

Illinois Housing Authority, LLC

(A Component Unit of the Illinois Housing
Development Authority)

Financial Audit and Compliance Examination

Year Ended June 30, 2012

(With Independent Auditor's Report Thereon)

Performed as Special Assistant Auditors

for the Auditor General, State of Illinois

Illinois Housing Authority, LLC
(A Component Unit of the Illinois Housing Development Authority)

Financial Audit and Compliance Examination
Year Ended June 30, 2012

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Illinois Housing Authority, LLC

(A Component Unit of the Illinois Housing Development Authority)

Financial Audit and Compliance Examination
Year Ended June 30, 2012

Agency Officials

Executive Director	Mary R. Kenney	
Assistant Executive Director/Chief of Staff	Bryan E. Zises	
Acting General Counsel	Kristi S. Poskus	10/15/2010 – 7/31/2011
General Counsel	Maureen G. Ohle	8/1/2011 – Current
Chief Financial Officer	Hazim Taib	
Controller	Michele Williams	

Agency Officials are located at:

401 North Michigan Avenue, Suite 700
Chicago, Illinois 60611

**Illinois Housing Authority, LLC
401 N. Michigan Avenue, Suite 700
Chicago, IL 60611**

December 13, 2012

McGladrey LLP
20 North Martingale Road, Ste 500
Schaumburg, IL. 60173

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Illinois Housing Authority, LLC, an Illinois limited liability company (the "LLC") of which the Illinois Housing Development Authority, a body politic and corporate of the State of Illinois (the "Authority") is the sole member. We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the LLC's compliance with the following assertions during the year ended June 30, 2012. Based on this evaluation, we assert that during the year ended June 30, 2012, the LLC has materially complied with the assertions below.

- A. The LLC has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- B. The revenues and receipts collected by the LLC are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
- C. The money or negotiable securities or similar assets handled by the LLC have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

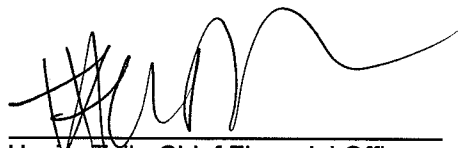
Very truly yours,

ILLINOIS HOUSING AUTHORITY, LLC, an Illinois limited liability Company

By: **ILLINOIS HOUSING DEVELOPMENT AUTHORITY**, a body politic and corporate of the State of Illinois, as its sole member

Acknowledged by:

By: 
Mary R. Kenney, Executive Director
Illinois Housing Development Authority

By: 
Hazim Taib, Chief Financial Officer
Illinois Housing Development Authority

By: 
Michele Williams, Controller
Illinois Housing Development Authority

Illinois Housing Authority, LLC
 (A Component Unit of the Illinois Housing Development Authority)

Financial Audit and Compliance Examination
 Year Ended June 30, 2012

Compliance Report

Summary

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

Accountants' Report

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

Schedule of Findings

Number of	Current report
Findings	3
Repeated findings	-
Prior recommendations implemented or not repeated	-

Schedule of Findings and Responses

Item No.	Page	Description	Finding Type
Government Auditing Standards			
12-01	9	No Formal Policy Addressing Custodial Credit Risk	Significant Deficiency
12-02	10	Bank Account	Significant Deficiency
State Compliance			
12-03	11	Financial Information Reported to the Office of the Comptroller Late	Noncompliance

All three findings meet the reporting criteria for State Compliance purposes.

Exit Conference

On December 5, 2012, the Illinois Housing Authority, LLC waived the exit conference relating to the financial audit and compliance examination of June 30, 2012.

Responses to the recommendations were provided by Michele Williams, Controller, in a letter dated December 7, 2012.



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

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

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the Illinois Housing Authority, LLC's (LLC), a component unit of the Illinois Housing Development Authority (Authority), compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2012. The management of the LLC is responsible for compliance with these requirements. Our responsibility is to express an opinion on the LLC's compliance based on our examination.

- A. The LLC has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- B. Revenues and receipts collected by the LLC are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
- C. Money or negotiable securities or similar assets handled by the LLC on behalf of the State or held in trust by the LLC have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

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

In our opinion, the LLC complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the year ended June 30, 2012. However, the results of our procedures disclosed instances of noncompliance with the requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings and responses as findings 12-01, 12-02 and 12-03.

Internal Control

The management of the LLC is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the LLC's internal control over compliance with the requirements listed in the first paragraph of this report as a basis for designing our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the LLC's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the LLC's internal control over compliance.

A deficiency in an entity's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements listed in the first paragraph of this report on a timely basis. *A material weakness in an entity's internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance with the requirements listed in the first paragraph of this report was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we considered to be significant deficiencies as described in the accompanying schedule of findings and responses as items 12-01, 12-02 and 12-03. *A significant deficiency in an entity's internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The LLC's responses to the finding identified in our examination is described in the accompanying schedule of findings and responses. We did not examine the LLC's response and, accordingly, we express no opinion on it.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the business-type activities of the LLC as of and for the year ended June 30, 2012, and have issued our report thereon dated December 13, 2012, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the LLC's basic financial statements. The accompanying supplementary information for the year ended June 30, 2012 on page 21 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the LLC. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying supplementary information for the year ended June 30, 2012 on page 21 has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the year ended June 30, 2012 on page 21 is fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2012.

The accompanying supplementary information in the Analysis of Operations Section on page 22 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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 Board members, and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey LLP

Schaumburg, Illinois
December 13, 2012



**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 Board of the
Illinois Housing Authority, LLC

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the business-type activities of the Illinois Housing Authority, LLC (LLC), a component unit of the Illinois Housing Development Authority (Authority), as of and for the year ended June 30, 2012, which collectively comprise the LLC's basic financial statements, and have issued our report thereon dated December 13, 2012. 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

Management of the LLC is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the LLC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the LLC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the LLC's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses as items 12-01 and 12-02 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the LLC's 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*.

The LLC's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the LLC's responses, and accordingly, we express no opinion on the responses.

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 Board members, and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey LLP

Schaumburg, Illinois
December 13, 2012

Illinois Housing Authority, LLC

(A Component Unit of the Illinois Housing Development Authority)

Financial Audit and Compliance Examination

Year Ended June 30, 2012

Current Year Findings – Government Auditing Standards

Finding 12-01 No Formal Policy Addressing Custodial Credit Risk

The Illinois Housing Authority, LLC (LLC) disclosed in their June 30, 2012 financial statements that they did not have a formal policy addressing custodial credit risk.

The LLC's financial statements are prepared in accordance with generally accepted accounting principles (principles). The Governmental Accounting Standards Board (GASB) establishes those principles. GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires disclosure information regarding deposits and investments that are subject to various risks, with custodial credit risk being one of those risks. GASB 40 defines custodial risk as the risk that in the event of a financial institution failure, the LLC would not be able to recover the value of the cash and investments in the possession of an outside party.

Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the LLC to establish and maintain a system of fiscal and administrative controls to ensure resources are properly recorded and accounted for to permit the preparation of accounts, reliable financial and statistical reports, and to maintain accountability over the LLC's resources.

At June 30, 2012, the LLC identified \$823,000 in uninsured cash balances with one financial institution.

LLC management stated it felt that the financial institution had strong short term ratings of A-1 and P-1 from S&P and Moody's to mitigate such risk.

Failure to have a formal policy addressing custodial credit risk can expose the LLC to the risk of loss in the event of a financial institution failure. (Finding Code No. 12-01)

Recommendation

We recommend that the LLC develop a formal policy to address custodial credit risk as it relates to cash balances and investments.

LLC Response

LLC management concurs with the recommendation and will create procedures to instruct the property agent to transfer any excess funds not required for operations of the property to a financial institution designated by the LLC.

Illinois Housing Authority, LLC

(A Component Unit of the Illinois Housing Development Authority)

Financial Audit and Compliance Examination

Year Ended June 30, 2012

Current Year Findings – Government Auditing Standards (continued)

Finding 12-02 Bank Account

The Illinois Housing Authority, LLC (LLC) did not instruct its property agent to transfer any excess funds related to property operations into a bank account controlled by or in the name of the LLC.

During our audit of the LLC, we noted that their property agent was managing three bank accounts on behalf of the LLC. These three bank accounts had a total balance of \$1,073,000 as of June 30, 2012. None of these bank accounts were in the name of the LLC and none of them were in interest bearing accounts. There was not a process or procedure to instruct the property agent to transfer any excess funds that were not required to operate the property to an account controlled by or in the name of the LLC.

Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the LLC to establish and maintain a system of fiscal and administrative controls to ensure resources are properly recorded and accounted for to permit the preparation of accounts, reliable financial and statistical reports, and to maintain accountability over the LLC's resources.

LLC management stated that pursuant to the management agreement for transitioning the property to the property agent a regular requirement to transfer funds in excess of operational needs to the LLC bank account was not established.

Without a process or procedure to transfer any excess cash not needed for the operations of the property, the LLC loses the ability to control and put those funds to use for other purposes or to earn interest. (Finding Code No. 12-02).

Recommendation

We recommend that the LLC implement procedures to ensure any excess funds are transferred to the LLC to a bank account in their name.

LLC Response

LLC management concurs with the recommendation and pursuant to the management agreement the property agent is holding funds of the property on behalf of the LLC and is required to post a fidelity bond for the benefit of the LLC. In addition the LLC will create procedures that will allow it to track property cash flows and instruct as necessary, the agent to transfer any excess funds not required for use by the property to a bank account controlled by the LLC.

Illinois Housing Authority, LLC

(A Component Unit of the Illinois Housing Development Authority)

Financial Audit and Compliance Examination
Year Ended June 30, 2012

Current Year Findings – State Compliance

Finding 12-03 Financial Information Reported to the Office of the Comptroller Late

The Illinois Housing Authority, LLC (LLC), a component unit of the Illinois Housing Development Authority (Authority), did not provide to the Authority all June 30, 2012 financial information in order for the Authority to file all required financial information with the Office of the Comptroller by the required deadline of October 31, 2012. The LLC provided the required financial information to the Authority on November 2, 2012.

During our audit of the LLC, we noted that the Authority received a notification from the Office of the Comptroller on November 5, 2012 that the draft of the financial statements and footnotes as of June 30, 2012 was not submitted to the Office by the required deadline of October 31, 2012.

Pursuant to 15 ILCS 405/19.5, State agencies are required to report to the Comptroller, on or before October 31, 2012, all financial information deemed necessary to compile and publish the State of Illinois Comprehensive Annual Financial Report (CAFR).

LLC management stated that this was the first year a separate audit was required and this impacted their ability to submit the draft audit report and footnotes to the Authority in time to meet the October 31, 2012 deadline.

Delays are detrimental to the ability of the Office of the Comptroller to prepare financial reporting information in a timely manner and to subsequently publish the CAFR by December 31, 2012. (Finding Code No. 12-03).

Recommendation

We recommend that the LLC implement procedures to ensure all financial information is provided to the Authority in time for them to meet the Office of the Comptroller's required deadline.

LLC Response

LLC management concurs with the recommendation and now that the LLC is aware that a separate audit will be required, we can plan accordingly to issue draft financial statements and footnotes to the Authority in enough time for the Authority to provide all required financial information by the October 31 reporting deadline.

Illinois Housing Authority, LLC

(A Component Unit of the Illinois Housing Development Authority)

Financial Statement Report
Year Ended June 30, 2012

Summary

The audit of the accompanying financial statements of the Illinois Housing Authority, LLC (LLC) was performed by McGladrey LLP.

Based on their audit, the auditors expressed an unqualified opinion on the LLC's basic financial statements.

Summary of Findings

The auditors identified matters involving the LLC's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying schedule of findings and responses listed in the table of contents as findings 12-01 (No Formal Policy Addressing Custodial Credit Risk) and 12-02 (Bank Account).



Independent Auditors' Report

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities of the Illinois Housing Authority, LLC (LLC), a component unit 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, 2012, which collectively comprise the LLC's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the LLC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the LLC as of June 30, 2012, and the changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2012 on our consideration of the LLC's internal control over financial reporting and 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

McGladrey LLP

Schaumburg, Illinois
December 13, 2012

Illinois Housing Authority, LLC

(A Component Unit of the Illinois Housing Development Authority)

Statement of Net Assets

June 30, 2012

Assets:	
Current assets:	
Cash	\$ 1,067,007
Tenant accounts receivable	2,866
Utility deposits	<u>11,512</u>
Total current assets	<u>1,081,385</u>
Noncurrent assets:	
Capital assets:	
Land	2,600,000
Building	3,600,000
Furniture and equipment	<u>16,316</u>
	6,216,316
Less: Accumulated depreciation	<u>(72,727)</u>
Total noncurrent assets	<u>6,143,589</u>
Total assets	<u>7,224,974</u>
Liabilities:	
Current liabilities:	
Accrued liabilities and other	52,341
Accrued property taxes	415,000
Prepaid rent	<u>2,283</u>
Total current liabilities	469,624
Noncurrent liabilities:	
Security deposits	<u>84,513</u>
Total liabilities	<u>554,137</u>
Net assets:	
Unrestricted	<u>6,670,837</u>
Total net assets	<u>\$ 6,670,837</u>

See accompanying notes to financial statements.

Illinois Housing Authority, LLC

(A Component Unit of the Illinois Housing Development Authority)

Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2012

Operating revenues:	
Rental income	\$ 2,036,324
Vacancies and adjustments	(381,591)
Other	76,331
Total operating income	<u>1,731,064</u>
Operating expenses:	
Advertising and renting	31,702
Other general and administrative	238,980
Salaries and benefits	279,009
Operating expenses	104,315
Utilities	170,272
Maintenance expenses	121,380
Taxes and insurance	323,296
Depreciation	72,727
Miscellaneous expenditures	25,722
Total operating expenses	<u>1,367,403</u>
Operating income	363,661
Transfer from Illinois Housing Development Authority, foreclosed property	<u>6,307,176</u>
Change in net assets	6,670,837
Net assets at beginning of year	<u>-</u>
Net assets at end of year	<u><u>\$ 6,670,837</u></u>

See accompanying notes to financial statements.

Illinois Housing Authority, LLC

(A Component Unit of the Illinois Housing Development Authority)

Statement of Cash Flows

Year Ended June 30, 2012

Cash flows from operating activities:	
Receipts for rental operations	\$ 1,839,546
Payments for rental operations	(1,024,179)
Payments for salaries and benefits	(279,009)
Net cash provided by operating activities	<u>536,358</u>
Cash flows from noncapital financing activities:	
Balance transfer to Illinois Housing Authority, LLC	546,965
Cash flows from capital financing and related activities	
Acquisition of capital assets	<u>(16,316)</u>
Net increase in cash	1,067,007
Cash at beginning of year	<u>-</u>
Cash at end of year	<u><u>\$ 1,067,007</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 363,661
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	72,727
Changes in assets and liabilities:	
Tenants accounts receivable	63,609
Utility deposits	3,608
Other liabilities	32,753
Total adjustments	<u>172,697</u>
Net cash provided by operating activities	<u><u>\$ 536,358</u></u>
Supplemental schedule of noncash investing activities	
Transfer of property from Illinois Housing Development Authority	\$ 6,307,176

See accompanying notes to financial statements.

**Illinois Housing Authority, LLC
(A Component Unit of the Illinois Housing Development Authority)**

**Notes to Financial Statements
June 30, 2012**

Note 1. Organization

The Illinois Housing Authority, LLC (LLC) was organized on August 10, 2011 as a member-managed limited liability company under the Illinois Limited Liability Company Act. The LLC was organized by, and is a component unit of, the Illinois Housing Development Authority (the Authority), a body politic and corporate of the State of Illinois. The sole member of the LLC is the Authority. To the extent provided by the Illinois Limited Liability Company Act, the member's liability is limited.

The purpose of the LLC is to maintain, improve and dispose of properties acquired through foreclosure or deed-in-lieu of foreclosure. As of June 30, 2012, the LLC held title to a single multi-family housing development known as Marywood Apartment Homes (Marywood).

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the LLC are prepared as a business-type activity, as define by GASB Statement No. 34, using the economic resources measurement focus and the accrual basis of accounting. Business-type activities are financed in whole or in part by fees charged to external parties.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Rental Income Recognition

Rental revenue is principally derived from one-year leases on apartment units, which are accounted for as operating leases. Accordingly, rental revenue is recognized when the rentals become due. Rentals received in advance are accounted for as prepaid rent.

Note 3. Cash and Investments

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the LLC will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The LLC's cash at June 30, 2012 consisted of checking and money market accounts at one financial institution, held in the name of Evergreen Property Management (the Agent), however, the LLC has the sole right to these account balances.

Accounts at this financial institution are insured by the Federal Deposit Insurance Corporation. During fiscal year 2012, the LLC had cash balances in excess of insured limits. At June 30, 2012, the LLC had \$823,000 uninsured cash balance. The LLC has not experienced any losses on these accounts, and monitors the credit worthiness of the financial institution with which it conducts business. The LLC believes it is not exposed to any significant credit risk with respect to its cash balances.

**Illinois Housing Authority, LLC
(A Component Unit of the Illinois Housing Development Authority)**

**Notes to Financial Statements
June 30, 2012**

Note 3. Cash and Investments (Continued)

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 investment policy does not limit the amounts the LLC may invest in any one issuer.

Note 4. Capital Assets

Building and Land

On September 15, 2011, the Illinois Housing Development Authority (Authority) took title to Marywood and transferred the property to the LLC at an appraised value of \$6,307,176. Marywood is a multi-family housing development previously financed by bonds issued by the Authority and insured under the HUD Risk Sharing Program. The building and land are recorded at the June 30, 2012 appraised value of the development of \$6,200,000.

For the year ended June 30, 2012 depreciation of the building amounted to \$72,727. Depreciation was calculated on a straight-line basis from the date of acquisition of the property by the LLC to May 15, 2012 which is the date that the Authority contracted with a licensed real estate broker to put the development up for sale. Estimated useful life of building used for depreciation is 33 years which is the original 40-year useful life of the property minus 7 years that the property has been in service.

Note 5. Property

Property Held for Sale

The Authority has currently listed Marywood for sale with a licensed real estate broker and will evaluate all offers that are received.

Impairment of Long-Lived Assets

The LLC will review the property for any impairments whenever events or changes in circumstances indicate that the current carrying value of the asset may not be recoverable. The LLC has recorded the carrying amount of the property at the June 30, 2012 appraised value.

Real Estate Taxes

Real estate taxes are estimated at \$415,000 per year. The LLC plans on applying for a tax exemption certificate on the property.

Property Insurance

The Authority incurs expenses related to insurance coverage for Marywood.

Management Contract

The Agent is currently managing Marywood under an existing management agreement. A new property management contract is being drafted by the Authority. Management fees are calculated using a rate of 4% on gross rental collections. Total management fees for the year ended June 30, 2012, were \$67,535.

**Illinois Housing Authority, LLC
(A Component Unit of the Illinois Housing Development Authority)**

**Notes to Financial Statements
June 30, 2012**

Note 5. Property (Continued)

Rent and Income Restrictions

The Regulatory Agreement and Declaration of Restrictive Covenants dated March 25, 2003, which restricts occupancy to individuals or families with adjusted income, does not exceed 50% for 26 of the units (Very Low Income Tenant) and 60% for 234 of the units (Low Income Tenants) of the median gross income for the metropolitan statistical area of Chicago. The Extended Use Agreement dated March 6, 2003, requires that at least 40% of the units must be occupied by Tenants at or below 60% of the median income and establishes an applicable fraction of 100% of the units.

Repairs and Out of Service Units

Currently, Marywood has estimated critical and immediate repairs and replacements in the amount of \$1.5 million. As of June 30, 2012 15 units were reported as out-of-service.

Location

Marywood is located in Aurora, Illinois in Kane County. The property consists of 260 units located at scattered sites, split into East and West groups.

East Group:

<u>Address</u>	<u>Units</u>
1650-70 Marywood Ave	46
1616-28 Marywood Ave	46
1621-35 Marywood Ave	10
1275 Marshall Blvd	<u>50</u>
East Group Total	152

West Group:

<u>Address</u>	<u>Units</u>
2080 Best Place	8
2090 Best Place	8
2110-40 Best Place	16
540 Linda St	8
560 Linda Ct	8
2101 Best Place	24
2141-45 Best Pl	<u>36</u>
West Group Total	108

Grand Total 260

Note 6. Tax Status

The LLC qualifies as a Disregarded Entity-Single Member LLC. The income from the LLC would pass through to the 100% owner, Illinois Housing Development Authority.

Note 7. Subsequent Events

Effective as of December 5, 2012, IHDA Dispositions, LLC is now the sole member of Illinois Housing Authority, LLC and Illinois Housing Development Authority is the sole member of IHDA Dispositions, LLC.

**Illinois Housing Authority, LLC
(A Component Unit of the Illinois Housing Development Authority)**

Year Ended June 30, 2012

Supplementary Information for State Compliance Purposes

Summary

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

Fiscal Schedules and Analysis
Description of Cash Accounts

Analysis of Operations
The LLC Functions and Planning Program (Unaudited)
Tenant Occupancy Rates (Unaudited)

The accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditors' opinion, it is fairly stated in all material respects in relation to the basic financial statements as a whole from which it has been derived. The accountants' report also states the Analysis of Operations Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, they do not express an opinion or provide any assurance on it.

**Illinois Housing Authority, LLC
(A Component Unit of the Illinois Housing Development Authority)**

Year Ended June 30, 2012

Fiscal Schedules and Analysis

Description of Cash Accounts

The LLC's cash at June 30, 2012 was maintained in bank accounts, as follows:

	Bank Balance	Financial Statement Balance
PNC Bank - operating account	\$ 600,951	\$ 594,697
PNC Bank - tenant security deposit account	107,120	107,120
PNC Bank - real estate tax escrow account	365,190	365,190
Total	<u>\$ 1,073,261</u>	<u>\$ 1,067,007</u>

**Illinois Housing Authority, LLC
(A Component Unit of the Illinois Housing Development Authority)**

Year Ended June 30, 2012

Analysis of Operations

The LLC Functions and Planning Program (Unaudited)

The Illinois Housing Authority, LLC (LLC) was organized on August 10, 2011 as a member-managed limited liability company under the Illinois Limited Liability Company Act. The LLC was organized by, and is a component unit of, the Illinois Housing Development Authority (the Authority), a body politic and corporate of the State of Illinois. The sole member of the LLC is the Authority. To the extent provided by the Illinois Limited Liability Company Act, the member's liability is limited.

The purpose of the LLC is to maintain, improve and dispose of properties acquired through foreclosure or deed-in-lieu of foreclosure. As of June 30, 2012, the LLC held title to a single multi-family housing development known as Marywood Apartment Homes (Marywood).

Tenant Occupancy Rates (Unaudited)

Monthly occupancy rates

	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12
Units rented	235	232	231	236	237	233	234	233	232	237
Units vacant	25	28	29	24	23	27	26	27	28	23
Total units	260	260	260	260	260	260	260	260	260	260
Occupancy rate	90%	89%	89%	91%	91%	90%	90%	90%	89%	91%

Information was obtained from the property management's records.