# ILLINOIS HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the State of Illinois)

Financial Statements

June 30, 2005

(With Independent Auditors' Report Thereon)

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

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## Table of Contents

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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, 2005, 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. 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 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 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, 2005, and the respective 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.

The management's discussion and analysis on pages 4 through 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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 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 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

October 28, 2005

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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, 2005. Please read it in conjunction with the Authority's financial statements, which follow this section.

**Financial Highlights**

- Net assets of the Authority increased $59.8 million, to $702.2 million as of June 30, 2005, from increases in both the Authority's governmental ($45.3 million) and business-type ($14.5 million) activities.
- Operating income of the Authority's business-type activities increased $14.5 million from the prior year operating loss as a decrease in interest expense ($19.0 million) and an increase in investment income ($1.6 million), were only partially offset by lower interest on program loans ($6.7 million).
- The Authority's debt outstanding of $1,493.0 million as of June 30, 2005 increased $3.3 million from the amount outstanding as of June 30, 2004. Debt issuances for the year totaled $453.7 million.
- Loan originations for the year totaled $221.0 million and $35.8 million in the Authority's business-type and governmental 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 of the Authority's major 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 a "Notes to Financial Statements" section, that explains some of the information in the Authority-wide and fund financial statements and provides 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.

### Fund Financial Statements

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 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 proprietary 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 increased by $59.8 million, or 9.3%, from the June 30, 2004 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.) | |
|---|---|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | Amount | % |
| Current assets: | | | | | | | | |
| Cash and investments – unrestricted | $ 87.8 | 70.5 | 86.0 | 94.9 | 173.8 | 165.4 | 8.4 | 5.1 |
| Program loans receivable | 8.3 | 8.4 | 33.8 | 34.8 | 42.1 | 43.2 | (1.1) | (2.5) |
| Other current assets | (0.5) | (0.6) | 10.3 | 14.5 | 9.8 | 13.9 | (4.1) | (29.5) |
| Total current assets | 95.6 | 78.3 | 130.1 | 144.2 | 225.7 | 222.5 | 3.2 | 1.4 |
| Investments – restricted | — | — | 685.0 | 634.6 | 685.0 | 634.6 | 50.4 | 7.9 |
| Net program loans receivable | 308.4 | 280.4 | 1,139.9 | 1,145.7 | 1,448.3 | 1,426.1 | 22.2 | 1.6 |
| Other assets | — | — | 31.5 | 56.4 | 31.5 | 56.4 | (24.9) | (44.1) |
| Total assets | 404.0 | 358.7 | 1,986.5 | 1,980.9 | 2,390.5 | 2,339.6 | 50.9 | 2.2 |
| Current liabilities: | | | | | | | | |
| Bonds and notes payable | — | — | 154.1 | 126.7 | 154.1 | 126.7 | 27.4 | 21.6 |
| Deposits held in escrow | — | — | 142.9 | 151.3 | 142.9 | 151.3 | (8.4) | (5.6) |
| Other current liabilities | — | — | 52.4 | 56.2 | 52.4 | 56.2 | (3.8) | (6.8) |
| Total current liabilities | — | — | 349.4 | 334.2 | 349.4 | 334.2 | 15.2 | 4.5 |
| Bonds and notes payable | — | — | 1,338.9 | 1,363.0 | 1,338.9 | 1,363.0 | (24.1) | (1.8) |
| Total liabilities | — | — | 1,688.3 | 1,697.2 | 1,688.3 | 1,697.2 | (8.9) | (0.5) |
| Net assets: | | | | | | | | |
| Invested in capital assets-net | — | — | 0.5 | 0.6 | 0.5 | 0.6 | (0.1) | (16.7) |
| Restricted | 123.9 | 111.6 | 221.4 | 195.3 | 345.3 | 306.9 | 38.4 | 12.5 |
| Unrestricted | 280.1 | 247.1 | 76.3 | 87.8 | 356.4 | 334.9 | 21.5 | 6.4 |
| Total net assets | $ 404.0 | 358.7 | 298.2 | 283.7 | 702.2 | 642.4 | 59.8 | 9.3 |

## Governmental Activities

Net assets of the Authority's governmental activities increased $45.3 million, or 12.6% to $404.0 million. Total program loans receivable (current and non-current), which are funded by a portion of the State Real Estate Transfer Tax and federal funds and for which there is no repayment liability, increased by $27.9 million, or 9.6% to $316.7 million. Cash and investments increased by $17.3 million, or 24.5% as revenues and repayments of loans exceeded loan and grant payouts, plus administrative expenses. State statute restricts the use of the Affordable Housing Trust Fund and the HOME programs to program activities.

## Business-Type Activities

Net assets of the Authority's business-type activities increased by $14.5 million, to $298.2 million. Net assets of the Authority's multi-family lending programs increased $11.1 million from operating income of $5.9 million and the annual transfer ($5.2 million) from the Affordable Housing Trust Fund. Program loans receivable (current and non-current) decreased $6.8 million, or .6% to $1,173.7 million due mainly to decreases in both the Authority's Mortgage Loan Program ($67.5 million) and Administrative Funds ($4.6 million), partially offset by an increase in the Authority's Single Family Program ($65.3 million) Fund. Cash and investments (current and non-current) increased $41.5 million, or 5.7% due to a fiscal year 2005 reclassification ($30.2 million) of the Authority's carrying value in a real estate investment (Lakeshore Plaza) from real estate owned, and investment of bond proceeds within the Authority's Single Family Program prior to their being used to originate loans. Total bonds and notes payable (current and non-current) increased $3.3 million, or .2%, from a $109.5 million increase with the Single Family Program, nearly offset by declines in the Authority's Multi-Family Program.

Restricted net assets of the Authority's business-type activities increased $26.1 million, or 13.4%. The increases in net assets within the Authority's bond funds were $24.8 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, and three programs are shown as business-type activities. The business-type activities include 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 statement of activities for the fiscal year ended June 30, 2005 is shown in the following table.

**Changes in Net Assets**

(In millions of dollars)

| | Governmental activities | | Business-type activities | | Total | |
|---|---|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** | **2005** | **2004** |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | $ 3.8 | 3.0 | 102.5 | 108.9 | 106.3 | 111.9 |
| Operating/grant/federal revenues | 23.3 | 17.4 | 155.0 | 160.0 | 178.3 | 177.4 |
| General revenues: | | | | | | |
| Investment income | — | — | 2.0 | 0.5 | 2.0 | 0.5 |
| Real estate transfer taxes | 53.5 | 43.1 | — | — | 53.5 | 43.1 |
| Total revenues | 80.6 | 63.5 | 259.5 | 269.4 | 340.1 | 332.9 |
| Expenses: | | | | | | |
| Direct | 30.1 | 21.2 | 238.5 | 262.2 | 268.6 | 283.4 |
| Administrative | — | — | 11.7 | 12.4 | 11.7 | 12.4 |
| Total expenses | 30.1 | 21.2 | 250.2 | 274.6 | 280.3 | 295.8 |
| Excess (deficit) before transfers | 50.5 | 42.3 | 9.3 | (5.2) | 59.8 | 37.1 |
| Transfers | (5.2) | (5.2) | 5.2 | 5.2 | — | — |
| Increase in net assets | $ 45.3 | 37.1 | 14.5 | — | 59.8 | 37.1 |

## Governmental Activities

Revenues of the Authority's governmental activities increased by $17.1 million from the prior year mainly from a $10.4 million increase in real estate transfer taxes, and a $5.9 million increase in federal program funds. Direct expenses, which consisted of a payment to the State of Illinois General Revenue Fund ($5.1 million), grants ($19.1 million), allocations of expenses incurred ($3.4 million) to administer the programs and provisions for estimated losses on program loans receivable ($2.5 million) increased $8.9 million from the prior year due to a $10.5 million increase in grants and a $2.0 million increase in the provision for estimated losses for program loans receivable, partially offset by a $3.7 million decrease in the payment to the State of Illinois General Revenue Fund. 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 declined $9.9 million from the prior year primarily from a $6.4 million decrease in charges for services, which consist primarily of interest income on program loans ($71.1 million), program investment income ($16.5 million) and servicing fee and application fee income. 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. Interest income on program loans ($6.7 million) accounted for the decrease compared to prior year.

Direct expenses of the Authority's business-type activities, which consist primarily of interest expense ($78.5 million) on Authority debt incurred to fund its various lending programs and the pass-through of federal assistance programs' funds ($153.8 million), declined $23.7 million from the prior year, primarily from lower interest expense ($19.0 million) and the pass through of federal assistance programs' funds ($5.0 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 includes all other administrative and supportive functions and all overhead expenses, were $.7 million below the prior year.

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 $16.6 million (See the Statement of Activities) and thus provided most of the Authority's increase in net assets. Direct expenses of the Single-Family Mortgage Loan Program exceeded program revenues by $.7 million, compared to the prior year shortfall of $7.2 million. The prior year results were adversely affected by a high level of prepayments of higher coupon mortgage loans, which were then reinvested, prior to the redemption of underlying bonds, at rates lower than the underlying bond interest rates.

## Proprietary Fund Results

Net assets of the Authority's proprietary funds increased from the June 30, 2004 amount by $14.5 million, to $298.2 million. The following table summarizes the statement of revenues, expenses, and changes in net assets of the Authority's proprietary funds for the fiscal years ended June 30, 2005 and 2004.

**Changes in Net Assets/Proprietary Funds**

(In millions of dollars)

| | Administrative Fund | | Mortgage Loan Program Fund | | Single Family Program Fund | |
|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Operating revenues: | | | | | | |
| Interest earned on program loans | $ 3.5 | 3.5 | 37.2 | 44.2 | 30.3 | 30.0 |
| Investment income | 1.9 | 0.5 | 7.9 | 7.3 | 8.6 | 9.0 |
| Federal assistance programs | 151.5 | 153.7 | 5.2 | 5.1 | — | — |
| Service fees | 9.4 | 9.0 | — | — | — | — |
| Development fees | 0.5 | 0.5 | — | — | — | — |
| HUD savings | 1.3 | 1.3 | — | — | — | — |
| Other | 2.7 | 2.3 | 2.3 | 3.1 | — | — |
| Total operating revenues | 170.8 | 170.8 | 52.6 | 59.7 | 38.9 | 39.0 |
| Operating expenses: | | | | | | |
| Interest expense | — | — | 40.4 | 52.5 | 38.0 | 45.0 |
| Federal assistance programs | 151.5 | 153.7 | 5.2 | 5.1 | — | — |
| Salaries and benefits | 11.2 | 11.3 | — | — | — | — |
| Professional fees | 1.3 | 1.9 | — | — | 0.1 | 0.1 |
| Other general and administrative | 3.3 | 3.4 | — | — | — | 0.1 |
| Financing costs | 0.3 | 0.6 | 0.7 | 0.6 | 0.5 | 0.4 |
| Provision for losses on program loans receivable | — | — | 0.4 | — | — | — |
| Total operating expenses | 167.6 | 170.9 | 46.7 | 58.2 | 38.6 | 45.6 |
| Operating income | 3.2 | (0.1) | 5.9 | 1.5 | 0.3 | (6.6) |
| Transfers in (out) | (13.5) | 0.5 | 5.2 | 5.2 | 13.5 | (0.5) |
| Change in net assets | (10.3) | 0.4 | 11.1 | 6.7 | 13.8 | (7.1) |
| Net assets at beginning of year | 111.3 | 110.9 | 140.6 | 133.9 | 31.7 | 38.8 |
| Net assets at end of year | $ 101.0 | 111.3 | 151.7 | 140.6 | 45.5 | 31.7 |

Net assets of the Administrative Fund decreased by $10.3 million, compared to the prior year increase of $.4 million. 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 Homeowners' Bond Fund. This offset operating earnings of $3.2 million, compared to a $0.1 million operating loss for the prior year. The improvement in operating earnings was primarily from increased investment income ($1.4 million), service and other fees ($.8 million) and lower operating expenses, primarily professional fees ($.6 million) and financing costs ($.3 million).

Net assets of the Mortgage Loan Program Fund increased $11.1 million, or $4.4 million above the prior year's $6.7 million increase. Results were favorably affected by lower interest expense ($12.1 million) due to lower debt outstanding, primarily from loan pre-payments and the resulting bond redemptions, only partially being offset by lower interest income ($7.0 million). Investment income increased $.6 million, despite lower amounts invested, from a net increase in the fair value of investments ($.9 million), while in fiscal year 2004 investment income was decreased $1.6 million due to a net decrease in the fair value of investments.

Net assets of the Single Family Program Fund increased $13.8 million, compared to a $7.1 million decrease of the prior year. The increase arose primarily from the previously cited $13.5 million transfer of net assets from the Authority's Administrative funds. The prior year operating results were adversely affected by a high rate of prepayments of higher coupon loans, the reinvestment of prepayments at rates below their underlying debt until the debt could be extinguished, and accelerations of the amortization of bond issuance and loan origination costs due to high prepayment rates. In fiscal year 2005 operating results stabilized as mortgage interest rates rose, loan prepayments decelerated, and the Authority's mortgage portfolio grew from the prior year-end amounts. Interest expense declined $7.0 million in fiscal year 2005 while interest on program loans increased $.3 million.

**Authority Debt**

Authority debt issuances during fiscal year 2005 totaled $453.7 million, with activity arising from the Single Family Program ($337.0 million), and the Mortgage Loan Program Fund ($116.7 million). Debt retirements within these funds were $228.9 million and $223.3 million, respectively. Total bonds and notes payable increased $3.3 million as debt issuances slightly offset retirements of debt, primarily special redemptions necessitated by mortgage prepayments within both the Authority's Single Family Program and Mortgage Loan Program Funds. For additional information, see note F, Bonds and Notes Payable in the Notes to Financial Statements.

During fiscal year 2005, 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 900, Chicago, IL 60611 or visit our website at: www.ihda.org.

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**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, 2005, 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, 2005, amounts outstanding against this limitation were approximately $1,800,000,000.

**Note B—Summary of Significant Accounting Policies**

The following summarizes the significant accounting policies of the Authority:

**Reporting Entity**

As defined by accounting principles generally accepted in the United States 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. 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 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.

**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.



(Continued)

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 receives value without directly giving equal value in exchange, include revenues from federal assistance programs. Revenue from these sources is recognized in the fiscal year in which all eligibility requirements have been met.

 (Continued)

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.

The designations of the Authority's Administrative Fund unrestricted net assets and net assets invested in capital assets as of June 30, 2005 are as follows:

| | | |
|---|---|---|
| Housing Partnership Program | $ | 7,500,000 |
| To pay expenses for programs under commitment or contract | | 1,000,000 |
| 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 | | 25,000,000 |
| Provide funds and reserves to support the Mortgage Participation Certificate Program | | 30,000,000 |
| | $ | 76,500,000 |

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, Net of Related Debt** – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**Restricted** – This consists of net assets that are legally restricted by outside parties or 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 Illinois Affordable Housing Trust Fund and the HOME Program as noted above. Accordingly, fund balances of these governmental funds are reserved for loans not due within one year. 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 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.

**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 and that 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, and money market investments that have a remaining maturity at time of purchase of one year or less, which are reported at amortized cost. Fair value is determined by reference to public market prices and quotations from a securities pricing service.

The real estate investment is reported at the lower of amortized cost or fair value. The determination of fair value is based upon periodic valuations that consider changes in market condition, development and disposition costs, and estimated holding period. Net operating income of ML-181 is recorded as other income and is applied primarily toward the Authority's debt service obligations of the bonds issued to refinance the development.

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 2005 were approximately $207,000.

**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 of the loans. 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.

**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


(Continued)

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. Expense 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, 2005, unused compensated absences, which are included in other liabilities, were $486,169. 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 coverages 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

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, 2005, the Authority had the following investments, maturities, and credit quality.

| Investment | Carrying amount | Investment maturities (in years) Less than 1 | 1-5 | 6-10 | More than 10 | Custodial credit risk |
|---|---|---|---|---|---|---|
| Demand Repurchase Agreements | $ 152,299,976 | 618,916 | — | — | 151,681,060 | — |
| United States Agency Obligations | 561,493,016 | 509,693,902 | 47,572,746 | — | 4,226,368 | — |
| United States Government Obligations | 47,713,263 | 20,749,335 | 12,643,205 | 383,597 | 13,937,126 | — |
| Municipal Obligations and Other | 2,115,140 | — | 303,692 | 495,507 | 1,315,941 | — |
| | $ 763,621,395 | 531,062,153 | 60,519,643 | 879,104 | 171,160,495 | — |

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

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. Except for a portion of the funds of the Affordable Housing Trust Fund and HOME Program, all funds are held outside of the State Treasury in various banks and financial institutions.

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, 2005 are listed below.

| Counterparty | Rating (Outlook) S&P / Moody's | | Carrying amount |
|---|---|---|---|
| Bayerische Landesbank | AAA (Negative) / Aaa | $ | 30,005,121 |
| Morgan Guaranty Trust | Aa- (Stable) / Aa2 | | 42,684,807 |
| Morgan Stanley & Co. Inc. | A+ (Negative) / Aa3 | | 8,824,122 |
| HSBC Bank | AA- (Stable) / Aa2 | | 4,854,786 |
| Société Générale | AA- (Stable) / Aa2 | | 6,730,837 |
| Trinity Plus Funding Co. | AAA (Stable) / Aaa | | 6,120,459 |
| Westdeutsche Landesbank | AA- (Negative) / Aa2 | | 53,079,844 |

**Concentration of Credit Risk**

The Authority's policy does not limit the amounts the Authority may invest in any one issuer, however the Policy states the Authority will diversify its exposure to counterparties.

The Authority's investments also include the net carrying value of Lakeshore Plaza (ML-181) totallng $30,237,415 at June 30, 2005. The Authority acquired the real estate 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, 2005, the net carrying value of ML-181 was $30,237,415 and accumulated depreciation was $9,411,000.

It is the intent of the Authority to continue to own and operate ML-181 until the Authority determines that a sale or other disposition of the development would be in the best interests of the Authority. The Authority cannot predict at this time as to the dates on which, or the circumstances pursuant to which, such determinations might be made.

**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, 2005 consisted of the following:

| | | Payable From | | | | | |
|---|---|---|---|---|---|---|---|
| Receivable To | | Illinois Affordable Housing Trust | HOME Program | Administrative | Mortgage Loan Program | Single Family Program | Total |
| Administrative | $ | 623,603 | 323,948 | — | 3,146,930 | 634,554 | 4,729,035 |
| Home Program | | — | — | 3,613 | — | — | 3,613 |
| Mortgage Loan Program | | — | — | 20,072,547 | — | — | 20,072,547 |
| | $ | 623,603 | 323,948 | 20,076,160 | 3,146,930 | 634,554 | 24,805,195 |

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. This interfund receivable is expected to be reduced over a period of successive fiscal years.

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, 2005 consisted of the following:

| | | Transfers Out | | | | |
|---|---|---|---|---|---|---|
| Transfer In | | Illinois Affordable Housing Trust | Administrative | Mortgage Loan Program | Single Family Program | Total |
| Administrative | $ | — | — | 275,000 | 1,894 | 276,894 |
| Mortgage Loan Program | | 5,200,000 | 258,147 | — | — | 5,458,147 |
| Single Family Program | | — | 13,552,035 | — | — | 13,552,035 |
| | $ | 5,200,000 | 13,810,182 | 275,000 | 1,894 | 19,287,076 |

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, 2005 totaled $5,200,000. The transfers out from the Administrative Fund were to provide $10.0 million to the Homeowner Mortgage Revenue Bond Accounts for the purpose of acquiring single family loans and to pay approximately $3.5 million of 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.

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, 2005, 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 $699,580 and $404,510, 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 $6.1 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 2005, the accrual of interest and service fee income was suspended on approximately $9.6 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 $519,000 in the Administrative Fund at June 30, 2005. In addition, the Authority does not accrue interest income on approximately $15.6 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 $299,000.

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, 2005, loans receivable under this program were approximately $7.4 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 Authority, as of June 30, 2005, has entered into 28 Risk Sharing Loans totaling $144,172,148 and elected that HUD assume 10% to 50% of the loss with respect to those loans. Except for three loans totaling $16,591,000 which were financed through the issuance of the Authority's Housing Finance Bonds, one loan in the amount of $15,460,000 which was financed through the issuance of the Authority's Multi-Family Housing Revenue Bonds (Marywood) and two loans totaling $10,993,148 which were financed through the issuance of the Authority's Multi-Family Housing Bonds, these loans are not included in the Authority's financial statements as the Authority sold 100% participation interests in the loans to outside parties. The program's service and insurance fee incomes are recorded in the Administrative Fund.

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, 2005, the Authority has entered into twelve Ambac Loans totaling $130,751,000.

At June 30, 2005, for loans financed under the Risk Sharing and Mortgage Participation Certificate Programs, 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, 2005, 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, 2005, is as follows:

| | | Principal due by June 30 | | | | |
|---|---|---|---|---|---|---|
| **Interest rate – %** | | **2006** | **2011** | **2021** | **After 2021** | **Total** |
| | | | | (Dollars in thousands) | | |
| 0 –0. 99 | $ | 2,837 | 7,676 | 17,142 | 64,401 | 92,056 |
| 1 – 1.99 | | 1,648 | 9,266 | 25,106 | 62,577 | 98,597 |
| 2 – 3.99 | | 384 | 1,721 | 3,304 | 6,219 | 11,628 |
| 4 – 7.00 | | 32 | 209 | 540 | 499 | 1,280 |
| | $ | 4,901 | 18,872 | 46,092 | 133,696 | 203,561 |

The approximate aging of the receivables of the HOME program as of June 30, 2005, is as follows:

| | | Principal due by June 30 | | | |
|---|---|---|---|---|---|
| **Interest rate – %** | **2006** | **2011** | **2021** | **After 2021** | **Total** |
| | | | (Dollars in thousands) | | |
| 0 –0. 99 | $ 140 | 814 | 4,897 | 31,243 | 37,094 |
| 1 – 1.99 | 3,042 | 4,948 | 20,702 | 55,124 | 83,816 |
| 2 – 3.99 | 203 | 1,079 | 2,461 | 810 | 4,553 |
| 4 – 5.00 | 30 | 152 | 587 | 1,389 | 2,158 |
| | $ 3,415 | 6,993 | 28,647 | 88,566 | 127,621 |

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, 2005 in the accompanying financial statements are adequate to cover estimated losses of the various funds. For fiscal year 2005, the Authority increased the allowance for estimated losses for the Illinois Affordable Housing Trust Fund by $2,500,000 and by $400,000 within the Mortgage Loan Program Fund. No other write-offs or other adjustments were made.

Scheduled receipts of principal on proprietary fund program loans receivable in the five years subsequent to June 30, 2005 and thereafter are as follows:

| | |
|---|---|
| 2006 | $ 33,814,000 |
| 2007 | 37,435,000 |
| 2008 | 42,384,000 |
| 2009 | 42,845,000 |
| 2010 | 41,650,000 |
| After 2010 | 998,515,000 |
| | $ 1,196,643,000 |

## 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, 2005 are as follows. The June 30, 2004 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 2004 | Amount June 30 2005 |
|---|---|---|---|---|---|
| Multi-Family Housing Bonds: | | | | | |
| 1979 Series B | 2019-2023 | 6.00 | G.O. | $ 275,000 | $ — |
| 1982 Series B | 2011-2017 | 7.00 | G.O. | 18,840,000 | 14,195,000 |
| 1982 Series C | 2015-2025 | 5.00 | G.O. | 22,035,000 | 20,765,000 |
| 1983 Series A | 2006-2025 | 10.75 | G.O. | 1,286,949 | — |
| 1991 Series A | 2005-2016 | 8.13-8.25 | G.O. | 42,860,000 | 32,985,000 |
| 1992 Series A | 2005-2026 | 7.00-7.10 | G.O. | 34,150,000 | 24,335,000 |
| 1993 Series A | 2005-2025 | 6.05-6.13 | G.O. | 17,085,000 | 11,770,000 |
| 1993 Series C | 2005-2028 | 5.80-6.10 | G.O. | 11,810,000 | 11,590,000 |
| 1994 Series B | 2005 | 6.80 | G.O. | 210,000 | 175,000 |
| 1995 Series A | 2005-2021 | 5.20-5.95 | S.L.O. | 20,580,000 | 19,705,000 |
| 2001 Series B | 2005-2043 | 4.60-5.50 | S.L.O. | 10,745,000 | 10,575,000 |
| | | | | 179,876,949 | 146,095,000 |
| Less unamortized discount thereon | | | | 15,456,670 | 15,173,044 |
| | | | | $ 164,420,279 | $ 130,921,956 |



(Continued)

| | Maturity dates | Interest rate range-% | Debt class | Amount June 30 2004 | Amount June 30 2005 |
|---|---|---|---|---|---|
| Multi-Family Program Bonds: | | | | | |
| Series 1 | 2005-2021 | 6.63-6.75 | G.O. | $ 45,715,000 | $ 42,470,000 |
| Series 2 (Taxable) | 2005 | 7.85 | G.O. | 2,815,000 | — |
| Series 3 | 2009-2023 | 6.05-6.20 | G.O. | 72,165,000 | 52,410,000 |
| Series 4 (Taxable) | 2005 | 7.65 | G.O. | 17,350,000 | 730,000 |
| Series 5 | 2007-2023 | 6.65-6.75 | G.O. | 74,725,000 | 18,525,000 |
| Series 6 (Taxable) | 2005-2006 | 8.23-8.28 | G.O. | 9,175,000 | 1,325,000 |
| | | | | $ 221,945,000 | $ 115,460,000 |
| Housing Bonds: | | | | | |
| 1999 Series A | 2005-2031 | 4.25-5.25 | G.O. | $ 34,095,000 | $ 32,460,000 |
| 2003 Series A | 2005-2046 | 2.55-5.05 | G.O. | 20,860,000 | 20,650,000 |
| 2003 Series B | 2010-2040 | 3.30-5.05 | G.O. | 55,285,000 | 53,190,000 |
| 2003 Series C | 2005-2034 | 2.05-4.95 | G.O. | 6,275,000 | 6,055,000 |
| 2004 Series A | 2005-2039 | 2.90-4.70 | G.O. | 25,000,000 | 24,350,000 |
| 2004 Series B | 2005-2034 | 5.00 | G.O. | 10,000,000 | 9,595,000 |
| 2004 Series C | 2005-2045 | 1.90-5.45 | G.O. | 13,010,000 | 12,880,000 |
| 2005 Series A | 2006-2035 | 2.40-4.60 | G.O. | — | 32,090,000 |
| 2005 Series B | 2005-2012 | 3.47-5.02 | G.O. | — | 4,810,000 |
| | | | | $ 164,525,000 | $ 196,080,000 |
| Housing Finance Bonds: | | | | | |
| 1999 Series B | 2005-2030 | 5.50-6.30 | S.L.O. | $ 5,415,000 | $ 5,325,000 |
| 2000 Series A | 2005-2032 | 5.75-6.30 | S.L.O. | 9,205,000 | 9,075,000 |
| | | | | $ 14,620,000 | $ 14,400,000 |
| Multi-Family Variable Rate Demand Bonds: | | | | | |
| Series 1996 A (Taxable)(1) | 2026 | 6.06 | S.L.O. | $ 8,135,000 | $ 8,055,000 |
| Multi-Family Housing Revenue Bonds: | | | | | |
| Series 1997(1) | | 5.75 | G.O. | $ 14,170,000 | $ 14,170,000 |
| Series 2000 A(1) | | 5.51 | S.L.O. | 41,585,000 | 40,785,000 |
| | | | | $ 55,755,000 | $ 54,955,000 |

(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.

| | Maturity dates | Interest rate range-% | Debt class | Amount June 30 2004 | Amount June 30 2005 |
|---|---|---|---|---|---|
| Multifamily Housing Revenue Bonds: | | | | | |
| Marywood Apartment Homes, Series 2003 | 2005-2046 | 4.50-5.20 | S.L.O. | $ 15,865,000 | $ 15,865,000 |
| Multifamily Bonds: | | | | | |
| Turnberry Village II Apartments | 2005-2045 | 4.50-4.75 | S.L.O. | $ 5,320,000 | $ 5,320,000 |
| Affordable Housing Program Trust Fund Bonds: | | | | | |
| Series 1994 A | 2004-2021 | 8.13-8.64 | S.L.O. | $ 41,380,000 | $ — |
| Series 1995 A | 2005-2022 | 6.99-7.82 | S.L.O. | 37,080,000 | 2,855,000 |
| Series 2004 | 2005-2026 | 4.55-6.21 | S.L.O. | — | 44,430,000 |
| Series 2005 A | 2005-2027 | 5.60-6.35 | S.L.O. | — | 34,480,000 |
| | | | | $ 78,460,000 | $ 81,765,000 |
| Total Mortgage Loan Program Fund | | | | $ 744,501,949 | $ 637,995,000 |
| Less unamortized discount thereon | | | | 15,456,670 | 15,173,044 |
| | | | | $ 729,045,279 | $ 622,821,956 |

***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 2004 | Amount June 30 2005 |
|---|---|---|---|---|---|
| Residental Mortgage Revenue Bonds: | | | | | |
| 1983 Series A | 2015 | 10.872 | G.O | $ 1,631 | $ 1,812 |
| 1983 Series B | 2015 | 10.746 | G.O | 1,651 | 1,833 |
| 1984 Series B | 2016 | 11.257 | G.O | 1,406 | 1,568 |
| 1985 Series A | 2017 | 10.75 | G.O | 1,338 | 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 |
| | | | | $ 306,026 | $ 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 2004 | Accreted value June 30 2005 | Aggregate value to be redeemed |
|---|---|---|---|---|---|
| 1983 Series A | Maturity 2/1/15 | $ 180 | $ 1,631 | $ 1,812 | $ 5,000 |
| 1983 Series B | Maturity 2/1/15 | 193 | 1,651 | 1,833 | 5,000 |
| 1984 Series B | Maturity 2/1/16 | 166 | 1,406 | 1,568 | 5,000 |
| 1985 Series A | Maturity 2/1/17 | 190 | 1,338 | 1,486 | 5,000 |

(1) Amounts reflect original issue amounts of capital bonds outstanding as of June 30, 2005.

| | Maturity dates | Interest rate range-% | Debt class | Amount June 30 2004 | Amount June 30 2005 |
|---|---|---|---|---|---|
| Homeowner Mortgage | | | | | |
| Revenue Bonds: | | | | | |
| 1995 Series B | 2005-2026 | 5.40-6.63 | S.L.O. | $ 3,200,000 | — |
| 1995 Series C | 2005-2008 | 5.05-5.35 | S.L.O. | 2,680,000 | 1,710,000 |
| 1995 Series D | 2005-2009 | 5.65-6.15 | S.L.O. | 3,950,000 | — |
| 1996 Series A | 2005-2009 | 5.25-5.65 | S.L.O. | 6,375,000 | 3,085,000 |
| 1996 Series C | 2020 | 5.63 | S.L.O. | 210,000 | — |
| 1996 Series E | 2005-2010 | 5.15-5.65 | S.L.O. | 7,205,000 | 2,525,000 |
| 1996 Series F | 2005-2028 | 4.65-5.65 | S.L.O. | 15,235,000 | 13,605,000 |
| 1997 Series A | 2005-2009 | 5.10-5.50 | S.L.O. | 17,350,000 | 3,285,000 |
| 1997 Series B (remarketed 4/30/98) | 2005-2028 | 4.50-5.50 | S.L.O. | 14,135,000 | 12,150,000 |
| 1997 Series B (remarketed 6/29/98) | 2005-2028 | 4.50-5.40 | S.L.O. | 19,845,000 | 18,470,000 |
| 1997 Series C | 2005-2017 | 4.50-5.55 | S.L.O. | 14,665,000 | 11,030,000 |
| 1997 Series D | 2005-2028 | 4.65-5.65 | S.L.O. | 11,620,000 | 10,715,000 |
| 1997 Series D-3 (Taxable) | 2006-2028 | 6.60 | S.L.O. | 2,120,000 | 1,435,000 |
| 1998 Series A (Taxable) | 2005-2028 | 6.45-6.52 | S.L.O. | 4,240,000 | 3,985,000 |
| 1998 Series D (remarketed 10/7/98) | 2005-2029 | 4.20-5.20 | S.L.O. | 19,260,000 | 16,740,000 |
| 1998 Series D (remarketed 12/17/98) | 2005-2029 | 4.25-5.25 | S.L.O. | 11,070,000 | 9,340,000 |
| 1998 Series D (remarketed 4/29/99) | 2005-2020 | 4.25-5.20 | S.L.O. | 22,145,000 | 18,490,000 |
| 1998 Series E (Taxable) | 2005-2029 | 5.66-5.91 | S.L.O. | 9,180,000 | 7,800,000 |
| 1998 Series G | 2005-2029 | 4.25-5.25 | S.L.O. | 17,565,000 | 15,110,000 |
| 1999 Series A | 2005-2010 | 5.25-5.70 | S.L.O. | 6,510,000 | 3,000,000 |
| 1999 Series B | 2005-2021 | 5.25-5.80 | S.L.O. | 4,130,000 | 3,325,000 |
| 1999 Series D | 2005-2029 | 4.80-5.70 | S.L.O. | 23,195,000 | 20,480,000 |
| 1999 Series D-3 (Taxable) | 2005-2030 | 6.70 | S.L.O. | 3,260,000 | 1,750,000 |
| 1999 Series E | 2005-2010 | 5.30-5.60 | S.L.O. | 6,495,000 | 2,335,000 |
| 1999 Series F (Taxable) | 2005-2030 | 8.25 | S.L.O. | 10,455,000 | — |
| 1999 Series G | 2005-2031 | 5.05-5.65 | S.L.O. | 12,935,000 | 3,105,000 |
| 2000 Series B | 2005-2031 | 4.85-5.95 | S.L.O. | 11,690,000 | 7,180,000 |
| 2000 Series C | 2005-2031 | 5.45-5.80 | S.L.O. | 3,180,000 | — |
| 2000 Series C-4 (Taxable) | 2005-2031 | 8.19 | S.L.O. | 3,910,000 | 2,605,000 |
| 2000 Series D | 2005-2031 | 4.80-6.05 | S.L.O. | 33,365,000 | 15,215,000 |
| 2000 Series E | 2005-2031 | 4.76-5.95 | S.L.O. | 23,620,000 | 18,950,000 |
| 2001 Series A | 2005-2032 | 4.05-5.50 | S.L.O. | 32,825,000 | 30,510,000 |
| 2001 Series C | 2005-2032 | 3.80-5.55 | S.L.O. | 36,625,000 | 33,385,000 |
| 2001 Series D (Taxable) | 2005-2032 | Variable | S.L.O. | 7,090,000 | 5,445,000 |
| 2001 Series E | 2005-2033 | 3.80-5.60 | S.L.O. | 41,740,000 | 35,845,000 |
| 2001 Series F (Taxable) | 2005-2020 | Variable | S.L.O. | 10,000,000 | 10,000,000 |

| | Maturity dates | Interest rate range-% | Debt class | | Amount June 30 2004 | Amount June 30 2005 |
|---|---|---|---|---|---|---|
| 2002 Series A | 2005-2033 | 3.55-5.63 | S.L.O. | $ | 38,640,000 | 37,270,000 |
| 2002 Series B (Taxable) | 2005-2023 | Variable | S.L.O. | | 9,700,000 | 9,020,000 |
| 2002 Series C | 2005-2033 | 3.10-5.40 | S.L.O. | | 47,365,000 | 44,885,000 |
| 2003 Series B | 2005-2034 | 1.50-5.15 | S.L.O. | | 49,975,000 | 48,575,000 |
| 2004 Series A | 2005-2034 | 1.15-5.50 | S.L.O. | | 50,000,000 | 49,405,000 |
| 2004 Series C | 2005-2034 | 2.15-5.35 | S.L.O. | | — | 79,415,000 |
| 2004 Series D | 2036 | 1.68 | S.L.O. | | — | 43,405,000 |
| 2005 Series A | 2006-2035 | 2.25-5.00 | S.L.O. | | — | 75,000,000 |
| 2005 Series B | 2017 | 2.30-2.79 | S.L.O. | | — | 39,805,000 |
| 2005 Series C | 2006-2035 | 2.88-5.25 | S.L.O. | | — | 98,760,000 |
| | | | | $ | 195,680,000 | 868,145,000 |
| Plus unamortized premium thereon | | | | | 353,728 | 1,728,780 |
| | | | | $ | 196,033,728 | 869,873,780 |
| Homeowner Mortgage Revenue Note: 2004 Series B | 2006 | 0.99-1.04 | S.L.O. | $ | 91,290,000 | — |
| Total Single Family Program Fund | | | | $ | 760,351,026 | 868,451,699 |
| Plus unamortized premium thereon | | | | | 353,728 | 1,728,780 |
| | | | | $ | 760,704,754 | 870,180,479 |

The following summarizes the debt activity for the Authority's proprietary funds for fiscal year 2005:

| | June 30, 2004 | Additions | Deductions | June 30, 2005 | Amount Due Within One Year |
|---|---|---|---|---|---|
| Multi-Family Housing Bond | $ 179,876,949 | $ 365 | $ (33,782,314) | $ 146,095,000 | $ 5,170,000 |
| Discount on Multi-Family Housing Bonds | (15,456,670) | — | 283,626 | (15,173,044) | — |
| Multi-Family Program Bonds | 221,945,000 | | (106,485,000) | 115,460,000 | 3,780,000 |
| Housing Bond | 164,525,000 | 36,900,000 | (5,345,000) | 196,080,000 | 5,150,000 |
| Housing Finance Bond | 14,620,000 | — | (220,000) | 14,400,000 | 230,000 |
| Multi-Family Variable Rate Demand Bond | 8,135,000 | — | (80,000) | 8,055,000 | — |
| Multi-Family Housing Revenue Bond | 55,755,000 | — | (800,000) | 54,955,000 | 900,000 |
| Multifamily Housing Revenue Bond (Marywood) | 15,865,000 | — | — | 15,865,000 | 95,000 |
| Multifamily Bond (Turnberry II) | 5,320,000 | — | — | 5,320,000 | 45,000 |
| Affordable Housing Program Trust Fund Bond | 78,460,000 | 79,860,000 | (76,555,000) | 81,765,000 | 2,250,000 |
| Total Mortgage Loan Program Fund | 729,045,279 | 116,760,365 | (222,983,688) | 622,821,956 | 17,620,000 |
| Residential Mortgage Revenue Bond | 306,026 | 673 | — | 306,699 | — |
| Homeowner Mortgage Revenue Bond | 668,755,000 | 336,970,000 | (137,580,000) | 868,145,000 | 136,475,000 |
| Premium on Homeowner Mortgage Revenue Bonds | 353,728 | 1,463,372 | (88,320) | 1,728,780 | — |
| Homeowner Mortgage Revenue Note | 91,290,000 | — | (91,290,000) | – | — |
| Total Single Family Program Fund | 760,704,754 | 338,434,045 | (228,958,320) | 870,180,479 | 136,475,000 |
| Total Proprietary Funds | $ 1,489,750,033 | $ 455,194,410 | $ (451,942,008) | $ 1,493,002,435 | $ 154,095,000 |

### *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, 2005, there were thirty-one series of such bonds or notes outstanding, with an aggregate principal amount payable of $293,518,900.

***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<br>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<br>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<br>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, 2005, these amounts, which were not less than the amounts required, are as follows:

| | | |
|---|---|---|
| Multi-Family Housing Bonds | $ | 29,920,434 |
| Multi-Family Program Bonds | | 14,633,712 |
| Housing Bonds | | 8,560,501 |
| Housing Finance Bonds | | 519,000 |
| Multi-Family Variable Rate Demand Bonds | | 359,511 |
| Multi-Family Housing Revenue Bonds | | 808,623 |
| Multifamily Housing Revenue Bonds (Marywood) | | 405,549 |
| Homeowner Mortgage Revenue Bonds | | 25,808,815 |
| | $ | 81,016,145 |

In addition to the above, the debt service reserve requirement of the Affordable Housing Program Trust Fund Bonds $7,231,723 at June 30, 2005, is satisfied through the Authority’s holding of a surety bond.

Debt service on the Multifamily Bonds, Series 2003 (Turnberry Village II Apartments) is supported by the Authority’s issuance of a participation certificate. The full and complete payment of all scheduled payments of principal and interest due under the participation certificate are unconditionally and irrevocably guaranteed pursuant to a surety bond.

### *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, 2005 | 102% | to | 100% |
| Multi-Family Program Bonds: | | | | |
| Series 3 | July 1, 2005 | 101 | to | 100 |
| Series 5 | July 1, 2005 | 102 | 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 A | Feb. 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, 2005 | 101 | to | 100 |
| 1999 Series A and B | Jan. 1, 2010 | 101 | to | 100 |
| Affordable Housing Program Trust Fund Bonds: | | | | |
| Series 1995 A | July 1, 2005 | 102 | to | 100 |

Debt service requirements (in $ millions) through 2010 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: | | | | | | |
| 2006 | $ 17.6 | $ 35.7 | $ 78.1 | $ 40.3 | $ 95.7 | $ 76.0 |
| 2007 | 18.7 | 34.7 | 47.3 | 38.6 | 66.0 | 73.3 |
| 2008 | 19.7 | 33.6 | 22.9 | 37.3 | 42.6 | 70.9 |
| 2009 | 22.5 | 32.5 | 23.0 | 36.3 | 45.5 | 68.8 |
| 2010 | 26.6 | 31.2 | 21.1 | 35.2 | 47.7 | 66.4 |
| Five years ending June 30: | | | | | | |
| 2011-2015 | 158.5 | 130.3 | 115.9 | 161.2 | 274.4 | 291.5 |
| 2016-2020 | 140.0 | 84.5 | 122.6 | 130.4 | 262.6 | 214.9 |
| 2021-2025 | 103.2 | 50.2 | 130.1 | 100.3 | 233.3 | 150.5 |
| 2026-2030 | 72.5 | 22.7 | 177.5 | 59.3 | 250.0 | 82.0 |
| 2031-2035 | 23.1 | 12.1 | 124.8 | 16.2 | 147.9 | 28.3 |
| 2036-2040 | 20.3 | 6.8 | 5.2 | 0.1 | 25.5 | 6.9 |
| 2041-2045 | 13.6 | 2.3 | — | — | 13.6 | 2.3 |
| 2046-2050 | 1.7 | 0.1 | — | — | 1.7 | 0.1 |
| | $ 638.0 | $ 476.7 | $ 868.5 | $ 655.2 | $ 1,506.5 | $ 1,131.9 |

* 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 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, 2005 has six active swap contracts and two 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 | $ 5,135,000 | 12/98 | 6.41% | 30 day nonfinancial CP | $ (419,158) | 12/2008 | A+Aa3 |
| Series 1996A | 2,915,428 | 12/03 | 5.467 | 1 mo LIBOR | $ (284,206) | 08/2026 | AAA/Aa2 |
| MHRB**: | | | | | | | |
| Series 2000A (Lakeshore Plaza)(1) | 40,785,000 | 06/00 | 5.51 | Actual bond rate | $ (335,106) | 07/2027 | AAA/Aaa |
| HMRB***: | | | | | | | |
| Series 2001 D | 5,735,000 | 07/01 | 6.13 | 1 mo LIBOR +30bp | $ (322,364) | 02/2010 | AAA/Aaa |
| Series 2001 F | 10,000,000 | 01/02 | 6.615 | 1 mo LIBOR +40bp | $ (1,972,263) | 08/2020 | A+/Aa3 |
| Series 2002 B | 9,020,000 | 05/02 | 6.145 | 1 mo LIBOR +41.5bp | $ (655,167) | 02/2023 | AAA/Aaa |
| Interest Rate Cap: | | | | | | | |
| MHRB**: | | | | | | | |
| Series 1997 (Camelot Development) | 14,170,000 | 11/97 | 5.75 | N/A | $ (94,300) | 12/2007 | AA-/Aa3 |
| HB****: | | | | | | | |
| Series 2004 B | 9,595,000 | 03/04 | 5.00 | N/A | $ 43,885 | 04/2012 | AAA/A aa |

*Multi-Family Variable Rate Demand Bonds
**Multi-Family Housing Revenue Bonds
***Homeowner Mortgage Revenue Bonds
****Housing Bonds
(1) $550,000 premium received September 17, 1998. Par termination rights at Authority's option beginning July 1, 2005.
(2) includes accrued interest.

To protect against the potential of rising interest rates, the Authority has entered into six 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 interest rate cap agreements, the objective of which are 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, 2005 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 agreements, all currently active swaps, except for Housing Bonds Series 2004B, had a negative fair value as of June 30, 2005. 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, 2005, 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, 2005, 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: | | | | |
| 2006 | $ 2,230,000 | $ 3,373,725 | $ 1,584,316 | $ 7,188,041 |
| 2007 | 2,360,000 | 3,293,925 | 1,548,309 | 7,202,234 |
| 2008 | 2,395,000 | 3,212,175 | 1,511,294 | 7,118,469 |
| 2009 | 7,590,000 | 3,013,350 | 1,433,895 | 12,037,245 |
| 2010 | 2,610,000 | 2,810,963 | 1,354,952 | 6,775,915 |
| Five years ending June 30: | | | | |
| 2015 | 11,920,000 | 12,705,338 | 6,118,625 | 30,743,963 |
| 2020 | 21,085,000 | 9,983,738 | 4,550,865 | 35,619,603 |
| 2025 | 15,725,000 | 6,315,113 | 2,390,017 | 24,430,130 |
| 2030 | 28,675,000 | 2,207,888 | 561,403 | 31,444,291 |
| 2035 | 2,480,000 | 184,163 | 24,735 | 2,688,898 |
| Total | $ 79,885,000 | $ 31,396,240 | $ 13,645,645 | $ 124,926,885 |

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 5). 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 $921,000 for the fiscal year 2005 and escalates by approximately $29,000 annually throughout the lease period, plus payments totaling approximately $1,001,000 in fiscal year 2005 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 2005, total rent expense of the Authority was $1,909,770.

**Note I—Other Liabilities**

Included in Other Liabilities at June 30, 2005 is $13,229,494 in undisbursed Ambac Loan proceeds.

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 nonmortgage 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, 2005, is an estimated rebate liability of $4,298,310.

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 2005 was $10,690,751. The Authority's contributions were calculated using the base salary amount of $10,643,550. The Authority contributed $638,613 or 6% of the base salary amount, in fiscal year 2005. Employee contributions amounted to $778,407 in fiscal year 2005, or 7.3% of the base salary amount.

**Note K—Commitments**

At June 30, 2005 unexpended bond proceeds held by the Authority in the form of cash and investments amounting to $125,635,048 in the Homeowner Mortgage Revenue Bond accounts were identified for the purpose of purchasing various mortgage loans.

At June 30, 2005, the Authority had authorized commitments for loans and grants totaling $64,488,926 and $8,621,497, respectively, of the Illinois Affordable Housing Trust Fund.

Under the HOME Program, $279.2 million and $24.1 million for federal fiscal years 1992 through 2004 and 2005, 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, 2005, the Authority had authorized commitments for loans and grants of $16,194,919 and $12,413,517, respectively, 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, 2005, loans receivable under this program were approximately $18.1 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 August 18, 2005, the Authority issued its Housing Bonds, 2005 Series C (Victory Centre of Bartlett SLF), in the aggregate principal amount of $10,665,000, maturing in 2007 through 2042, at initial interest rates of 4.375% to 5.000%. These bonds are special limited obligations of the Authority.

On October 12, 2005, the Authority issued its Housing Bonds, 2005 Series D (Liberty Arms Senior Apartments), in the aggregate principal amount of $6,550,000, maturing in 2008 through 2047, at an initial interest rate of 4.875%. These bonds are special limited obligations of the Authority.

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