanying notes to financial statements.

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

Governmental Funds

Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2006

	Illinois Affordable Housing Trust Fund	HOME Program Fund	Total
Revenues:			
Grant from State of Illinois	$ 15,574,118	—	15,574,118
Federal HOME funds	—	31,248,364	31,248,364
Interest and investment income	2,237,516	1,434,816	3,672,332
Total revenues	17,811,634	32,683,180	50,494,814
Expenditures:			
Grants	7,934,118	11,641,977	19,576,095
General and administrative	2,440,000	1,609,281	4,049,281
Provision for (reversal of) estimated losses on program loans receivable	—	(303,648)	(303,648)
Program income transferred to State of Illinois	2,237,516	—	2,237,516
Transfer of interest in equity of the Affordable Housing Trust program to State of Illinois	279,954,761	—	279,954,761
Total expenditures	292,566,395	12,947,610	305,514,005
Excess of revenues over (under) expenditures	(274,754,761)	19,735,570	(255,019,191)
Other financing uses:			
Transfer out	(5,200,000)	—	(5,200,000)
Net change in fund balances	(279,954,761)	19,735,570	(260,219,191)
Fund balances at beginning of year	279,954,761	123,879,327	
Fund balances at end of year	$ —	143,614,897	
Amounts reported for governmental activities in the statement of activities are different due to interest on program loans receivable			(88,574)
Change in net assets of governmental activities			(260,307,765)

See accompanying notes to financial statements.

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

Proprietary Funds

Statement of Net Assets

June 30, 2006

	Administrative Fund	Mortgage Loan Program Fund	Single Family Program Fund	Total
Assets:				
Current assets:				
Cash and cash equivalents	$ 40,468,328	1,526,694	4,150,842	46,145,864
Investments	73,982,922	—	—	73,982,922
Investment income receivable	237,492	—	—	237,492
Investment income receivable - restricted	816,129	1,420,038	1,509,373	3,745,540
Program loans receivable	1,649,000	22,050,000	16,002,000	39,701,000
Interest receivable on program loans	274,519	2,033,247	3,468,289	5,776,055
Due from other funds	4,815,272	14,179,382	—	18,994,654
Total current assets	122,243,662	41,209,361	25,130,504	188,583,527
Noncurrent assets:				
Investments – restricted	157,234,528	218,168,227	170,350,908	545,753,663
Program loans receivable, net of current portion	38,331,382	519,778,557	667,142,056	1,225,251,995
Less allowance for estimated losses	(9,160,000)	(15,450,000)	—	(24,610,000)
Net program loans receivable	29,171,382	504,328,557	667,142,056	1,200,641,995
Unamortized bond issuance costs	—	9,821,042	8,195,593	18,016,635
Real estate held for sale, net	1,004,212	29,642,555	1,199,567	31,846,334
Capital assets, net	361,800	—	—	361,800
Other	5,840,938	39,355	—	5,880,293
Total noncurrent assets	193,612,860	761,999,736	846,888,124	1,802,500,720
Total assets	315,856,522	803,209,097	872,018,628	1,991,084,247
Liabilities:				
Current liabilities:				
Bonds and notes payable	—	17,520,000	34,855,000	52,375,000
Accrued interest payable	—	12,420,905	15,834,119	28,255,024
Deposits held in escrow	142,196,331	—	—	142,196,331
Amounts held on behalf of others	40,423,973	3,088,169	—	43,512,142
Accrued liabilities and other	11,653,156	9,065,930	1,572,328	22,291,414
Due to other funds	14,184,880	1,403,263	2,284,627	17,872,770
Total current liabilities	208,458,340	43,498,267	54,546,074	306,502,681
Noncurrent liabilities:				
Bonds and notes payable, net of current portion	—	601,320,111	768,977,823	1,370,297,934
Total liabilities	208,458,340	644,818,378	823,523,897	1,676,800,615
Net assets:				
Invested in capital assets	361,800	—	—	361,800
Restricted for bond resolution purposes	—	158,390,719	48,494,731	206,885,450
Restricted for loan and grant programs	25,838,169	—	—	25,838,169
Unrestricted	81,198,213	—	—	81,198,213
Total net assets	$ 107,398,182	158,390,719	48,494,731	314,283,632

See accompanying notes to financial statements.

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

Proprietary Funds

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Year ended June 30, 2006

	Administrative Fund	Mortgage Loan Program Fund	Single Family Program Fund	Total
Operating revenues:				
Interest and other investment income	$ 2,523,529	10,147,581	9,647,758	22,318,868
Net decrease in fair value of investments	(549,665)	(1,682,516)	(493,828)	(2,726,009)
Total investment income	1,973,864	8,465,065	9,153,930	19,592,859
Interest earned on program loans	2,266,508	31,821,708	33,065,879	67,154,095
Federal assistance programs	148,171,776	4,968,066	—	153,139,842
Service fees	9,779,430	—	—	9,779,430
Development fees	1,064,763	—	—	1,064,763
HUD savings	1,629,490	—	—	1,629,490
Other	5,627,368	3,826,867	—	9,454,235
Total operating revenues	170,513,199	49,081,706	42,219,809	261,814,714
Operating expenses:				
Interest expense	—	35,326,746	40,200,879	75,527,625
Federal assistance programs	148,171,776	4,968,066	—	153,139,842
Salaries and benefits	11,125,975	—	—	11,125,975
Professional fees	1,163,780	20,500	52,500	1,236,780
Other general and administrative	3,442,719	—	—	3,442,719
Financing costs	471,587	520,386	616,342	1,608,315
Provision for estimated losses on program loans receivable	3,545,000	1,300,000	—	4,845,000
Total operating expenses	167,920,837	42,135,698	40,869,721	250,926,256
Operating income	2,592,362	6,946,008	1,350,088	10,888,458
Transfers in	5,744,110	5,477,701	1,655,860	12,877,671
Transfers out	(1,933,561)	(5,734,786)	(9,324)	(7,677,671)
Total transfers	3,810,549	(257,085)	1,646,536	5,200,000
Change in net assets	6,402,911	6,688,923	2,996,624	16,088,458
Net assets at beginning of year	100,995,271	151,701,796	45,498,107	298,195,174
Net assets at end of year	$ 107,398,182	158,390,719	48,494,731	314,283,632

See accompanying notes to financial statements.

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

Proprietary Funds

Statement of Cash Flows

Year ended June 30, 2006

		Administrative Fund	Mortgage Loan Program Fund	Single Family Program Fund	Total
Cash flows from operating activities:					
Receipts for program loans, interest and service fees	$	23,716,474	119,932,530	118,134,643	261,783,647
Payments for program loans		(4,790,386)	(100,763,495)	(166,629,042)	(272,182,923)
Receipts for federal assistance programs		148,171,776	4,968,066	—	153,139,842
Payments for federal assistance programs		(148,171,776)	(4,968,066)	—	(153,139,842)
Payments to suppliers		(5,472,821)	(2,423,739)	(1,343,925)	(9,240,485)
Payments to employees		(11,661,111)	—	—	(11,661,111)
Interest received on investments		1,490,516	8,403,195	9,310,499	19,204,210
Receipts for amounts held on behalf of others		40,423,973	3,088,169	—	43,512,142
Net cash provided by (used in) operating activities		43,706,645	28,236,660	(40,527,825)	31,415,480
Cash flows from noncapital financing activities:					
Proceeds from sale of revenue bonds and notes		—	80,935,000	99,997,950	180,932,950
Principal paid on revenue bonds and notes		—	(84,916,845)	(166,345,606)	(251,262,451)
Interest paid on revenue bonds and notes		—	(33,827,818)	(37,439,777)	(71,267,595)
Due to other funds		(5,891,280)	(1,743,667)	1,650,073	(5,984,874)
Due from other funds		(86,237)	5,893,165	—	5,806,928
Transfers in		5,744,110	5,477,701	1,655,860	12,877,671
Transfers out		(1,933,561)	(5,734,786)	(9,324)	(7,677,671)
Net cash used in noncapital financing activities		(2,166,968)	(33,917,250)	(100,490,824)	(136,575,042)
Cash flows from investing activities:					
Purchase of investment securities		(860,824,170)	(756,447,150)	(599,221,204)	(2,216,492,524)
Proceeds from sales and maturities of investment securities		846,485,146	761,552,370	743,691,613	2,351,729,129
Net cash provided by (used in) investing activities		(14,339,024)	5,105,220	144,470,409	135,236,605
Net increase (decrease) in cash and cash equivalents		27,200,653	(575,370)	3,451,760	30,077,043
Cash and cash equivalents at beginning of year		13,267,675	2,102,064	699,082	16,068,821
Cash and cash equivalents at end of year	$	40,468,328	1,526,694	4,150,842	46,145,864
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	$	2,592,362	6,946,008	1,350,088	10,888,458
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:					
Interest expense		—	35,326,746	40,200,879	75,527,625
Depreciation and amortization		179,773	800,000	—	979,773
Provision for estimated losses on program loans receivable		3,545,000	1,300,000	—	4,845,000
Changes in assets and liabilities:					
Investment income receivable		(483,348)	(61,870)	156,569	(388,649)
Program loans		(4,520,792)	(17,454,043)	(81,119,584)	(103,094,419)
Interest on program loans		158,033	194,420	(415,694)	(63,241)
Other liabilities		(1,718,113)	(1,882,853)	(700,083)	(4,301,049)
Other assets		3,573,241	(19,917)	—	3,553,324
Held on behalf of others		40,423,973	3,088,169	—	43,512,142
Other		(43,484)	—	—	(43,484)
Total adjustments		41,114,283	21,290,652	(41,877,913)	20,527,022
Net cash provided by (used in) operating activities	$	43,706,645	28,236,660	(40,527,825)	31,415,480

See accompanying notes to financial statements.

Note A —Authorizing Legislation

The Illinois Housing Development Authority (the Authority) is a body politic and corporate of the State of Illinois (the State) created by the Illinois Housing Development Act, as amended (the Act), for the purposes of assisting in the financing of decent, safe, and sanitary housing for persons and families of low and moderate income in the State and assisting in the financing of residential mortgages in the State. To accomplish its purposes, the Authority is authorized by the Act to make mortgage or other loans to nonprofit corporations and limited-profit entities for the acquisition, construction, or rehabilitation of dwelling accommodations and to acquire, and to contract and enter into advance commitments to acquire, residential mortgage loans from lending institutions. The Act also authorizes the Authority to issue its bonds and notes to fulfill corporate purposes, including the financing of mortgage and construction loans, the acquisition of residential mortgage loans and the making of loans for housing related commercial facilities. The Authority has issued various bonds and notes to finance mortgage loans and construction loans, to purchase residential mortgage loans from lending institutions and to make loans to private lending institutions for making new residential mortgage loans.

The bonds and notes outstanding as of June 30, 2006, as shown on the Authority's financial statements consist of both general and special limited obligations of the Authority (see note F). The full faith and credit of the Authority are pledged for payment of general obligation bonds and notes. The Authority has the power under the Act to have up to $3,600,000,000 of general and special limited obligation bonds and notes outstanding, excluding those issued to refund outstanding bonds and notes. At June 30, 2006, amounts outstanding against this limitation were approximately $1,831,000,000.

Note B—Summary of Significant Accounting Policies

The following summarizes the significant accounting policies of the Authority:

Reporting Entity

As defined by U.S. generally accepted accounting principles established by the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

(a) Appointment of a voting majority of the component unit's board, and either a) the ability of the primary government to impose its will, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

(b) Fiscal dependency on the primary government.

For financial reporting purposes, the Authority is a component unit of the State of Illinois. The Authority has no component units.

Basis of Presentation

Government-Wide Statements – The government-wide statement of net assets and statement of activities report the overall financial activity of the Authority. Eliminations have been made to minimize the double-accounting of internal activities of the Authority. These statements distinguish between the *governmental* and *business-type* activities of the Authority. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Authority and for each function of the Authority's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) charges paid by the recipients for goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements – The fund financial statements provide information about the Authority's funds. Separate statements for each fund category, governmental and proprietary, are presented. The emphasis on fund financial statements is on major governmental and proprietary (enterprise) funds, each displayed in a separate column. Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund including interest income, service fees, and development fees. Exchange transactions are those in which each party receives and gives up essentially equal values.

The Authority reports the following major governmental funds:

Illinois Affordable Housing Trust Fund

The Authority is designated administrator of the Illinois Affordable Housing Program (Housing Program). The program is funded by the Illinois Affordable Housing Trust Fund with funds generated 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 annually to the Illinois Department of Revenue by the General Assembly. In accordance with State statute, the Authority makes grants and low or no interest mortgages or other loans, some with deferred repayment terms, to acquire, construct, rehabilitate, develop, operate, insure, and retain affordable single family and multi-family housing for low and very low income households.

Prior to fiscal year 2006, the Authority considered the real estate transfer tax 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 $279,954,761 during fiscal year 2006 for the transfer of interest in equity of the Housing Program to the State of Illinois. Additionally, the Authority now records amounts received to administer the Housing Program as grant revenue.

HOME Investment Partnerships Program

The Authority is designated program administrator for the HOME Investment Partnerships Program (HOME Program) for the State, the funds of which are appropriated to the Department of Revenue by the General Assembly. Under this program, the Authority seeks applicants and approves funding commitments for federal affordable housing funds made available under the HOME Program provisions of the 1990 National Affordable Housing Act.

The Authority reports the following major proprietary funds:

Administrative Fund

Development fee and financing fee income related to multi-family mortgage loans, income from service fees, and operating expenses of the Authority are accounted for in the Administrative Fund. In addition, the Administrative Fund has provided for supplemental financing of certain developments through residual income loans and below market financing for various developments through the Authority's Housing Partnership Program (see note E), and its lending program in conjunction with a debt service savings sharing agreement (the FAF Savings Program) with the United States Department of Housing and Urban Development (HUD) (see note K).

The Administrative Fund net assets that are classified as restricted by contractual agreement consist of the FAF Savings Program and income from insurance proceeds that was required to be disbursed as a loan to Lake Grove Village (ML-248).

Mortgage Loan Program Fund

The Mortgage Loan Program Fund accounts for the financing of low and moderate income housing developments from the proceeds of Multi-Family Housing Bonds, Multi-Family Program Bonds, Multi-Family Variable Rate Demand Bonds, Multi-Family Housing Revenue Bonds, Housing Bonds, Housing Finance Bonds, Multifamily Housing Revenue Bonds (Marywood), Multifamily Bonds (Turnberry) and Affordable Housing Program Trust Fund Bonds, and for the retirement of such obligations.

The Authority holds first mortgage liens on such developments. Affordable Housing Trust Fund Bond accounts include a transfer of funds from the Illinois Affordable Housing Trust Fund.

Single Family Program Fund

The Single Family Program Fund accounts for the proceeds of Homeowner and Residential Bonds issued to provide funds for the purchase from lending institutions of mortgage loans on owner-occupied, one to four unit dwellings acquired by eligible buyers.

The use of tax exempt financing to provide eligible borrowers with below market-rate mortgage loans involves federal restrictions on expenses chargeable to the program. Any expenses incurred in the program in excess of such maximum amounts are absorbed by the Administrative Fund.

Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, includes federal and state grant revenue. Revenue from these sources is recognized in the fiscal year in which all eligibility requirements have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year.

Separate fund financial statements are provided for governmental and proprietary funds. Major individual governmental funds and proprietary funds are reported as separate columns in the fund financial statements.

The Authority applies all GASB pronouncements for the Authority's proprietary funds, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative plans by the Authority for financial resource utilization in a future period as documented in the minutes or budgeting process for a succeeding year. Such plans are subject to change from original authorizations and may never result in expenditures.

(Continued)

The designations of the Authority's Administrative Fund unrestricted net assets and net assets invested in capital assets as of June 30, 2006 are as follows:

Housing Partnership Program	$	6,000,000
To pay expenses for programs under commitment or contract		2,000,000
To pay possible losses arising in the Multi-Family Bond Fund Program attributable, but not limited to, delinquencies or defaults on uninsured or unsubsidized loans		13,000,000
Provide funds to purchase single family mortgage loans which will eventually be purchased with proceeds from future issuances of IHDA bonds		30,000,000
Provide funds and reserves to support the Mortgage Participation Certificate Program		30,000,000
	$	81,000,000

The designations of the Administrative Fund unrestricted net assets may be amended or rescinded by the Members of the Authority.

Net Assets

In the government-wide and proprietary fund financial statements, equity is displayed in three components as follows:

Invested in Capital Assets – This consists of capital assets, net of accumulated depreciation.

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources when they are needed.

The use of assets of each of the program funds is restricted by the related bond and note resolutions of the Authority. Certain amounts in the above program funds are considered subject to the restriction that they be applied to the financing of housing for the respective program purposes or to the retirement of obligations issued for such purposes; these amounts may include certain investment earnings attributable to the respective fund net assets. State statute restricts the use of the HOME Program as noted above. Accordingly, fund balances of the HOME Program are reserved for loans not due within one year, and assets of the Affordable Housing Trust Fund are due to the State. All net assets of the governmental activities column of the Authority-wide financial statements are restricted with respect to the use of cash investments and loan amounts that are to be repaid to the Authority. (See note E for schedules of aging for the loans made under these programs. In addition, see the governmental funds – balance sheet, fund balance).

Unrestricted – This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to use estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, and expenditures during the reporting period. Actual results could differ from the estimates.

Risks and Uncertainties

The Authority invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term. Such changes could materially affect the amounts reported in the balance sheet and the statements of net assets.

The allowances for estimated losses are reported based on certain assumptions pertaining to the Authority's periodic review and evaluation of the loan portfolio, which is subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Authority considers all cash, certificates of deposits, time deposits, and short-term repurchase agreements to be cash equivalents.

Investments

Investments of the Authority, which are generally held to maturity, are reported at fair value, with the exceptions of nonparticipating investment contracts (demand repurchase agreements), which are reported at cost. Fair value is determined by reference to public market prices and quotations from a securities pricing service.

The investment of funds is restricted by various bond and note resolutions of the Authority and the Act, generally, to direct obligations of the United States government; specific bank obligations, certain of which are fully secured as required by the bond and note resolutions; and obligations of other governmental entities which meet defined standards. The type of collateral instruments that secure the demand repurchase agreements held by the Authority is subject to the same restrictions described above. Generally, collateral instruments are held by third party institutions.

Program Loans Receivable

Program loans receivable include mortgage loans receivable, advances receivable, and residual income loans receivable. Mortgage loans receivable include initial development fees and certain amounts of interest and service fees that have been charged by the Authority and added to the loan balance. The due dates for advances and residual income loans receivable are dependent upon future events as specified in the related loan or advance agreements. All loans are reported at undiscounted face value.

Capital Assets

Capital assets of the Authority consist of investments in furniture, fixtures, and equipment; computer hardware; and computer software and are defined by the Authority as assets with an initial, individual cost of $5,000 or more. Depreciation or amortization is on a straight-line basis over a period of five to ten years, depending upon the nature of the asset. Depreciation and amortization expenses for fiscal year 2006 were approximately $200,000.

Real Estate Held for Sale

Real estate held for sale arises from foreclosures or other mortgage default-related actions on properties pledged as collateral on mortgage loans. Real estate held for sale in connection with the Single Family Program Fund is recorded at the unpaid principal balance plus accrued interest on the loans as of the date the loans become real estate owned, plus subsequent expenses incurred less any insurance or other loan related payments received. Since substantially all such loans are covered by pool insurance, based on the Authority's past experience, it is anticipated that the Authority will recover substantially all of the unpaid principal balances of the loans through proceeds arising from the sale of such property and certain insurance proceeds.

The real estate held for sale of the Mortgage Loan Program Fund is reported at the lower of amortized cost or fair market value. The determination of fair market value is based upon periodic valuations that consider changes in market condition, development and disposition costs, and estimated holding period. Net operating income of real estate held for sale is recorded as other income and is applied primarily toward the Authority's debt service obligations of the bonds issued to refinance the development.

Real estate held for sale of the Mortgage Loan Program Fund represents the net carrying value of Lakeshore Plaza (ML-181), which the Authority acquired by deed in lieu of foreclosure on April 27, 1990. The Authority records depreciation against ML-181 on a straight-line basis over forty years, as past market conditions did not allow for a sale of the property. At June 30, 2006, the net carrying value of ML-181 was $29,642,555 and accumulated depreciation was $10,211,000. The Authority will continue to own and operate ML-181 until the sale or other disposition of the development occurs.

Real estate held for sale of the Administrative and HOME Program funds represent the Authority's acquisition of Waukegan Apartments, a HOME Program financed development, through a foreclosure sale proceeding. The real estate held for sale is recorded at the lower of amortized cost or fair market value.

Bond Discount and Issuance Costs

Discount on bonds is deferred and amortized using a method approximating the effective interest method. Debt issuance costs are deferred in the corresponding bond accounts and amortized over the life of the related bonds using a method approximating the effective interest method. When these costs exceed the designated amounts per the bond agreements, the excess bond issuance costs are expensed to the Administrative Fund.

Operations

Development fee and financing fee income are deferred and amortized over the contractual life of the loan as a yield adjustment using a method approximating the effective interest method. Such amortized fees are recognized as interest income. Fees earned on loans, which the Authority does not directly originate, such as loans financed through Other Financings (see note F), are recognized as income in the Administrative Fund generally at the time of initial closing.

Annual service fees charged by the Authority to loan recipients, which are deposited in the respective program funds or added to program loans receivable, are recorded as income in the Administrative Fund through interfund accounts.

Operating expenses include general and administrative expenses of the Authority; salaries and benefits; costs and expenses incurred in connection with the amortization, issuance, and sale of certain bonds and notes; fees and expenses of trustees and depository and paying agents; and costs related to analyses, surveys, appraisals, and other matters pertaining to maintenance and evaluation of program loans receivable. Operating costs and expenses are charged to expense as incurred, except those directly related to loan or program originations, which are deferred, netted against fee income for loans originated, and amortized over the contractual life of the related loan or program.

A portion of the Authority's operating expenses of administering the Illinois Affordable Housing Trust Fund and the HOME Program is absorbed by these programs. Similarly, related resolutions of various bonds issued allow for the bond accounts to absorb a certain level of operating expenses. Expenses in excess of the allowable ceilings set forth in the resolutions are charged to the Administrative Fund.

Direct expenses as shown in the statement of activities include allocations of Administrative Fund expenses of Authority departments directly involved in the production or monitoring activities associated with the programs, as well as certain costs, both internally and externally incurred, associated with these programs. Administrative costs include certain administrative and supportive functions and all overhead expenses.

Compensated Absences

The Authority grants vacation and sick leave to all employees and accrues for unused compensated absences. Vacations are allotted on a calendar year basis and are intended to be taken during that year. Unused sick leave allowance is carried forward and accumulated. In the event of termination, employees are paid for all earned but unused vacation time and, within a maximum time limit, for one half of accumulated sick leave earned. At June 30, 2006, unused compensated absences, which are included in other liabilities, were $535,136. The Authority has no other post-employment benefits.

Provision for Estimated Losses on Program Loans

The Authority provides for estimated losses on program loans in its proprietary and governmental funds based upon the periodic review and evaluation of the loan portfolio and provides additional amounts, if it deems necessary, for estimated losses for individual loans in the funds. In making such review and evaluation, the Authority considers current economic conditions, occupancy and rental level projections, financial statement analyses, on-site inspections, independent appraisals of certain developments, insurance coverage, and such other factors as it deems necessary.

Note C—Cash and Investments

The Authority's Financial Management Policy (the Policy) contains the following stated objectives:

- *Safety of principal* – Preservation and safety of principal is the foremost objective of the Authority's investments. Each investment transaction shall seek to ensure that capital losses within the investment portfolio are avoided, whether they be from securities defaults or erosion of market value.
- *Liquidity* – The investments portfolio shall remain sufficiently flexible to enable the Authority to meet all operating requirements which may be reasonably anticipated in any fund. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demand.
- *Maximum rate of return* – The investment portfolio shall be designed with the purpose of regularly exceeding the average return of United States Treasury obligations of comparable maturities. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein and prudent investment principles.

Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will decrease as a result of an increase in interest rates. The Authority's policy does not limit the maturity of investments as a means of managing its exposure to fair value losses arising from an increasing rate environment.

As of June 30, 2006, the Authority had the following investments:

		Investment maturities (in years)			
Investment	**Carrying amount**	**Less than 1**	**1-5**	**6-10**	**More than 10**
Demand repurchase agreements	$ 130,435,713	—	—	10,127,657.0	120,308,056
United States agency obligations	460,635,988	417,264,617	39,639,260	1,197,735.0	2,534,376
United States Government obligations	79,969,452	57,749,043	8,953,907	816,344	12,450,158
Municipal obligations and other	2,134,573	—	712,469	490,649	931,455
	$ 673,175,726	475,013,660	49,305,636	12,632,385	136,224,045

Demand repurchase agreements are collateralized by obligations of the United States Government or its agencies, or direct investments of such obligations and have one-day demand of funds provisions exercisable at the Authority's option. The market value of securities subject to such agreements must be maintained at least equal to 100% of the principal of and accrued interest on the invested funds by marking to market at least weekly and using an immediate under value cure provision.

Credit Risk

Credit risk is the risk the Authority will not recover its investments due to the inability of the counterparty to fulfill its obligation. Statutes of the State and resolutions of the Authority authorize the Authority to invest in obligations of the United States Government, agencies and instrumentalities of the United States Government, demand repurchase agreements, and other banking arrangements. The Authority may also invest its funds in such investments as may be lawful for fiduciaries in the State. All funds are held outside of the State Treasury in various banks and financial institutions, except for a portion of funds for the HOME program.

The Authority's investments in United States Agency Obligations are all rated Aaa by Moody's and/or AAA by Standard & Poors.

The counterparties to the demand repurchase agreements are institutions whose unsecured debt securities are rated at least equal to the ratings on the Authority's debt, or in the case of short-term program fund investments, the highest short-term rating category. The counterparties, carrying amount of the repurchase agreements, and ratings as of June 30, 2006 are listed below.

Counterparty	Rating (Outlook) S&P / Moody's	Carrying amount
Bayerische Landesbank	A (Stable) / Aaa	$ 22,332,876
Morgan Guaranty Trust	AA- (Stable) / Aa2	38,926,340
Morgan Stanley & Co. Inc.	A+ (Stable) / Aa3	4,019,537
HSBC Bank	AA- (Positive) / Aa2	4,662,107
Société Générale	AA- (Positive) / Aa2	4,251,997
Trinity Plus Funding Co.	AAA (Stable) / Aaa	5,951,956
Westdeutsche Landesbank	A- (Stable) / Aa2	50,290,900
		$ 130,435,713

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in any one single issuer. The Authority's policy does not limit the amounts the Authority may invest in any one issuer. The Authority is considered to have a concentration of credit risk if its investment in any one single issuer is greater than 5% of the total fixed income investments. Investments which comprise more than 5% of the Authority's investments as of June 30, 2006 are as follows:

Investment		Carrying amount
Federal Home Loan Bank	$	178,630,170
Federal National Mortgage Corporation		142,568,413
Federal Home Loan Mortgage Corporation		118,228,471

Note D—Interfund Receivables, Payables, and Transfers

Interfund Balances

The Authority reports interfund balances among its funds. These balances generally consist of accruals for various revenues or expenses due to a fund, but received or paid to another, and subsidy transfers between funds. These amounts are generally paid or received within the subsequent fiscal year.

Interfund accounts receivable (payable) balances at June 30, 2006 consisted of the following:

		Payable From					
Receivable To		Illinois Affordable Housing Trust	HOME Program	Administrative	Mortgage Loan Program	Single Family Program	Total
Home Program	$	—	—	5,498	—	—	5,498
Administrative		701,056	426,326	—	1,403,263	2,284,627	4,815,272
Mortgage Loan Program		—	—	14,179,382	—	—	14,179,382
	$	701,056	426,326	14,184,880	1,403,263	2,284,627	19,000,152

The interfund accounts receivable (payable) between the Mortgage Loan Program and the Administrative Fund primarily consists of a fiscal year 2000 operating transfer of $10.4 million to the Multi-Family Housing Revenue Bond Accounts made from the Administrative Fund in conjunction with the issuance of the Multi-Family Housing Revenue Bonds, Series 2000A (Lakeshore Plaza Development) and the corresponding transfer of the carrying value of the real estate investment, ML-181, to these accounts, partially reversed by a $5.4 million fiscal year 2006 transfer to the Administrative Fund.

The Authority records transfers between program funds for various purposes including fund closings, earnings transfers, program subsidies, and equity contributions for the initial financing of the Authority's programs.

Transfers

Transfers for the year ended June 30, 2006 consisted of the following:

		Transfers Out				
Transfer in		**Illinois Affordable Housing Trust**	**Administrative**	**Mortgage Loan Program**	**Single Family Program**	**Total**
Administrative	$	—	—	5,734,786	9,324	5,744,110
Mortgage Loan Program		5,200,000	277,701	—	—	5,477,701
Single Family Program		—	1,655,860	—	—	1,655,860
	$	5,200,000	1,933,561	5,734,786	9,324	12,877,671

Pursuant to the Illinois Affordable Housing Act, amounts up to $10,000,000 in any fiscal year may be transferred, following an annual Authority certification to the Illinois Department of Revenue of the amounts required to be withdrawn, from the Illinois Affordable Housing Trust Fund to the Affordable Housing Program Trust Fund Bond Accounts. The amounts transferred during the year ended June 30, 2006 totaled $5,200,000. Transfers out of the Mortgage Loan Program primarily consist of the $5.5 million interfund transfer from the Multi-Family Housing Revenue Bond Accounts. The transfers out from the Administrative Fund included approximately $1.3 million to pay issuance and other costs of certain bond issuances.

Note E—Program Loans Receivable

The Authority has loans throughout the State, of which approximately two-thirds are in the Chicago metropolitan area. The following summarizes the Program Loans Receivable activity for the Authority for the year ended June 30, 2006:

	Net program loans receivable June 30, 2005	Loan disbursements	Loan repayments	Change in loan loss provision	Change in net deferred fees	Net program loans receivable June 30, 2006
			(Dollars in thousands)			
Illinois Affordable Housing Trust Fund	$ 193,060	36,812	(4,373)	(3,500)	—	221,999
HOME Program Fund	123,621	20,368	(3,542)	950	—	141,397
Total Governmental Funds	$ 316,681	57,180	(7,915)	(2,550)	—	363,396
Administrative Fund	$ 30,783	4,750	(3,879)	(345)	(489)	30,820
Multi-Family Housing Bonds	124,491	—	(8,715)	(600)	9	115,185
Multi-Family Program Bonds	101,553	—	(52,638)	—	1,297	50,212
Housing Bonds	192,282	70,676	(14,653)	(1,700)	(839)	245,766
Housing Finance Bonds	13,858	—	(224)	—		13,634
Multi-Family Variable Rate Demand Bonds	7,919	—	(5,200)	—	25	2,744
Multi-Family Housing Revenue Bonds	9,796	—	—	—	—	9,796
Multifamily Housing Revenue Bonds (Marywood)	13,341	445	—	(500)	—	13,286
Multifamily Housing Revenue Bonds (Turnberry)	5,299	—	(42)	—	—	5,257
Affordable Housing Program Trust Fund Bonds	72,128	—	(3,129)	1,500	—	70,499
Total Mortgage Loan Program Fund	540,667	71,121	(84,601)	(1,300)	492	526,379
Homeowner Mortgage Revenue Bonds	602,228	166,400	(86,643)	—	1,159	683,144
Total Proprietary Funds	$ 1,173,678	242,271	(175,123)	(1,645)	1,162	1,240,343

Loans receivable in the Mortgage Loan Program Fund are secured by first mortgage liens on the related developments. Each development is subject to a regulatory agreement under which the Authority has certain powers relating to rents, profits, occupancy, management, and operations. Monies are required to be deposited in reserve accounts monthly by all mortgagors for real estate tax reserves and by substantially all mortgagors for insurance and replacement reserves. See note G regarding these reserves and other deposits held in escrow.

The ability of the mortgagors to make required payments on the mortgage loans receivable depends principally upon the related developments achieving and sustaining sufficient occupancy and rental levels to support such payments. With respect to most developments financed from proceeds of Multi-Family Housing Bonds and Multi-Family Program Bonds, the Authority, HUD, and the owners of the developments have entered into agreements whereby HUD will make, under its Section 8 Program, housing assistance payments for the developments. With respect to a portion of loans within its Housing Bond accounts, the Authority has made loans to finance developments entitled to interest reduction payments by HUD under Section 236 of the National Housing Act for all or a portion of the dwelling units in the developments. Such federal subsidies, together with the rents to be paid by the tenants, are estimated by the Authority, prior to its issuing an initial mortgage loan commitment, to provide sufficient funds to pay the costs of operation, maintenance, administration, mortgage payments, and Authority fees with respect to each of the developments.

At June 30, 2006, for loans financed under the Mortgage Loan Program Fund, amounts in arrears equal to more than two months debt service payments and required deposits to tax and insurance and/or replacement reserves were $1,170,217 and $356,604, respectively.

For certain past delinquencies, the related developments have not been able to generate net rental income sufficient to pay scheduled debt service and reserve deposits in full. In the opinion of the Authority, these deficiencies of net rental income have arisen for various reasons including (i) the existence of physical defects in the development which have caused operational problems, (ii) higher than anticipated operating expenses of the development and (iii) depressed rental market conditions in the development’s local area.

In certain cases, cash deficiencies of developments, including certain developments as to which the related mortgage loans are not delinquent as to scheduled debt service payments or required reserve deposits, have been funded in part by advances from the owners of the respective developments. However, there generally can be no assurance that the owners will make additional advances for this purpose. For certain mortgage loans, the Authority holds reserve deposits and letters of credit that may be applied toward delinquencies.

The Authority has pursued actions available under the mortgage and regulatory agreements to cure certain delinquencies. With respect to some developments, the need for capital improvements, repairs, marketing campaigns and other expenditures may be indicated. Where necessary and appropriate, the Authority has committed and/or advanced residual income loans from the Administrative Fund or mortgage loan increases from the related program account to finance these expenditures. In certain instances the Authority has initiated actions to effect necessary changes in the management of the developments. In addition, the Authority has, in some cases, filed suit against the applicable general contractors and/or bonding companies seeking corrections of the development’s physical defects and has instituted foreclosure proceedings for certain developments.

The Authority has a second mortgage agreement relating to a $5.8 million first mortgage for Innsbruck Apartments, ML-19. Under this agreement, upon the development's payment of a debt service amount as set forth in the agreement, the Authority, from its Administrative Fund, was obligated to subsidize debt service payments related to the first mortgage up to a maximum of $6.2 million. The subsidy payments were applied to receivables within the Mortgage Loan Program. The maximum subsidy amount was reached in May 1999, after which the development became fully obligated for debt service of the receivables of the above bond accounts. The development is obligated to reimburse the Administrative Fund debt service subsidy payments from a portion of residual receipts generated from the development.

The Authority's policy for converting mortgage loans to non-accrual status is based upon the recording of a specifically identifiable allowance for estimated loss. Throughout fiscal year 2006, the accrual of interest and service fee income was suspended on approximately $18.7 million of mortgage loans in the Mortgage Loan Program Fund and $7.0 million of mortgage loans in the Administrative Fund for which allowances for estimated losses had been provided, and such income was recognized only as received. Interest and service fee income due but not accrued was approximately $551,000 in the Mortgage Loan Program Fund and $566,000 in the Administrative Fund at June 30, 2006. In addition, the Authority does not accrue interest income on approximately $15.4 million of mortgage loans recorded in the Administrative Fund. Payments made on such loans, which generally are payable from residual receipts, if any, of the affected development funds, are recognized only as received. The annual amount of interest on these loans is approximately $294,000.

The Authority, through its Housing Partnership Program, provides loans to not-for-profit organizations, community groups and cities to finance the rehabilitation of existing housing and for the construction of new housing for low and moderate income persons and families. The program's activities are recorded in the Administrative Fund. At June 30, 2006, loans receivable under this program were approximately $5.5 million.

In June 1994, the Authority entered into a Risk Sharing Agreement (Agreement) with HUD that permitted 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 will underwrite Risk Sharing Loans following its underwriting guidelines. HUD will insure the Risk Sharing Loans and will bear 10% to 90% of the loss, as elected by the Authority, in the event of a foreclosure. The Authority will bear the remainder of the risk. The program's service and insurance fee incomes are recorded in the Administrative Fund.

The Authority, as of June 30, 2006, has entered into thirty-three Risk Sharing Loans totaling $185,577,148 and elected that HUD assume 10% to 90% of the loss with respect to those loans. Except for two loans totaling $10,993,148 financed through the issuance of the Authority's Multi-Family Housing Bonds, two loans totaling $16,675,000 financed through the issuance of the Authority's Housing Bonds, three loans totaling $16,591,000 financed through the issuance of the Authority's Housing Finance Bonds, and one loan in the amount of $15,460,000 financed through the issuance of the Authority's Multi-Family Housing Revenue Bonds (Marywood), these loans are not included in the Authority's financial statements as the Authority sold 100% participation interests in the loans to outside parties.

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. These loans are not included in the Authority's financial statements as the Authority sold 100% participation interests in the loans to outside parties.

At June 30, 2006, for loans financed under the Risk Sharing and Mortgage Participation Certificate Programs where the Authority sold 100% participation interests in the loans to outside parties, there were no amounts in arrears equal to more than two months debt service payments or required deposits to tax and insurance and/or replacement reserves.

With respect to the mortgage loans funded by the Homeowner Mortgage Revenue Bonds, substantially all delinquent mortgage loans receivable at June 30, 2006, were covered by pool insurance, which provides for an aggregate limit equal to 3.5% of the aggregate original principal amount of mortgage loans so covered, less a deductible ranging from 0% to 1.0% of the aggregate of the original amount of all mortgage loans covered.

Loans made through the Illinois Affordable Housing Trust Fund are to acquire, construct, rehabilitate, develop, operate, insure, and retain affordable single family and multi-family housing for low and very low-income households. Interest rates on these loans are set at below market rates and have ranged from 0% to 7.0%, with most rates set at 2.0% or below. Loans have maturities of up to 40 years, with some loans carrying deferred payment terms. The approximate aging of the Illinois Affordable Housing Trust Fund receivables as of June 30, 2006 are as follows:

	Principal due by June 30				
Interest rate %	**2007**	**2012**	**2022**	**After 2022**	**Total**
			(Dollars in thousands)		
0 – 0. 99	$ 2,728	6,725	22,659	69,364	101,476
1 – 1.99	1,981	10,963	29,916	68,016	110,876
2 – 3.99	3,888	2,702	6,899	7,794	21,283
4 – 7.00	101	681	1,119	463	2,364
	$ 8,698	21,071	60,593	145,637	235,999

The approximate aging of the receivables of the HOME program as of June 30, 2006 are as follows:

		Principal due by June 30				
Interest rate %		**2007**	**2012**	**2022**	**After 2022**	**Total**
				(Dollars in thousands)		
0 – 0. 99	$	93	872	5,181	37,014	43,160
1 – 1.99		851	5,324	25,875	62,538	94,588
2 – 3.99		160	1,006	2,543	606	4,315
4 – 5.00		58	374	655	1,297	2,384
	$	1,162	7,576	34,254	101,455	144,447

The Authority has reviewed each program loan receivable, including those for developments in the construction or rent-up phases, for the purpose of determining ultimate collectibility. The Authority believes that the allowances for estimated losses at June 30, 2006 in the accompanying financial statements are adequate to cover estimated losses of the various funds. The following summarizes the changes in the allowance for estimated losses on program loans receivable during the year ended June 30, 2006:

		Allowance for estimated losses June 30, 2005	**Provision for estimated losses**	**Write-offs of uncollectible losses, net of Recoveries**	**Allowance for estimated losses June 30, 2006**
			(Dollars in thousands)		
Illinois Affordable Housing Trust Fund	$	10,500	3,500	—	14,000
HOME Program Fund		4,000	(304)	(646)	3,050
Total governmental funds	$	14,500	3,196	(646)	17,050
Administrative Fund	$	8,815	345	—	9,160
Mortgage Loan Program Fund		14,150	1,300	—	15,450
Single Family Program Fund		—	—	—	—
Total proprietary funds	$	22,965	1,645	—	24,610

The increases in the allowance for estimated losses in the Trust Fund Program were the result of a number of foreclosures and pending sales of loans within the Fund, most of which were related to the dissolution of a major tax credit syndicator. In addition to the above, for the year ended June 30, 2006, the Authority made a $3.2 million provision for estimated losses in conjunction with the risk sharing and Ambac loans that are not included on the Authority’s financial statements.

Scheduled receipts of principal on proprietary fund program loans receivable in the five years subsequent to June 30, 2006 and thereafter are as follows:

2007	$	39,701,000
2008		44,807,000
2009		43,614,000
2010		45,760,000
2011		47,814,000
After 2011		1,043,257,000
	$	1,264,953,000

Note F—Bonds and Notes Payable

Bonds and notes outstanding are general obligations (G.O.) of the Authority with the exception of Homeowner Mortgage Revenue Bonds, Affordable Housing Program Trust Fund Bonds, Multi-Family Variable Rate Demand Bonds, Housing Finance Bonds, Multifamily Housing Revenue Bonds (Marywood), Multifamily Bonds (Turnberry), Multi-Family Housing Bonds, 1995 Series A, and Multi-Family Housing Revenue Bonds, 2000 Series A, which are special limited obligations (S.L.O.) of the Authority, payable from pledged property as defined in their respective general resolutions. The Authority has also pledged its general obligation to the payment of the Affordable Housing Program Trust Fund Bonds to a limited extent and amounts.

Bonds and notes outstanding at June 30, 2006 are as follows. The June 30, 2005 amounts are shown for comparative purposes only.

Mortgage Loan Program Fund

Bonds outstanding of the Mortgage Loan Program Fund are as follows:

	Maturity dates	Interest rate range %	Debt class		Amount June 30 2006	Amount June 30 2005
Multi-Family Housing Bonds:						
1982 Series B	2011-2017	7.00 %	G.O.	$	14,195,000	14,195,000
1982 Series C	2015-2025	5.00	G.O.		20,765,000	20,765,000
1991 Series A	2006-2016	8.13-8.25	G.O.		31,265,000	32,985,000
1992 Series A	2006-2026	7.00-7.10	G.O.		22,685,000	24,335,000
1993 Series A	2006-2025	6.05-6.13	G.O.		4,630,000	11,770,000
1993 Series C	2006-2028	5.80-6.10	G.O.		11,365,000	11,590,000
1994 Series B	2006	6.80	G.O.		90,000	175,000
1995 Series A	2006-2021	5.20-5.95	S.L.O.		18,890,000	19,705,000
2001 Series B	2006-2043	4.60-5.50	S.L.O.		10,400,000	10,575,000
					134,285,000	146,095,000
Less unamortized discount thereon					(14,859,889)	(15,173,044)
					119,425,111	130,921,956

	Maturity dates	Interest rate range %	Debt class	Amount June 30 2006	Amount June 30 2005
Multi-Family Program Bonds:					
Series 1	2006-2021	6.63-6.75 %	G.O.	$ 22,955,000	42,470,000
Series 3	2009-2023	6.05-6.20	G.O.	33,140,000	52,410,000
Series 4 (Taxable)	2005	7.65	G.O.	—	730,000
Series 5	2007-2023	6.65-6.75	G.O.	5,785,000	18,525,000
Series 6 (Taxable)	2005-2006	8.23-8.28	G.O.	—	1,325,000
				61,880,000	115,460,000
Housing Bonds:					
1999 Series A	2006-2031	4.35-5.25	G.O.	27,920,000	32,460,000
2003 Series A	2006-2046	2.55-5.05	G.O.	20,365,000	20,650,000
2003 Series B	2010-2040	3.30-5.05	G.O.	50,055,000	53,190,000
2003 Series C	2006-2034	2.75-4.95	G.O.	5,825,000	6,055,000
2004 Series A	2006-2039	2.90-4.70	G.O.	23,435,000	24,350,000
2004 Series B	2006-2034	Variable	G.O.	9,005,000	9,595,000
2004 Series C	2006-2045	2.60-5.45	G.O.	12,500,000	12,880,000
2005 Series A	2006-2035	2.40-4.60	G.O.	32,090,000	32,090,000
2005 Series B	2006-2012	3.84-5.02	G.O.	3,855,000	4,810,000
2005 Series C	2007-2042	4.38-5.00	G.O.	10,665,000	—
2005 Series D	2008-2047	4.88	G.O.	6,550,000	—
2005 Series E	2011-2036	3.65-4.80	G.O.	24,760,000	—
2005 Series F	2006-2029	4.46-5.84	G.O.	19,420,000	—
2006 Series B	2007-2046	4.75-5.00	G.O.	13,720,000	—
2006 Series C	2007-2041	4.08	G.O.	5,660,000	—
				265,825,000	196,080,000
Housing Finance Bonds:					
1999 Series B	2006-2030	5.50-6.30	S.L.O.	5,235,000	5,325,000
2000 Series A	2006-2032	5.75-6.30	S.L.O.	8,935,000	9,075,000
				14,170,000	14,400,000
Multi-Family Variable Rate Demand Bonds:					
Series 1996 A (Taxable)(1)	2026	Variable	S.L.O.	2,860,000	8,055,000
Multi-Family Housing Revenue Bonds:					
Series 1997(1)	2027	Variable	G.O.	14,170,000	14,170,000
Series 2000 A(1)	2027	Variable	S.L.O.	39,885,000	40,785,000
				54,055,000	54,955,000

	Maturity dates	Interest rate range %	Debt class	Amount June 30 2006	Amount June 30 2005
Multifamily Housing Revenue Bonds:					
Marywood Apartment Homes,					
Series 2003	2006-2046	4.50-5.20 %	S.L.O.	$ 15,835,000	15,865,000
Multifamily Bonds:					
Turnberry Village II					
Apartments	2006-2045	4.50-4.75	S.L.O.	5,275,000	5,320,000
Affordable Housing Program Trust Fund Bonds:					
Series 1995 A	2006-2022	7.44-7.82	S.L.O.	2,775,000	2,855,000
Series 2004	2006-2026	4.55-6.21	S.L.O.	43,250,000	44,430,000
Series 2005 A	2006-2027	5.60-6.35	S.L.O.	33,490,000	34,480,000
				79,515,000	81,765,000
Total Mortgage Loan Program Fund				$ 618,840,111	622,821,956

(1) Interest rates on the bonds are determined weekly at a rate established by the Remarketing Agents on each Rate Determination Date. The Authority has agreements with liquidity providers to purchase any bonds tendered for purchase in accordance with the indentures with respect to which the Trustee does not, on the date any such tendered bonds are required to be purchased, have sufficient funds to make such purchase. Payment of the principal and interest on the bonds when due is insured by a financial guarantee insurance policy. The Authority has a general obligation to reimburse the insurer for any such payments made.

Single Family Program Fund

Bonds outstanding of the Single Family Program Fund are as follows:

	Maturity dates	Interest rate range %	Debt class	Amount June 30 2006	Amount June 30 2005
Residental Mortgage Revenue Bonds:					
1983 Series A	2015	10.872	G.O	$ 2,015	1,812
1983 Series B	2015	10.746	G.O	2,036	1,833
1984 Series B	2016	11.257	G.O	1,750	1,568
1985 Series A	2017	10.75	G.O	1,651	1,486
1987 Series B	2014	8.13	G.O	100,000	100,000
1987 Series C	2014	7.50	G.O	100,000	100,000
1987 Series D	2017	8.65	G.O	100,000	100,000
				$ 307,452	306,699

The cumulative accretion in value from the date of issuance of the capital appreciation bonds included in the above amounts is summarized as follows:

Series	Redemption basis and period		Original issue amount (1)	Accreted value June 30 2006	Accreted value June 30 2005	Aggregate value to be redeemed
1983 Series A	Maturity 2/1/15	$	180	2,015	1,812	5,000
1983 Series B	Maturity 2/1/15		193	2,036	1,833	5,000
1984 Series B	Maturity 2/1/16		166	1,750	1,568	5,000
1985 Series A	Maturity 2/1/17		190	1,651	1,486	5,000

(1) Amounts reflect original issue amounts of capital appreciation bonds outstanding as of June 30, 2006.

	Maturity dates	Interest rate range %	Debt class		Amount June 30 2006	Amount June 30 2005
Homeowner Mortgage Revenue Bonds:						
1995 Series C	2006-2008	5.15-5.35 %	S.L.O.	$	765,000	1,710,000
1996 Series A	2006-2009	5.25-5.65	S.L.O.		—	3,085,000
1996 Series E	2006-2010	5.25-5.65	S.L.O.		1,985,000	2,525,000
1996 Series F	2006-2028	4.75-5.65	S.L.O.		9,240,000	13,605,000
1997 Series A	2006-2009	5.20-5.50	S.L.O.		2,495,000	3,285,000
1997 Series B (remarketed 4/30/98)	2006-2028	4.60-5.50	S.L.O.		11,125,000	12,150,000
1997 Series B (remarketed 6/29/98)	2006-2028	4.60-5.40	S.L.O.		17,420,000	18,470,000
1997 Series C	2006-2017	4.80-5.10	S.L.O.		2,080,000	11,030,000
1997 Series D	2006-2028	4.75-5.65	S.L.O.		9,760,000	10,715,000
1997 Series D-3 (Taxable)	2006-2028	6.60	S.L.O.		1,155,000	1,435,000
1998 Series A (Taxable)	2006-2028	6.45-6.52	S.L.O.		3,720,000	3,985,000
1998 Series D (remarketed 10/7/98)	2006-2029	4.25-5.20	S.L.O.		14,785,000	16,740,000
1998 Series D (remarketed 12/17/98)	2006-2029	4.30-5.25	S.L.O.		8,380,000	9,340,000
1998 Series D (remarketed 4/29/99)	2006-2020	4.40-5.10	S.L.O.		15,960,000	18,490,000
1998 Series E (Taxable)	2006-2029	5.66-5.91	S.L.O.		6,845,000	7,800,000
1998 Series G	2006-2029	4.30-5.25	S.L.O.		13,645,000	15,110,000

(Continued)

	Maturity dates	Interest rate range %	Debt class	Amount June 30 2006	Amount June 30 2005
1999 Series A	2006-2010	5.25-5.70 %	S.L.O.	$ —	3,000,000
1999 Series B	2006-2021	5.35-5.70	S.L.O.	905,000	3,325,000
1999 Series D	2006-2029	4.90-5.70	S.L.O.	19,295,000	20,480,000
1999 Series D-3 (Taxable)	2006-2030	6.70	S.L.O.	670,000	1,750,000
1999 Series E	2006-2010	5.30-5.60	S.L.O.	—	2,335,000
1999 Series G	2006-2031	5.10-5.65	S.L.O.	2,330,000	3,105,000
2000 Series B	2006-2031	4.95-5.45	S.L.O.	1,055,000	7,180,000
2000 Series C-4 (Taxable)	2006-2031	8.19	S.L.O.	1,940,000	2,605,000
2000 Series D	2006-2031	4.90-5.55	S.L.O.	3,785,000	15,215,000
2000 Series E	2006-2031	4.80-5.50	S.L.O.	4,045,000	18,950,000
2001 Series A	2006-2032	4.15-5.50	S.L.O.	29,295,000	30,510,000
2001 Series C	2006-2032	4.00-5.55	S.L.O.	31,375,000	33,385,000
2001 Series D (Taxable)	2006-2032	6.13	S.L.O.	4,250,000	5,445,000
2001 Series E	2006-2033	4.10-5.60	S.L.O.	32,490,000	35,845,000
2001 Series F (Taxable)	2006-2020	Variable	S.L.O.	10,000,000	10,000,000
2002 Series A	2006-2033	3.85-5.63	S.L.O.	35,975,000	37,270,000
2002 Series B (Taxable)	2006-2023	Variable	S.L.O.	8,355,000	9,020,000
2002 Series C	2006-2033	3.40-5.40	S.L.O.	41,525,000	44,885,000
2003 Series B	2006-2034	1.85-5.15	S.L.O.	45,210,000	48,575,000
2004 Series A	2006-2034	1.45-5.50	S.L.O.	46,740,000	49,405,000
2004 Series C	2006-2034	2.70-5.35	S.L.O.	78,360,000	79,415,000
2004 Series D	2036	1.68	S.L.O.	—	43,405,000
2005 Series A	2006-2035	2.38-5.00	S.L.O.	74,220,000	75,000,000
2005 Series B	2017	2.79	S.L.O.	12,400,000	39,805,000
2005 Series C	2006-2035	2.90-5.25	S.L.O.	98,380,000	98,760,000
2006 Series A	2007-2036	3.30-5.00	S.L.O.	84,555,000	—
2006 Series B	2007-2036	4.97-5.31	S.L.O.	15,000,000	—
				801,515,000	868,145,000
Plus unamortized premium thereon				2,010,371	1,728,780
				803,525,371	869,873,780
Total Single Family Program Fund				$ 803,832,823	870,180,479

The following summarizes the debt activity for the Authority's proprietary funds for fiscal year 2006:

	June 30, 2005	Additions	Deductions	June 30, 2006	Amount due within one year
Multi-Family Housing Bond	$ 146,095,000	—	(11,810,000)	134,285,000	5,215,000
Discount on Multi-Family Housing Bonds	(15,173,044)	—	313,155	(14,859,889)	—
Multi-Family Program Bonds	115,460,000	—	(53,580,000)	61,880,000	1,530,000
Housing Bond	196,080,000	80,935,000	(11,190,000)	265,825,000	6,845,000
Housing Finance Bond	14,400,000	—	(230,000)	14,170,000	250,000
Multi-Family Variable Rate Demand Bond	8,055,000	—	(5,195,000)	2,860,000	50,000
Multi-Family Housing Revenue Bond	54,955,000	—	(900,000)	54,055,000	1,000,000
Multifamily Housing Revenue Bond (Marywood)	15,865,000	—	(30,000)	15,835,000	195,000
Multifamily Bond (Turnberry II)	5,320,000	—	(45,000)	5,275,000	50,000
Affordable Housing Program Trust Fund Bond	81,765,000	—	(2,250,000)	79,515,000	2,385,000
Total Mortgage Loan Program Fund	622,821,956	80,935,000	(84,916,845)	618,840,111	17,520,000
Residential Mortgage Revenue Bond	306,699	753	—	307,452	—
Homeowner Mortgage Revenue Bond	868,145,000	99,555,000	(166,185,000)	801,515,000	34,855,000
Premium on Homeowner Mortgage Revenue Bonds	1,728,780	442,950	(161,359)	2,010,371	—
Total Single Family Program Fund	870,180,479	99,998,703	(166,346,359)	803,832,823	34,855,000
Total Proprietary Funds	$ 1,493,002,435	180,933,703	(251,263,204)	1,422,672,934	52,375,000

Debt Covenant Violation

The Authority currently has various series designated bonds issued and outstanding (the "Bonds") under its Homeowner Mortgage Revenue Bond, Housing Bond and Affordable Housing Trust Fund Bond programs (the "Programs"). These Bonds have been issued by the Authority pursuant to various indentures, supplemental indentures, resolutions and series resolutions (the "Bond Documents"). In connection with the issuance, sale and delivery by the Authority of all or a portion of the Bonds under such Programs, the Authority has made covenants (the "Covenants), under the applicable Bond Documents, to deliver the audited financial statements of the Authority and the auditor's report thereto (together, the "Financial Statements") within a certain number of days after the end of the Authority's fiscal year. The Authority did not deliver its financial statements within 120 days after the Authority's fiscal year ended June 30, 2006. The default provisions of the Bond

Documents require the bondholders to declare an event of default to the trustee. As of November 7, 2006, the Authority has not received a notification of default. Management of the Authority believes that based upon management's and outside counsel's review of such Covenants, the Authority's failure to have delivered its financial statements has not triggered an acceleration of the Authority's payment obligations with respect to the applicable Bonds.

Defeased Debt

In prior years, the Authority defeased debt consisting of Insured Mortgage Housing Development Bonds, 1976 Series A (1976 bonds) and Multi Family Housing Bonds, 1981 Series A (1981 bonds) (collectively the old bonds) by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. At June 30, 2006, $4,215,000 and 22,040,000, of bonds outstanding for the 1976 bonds and the 1981 bonds, respectively, is considered defeased.

Other Financings

From time to time the Authority has issued special limited obligations with a claim for repayment solely from payments received with respect to the mortgage loans. The bonds are not general obligations of the Authority, and they are not a debt of the State of Illinois; neither is liable to pay interest and principal on the bonds. Accordingly, the bonds are not included in the Authority's financial statements. The bonds do, however, apply toward the Authority's authorized debt limitation.

As of June 30, 2006, there were thirty-six series of such bonds or notes outstanding, with an aggregate principal amount payable of $395,163,723.

Assets Restricted for Capital and Debt Service Reserves

Pursuant to the Act and various resolutions of the Authority, certain assets (principally investments) are maintained in capital and debt service reserve funds and may be used only for the payment of principal and interest on certain bonds. The reserve funds must be maintained at an amount at least equal to the following:

Bonds	Requirement
Multi-Family Housing Bonds	7.5% to 13.45%, as defined for each series, of the principal amounts of bonds outstanding provided that the debt service reserve funds for the 1978 Series B Bonds (none of which are outstanding) and subsequent series of bonds cannot be less than a specified percentage (100% except for the 1979 Series B Bonds, for which the percentage is 120%) of the maximum annual debt service on such bonds for the current or any succeeding year until July 1 of the year preceding the final maturity of the bonds of such series.

Multi-Family Program Bonds Affordable Housing Program Trust Fund Bonds	Maximum amounts of principal, sinking fund installments and interest due in the then current or any future bond year for all bonds then outstanding.
Multi-Family Variable Rate Demand Bonds Multi-Family Housing Revenue Bonds	Three months of adjusted debt service requirements.
Housing Bonds	The amount established by each series resolution, currently six months of maximum principal and interest payments.
Housing Finance Bonds	50% of the maximum annual principal and interest.
Multifamily Housing Revenue Bonds (Marywood)	Six months of maximum annual interest.
Homeowner Mortgage Revenue Bonds Residential Mortgage Revenue Bonds	The sum of all amounts established by each series resolution, but such amount cannot be less than 2% for the Homeowner Mortgage Revenue Bonds, and 4% for the Residential Mortgage Revenue Bonds, of the sum of (i) the outstanding principal balance of related mortgage loans and (ii) the amount on deposit to the credit of series program accounts of the program fund.

The amounts of such reserves, for measurement purposes against the various bond resolution reserve requirements, are valued at book value or par, or, if purchased at less than par, at their cost to the Authority. At June 30, 2006, these amounts, which were not less than the amounts required, are as follows:

Multi-Family Housing Bonds	$	28,404,375
Multi-Family Program Bonds		8,204,767
Housing Bonds		10,943,548
Housing Finance Bonds		519,000
Multi-Family Variable Rate Demand Bonds		366,030
Multi-Family Housing Revenue Bonds		809,123
Multifamily Housing Revenue Bonds (Marywood)		407,535
Homeowner Mortgage Revenue Bonds		25,908,989
	$	75,563,367

In addition to the above, the debt service reserve requirements of the following bond issues are satisfied by surety arrangements.

Issue		Value
Housing Bonds, 2003 Series C	$	260,000
Housing Bonds, 2004 Series B		500,000
Housing Bonds, 2006 Series C		268,850
Multifamily Bonds, Series 2003 (Turnberry II)		Not Applicable
Affordable Housing Program Trust Fund Bonds, Series 1995A, 2004 and 2005A		7,231,723

Other Maturity Information

Bonds maturing on or after the following dates are redeemable at the option of the Authority at prescribed redemption prices greater than 100%, decreasing periodically, expressed as a percentage of the principal amount, as follows:

Issue	Maturity on or after	Redemption price		
Multi-Family Housing Bonds:				
1994 Series B and 1995 Series A	July 1, 2006	102%	to	100%
Multi-Family Program Bonds:				
Series 5	July 1, 2006	101	to	100
Housing Bonds, 1999 A	Mar. 1, 2009	101	to	100
Homeowner Mortgage Revenue Bonds:				
1995 Series C	Oct. 1, 2006	102	to	100
1996 Series E	Aug. 1, 2006	102	to	100
1997 Series A	Feb. 1, 2007	102	to	100
1997 Series B remarketed April 30, 1998	May 1, 2008	102	to	100
1997 Series B remarketed June 29, 1998	July 1, 2008	102	to	100
1997 Series C	Aug. 1, 2007	102	to	100
1997 Series D and 1996 Series F	Jan. 1, 2008	102	to	100
1998 Series A	April 1, 2008	101	to	100
1998 Series D remarketed October 7, 1998 and 1998 Series E	Oct. 1, 2008	101	to	100
1998 Series D remarketed December 17, 1998	Dec. 1, 2008	101	to	100
1998 Series D remarketed April 29, 1999	April 1, 2009	101	to	100
1998 Series G	Aug. 1, 2008	101	to	100
1999 Series B	Jan. 1, 2010	101	to	100
Affordable Housing Program Trust Fund Bonds:				
Series 1995 A	July 1, 2006	101	to	100

Debt service requirements (in $ millions) through 2011 and in five-year increments thereafter to maturity for the Authority's proprietary funds are as follows:

		Mortgage Loan Program Fund		Single Family Program Fund		Total	
		Principal	Interest	Principal*	Interest	Principal*	Interest
Year ending June 30:							
2007	$	17.5	33.6	34.9	38.4	52.4	72.0
2008		18.7	32.7	26.7	37.2	45.4	69.9
2009		20.9	31.6	22.9	36.1	43.8	67.7
2010		24.2	30.5	21.2	35.1	45.4	65.6
2011		27.7	29.1	19.9	34.2	47.6	63.3
Five years ending June 30:							
2012-2016		151.9	121.5	122.8	155.7	274.7	277.2
2017-2021		121.6	81.2	114.1	125.5	235.7	206.7
2022-2026		101.2	51.1	141.5	95.9	242.7	147.0
2027-2031		65.7	27.5	176.8	53.6	242.5	81.1
2032-2036		39.9	16.6	119.6	13.5	159.5	30.1
2037-2041		26.5	8.1	1.4	0.1	27.9	8.2
2042-2046		17.1	2.4	—	—	17.1	2.4
2047-2051		0.8	0.1	—	—	0.8	0.1
	$	633.7	466.0	801.8	625.3	1,435.5	1,091.3

* Includes capital appreciation bonds at their final redemption values.

Derivatives

The incurring of obligations by the Authority involves a variety of interest rate payments and other risks, for which a variety of financial instruments are available to offset, hedge, or reduce these payments and risks. It is the policy of the Authority to utilize Risk Management Agreements to better manage its assets and liabilities. The Authority may execute Risk Management Agreements if the transaction can be expected to result in at least one of, but not limited to, the following:

a) The reduction of exposure to changes in interest rates on a particular financial transaction;

b) A lower net cost of borrowing with respect to the Authority's debt;

c) The management of variable interest rate exposure consistent with prudent debt practices;

d) The achievement of more flexibility meeting overall financial and programmatic objectives that cannot be achieved in conventional markets.

The Authority, as of June 30, 2006 has five active swap contracts and three interest rate caps. Details are shown in the following table.

Associated bond issue	Notional amounts	Effective date	Fixed rate paid	Variable rate received	Fair values(2)	Termi-nation date	Counter-party credit rating
Swap contracts:							
MVRDB*:							
Series 1996A	2,850,723	12/03	5.467	1 mo LIBOR	$ 57,376	08/2026	AAA/Aaa
MHRB**:							
Series 2000A (Lakeshore Plaza)(1)	39,885,000	06/00	5.51	Actual bond rate	0	07/2027	AAA/Aaa
HMRB***:							
Series 2001 D	4,250,000	07/01	6.13	1 mo LIBOR +30bp	(100,460)	02/2010	AAA/Aaa
Series 2001 F	10,000,000	01/02	6.615	1 mo LIBOR +40bp	(623,974)	08/2020	A+/Aa3
Series 2002 B	8,355,000	05/02	6.145	1 mo LIBOR +41.5bp	(75,022)	02/2023	AAA/Aaa
Interest Rate Cap:							
MHRB**:							
Series 1997 (Camelot Development)	14,170,000	11/97	5.75	N/A	(48,084)	12/2007	AA-/Aa3
HB****:							
Series 2004 B	9,005,000	03/04	5.00	N/A	33,824	04/2012	AAA/Aaa
Series 2006 C	5,660,000	06/06	4.75	N/A	13,627	06/2021	AA/Aa1

*Multi-Family Variable Rate Demand Bonds
**Multi-Family Housing Revenue Bonds
***Homeowner Mortgage Revenue Bonds
****Housing Bonds
(1) $550,000 premium received 9/17/98. Authority terminated the swap at par on 7/1/06 and replaced it with an interest rate cap on 7/1/06
(2) includes accrued interest.

To protect against the potential of rising interest rates, the Authority has entered into five pay-fixed, receive variable, interest rate swap agreements, the objective of which is to achieve a synthetic fixed interest rate on the underlying bonds at a cost anticipated to be less than the amounts paid had the Authority issued fixed-rate debt. In addition, the Authority has entered into three interest rate cap agreements, the objective of which is to establish a maximum debt service which may be paid over the life of the underlying bonds.

The terms, fair values, and credit ratings of the outstanding agreements as of June 30, 2006 are shown in the above table. The notional amounts of the swaps match the principal amounts of the associated debt. The Authority's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable category.

Because interest rates have declined since the implementation of the swap and cap agreements, most currently active swaps and cap agreements, except for Multi-Family Variable Rate Demand Bonds Series 1996A, and Housing Bonds Series 2004B and 2006C, had a negative fair value as of June 30, 2006. The negative fair values may be countered by reductions in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. Because the coupons on the

Authority's variable rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value changes.

As of June 30, 2006, the Authority was not exposed to credit risk because of the negative fair values of the swaps. Should interest rates change and the fair values become positive, the Authority would be exposed to credit risk in the amount of the swaps' fair value. Fair value is a factor only upon termination.

Basis risk on swaps occurs when the variable payment received is based on an index other than the index on the underlying bonds. The Authority believes its swap agreements have been structured to minimize or eliminate this risk.

The Authority or the counter-party may terminate any of the swap agreements if the other party fails to perform under the terms of the agreements. If a swap is insured, a termination event occurs if the insurer fails to meet its obligations under the agreement.

The Authority is not exposed to rollover risk on its swap agreements.

As of June 30, 2006, debt service requirements of the Authority's outstanding variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term are as follows:

Illinois Housing Development Authority
Swap Payments and Associated Debt

	Variable-rate bonds		Interest rate	
	Principal	**Interest**	**swaps, net**	**Total**
Year ending June 30:				
2007	$ 2,425,000	4,118,710	209,287	6,752,997
2008	2,510,000	4,008,545	169,078	6,687,624
2009	2,585,000	3,895,251	141,856	6,622,107
2010	2,755,000	3,776,912	137,799	6,669,711
2011	2,945,000	3,650,878	127,360	6,723,237
Five years ending June 30:				
2016	13,095,000	16,472,987	617,245	30,185,232
2021	22,955,000	12,232,524	280,174	35,467,698
2026	16,665,000	7,661,735	(8,231)	24,318,504
2031	23,825,000	2,210,600	(20,435)	26,015,165
2036	2,805,000	586,309	—	3,391,309
Greater than 2036	1,620,000	208,896	—	1,828,896
Total	$ 94,185,000	58,823,346	1,654,134	154,662,480

As rates vary, variable-rate bond interest payments and net swap payments will vary.

Note G—Deposits Held in Escrow

Deposits from developers, which are held in escrow in the Administrative Fund, may be used when necessary to pay principal and interest payments and fund construction cost overruns, change orders, tax and insurance payments and capital improvements (see note E). In addition, on certain developments, letters of credit and assignments of syndication proceeds are held by the Authority for similar purposes and to fund potential operating deficits of the related developments; investment income earned on deposited funds is credited to the respective developer's escrow accounts.

Note H—Leases

The Authority leases office facilities under a lease which extends through July 31, 2006, and 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.

The office lease provides for annual base rent of approximately $952,000 for the fiscal year 2006, plus payments totaling approximately $1,071,000 in fiscal year 2006 for the Authority's 8.04% share of ownership taxes and operating expenses, which also are subject to adjustment, based on the actual costs incurred by the lessor.

For fiscal year 2006, total rent expense of the Authority was $2,009,713.

Note I—Other Liabilities

The bonds issued by the Authority after 1980 are subject to a variety of Internal Revenue Service (IRS) regulations which limit the amount of income which may be earned with non-mortgage investments to an amount not greater than the amount which would have been earned had the funds been invested at the yield on the bonds as defined by the IRS.

Excess earnings must be rebated annually, or every five years, depending on the date and type of bond issue. Included in Other Liabilities at June 30, 2006, is an estimated rebate liability of $3,099,081.

The Authority is a defendant in various legal actions arising from normal business activities. Management believes, after consultation with legal counsel, that the ultimate liability, if any, resulting from these legal actions will not materially affect the Authority's financial position or results of operations.

The Authority carries commercial insurance for director's and officer's liability, general liability, workers' compensation, and automobile ownership and usage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note J—Retirement Plan

The Authority provides a defined contribution retirement plan for the benefit of its employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Full time employees are eligible to participate in and are fully vested in the plan from the date of employment. All plan assets and investments are administered by a trustee, which maintains an individual account for each participant. The Authority contributes 6% of its employees' salaries and employees, at their option, may contribute up to 19% (within a maximum dollar limit) of their salaries to the plan. In addition, the

Authority, under the provisions of the Economic Growth and Tax Relief Act of 2001, permits additional contributions each calendar year for those employees who attain age 50 (or higher) during the calendar year. The plan may be amended or terminated by the Authority at any time and for any reason in the future, but no such action can deprive employees of their vested interests.

The Authority's total payroll in fiscal year 2006 was $10,938,221. The Authority's contributions were calculated using the base salary amount of $10,884,517. The Authority contributed $653,071, or 6% of the base salary amount, in fiscal year 2006. Employee contributions amounted to $821,574 in fiscal year 2006, or 7.5% of the base salary amount.

Note K—Commitments

At June 30, 2006 unexpended bond proceeds held by the Authority in the form of cash and investments amounting to $44,121,732 in the Homeowner Mortgage Revenue Bond accounts were identified for the purpose of purchasing various mortgage loans.

At June 30, 2006, the Authority had authorized commitments for loans and grants totaling $53,346,239 for the Illinois Affordable Housing Trust Fund.

Under the HOME Program, $303.3 million and $22.8 million for federal fiscal years 1992 through 2005 and 2006, respectively, have been allocated to the State, to be administered by the Authority, under the HOME Program provisions of the 1990 National Affordable Housing Act. In fiscal year 1994, the Authority was allocated $10.2 million of additional HOME funds to be used for flood disaster relief. At June 30, 2006, the Authority had authorized commitments for loans and grants totaling $18,408,543 for the HOME Program.

In accordance with an agreement entered into by the Authority and HUD at the time of delivery of the Authority's Multi-Family Housing Bonds, 1982 Series A, 1982 Series B, and 1983 Series A, annual Section 8 contributions payable to HUD with respect to the developments financed by these bonds would be reduced to the extent of the debt service savings resulting from the early redemptions of these Bonds.

These redemptions were accomplished through the issuance of the Authority's Multi-Family Housing Bonds, 1991 Series A and B, 1992 Series A and B, and 1993 Series A and B. Pursuant to federal legislation and a written agreement with the Authority, HUD has agreed to share a portion of such savings (the FAF Savings Program) with the Authority in order to create and maintain affordable housing opportunities for individuals of "very low income" (as such term is defined in the 1937 Housing Act) in the State. These savings, which are to be used solely for the purpose stated above, became available beginning in fiscal year 1992 for the 1991 Series A and B Bonds and in fiscal year 1994 for the 1993 Series A and B Bonds, and are recorded as other income of the Administrative Fund. At June 30, 2006, loans receivable under this program were approximately $17.9 million.

Note L—Contingencies

HUD's Office of General Counsel (OGC) has expressed the opinion that certain language used in the form of Housing Assistance Payments (HAP) Contracts in use prior to February 1980 for State Agency projects with mortgages that were not insured by FHA, has the effect of terminating those HAP Contracts upon refinancing of the related project mortgages. While only expressed in the form of an internal memorandum, this opinion has been communicated by HUD to the public. The position expressed in the opinion has not been promulgated in any official form, nor has HUD taken any action to impose consequences that might arise from the opinion on projects that were previously refinanced. The Authority has determined that 60 of the Section 8 projects that it has financed have been refinanced in a fashion that might cause a termination of the related HAP Contracts under such OGC opinion.

Were HUD to stop HAP payments to affected projects and/or attempt to recover previously made payments, such action could adversely affect project income, the Authority's revenues from those projects and, as a consequence thereof, the Authority's financial position. However, in Congressional testimony and in public discussions with industry participants, HUD officials have expressed the desire to prevent its position regarding the pre-1980 HAP form contract language from having an adverse impact upon the affected projects and State Agencies. In addition, HUD has offered to approve an amendment to the affected HAP contracts that would amend the language at issue to clarify that the term of the form HAP contract extends to the originally scheduled maturity date of the original HFA financing. Of the 60 Authority-financed projects that have refinanced, 52 of these projects have executed such amendments, and these amendments have been approved by HUD. One other project has entered into a long-term renewal HAP contract. Further, while it is not possible to predict with certainty the outcome of any litigation, the Authority has been advised by counsel that if HUD were to attempt to recover previously made payments under the HAP contracts related to these projects, HUD would be unlikely to prevail.

Note M—Subsequent Events

On July 27, 2006, the Authority issued its Homeowner Mortgage Revenue Bonds, 2006 Series C, in the aggregate principal amount of $125,000,000, maturing in 2007 through 2037, at interest rates of 3.75% to 5.15%. These bonds are special limited obligations of the Authority.

On August 24, 2006, the Authority issued its Housing Bonds, 2006 Series A (Pineview of Rockford SLF), in the aggregate principal amount of $8,130,000, maturing in 2008 through 2038, at interest rates of 3.90% to 5.05%. These bonds are special limited obligations of the Authority.

On October 25, 2006, the Authority issued its Housing Bonds, 2006 Series E (Prairie View Apartments), Series F (65th Street Apartments) and Series J (Eagle Ridge of Decatur SLF II), in the aggregate principal amount of $15,620,000, maturing in 2007 through 2048, at interest rates of 3.70% to 5.00%. These bonds are special limited obligations of the Authority.

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

Mortgage Loan Program Fund

Combining Schedule of Revenues, Expenses, and Changes in Fund Net Assets

Year ended June 30, 2006

	Multi-Family Housing Bonds	Multi-Family Program Bonds	Housing Bonds	Housing Finance Bonds	Multi-Family Variable Rate Demand Bonds	Multi-Family Housing Revenue Bonds	Multifamily Housing Revenue Bonds (Marywood)	Multifamily Bonds (Turnberry)	Affordable Housing Program Trust Fund Bonds	Total
Operating revenues:										
Interest and other investment income	$ 4,367,944	1,462,450	2,661,451	62,304	125,086	335,360	30,715	5,978	1,096,293	10,147,581
Net decrease in fair value of investments	(1,516,909)	—	(148,214)	—	(2,266)	(4,749)	(10,378)	—	—	(1,682,516)
Total investment income	2,851,035	1,462,450	2,513,237	62,304	122,820	330,611	20,337	5,978	1,096,293	8,465,065
Interest earned on program loans	9,660,641	4,829,731	12,727,489	865,009	471,320	426,932	367,469	269,098	2,204,019	31,821,708
Federal assistance programs	152,725	—	4,815,341	—	—	—	—	—	—	4,968,066
Other	—	—	—	—	—	3,826,867	—	—	—	3,826,867
Total operating revenues	12,664,401	6,292,181	20,056,067	927,313	594,140	4,584,410	387,806	275,076	3,300,312	49,081,706
Operating expenses:										
Interest expense	9,395,556	4,910,610	10,390,774	887,027	467,421	2,738,963	804,709	246,113	5,485,573	35,326,746
Federal assistance programs	152,725	—	4,815,341	—	—	—	—	—	—	4,968,066
Professional fees	—	—	11,500	3,000	—	3,000	1,500	1,500	—	20,500
Financing costs	29,913	—	134,789	3,736	41,409	219,948	1,588	4,550	84,453	520,386
Provision for (reversal of) estimated losses on program loans receivable	600,000	—	1,700,000	—	—	—	500,000	—	(1,500,000)	1,300,000
Total operating expenses	10,178,194	4,910,610	17,052,404	893,763	508,830	2,961,911	1,307,797	252,163	4,070,026	42,135,698
Operating income (loss)	2,486,207	1,381,571	3,003,663	33,550	85,310	1,622,499	(919,991)	22,913	(769,714)	6,946,008
Transfers in	—	—	277,701	—	—	—	—	—	5,200,000	5,477,701
Transfers out	—	(300,000)	—	—	—	(5,434,786)	—	—	—	(5,734,786)
Total transfers	—	(300,000)	277,701	—	—	(5,434,786)	—	—	5,200,000	(257,085)
Change in net assets	2,486,207	1,081,571	3,281,364	33,550	85,310	(3,812,287)	(919,991)	22,913	4,430,286	6,688,923
Net assets at beginning of year	62,591,436	14,066,598	52,949,248	355,357	2,062,047	5,812,287	(1,293,700)	68,240	15,090,283	151,701,796
Net assets at end of year	$ 65,077,643	15,148,169	56,230,612	388,907	2,147,357	2,000,000	(2,213,691)	91,153	19,520,569	158,390,719

See accompanying independent auditors' report.

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

Mortgage Loan Program Fund

Combining Schedule of Cash Flows

Year ended June 30, 2006

	Multi-Family Housing Bonds	Multi-Family Program Bonds	Housing Bonds	Housing Finance Bonds	Multi-Family Variable Rate Demand Bonds	Multi-Family Housing Revenue Bonds	Multifamily Housing Revenue Bonds (Marywood)	Multifamily Bonds (Turnberry)	Affordable Housing Program Trust Fund Bonds	Total
Cash flows from operating activities:										
Receipts for program loans, interest and service fee	$ 18,438,496	56,173,074	28,154,936	1,091,113	5,680,039	4,239,066	402,242	312,102	5,441,462	119,932,530
Payments for program loans	—	—	(70,676,027)	—	—	(29,642,555)	(444,913)	—	—	(100,763,495)
Receipts for federal assistance programs	152,725	—	4,815,341	—	—	—	—	—	—	4,968,066
Payments for federal assistance programs	(152,725)	—	(4,815,341)	—	—	—	—	—	—	(4,968,066)
Payments to suppliers	(906,891)	(6,198)	(543,011)	(6,736)	(41,409)	(222,948)	(3,088)	(6,050)	(687,408)	(2,423,739)
Interest received on investment	2,797,220	1,541,982	2,446,076	61,744	102,760	330,612	22,998	5,265	1,094,538	8,403,195
Receipts for amounts held on behalf of other			3,088,169							3,088,169
Net cash provided by (used in) operating activities	20,328,825	57,708,858	(37,529,857)	1,146,121	5,741,390	(25,295,825)	(22,761)	311,317	5,848,592	28,236,660
Cash flows from noncapital financing activities:										
Proceeds from sale of revenue bonds and note	—	—	80,935,000	—	—	—	—	—	—	80,935,000
Principal paid on revenue bonds and note	(11,496,845)	(53,580,000)	(11,190,000)	(230,000)	(5,195,000)	(900,000)	(30,000)	(45,000)	(2,250,000)	(84,916,845)
Interest paid on revenue bonds and note	(9,431,883)	(6,081,148)	(8,500,358)	(891,360)	(403,949)	(2,610,403)	(805,159)	(246,788)	(4,856,770)	(33,827,818)
Due to other funds	8,743	—	107,416	(14,085)	(905,048)	(941,116)	1,138	1,463	(2,178)	(1,743,667)
Due from other funds	—	1,297,559	(839,180)	—	—	5,434,786	—	—	—	5,893,165
Transfers in	—	—	277,701	—	—	—	—	—	5,200,000	5,477,701
Transfers out	—	(300,000)	—	—	—	(5,434,786)	—	—	—	(5,734,786)
Net cash provided by (used in) noncapital financing activities	(20,919,985)	(58,663,589)	60,790,579	(1,135,445)	(6,503,997)	(4,451,519)	(834,021)	(290,325)	(1,908,948)	(33,917,250)
Cash flows from investing activities:										
Purchase of investments	(109,742,781)	(90,596,044)	(451,351,056)	(1,126,761)	(15,954,391)	(16,922,889)	(7,971,823)	(419,102)	(62,362,303)	(756,447,150)
Proceeds from sales and maturities of investment	110,260,388	91,530,591	428,568,904	1,116,085	16,500,023	46,529,367	8,854,206	398,417	57,794,389	761,552,370
Net cash provided by (used in) investing activities	517,607	934,547	(22,782,152)	(10,676)	545,632	29,606,478	882,383	(20,685)	(4,567,914)	5,105,220
Net increase (decrease) in cash and cash equivalents	(73,553)	(20,184)	478,570	—	(216,975)	(140,866)	25,601	307	(628,270)	(575,370)
Cash and cash equivalents at beginning of year	110,783	20,184	769,513	—	340,153	205,526	2,788	11	653,106	2,102,064
Cash and cash equivalents at end of year	$ 37,230	—	1,248,083	—	123,178	64,660	28,389	318	24,836	1,526,694
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities										
Operating income (loss)	$ 2,486,207	1,381,571	3,003,663	33,550	85,310	1,622,499	(919,991)	22,913	(769,714)	6,946,008
Adjustments to reconcile operating income to net cas provided by (used in) operating activities										
Interest expense	9,395,556	4,910,610	10,390,774	887,027	467,421	2,738,963	804,709	246,113	5,485,573	35,326,746
Depreciation and amortization	—	—	—	—	—	800,000	—	—	—	800,000
Provision for estimated losses on program loans receivabl	600,000	—	1,700,000	—	—	—	500,000	—	(1,500,000)	1,300,000
Changes in assets and liabilities										
Investment income receivabl	(53,815)	79,532	(67,161)	(560)	(20,060)	1	2,661	(713)	(1,755)	(61,870)
Program loans	8,706,173	51,340,447	(55,184,127)	224,897	5,174,544	(30,442,555)	(444,913)	42,796	3,128,695	(17,454,043)
Interest on program loans	71,682	2,896	(64,453)	1,207	34,175	(14,733)	34,773	208	128,665	194,420
Other liabilities	(876,978)	(6,198)	(396,722)	—	—	—	—	—	(602,955)	(1,882,853)
Other assets	—	—	—	—	—	—	—	—	(19,917)	(19,917)
Held on behalf of others	—	—	3,088,169	—	—	—	—	—	—	3,088,169
Total adjustments	17,842,618	56,327,287	(40,533,520)	1,112,571	5,656,080	(26,918,324)	897,230	288,404	6,618,306	21,290,652
Net cash provided by (used in) operating activities	$ 20,328,825	57,708,858	(37,529,857)	1,146,121	5,741,390	(25,295,825)	(22,761)	311,317	5,848,592	28,236,660

See accompanying independent auditors' report

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

Single Family Program Fund

Combining Schedule of Net Assets

June 30, 2006

	Homeowner Mortgage Revenue Bonds	Residential Mortgage Revenue Bonds	Total
Assets:			
Current assets:			
Cash and cash equivalents	$ 4,150,249	593	4,150,842
Investment income receivable – restricted	1,500,985	8,388	1,509,373
Program loans receivable	16,002,000	—	16,002,000
Interest receivable on program loans	3,468,289	—	3,468,289
Total current assets	25,121,523	8,981	25,130,504
Noncurrent assets:			
Investments – restricted	169,901,500	449,408	170,350,908
Program loans receivable, net of current portion	667,142,056	—	667,142,056
Unamortized bond issuance costs	8,195,593	—	8,195,593
Real estate held for sale, net	1,199,567	—	1,199,567
Total noncurrent assets	846,438,716	449,408	846,888,124
Total assets	871,560,239	458,389	872,018,628
Liabilities:			
Current liabilities:			
Bonds and notes payable	34,855,000	—	34,855,000
Accrued interest payable	15,824,004	10,115	15,834,119
Accrued liabilities and other	1,572,328	—	1,572,328
Due to other funds	2,217,322	67,305	2,284,627
Total current liabilities	54,468,654	77,420	54,546,074
Noncurrent liabilities:			
Bonds and notes payable, net of current portion	768,670,371	307,452	768,977,823
Total liabilities	823,139,025	384,872	823,523,897
Net assets:			
Restricted for bond resolution purposes	48,421,214	73,517	48,494,731
Total net assets	$ 48,421,214	73,517	48,494,731

See accompanying independent auditors' report.

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

Single Family Program Fund

Combining Schedule of Revenues, Expenses, and Changes in Fund Net Assets

Year ended June 30, 2006

	Homeowner Mortgage Revenue Bonds	Residential Mortgage Revenue Bonds	Total
Operating revenues:			
Interest and other investment income	$ 9,621,446	26,312	9,647,758
Net decrease in fair value of investments	(493,828)	—	(493,828)
Total investment income	9,127,618	26,312	9,153,930
Interest earned on program loans	33,065,879	—	33,065,879
Total operating revenues	42,193,497	26,312	42,219,809
Operating expenses:			
Interest expense	40,175,851	25,028	40,200,879
Professional fees	45,000	7,500	52,500
Financing costs	598,842	17,500	616,342
Total operating expenses	40,819,693	50,028	40,869,721
Operating income (loss)	1,373,804	(23,716)	1,350,088
Transfers in	1,655,860	—	1,655,860
Transfers out	(9,324)	—	(9,324)
Total transfers	1,646,536	—	1,646,536
Change in net assets	3,020,340	(23,716)	2,996,624
Net assets at beginning of year	45,400,874	97,233	45,498,107
Net assets at end of year	$ 48,421,214	73,517	48,494,731

See accompanying independent auditors' report.

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

Single Family Program Fund

Combining Schedule of Cash Flows

Year ended June 30, 2006

		Homeowner Mortgage Revenue Bonds	Residential Mortgage Revenue Bonds	Total
Cash flows from operating activities:				
Receipts for program loans, interest and service fees	$	118,134,643	—	118,134,643
Payments for program loans		(166,604,042)	(25,000)	(166,629,042)
Payments to suppliers		(1,343,925)	—	(1,343,925)
Interest received on investments		9,284,187	26,312	9,310,499
Net cash provided by (used in) operating activities		(40,529,137)	1,312	(40,527,825)
Cash flows from noncapital financing activities:				
Proceeds from sale of revenue bonds and notes		99,997,950	—	99,997,950
Principal paid on revenue bonds and notes		(166,346,359)	753	(166,345,606)
Interest paid on revenue bonds and notes		(37,414,749)	(25,028)	(37,439,777)
Due to other funds		1,625,073	25,000	1,650,073
Transfers in		1,655,860	—	1,655,860
Transfers out		(9,324)	—	(9,324)
Net provided by (used in) noncapital financing activities		(100,491,549)	725	(100,490,824)
Cash flows from investing activities:				
Purchase of investment securities		(598,925,485)	(295,719)	(599,221,204)
Proceeds from sales and maturities of investment securities		743,397,652	293,961	743,691,613
Net cash provided by (used in) investing activities		144,472,167	(1,758)	144,470,409
Net increase in cash and cash equivalents		3,451,481	279	3,451,760
Cash and cash equivalents at beginning of year		698,768	314	699,082
Cash and cash equivalents at end of year	$	4,150,249	593	4,150,842
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	$	1,373,804	(23,716)	1,350,088
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Interest expense		40,175,851	25,028	40,200,879
Changes in assets and liabilities:				
Investment income receivable		156,569	—	156,569
Program loans		(81,119,584)	—	(81,119,584)
Interest on program loans		(415,694)	—	(415,694)
Other liabilities		(700,083)	—	(700,083)
Total adjustments		(41,902,941)	25,028	(41,877,913)
Net cash provided by (used in) operating activities	$	(40,529,137)	1,312	(40,527,825)

See accompanying independent auditors' report.

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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 audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Illinois Housing Development Authority (the Authority), a component unit of the State of Illinois, 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. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited 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 the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that will be reported to management of the Authority in a separate report dated November 7, 2006.

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
November 7, 2006