

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

Financial Statements

June 30, 2011

(With Independent Auditors' Report Thereon)

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

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Agency Officials

Executive Director	Mary R. Kenney	3/28/2011 – Current
Acting Executive Director	Jane R. Bilger	3/18/2011 – 3/28/2011
Executive Director	Gloria Materre	9/18/2009 – 3/18/2011
Deputy Executive Director/Chief of Staff	Phil Culpepper	10/16/2009 – 11/5/2010
Assistant Executive Director/Chief of Staff	Bryan E. Zises	5/23/2011 – Current
Assistant Executive Director/Chief of Staff	Jane R. Bilger	11/19/2010 – 3/18/2011
General Counsel	Maureen G. Ohle	8/1/2011 – Current
Acting General Counsel	Kristi S. Poskus	10/15/2010 – 7/31/2011
General Counsel	Mary R. Kenney	8/21/2000 – 10/15/2010
Chief Financial Officer	Hazim Taib	4/18/2011 - Current
Chief Financial Officer	Robert W. Kugel	7/28/1975 – 4/15/2011
Controller	Michele Williams	5/19/2010 - Current

Agency Officials are located at:

401 North Michigan Avenue, Suite 700  
Chicago, Illinois 60611

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

**Financial Statement Report**

Summary

The audit of the accompanying financial statements of the Illinois Housing Development Authority (A Component Unit of the State of Illinois) was performed by McGladrey & Pullen, LLP.

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

Summary of Findings

The auditors identified matters involving the Authority's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying schedule of findings listed in the table of contents as finding 11-01 (Inconsistencies in the Loan Monitoring and Loan Rating System), finding 11-02 (Loan Receivable Balance and Allowance for Loan Loss Balance Overstated), and finding 11-03 (Duplicate Vendors in the Accounts Payable Master Vendor List).

Exit Conference

On October 11, 2011, the Illinois Housing Development Authority waived the exit conference relating to the audit of the June 30, 2011 financial statements.

The responses to the recommendations were provided in an email from Michele Williams, Controller, with copies to Mary Kenney, Executive Director, and Hazim Taib, Chief Financial Officer, dated October 19, 2011.



## Independent Auditors' Report

The Honorable William G. Holland, Auditor  
General of the State of Illinois, and the Members of the Board 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, each major fund, and the aggregate remaining fund information 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, 2011, which collectively comprise the Authority's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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, each major fund and the aggregate remaining fund information of the Authority as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, as of July 1, 2010, the Authority adopted the reporting and disclosure requirements of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2011 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5 through 13 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 Schedules and the Combining Single Family Program Fund Schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Combining Mortgage Loan Program Fund Schedules and the Combining Single Family Program Fund Schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*McGladrey & Pullen, LLP*

Schaumburg, Illinois  
October 20, 2011



## **ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

### Management's Discussion and Analysis

June 30, 2011

(Unaudited)

This section of the Illinois Housing Development Authority's (Authority) annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal year that ended on June 30, 2011. Please read it in conjunction with the Authority's financial statements, which follow this section.

### **Financial Highlights**

- Net assets of the Authority increased \$88.2 million, to \$712.1 million as of June 30, 2011, from an increase in the Authority's business-type (\$21.9 million) and governmental (\$66.3 million) activities.
- The increase in net assets, after transfers, of the Authority's business-type activities increased \$5.9 million from the prior year due primarily to lower interest expense by \$6.8 million and decreases in the estimated losses on program loans by \$5.4 million, partially offset by lower investment income (\$1.4 million, primarily from lower investment yields), a decline in interest earned on program loans (\$4.8 million) and increases in operating costs (\$1.0 million).
- Authority debt issuances during fiscal year 2011 totaled \$108.5 million. The Authority's debt outstanding (net of discounts and premiums) of \$1,568.5 million as of June 30, 2011 was \$133.3 million below the amount outstanding as of June 30, 2010.
- With the cost of borrowing remaining high due to weakness in the economy, the United States Department of the Treasury ("Treasury") initiated a program ("Treasury Program") whereby the Treasury through Fannie Mae and Freddie Mac will purchase bonds directly from Housing Finance Authorities and act as bondholders. In December 2009, the Authority participated in the Treasury Program by issuing \$184 million of Multifamily Initiative Bonds (the "Bonds") and \$200 million of Homeowner Mortgage Revenue Bonds ("HMRB") held in escrow until conversion to long term fixed rate bonds and will be used to fund loans within the Mortgage Loan Fund and Single Family Loan Fund, respectively. The Treasury Program also required the Authority to convert all funds in escrow before December 31, 2010. Any funds remaining in escrow on December 31, 2010 are subject to a mandatory tender. On September 1, 2010, the Treasury amended the program by extending it from December 31, 2010 to December 31, 2011 providing the Authority the ability to convert three additional times (six in aggregate) to long term fixed rate bonds.
- Loan originations for the year totaled \$67.9 million and \$37.0 million in the Authority's governmental and business-type activities, respectively, compared to fiscal year 2010 loan originations of \$46.6 million and \$.1 million, respectively. Current year originations in governmental activities include \$43.7 million of loans funded by the Federal American Recovery and Reinvestment Act Fund ("ARRA Fund"). The Authority has continued to add whole loans to its Single Family Program Fund during fiscal year 2011 through the purchase of Government National Mortgage Association ("GNMA") certificates secured with Illinois whole loans.
- During fiscal year 2011 the Authority has continued to implement programs within the Federal ARRA fund pursuant to Section 1602 and the Tax Credit Assistance Program ("TCAP") to award grants or loans to sub-grantees for the development of low income housing.

## **ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Management's Discussion and Analysis

June 30, 2011

(Unaudited)

### **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 the 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 six governmental funds, for which activities are funded from State appropriation (grants), HUD and U.S. Treasury Programs, and which the Authority follows the modified accrual basis of accounting, and three proprietary funds, which operate similar to business activities and for which the Authority follows the accrual basis of accounting.
- The basic financial statements also include notes to the financial statements that explain some of the information in the government-wide and fund financial statements and provide more detailed data.

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

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

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

- Governmental funds – The Authority has six governmental funds. The Authority is the administrator of these funds, the revenues of which are appropriated annually to the Illinois Department of Revenue except for revenues received directly from HUD and the U.S. Treasury for the purpose of making housing grants and loans. These fund statements focus on how cash and other financial assets flowing into the funds have been used. Revenues converted to long-term loans comprise a substantial portion of the funds' net assets.
- Proprietary funds – The Authority's primary activities are in its three enterprise funds, which activities are accounted for in a manner similar to businesses operating in the private 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.

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Management's Discussion and Analysis

June 30, 2011

(Unaudited)

**Financial Analysis of the Authority as a Whole**

**Net Assets** – The combined net assets of the Authority increased by \$88.2 million or 14.1% from the June 30, 2010 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.)	
	2011	2010	2011	2010	2011	2010	Amount	%
Current assets:								
Cash and investments – unrestricted	\$ 62.7	\$ 73.7	\$ 277.1	\$ 39.8	\$ 339.8	\$ 113.5	\$ 226.3	199.4 %
Program loans receivable	7.1	5.9	44.6	43.4	51.7	49.3	2.4	4.9
Other current assets	(1.0)	0.3	8.4	7.6	7.4	7.9	(0.5)	(6.3)
<b>Total current assets</b>	<b>68.8</b>	<b>79.9</b>	<b>330.1</b>	<b>90.8</b>	<b>398.9</b>	<b>170.7</b>	<b>228.2</b>	<b>133.7</b>
Investments – restricted	-	-	673.4	894.4	673.4	894.4	(221.0)	(24.7)
Net program loans receivable	579.2	522.7	1,149.4	1,258.2	1,728.6	1,780.9	(52.3)	(2.9)
Capital assets, net	0.1	-	27.1	27.8	27.2	27.8	(0.6)	(2.2)
Other assets	0.8	0.1	30.3	32.4	31.1	32.5	(1.4)	(4.3)
<b>Total assets</b>	<b>648.9</b>	<b>602.7</b>	<b>2,210.3</b>	<b>2,303.6</b>	<b>2,859.2</b>	<b>2,906.3</b>	<b>(47.1)</b>	<b>(1.6)</b>
Current liabilities:								
Due to State of Illinois	24.0	41.9	-	-	24.0	41.9	(17.9)	(42.7)
Bonds and notes payable	-	-	352.2	475.9	352.2	475.9	(123.7)	(26.0)
Deposits held in escrow	-	-	170.2	156.4	170.2	156.4	13.8	8.8
Other current liabilities	32.5	34.7	45.0	40.8	77.5	75.5	2.0	2.6
<b>Total current liabilities</b>	<b>56.5</b>	<b>76.6</b>	<b>567.4</b>	<b>673.1</b>	<b>623.9</b>	<b>749.7</b>	<b>(125.8)</b>	<b>(16.8)</b>
Noncurrent liabilities								
Due to State of Illinois	303.9	303.9	-	-	303.9	303.9	-	-
Bonds and notes payable	-	-	1,216.3	1,225.9	1,216.3	1,225.9	(9.6)	(0.8)
Other liabilities	-	-	3.0	2.9	3.0	2.9	0.1	3.4
<b>Total noncurrent liabilities</b>	<b>303.9</b>	<b>303.9</b>	<b>1,219.3</b>	<b>1,228.8</b>	<b>1,523.2</b>	<b>1,532.7</b>	<b>(9.5)</b>	<b>(0.6)</b>
<b>Total liabilities</b>	<b>360.4</b>	<b>380.5</b>	<b>1,786.7</b>	<b>1,901.9</b>	<b>2,147.1</b>	<b>2,282.4</b>	<b>(135.3)</b>	<b>(5.9)</b>
Net assets:								
Invested in capital assets, net of related debt	0.1	-	(7.5)	(8.0)	(7.4)	(8.0)	0.6	(7.5)
Restricted	288.4	222.2	345.3	327.4	633.7	549.6	84.1	15.3
Unrestricted	-	-	85.8	82.3	85.8	82.3	3.5	4.3
<b>Total net assets</b>	<b>\$ 288.5</b>	<b>\$ 222.2</b>	<b>\$ 423.6</b>	<b>\$ 401.7</b>	<b>\$ 712.1</b>	<b>\$ 623.9</b>	<b>\$ 88.2</b>	<b>14.1 %</b>

**Governmental Activities**

Net assets of the Authority's governmental activities increased \$66.3 million, or 29.8%, to \$288.5 million from increases in the Federal HOME program and ARRA funds, due to the conversion of grant revenues to program loans receivable and grant receipts in the Hardest Hit Fund and Nonmajor Governmental Funds. No net assets of the Authority's other two governmental activities are recorded on the Authority's financial statements. The equity of the Illinois Affordable Housing Trust Fund (Housing Program) is recorded as due to the State of Illinois. All

## **ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Management's Discussion and Analysis

June 30, 2011

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revenues of the Rental Housing Support Program are ultimately disbursed as grant or administrative expenses, and therefore no equity is recorded on the Authority's financial statements.

Total program loans receivable (current and non-current), increased by \$57.7 million, or 10.9%, to \$586.3 million primarily due to the Federal ARRA Fund for loans to support low income housing. Cash and investments decreased by \$11.0 million, or 14.9% due primarily to decreased Housing Program revenues. State statute and federal regulations restrict the use of the governmental funds to program activities.

Due to the State of Illinois (current and non-current) decreased \$17.9 million. This item reflects a liability for the State of Illinois' interest in the equity of the Housing Program as the Authority acts only as the administrator of the Housing Program and accounts for the interest in the equity to be that of the State of Illinois.

### **Business-type Activities**

Net assets of the Authority's business-type activities increased \$21.9 million, to \$423.6 million consisting of an increase in net assets before transfers of \$16.7 million and the annual transfer \$5.2 million from the Affordable Housing Trust Fund. Program loans receivable (current and non-current) decreased \$107.6 million, or 8.3%, to \$1,194.0 million primarily from decreases in the Authority's Single Family Program Fund (\$95.7 million) and the Mortgage Loan Program Funds (\$11.4 million). The decrease in program loans receivable in the Single Family Program was due to adverse market conditions and the purchase of GNMA certificates secured with Illinois whole loans.

Cash and investments (current and noncurrent) increased \$16.3 million, or 1.7% from increases in the Administrative Fund (\$24.3 million) due to higher escrow deposits and collection of additional deferred fees, offset by decreases in the Mortgage Loan Programs (\$1.4 million) and Single Family Program Funds (\$6.5 million).

Total bonds and notes payable (current and noncurrent) decreased \$133.3 million, or 7.8%, from decreases of \$31.2 million in the Mortgage Loan Program Fund and \$102.1 million in the Single Family Program Fund.

Deposits held in escrow increased \$13.8 million, or 8.8% due to additions in funding levels related to the implementation of programs within the Federal ARRA Fund and Treasury Program.

Restricted net assets of the Authority's business-type activities increased \$17.9 million, or 5.5%, of which \$15.6 million were from increases within the Authority's bond funds. Except for net assets invested in capital assets within the Mortgage Loan Program (\$7.5 million deficit) and the net assets (\$5.5 million deficit) of the Multifamily Housing Revenue Bonds (Marywood) and Multifamily Bonds (Turnberry), which are classified as unrestricted, all net assets of the Authority's bond funds 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.

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Management's Discussion and Analysis

June 30, 2011

(Unaudited)

**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. Five programs, the Illinois Affordable Housing Trust Fund, the HOME program, the Rental Housing Support Program, the ARRA Fund and the Hardest Hit Fund are shown as major governmental activities while the non-major governmental activities include the Neighborhood Stabilization Program. The business-type activities consist of two housing lending programs, the results of which are primarily recorded within the funds comprising the two major bond funds (the Mortgage Loan Program Fund and the Single Family Program Fund), federal assistance activities, which involve the allocation of various federal subsidy funds directly to certain of the Authority's borrowers, and the tax credit authorization and monitoring, and FAF lending programs, both of which activities are recorded in the Authority's Administrative Fund.

A condensed summary of changes in net assets for the fiscal year ended June 30, 2011 is shown in the following table.

Changes in Net Assets

(In millions of dollars)

	Governmental activities		Business-type activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 2.2	\$ 2.0	\$ 93.9	\$ 99.3	\$ 96.1	\$ 101.3
Operating/grant/federal revenues	302.9	114.2	141.9	142.5	444.8	256.7
General revenues:						
Investment income	-	-	0.2	0.4	0.2	0.4
Total revenues	<u>305.1</u>	<u>116.2</u>	<u>236.0</u>	<u>242.2</u>	<u>541.1</u>	<u>358.4</u>
Expenses:						
Direct	233.6	78.5	206.3	216.0	439.9	294.5
Administrative	-	-	13.0	15.4	13.0	15.4
Total expenses	<u>233.6</u>	<u>78.5</u>	<u>219.3</u>	<u>231.4</u>	<u>452.9</u>	<u>309.9</u>
Increase in net assets before transfers	71.5	37.7	16.7	10.8	88.2	48.5
Transfers	(5.2)	(5.2)	5.2	5.2	-	-
Increase in net assets	<u>\$ 66.3</u>	<u>\$ 32.5</u>	<u>\$ 21.9</u>	<u>\$ 16.0</u>	<u>\$ 88.2</u>	<u>\$ 48.5</u>

## **ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Management's Discussion and Analysis

June 30, 2011

(Unaudited)

### **Governmental Activities**

Revenues of the Authority's governmental activities increased \$188.9 million from the prior year primarily due to increases in Federal revenues of the ARRA Fund (\$171.5 million), HOME Program (\$5.2 million), Hardest Hit Fund (\$11.5 million) and in Nonmajor Governmental Funds (\$20 million), offset by lower revenues in the Illinois Affordable Housing Trust Fund (\$3.8 million) and Rental Housing Support Program (\$14.7 million).

Direct expenses of the Authority's governmental activities increased \$155.1 million from the prior year, primarily due to increases within the Federal ARRA Fund (\$156.1 million) and Nonmajor Governmental Funds (\$18.2 million) partially offset by decreases in the Rental Housing Support Program (\$14.8 million) and the Illinois Affordable Housing Trust Fund (\$2.7 million). The transfer (\$5.2 million) from the governmental activities to the Authority's business-type activities represents an annual transfer, pursuant to the Illinois Affordable Housing Act, from the Illinois Affordable Housing Trust Fund to the Multi-Family Mortgage Loan Programs.

### **Business-type Activities**

Revenues of the Authority's business-type activities decreased \$6.2 million from the prior year from a decrease in charges for services (\$5.4 million), unrestricted investment income (\$0.2 million) and Federal revenues (\$0.6 million). Charges for services consist primarily of interest income on program loans (\$64.8 million), program investment income (\$5.8 million), servicing and development fees (\$11.3 million), and other income (\$93.8 million). Program investment income is that income earned within the Authority's bond funds, the investments and the income of which is restricted to those funds. Such income decreased by \$1.3 million from the prior year due primarily to lower investment yields and lower amounts invested.

Direct expenses of the Authority's business-type activities, which consist primarily of interest expense (\$60.2 million) on Authority debt incurred to fund its various lending programs and the pass-through of federal assistance programs' funds (\$139.5 million), decreased \$9.7 million from the prior year, due mainly to lower interest expense (\$6.8 million) and decreased estimated losses on program loans receivable (\$7.0 million), partially offset by increased estimated losses on mortgage participation certificates (\$1.4 million).

The Authority's business-type activities also generated \$.2 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 \$23.8 million (See the Statement of Activities) and thus provided most of the Authority's increase in net assets.

## ILLINOIS HOUSING DEVELOPMENT AUTHORITY

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### Management's Discussion and Analysis

June 30, 2011

(Unaudited)

### Proprietary Fund Results

Net assets of the Authority's proprietary funds increased from the June 30, 2010 amount by \$21.9 million, to \$423.6 million. The following table summarizes the statement of revenues, expenses, and changes in fund net assets of the Authority's proprietary funds for the fiscal years ended June 30, 2011 and 2010.

	Administrative Fund		Mortgage Loan Program Fund		Single Family Program Fund	
	2011	2010	2011	2010	2011	2010
Operating revenues:						
Interest earned on program loans	\$ 4.1	\$ 4.0	\$ 27.6	\$ 27.8	\$ 33.0	\$ 37.7
Investment income	0.2	0.4	0.8	4.0	5.0	3.1
Federal assistance programs	135.9	136.4	3.6	4.1	-	-
Service fees	10.5	10.1	-	-	-	-
Development fees	0.8	0.1	-	-	-	-
HUD savings	2.6	2.2	-	-	-	-
Other	7.1	5.4	4.8	7.0	-	-
<b>Total operating revenues</b>	<b>161.2</b>	<b>158.6</b>	<b>36.8</b>	<b>42.9</b>	<b>38.0</b>	<b>40.8</b>
Operating expenses:						
Interest expense	0.1	0.1	25.0	25.5	35.1	41.4
Federal assistance programs	135.9	136.3	3.6	4.1	-	-
Salaries and benefits	15.2	14.7	-	-	-	-
Professional fees	0.8	1.0	-	-	-	0.3
Other general and administrative	2.6	3.0	0.2	-	1.1	0.1
Financing costs	0.3	0.3	0.7	0.8	0.7	0.5
Program grant	-	0.1	0.2	-	-	-
Provision for estimated losses on program loans receivable and mortgage certification program	(0.5)	(0.9)	(3.4)	2.8	1.7	1.3
<b>Total operating expenses</b>	<b>154.4</b>	<b>154.6</b>	<b>26.3</b>	<b>33.2</b>	<b>38.6</b>	<b>43.6</b>
<b>Operating income (loss)</b>	<b>6.8</b>	<b>4.0</b>	<b>10.5</b>	<b>9.7</b>	<b>(0.6)</b>	<b>(2.8)</b>
Transfers in (out), net	(0.5)	(0.4)	5.2	5.6	0.5	-
<b>Change in net assets</b>	<b>6.3</b>	<b>3.6</b>	<b>15.7</b>	<b>15.3</b>	<b>(0.1)</b>	<b>(2.8)</b>
Net assets at beginning of year	120.9	117.3	187.2	171.9	93.7	96.5
<b>Net assets at end of year</b>	<b>\$ 127.2</b>	<b>\$ 120.9</b>	<b>\$ 202.9</b>	<b>\$ 187.2</b>	<b>\$ 93.6</b>	<b>\$ 93.7</b>

Net assets of the Administrative Fund increased \$6.3 million, compared to the prior year increase of \$3.6 million. Administrative Fund operating income was \$6.8 million, an increase of \$2.8 million from the prior year, and net operating transfers (out) were \$.5 million compared to net transfers (out) of \$.4 million in the prior year. The fiscal year 2011 increase in operating earnings was primarily from increases in Development Fees (\$0.7 million), Service Fees (\$.4 million), and Other Income (\$1.7 million).

Net assets of the Mortgage Loan Program Fund increased \$15.7 million, compared to a prior year increase of \$15.3 million, due to operating income of \$10.5 million and net transfers in of \$5.2 million. Operating income was \$.8 million above the prior year, primarily due to lower provisions (\$6.2 million) for estimated losses on program loans receivable, partially offset by lower investment income (\$3.2 million) and lower other income (\$2.2 million).

## **ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Management's Discussion and Analysis

June 30, 2011

(Unaudited)

The net transfer in represents the annual transfer (in) of \$5.2 million from the Illinois Affordable Housing Trust Fund.

Net assets of the Single Family Program Fund decreased \$0.1 million, compared to a prior year decrease of \$2.8 million. The operating loss was \$2.2 million lower than the prior year operating loss due to a \$1.9 million increase in investment income and lower interest expense of \$6.3 million, partially offset by \$4.7 million decrease in interest earned on program loans, higher operating expenses (\$.9 million) and higher provisions (\$.4 million) for estimated losses on program loans receivable.

### **Authority Debt**

Authority debt issuances during fiscal year 2011 (which includes issuances under the Treasury Program) totaled \$108.5 million (net of discounts and deferred gains and losses), with the issuance of Multifamily Initiative Bonds (\$62.5 million) within the Mortgage Loan Program Fund and Homeowner Mortgage Revenue Bonds (\$46 million) within the Single Family Program Fund. Debt retirements within the Mortgage Loan and Single Family Program Funds were \$95.1 million and \$148 million, respectively. Total bonds and notes payable decreased \$133.3 million. For additional information, see Note 8, Bonds and Notes Payable in the Notes to Financial Statements.

During fiscal year 2011, the Authority's Issuer Credit Ratings remained at A1/AA- by Moody's Investors Service and Fitch Ratings. On March 28, 2011, Standard and Poor's affirmed the Authority's Issuer Credit Rating at A+ while it revised the outlook from stable to positive for a potential upgrade.

On August 5, 2011, Standard and Poor's downgraded the United States of America long term rating from AAA to AA+. The downgrade only impacted the Multifamily Initiative Bonds (the "Bonds") by reducing the rating on the Bonds from AAA to AA+ as its assets are primarily backed by the full faith credit of the United States of America. The Authority believes the downgrade will not impact its rating and other bond programs as the ratings are based on the strength of various assets class and not relying solely on federal guarantees.

### **Economic Factors**

The current state of the financial market continues to cause difficulty for the Authority to issue bonds as it is not economically feasible.

As such, the Authority has been utilizing the Treasury Program initiated by U.S. Treasury in December 2009. During fiscal year 2011, the Authority has issued three bonds under the Treasury Program; (i) two multifamily bond issuances through Multifamily Initiative Bonds totaling \$62.5 million and one Single Family bond issuance through Homeowner Mortgage Revenue Bonds totaling \$21 million.

Investment yields of United States Government and Agency obligations, which comprise over 97% of the Authority's investment portfolio, are remaining at historically low levels and continue to depress the Authority's investment income. The Authority is reviewing its investment policy including investing more in mortgage-backed securities specifically in GNMA to increase investment yields but also to allow the Authority to pursue its mission of providing loans to first-time homebuyers.



**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Management's Discussion and Analysis

June 30, 2011

(Unaudited)

**Contacting the Authority's Financial Management**

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

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Statement of Net Assets

June 30, 2011

	Governmental activities	Business-type activities	Total
<b>Assets:</b>			
Current assets:			
Cash and cash equivalents	\$ 29,960,865	\$ 215,584,861	\$ 245,545,726
Funds held by State Treasurer	365,633	-	365,633
Investments	32,378,200	61,601,865	93,980,065
Investment income receivable	14,117	39,076	53,193
Investment income receivable – restricted	-	645,415	645,415
Program loans receivable	7,122,161	44,642,227	51,764,388
Grant receivable	1,893,619	-	1,893,619
Interest receivable on program loans	407,808	4,338,786	4,746,594
Internal balances	(3,314,373)	3,314,373	-
Total current assets	<u>68,828,030</u>	<u>330,166,603</u>	<u>398,994,633</u>
Noncurrent assets:			
Investments – restricted	-	673,409,055	673,409,055
Program loans receivable, net of current portion	610,443,977	1,170,989,826	1,781,433,803
Less allowance for estimated losses	<u>(31,241,613)</u>	<u>(21,600,468)</u>	<u>(52,842,081)</u>
Net program loans receivable	579,202,364	1,149,389,358	1,728,591,722
Unamortized bond issuance costs	-	11,575,065	11,575,065
Real estate held for sale, net	-	8,130,559	8,130,559
Capital assets, net	48,611	27,088,788	27,137,399
Derivative instrument asset	-	427,607	427,607
Deferred outflow of resources	-	2,583,647	2,583,647
Other	821,961	7,636,779	8,458,740
Total noncurrent assets	<u>580,072,936</u>	<u>1,880,240,858</u>	<u>2,460,313,794</u>
Total assets	<u>648,900,966</u>	<u>2,210,407,461</u>	<u>2,859,308,427</u>
<b>Liabilities:</b>			
Current liabilities:			
Due to grantees	32,527,377	-	32,527,377
Due to State of Illinois	23,968,364	-	23,968,364
Bonds and notes payable	-	352,220,000	352,220,000
Accrued interest payable	-	23,234,335	23,234,335
Unearned revenue	-	11,950,028	11,950,028
Deposits held in escrow	-	170,253,228	170,253,228
Accrued liabilities and other	-	9,815,103	9,815,103
Total current liabilities	<u>56,495,741</u>	<u>567,472,694</u>	<u>623,968,435</u>
Noncurrent liabilities:			
Due to State of Illinois	303,865,116	-	303,865,116
Bonds and notes payable, net of current portion	-	1,216,263,395	1,216,263,395
Derivative instrument liability	-	2,583,647	2,583,647
Deferred inflows of resources	-	427,607	427,607
Total noncurrent liabilities	<u>303,865,116</u>	<u>1,219,274,649</u>	<u>1,523,139,765</u>
Total liabilities	<u>360,360,857</u>	<u>1,786,747,343</u>	<u>2,147,108,200</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	48,611	(7,496,212)	(7,447,601)
Restricted for bond resolution purposes	-	309,634,341	309,634,341
Restricted for loan and grant programs	288,491,498	35,708,467	324,199,965
Unrestricted	-	85,813,522	85,813,522
Total net assets	<u>\$ 288,540,109</u>	<u>\$ 423,660,118</u>	<u>\$ 712,200,227</u>

See accompanying notes to financial statements.

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Statement of Activities

Year ended June 30, 2011

Functions/programs	Expenses	Program revenues		Net (expenses) revenues and changes in net assets		
		Charges for services and interest income	Operating grant/federal revenues	Governmental activities	Business-type activities	Total
Governmental activities:						
Illinois Affordable Housing Trust Program	\$ 4,509,095	\$ 23,914	\$ 9,685,181	\$ 5,200,000	\$ -	\$ 5,200,000
HOME Program	12,094,412	1,890,089	22,711,036	12,506,713	-	12,506,713
Rental Housing Support Program	9,950,170	101,641	9,848,529	-	-	-
ARRA Program	186,998,307	-	230,215,074	43,216,767	-	43,216,767
Hardest Hit Program	951,652	200	11,500,000	10,548,548	-	10,548,548
Other programs	19,087,325	139,042	18,988,340	40,057	-	40,057
Total governmental activities	<u>233,590,961</u>	<u>2,154,886</u>	<u>302,948,160</u>	<u>71,512,085</u>	<u>-</u>	<u>71,512,085</u>
Business-type activities:						
Administrative	12,991,996	558,020	-	-	(12,433,976)	(12,433,976)
Multi-Family Mortgage Loan Programs	24,775,345	48,557,633	-	-	23,782,288	23,782,288
Multi-Family Federal Assistance Programs	139,529,707	-	139,529,707	-	-	-
Single-Family Mortgage Loan Programs	40,735,553	38,420,332	-	-	(2,315,221)	(2,315,221)
Tax Credit Authorization and Monitoring	1,340,481	6,217,373	-	-	4,876,892	4,876,892
FAF Lending Program	-	187,959	2,385,887	-	2,573,846	2,573,846
Total business-type activities	<u>219,373,082</u>	<u>93,941,317</u>	<u>141,915,594</u>	<u>-</u>	<u>16,483,829</u>	<u>16,483,829</u>
Total Authority	<u>\$ 452,964,043</u>	<u>\$ 96,096,203</u>	<u>\$ 444,863,754</u>	<u>71,512,085</u>	<u>16,483,829</u>	<u>87,995,914</u>
General revenues:						
Unrestricted investment income				-	232,761	232,761
Transfers				(5,200,000)	5,200,000	-
Total general revenues and transfers				<u>(5,200,000)</u>	<u>5,432,761</u>	<u>232,761</u>
Change in net assets				66,312,085	21,916,590	88,228,675
Net assets at beginning of year				<u>222,228,024</u>	<u>401,743,528</u>	<u>623,971,552</u>
Net assets at end of year				<u>\$ 288,540,109</u>	<u>\$ 423,660,118</u>	<u>\$ 712,200,227</u>

See accompanying notes to financial statements.

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Governmental Funds

Balance Sheet

June 30, 2011

	<b>Major Funds</b>			
	<b>Illinois Affordable Housing Trust Fund</b>	<b>HOME Program Fund</b>	<b>Rental Housing Support Program Fund</b>	<b>ARRA Fund</b>
<b>Assets</b>				
<b>Current assets:</b>				
Cash	\$ 18,310,259	\$ -	\$ 128,670	\$ -
Funds held by State Treasurer	-	365,633	-	-
Investments	-	-	32,378,200	-
Investment income receivable	-	-	14,117	-
Program loans receivable	5,060,981	2,061,180	-	-
Grant receivable	-	1,636,746	-	-
Interest receivable on program loans	220,365	187,443	-	-
Total current assets	<u>23,591,605</u>	<u>4,251,002</u>	<u>32,520,987</u>	<u>-</u>
<b>Noncurrent assets:</b>				
Program loans receivable, net of current portion	326,914,731	211,516,211	-	72,013,035
Less allowance for estimated losses	<u>(23,049,615)</u>	<u>(7,739,284)</u>	<u>-</u>	<u>(452,714)</u>
Net program loans receivable	303,865,116	203,776,927	-	71,560,321
Other	376,759	-	6,390	-
Total noncurrent assets	<u>304,241,875</u>	<u>203,776,927</u>	<u>6,390</u>	<u>71,560,321</u>
Total assets	<u><u>\$ 327,833,480</u></u>	<u><u>\$ 208,027,929</u></u>	<u><u>\$ 32,527,377</u></u>	<u><u>\$ 71,560,321</u></u>
<b>Liabilities and Fund Balances</b>				
<b>Current liabilities:</b>				
Deferred revenue	\$ -	\$ 187,443	\$ -	\$ -
Due to grantees	-	-	32,527,377	-
Due to other funds	-	1,636,746	-	-
Due to State of Illinois	23,968,364	-	-	-
Total current liabilities	<u>23,968,364</u>	<u>1,824,189</u>	<u>32,527,377</u>	<u>-</u>
<b>Noncurrent liabilities:</b>				
Due to State of Illinois	303,865,116	-	-	-
Total liabilities	<u>327,833,480</u>	<u>1,824,189</u>	<u>32,527,377</u>	<u>-</u>
<b>Fund balances:</b>				
Restricted	-	206,203,740	-	71,560,321
Total fund balances	<u>-</u>	<u>206,203,740</u>	<u>-</u>	<u>71,560,321</u>
Total liabilities and fund balances	<u><u>\$ 327,833,480</u></u>	<u><u>\$ 208,027,929</u></u>	<u><u>\$ 32,527,377</u></u>	<u><u>\$ 71,560,321</u></u>

Amounts reported for governmental activities in the statement of net assets are different due to:

Deferral of interest receivable on certain program loans receivable

Capital assets

Net assets of governmental activities

See accompanying notes to financial statements.

<b>Hardest Hit Fund</b>	<b>Nonmajor Governmental Fund</b>	<b>Total</b>
\$ 11,480,490	\$ 41,446	\$ 29,960,865
-	-	365,633
-	-	32,378,200
-	-	14,117
-	-	7,122,161
-	256,873	1,893,619
-	-	407,808
<u>11,480,490</u>	<u>298,319</u>	<u>72,142,403</u>
-	-	610,443,977
-	-	(31,241,613)
-	-	579,202,364
438,812	-	821,961
<u>438,812</u>	<u>-</u>	<u>580,024,325</u>
<u>\$ 11,919,302</u>	<u>\$ 298,319</u>	<u>\$ 652,166,728</u>
\$ -	\$ -	\$ 187,443
-	-	32,527,377
1,420,754	256,873	3,314,373
-	-	23,968,364
<u>1,420,754</u>	<u>256,873</u>	<u>59,997,557</u>
-	-	303,865,116
<u>1,420,754</u>	<u>256,873</u>	<u>363,862,673</u>
10,498,548	41,446	288,304,055
<u>10,498,548</u>	<u>41,446</u>	<u>288,304,055</u>
<u>\$ 11,919,302</u>	<u>\$ 298,319</u>	
		187,443
		<u>48,611</u>
		<u>\$ 288,540,109</u>

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Governmental Funds

Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2011

	<b>Major Funds</b>			
	<b>Illinois Affordable Housing Trust Fund</b>	<b>HOME Program Fund</b>	<b>Rental Housing Support Program Fund</b>	<b>ARRA Fund</b>
<b>Revenues:</b>				
Grant from State of Illinois	\$ 9,685,181	\$ -	\$ 9,848,529	\$ -
Federal funds	-	22,711,036	-	230,215,074
Interest and investment income	23,914	1,846,317	101,641	-
Total revenues	<u>9,709,095</u>	<u>24,557,353</u>	<u>9,950,170</u>	<u>230,215,074</u>
<b>Expenditures:</b>				
Grants	3,485,181	9,879,514	9,650,170	186,545,593
General and administrative	1,000,000	2,130,155	300,000	-
Program income transferred to State of Illinois	23,914	-	-	-
Provision for estimated losses on program loans receivable	-	84,743	-	452,714
Total expenditures	<u>4,509,095</u>	<u>12,094,412</u>	<u>9,950,170</u>	<u>186,998,307</u>
Excess of revenues over expenditures	5,200,000	12,462,941	-	43,216,767
<b>Other financing uses:</b>				
Transfer out	<u>(5,200,000)</u>	-	-	-
Net change in fund balances	-	12,462,941	-	43,216,767
Fund balances at beginning of year	<u>-</u>	<u>193,740,799</u>	<u>-</u>	<u>28,343,554</u>
Fund balances at end of year	<u>\$ -</u>	<u>\$ 206,203,740</u>	<u>\$ -</u>	<u>\$ 71,560,321</u>

Amounts reported for governmental activities in the statement of activities are different due to:

Deferral of interest receivable on certain program loans receivable

Capital outlay

Depreciation and amortization on capital assets

Change in net assets of governmental activities

See accompanying notes to financial statements.

<b>Hardest Hit Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total</b>
\$ -	\$ -	\$ 19,533,710
11,500,000	18,988,340	283,414,450
200	139,042	2,111,114
<u>11,500,200</u>	<u>19,127,382</u>	<u>305,059,274</u>
19,710	18,172,353	227,752,521
981,942	913,583	5,325,680
-	-	23,914
-	-	537,457
<u>1,001,652</u>	<u>19,085,936</u>	<u>233,639,572</u>
10,498,548	41,446	71,419,702
-	-	(5,200,000)
10,498,548	41,446	66,219,702
-	-	
<u>\$ 10,498,548</u>	<u>\$ 41,446</u>	
		43,772
		50,000
		<u>(1,389)</u>
		<u>\$ 66,312,085</u>

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Proprietary Funds

Statement of Net Assets

June 30, 2011

	Administrative Fund	Mortgage Loan Program Fund	Single Family Program Fund	Total
<b>Assets:</b>				
Current assets:				
Cash and cash equivalents	\$ 171,065,036	\$ 33,267,020	\$ 11,252,805	\$ 215,584,861
Investments	61,601,865	-	-	61,601,865
Investment income receivable	39,076	-	-	39,076
Investment income receivable - restricted	853	206,892	437,670	645,415
Program loans receivable	1,866,491	28,094,752	14,680,984	44,642,227
Interest receivable on program loans	135,928	1,396,741	2,806,117	4,338,786
Due from other funds	8,162,959	14,332,552	351,293	22,846,804
Total current assets	<u>242,872,208</u>	<u>77,297,957</u>	<u>29,528,869</u>	<u>349,699,034</u>
Noncurrent assets:				
Investments – restricted	14,096,991	280,397,356	378,914,708	673,409,055
Program loans receivable, net of current portion	86,141,153	510,863,540	573,985,133	1,170,989,826
Less allowance for estimated losses	<u>(4,507,949)</u>	<u>(14,810,282)</u>	<u>(2,282,237)</u>	<u>(21,600,468)</u>
Net program loans receivable	81,633,204	496,053,258	571,702,896	1,149,389,358
Unamortized bond issuance costs	-	5,429,493	6,145,572	11,575,065
Real estate held for sale, net	-	50,530	8,080,029	8,130,559
Capital assets, net	75,098	27,013,690	-	27,088,788
Derivative instrument asset	-	427,607	-	427,607
Deferred outflow of resources	-	-	2,583,647	2,583,647
Other	551,936	274,735	6,810,108	7,636,779
Total noncurrent assets	<u>96,357,229</u>	<u>809,646,669</u>	<u>974,236,960</u>	<u>1,880,240,858</u>
Total assets	<u>339,229,437</u>	<u>886,944,626</u>	<u>1,003,765,829</u>	<u>2,229,939,892</u>
<b>Liabilities:</b>				
Current liabilities:				
Bonds and notes payable	7,900,000	153,510,000	190,810,000	352,220,000
Accrued interest payable	83,803	10,003,993	13,146,539	23,234,335
Deferred revenue	11,642,924	307,104	-	11,950,028
Deposits held in escrow	170,253,228	-	-	170,253,228
Accrued liabilities and other	7,528,917	1,305,669	980,517	9,815,103
Due to other funds	14,683,845	4,141,530	707,056	19,532,431
Total current liabilities	<u>212,092,717</u>	<u>169,268,296</u>	<u>205,644,112</u>	<u>587,005,125</u>
Noncurrent liabilities:				
Bonds and notes payable, net of current portion	-	514,350,550	701,912,845	1,216,263,395
Derivative instrument liability	-	-	2,583,647	2,583,647
Deferred inflows of resources	-	427,607	-	427,607
Total liabilities	<u>212,092,717</u>	<u>684,046,453</u>	<u>910,140,604</u>	<u>1,806,279,774</u>
<b>Net assets:</b>				
Invested in capital assets, net of related debt	75,098	(7,571,310)	-	(7,496,212)
Restricted for bond resolution purposes	-	216,009,116	93,625,225	309,634,341
Restricted for loan and grant programs	35,708,467	-	-	35,708,467
Unrestricted	91,353,155	(5,539,633)	-	85,813,522
Total net assets	<u>\$ 127,136,720</u>	<u>\$ 202,898,173</u>	<u>\$ 93,625,225</u>	<u>\$ 423,660,118</u>

See accompanying notes to financial statements.



**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Proprietary Funds

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

Year ended June 30, 2011

	Administrative Fund	Mortgage Loan Program Fund	Single Family Program Fund	Total
Operating revenues:				
Interest and other investment income	\$ 292,144	\$ 1,246,077	\$ 3,019,126	\$ 4,557,347
Net increase (decrease) in fair value of investments	<u>(59,383)</u>	<u>(466,502)</u>	<u>1,993,862</u>	<u>1,467,977</u>
Total investment income	232,761	779,575	5,012,988	6,025,324
Interest earned on program loans	4,100,962	27,611,511	33,052,574	64,765,047
Federal assistance programs	135,940,122	3,589,585	-	139,529,707
Service fees	10,527,381	-	-	10,527,381
Development fees	787,036	-	-	787,036
HUD savings	2,573,846	-	-	2,573,846
Other	<u>7,054,184</u>	<u>4,827,147</u>	<u>-</u>	<u>11,881,331</u>
Total operating revenues	<u>161,216,292</u>	<u>36,807,818</u>	<u>38,065,562</u>	<u>236,089,672</u>
Operating expenses:				
Interest expense	145,844	24,978,019	35,124,093	60,247,956
Federal assistance programs	135,940,122	3,589,585	-	139,529,707
Salaries and benefits	15,293,308	-	-	15,293,308
Professional fees	888,383	-	-	888,383
Other general and administrative	2,553,160	186,926	1,067,681	3,807,767
Financing costs	300,474	698,476	710,756	1,709,706
Program Grant	-	229,347	-	229,347
Change in accrual for estimated losses on mortgage participation certificate program	(188,509)	-	-	(188,509)
Provision for estimated losses on real estate held for sale	-	-	773,197	773,197
Provision for (reversal of) estimated losses on program loans receivable	<u>(504,041)</u>	<u>(3,371,587)</u>	<u>957,848</u>	<u>(2,917,780)</u>
Total operating expenses	<u>154,428,741</u>	<u>26,310,766</u>	<u>38,633,575</u>	<u>219,373,082</u>
Operating income (loss)	<u>6,787,551</u>	<u>10,497,052</u>	<u>(568,013)</u>	<u>16,716,590</u>
Transfers in	-	5,200,000	496,057	5,696,057
Transfers out	<u>(496,057)</u>	<u>-</u>	<u>-</u>	<u>(496,057)</u>
Total transfers	<u>(496,057)</u>	<u>5,200,000</u>	<u>496,057</u>	<u>5,200,000</u>
Change in net assets	6,291,494	15,697,052	(71,956)	21,916,590
Net assets at beginning of year	<u>120,845,226</u>	<u>187,201,121</u>	<u>93,697,181</u>	<u>401,743,528</u>
Net assets at end of year	<u>\$ 127,136,720</u>	<u>\$ 202,898,173</u>	<u>\$ 93,625,225</u>	<u>\$ 423,660,118</u>

See accompanying notes to financial statements.

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Proprietary Funds

Statement of Cash Flows

Year ended June 30, 2011

	Administrative Fund	Mortgage Loan Program Fund	Single Family Program Fund	Total
Cash flows from operating activities:				
Receipts for program loans, interest and service fees	\$ 40,906,200	\$ 76,321,223	\$ 117,922,880	\$ 235,150,303
Receipt for real estate held for sale	-	73,028	9,572,411	9,645,439
Payments for program loans	(3,711,722)	(33,281,889)	-	(36,993,611)
Receipts for federal assistance programs	135,940,122	3,589,585	-	139,529,707
Payments for federal assistance programs	(135,940,122)	(3,589,585)	-	(139,529,707)
Payment for program grant	-	(229,347)	-	(229,347)
Payments to suppliers	(3,565,926)	(1,004,241)	(1,377,787)	(5,947,954)
Payments to employees	(15,390,727)	-	-	(15,390,727)
Payments for amounts held on behalf of others	-	(599,363)	-	(599,363)
Other receipts	9,628,030	4,827,147	-	14,455,177
Net cash provided by operating activities	<u>27,865,855</u>	<u>46,106,558</u>	<u>126,117,504</u>	<u>200,089,917</u>
Cash flows from noncapital financing activities:				
Proceeds from sale of revenue bonds and notes	-	62,530,000	46,001,277	108,531,277
Principal paid on revenue bonds and notes	-	(93,741,539)	(148,131,618)	(241,873,157)
Interest paid on revenue bonds and notes	(145,844)	(24,091,838)	(36,191,972)	(60,429,654)
Due to other funds	(1,396,254)	552,410	(21,205)	(865,049)
Due from other funds	(1,901,435)	1,396,254	-	(505,181)
Transfers in	-	5,200,000	496,057	5,696,057
Transfers out	(496,057)	-	-	(496,057)
Net cash used in noncapital financing activities	<u>(3,939,590)</u>	<u>(48,154,713)</u>	<u>(137,847,461)</u>	<u>(189,941,764)</u>
Cash flows from capital financing and related activities				
Acquisition of capital assets	<u>(5,367)</u>	<u>(173,644)</u>	<u>-</u>	<u>(179,011)</u>
Cash flows from investing activities:				
Purchase of investment securities	(761,937,334)	(2,805,552,251)	(3,755,723,218)	(7,323,212,803)
Proceeds from sales and maturities of investment securities	908,415,604	2,839,615,710	3,768,577,452	7,516,608,766
Interest received on investments	428,023	799,382	5,191,221	6,418,626
Net cash provided by investing activities	<u>146,906,293</u>	<u>34,862,841</u>	<u>18,045,455</u>	<u>199,814,589</u>
Net increase in cash and cash equivalents	170,827,191	32,641,042	6,315,498	209,783,731
Cash and cash equivalents at beginning of year	<u>237,845</u>	<u>625,978</u>	<u>4,937,307</u>	<u>5,801,130</u>
Cash and cash equivalents at end of year	<u>\$ 171,065,036</u>	<u>\$ 33,267,020</u>	<u>\$ 11,252,805</u>	<u>\$ 215,584,861</u>

(Continued)

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Proprietary Funds

Statement of Cash Flows (Continued)

Year ended June 30, 2011

	Administrative Fund	Mortgage Loan Program Fund	Single Family Program Fund	Total
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 6,787,551	\$ 10,497,052	\$ (568,013)	\$ 16,716,590
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Investment income	(232,761)	(779,575)	(5,012,988)	(6,025,324)
Interest expense	145,844	24,978,019	35,124,093	60,247,956
Depreciation and amortization	42,274	800,000	-	842,274
Change in accrual for estimated losses on mortgage participation certificate program	(188,509)	-	-	(188,509)
Provision for estimated losses on real estate held for sale	-	-	773,197	773,197
Provision for (reversal of) estimated losses on program loans receivable	(504,041)	(3,371,587)	957,848	(2,917,780)
Changes in assets and liabilities:				
Program loans receivable	1,129,589	14,843,773	98,900,680	114,874,042
Interest receivable on program loans	3,524	(169,956)	418,853	252,421
Other liabilities	19,873,763	538,252	154,241	20,566,256
Other assets	808,621	(630,057)	(4,630,407)	(4,451,843)
Amounts held on behalf of others	-	(599,363)	-	(599,363)
Total adjustments	<u>21,078,304</u>	<u>35,609,506</u>	<u>126,685,517</u>	<u>183,373,327</u>
Net cash provided by operating activities	<u>\$ 27,865,855</u>	<u>\$ 46,106,558</u>	<u>\$ 126,117,504</u>	<u>\$ 200,089,917</u>
Noncash investing, capital and financing activities:				
Transfer of foreclosed assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,455,346</u>	<u>\$ 5,455,346</u>
The fair value of investments increased (decreased)	<u>\$ 25,710</u>	<u>\$ (905,264)</u>	<u>\$ 1,414,316</u>	<u>\$ 534,762</u>

See accompanying notes to financial statements.

## **ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Notes to Financial Statements

June 30, 2011

### **Note 1. 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, 2011, as shown on the Authority's financial statements consist of both general and special limited obligations of the Authority (see Note 8). 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 \$3.6 billion of general and special limited obligation bonds and notes outstanding, excluding those issued to refund outstanding bonds and notes. At June 30, 2011, amounts outstanding against this limitation were approximately \$2.0 billion.

### **Note 2. 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 of America 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.

## ILLINOIS HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the State of Illinois)

Notes to Financial Statements

June 30, 2011

### **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-counting 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 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 and non-major governmental and proprietary (enterprise) funds, each displayed in a separate column. Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund including interest income, service fees, and development fees. Exchange transactions are those in which each party receives and gives up essentially equal values.

The Authority reports the following major governmental funds:

#### *Illinois Affordable Housing Trust Fund*

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

As the administrator of the Housing Program, the Authority considers the interest in equity of the Housing Program to be that of the State of Illinois and the Authority records a liability to the State of Illinois for their equity share. Additionally, the Authority records amounts received to administer the Housing Program as grant revenue.

#### *HOME Program Fund*

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 Illinois 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.

## ILLINOIS HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the State of Illinois)

### Notes to Financial Statements

June 30, 2011

#### *Rental Housing Support Program Fund*

The Authority is designated administrator of the Rental Housing Support Program (Support Program). The program is funded by a surcharge for the recording of any real estate-related document. The funds are appropriated to the Illinois Department of Revenue by the General Assembly. The Authority awards funds to local administering agencies, which will contract with local landlords to make rental units affordable to households who earn less than 30% of the area median income.

As the administrator of the Support Program, the Authority initially records amounts received as revenue and a due to grantee liability is recorded. As funds are disbursed from the program, the Authority reduces the liability.

#### *ARRA Fund*

The Authority is designated program administrator for Section 1602 of the American Recovery and Reinvestment Act of 2009 ("ARRA") for grants appropriated to the State of Illinois by the United States Department of the Treasury to finance construction or acquisition and rehabilitation of qualified low-income building for low-income housing in lieu of low-income housing tax credits. In addition, HUD makes awards to the Authority under the Tax Credit Assistance Program ("TCAP") to facilitate the development of projects that received or will receive funding in order to be completed and placed in service in accordance with the requirements of Section 42 of the Internal Revenue Code of 1986 and the regulations promulgated there under. These awards are then allocated to sub-grantees and the Authority will be responsible for the monitoring and reporting of the use of these funds.

#### *Hardest Hit Fund*

The Authority is designated program administrator for the Hardest Hit Fund ("HHF") for grants appropriated to the State of Illinois by the United States Department of the Treasury ("Treasury") as authorized by the Emergency Economic Stabilization Act of 2008 (Public Law 110-343), as amended, as the same may be amended from time to time ("EESA"). The funds can be used to assist unemployed or substantially underemployed homeowners with interim mortgage payment assistance that will allow them to pursue sustainable income and homeownership through new employment or job training efforts without the immediate threat of default or foreclosure. Approved grants are paid directly to mortgage loan servicers and the Authority is responsible for compliance monitoring and reporting of these funds.

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 5), 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 13).

The Administrative Fund net assets that are classified as restricted by contractual agreement for loan and grant programs 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).

## ILLINOIS HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the State of Illinois)

### Notes to Financial Statements

June 30, 2011

#### *Mortgage Loan Program Fund*

The Mortgage Loan Program Fund accounts for the financing of low and moderate income housing developments from the proceeds of Housing Bonds, Multifamily Initiative Bonds, Multi-family Housing Revenue Bonds (Marywood), Multi-family Bonds (Turnberry II) 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 Program 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 federal and state grant revenue. Revenue from these sources is recognized in the fiscal year in which all eligibility requirements have been met.

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

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

The accounting policies and financial reporting practices of the Illinois Housing Development Authority (the Authority), a component unit of the State of Illinois, conform to generally accepted accounting principles (GAAP), as promulgated in pronouncements of the Governmental Accounting Standards Board (GASB). Additionally, in the government-wide and proprietary fund financial statements, the Authority applies the pronouncements of the Financial Accounting Standards Board (FASB) issued before December 1, 1989, which are not in conflict with GASB pronouncements. As permitted by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected to not apply FASB pronouncements issued after November 30, 1989.

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

Notes to Financial Statements

June 30, 2011

**Fund Balances**

In the fund financial statements, governmental funds report fund balances in the following categories:

**Nonspendable** – This consists of amounts that cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact.

**Restricted** – This consists of amounts that are restricted to specific purposes, that is, when constraints placed on the use of resources are either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation.

**Committed** – This consists of amounts constrained by limitations that the Authority imposes upon itself through resolution by its board of directors. The commitment amount will be binding unless removed or amended in the same manner.

**Assigned** – This consists of net amounts that are constrained by the Authority's intent to be used for specific purposes, but that are neither restricted nor committed.

**Unassigned** – This consists of residual deficit fund balances.

In instances where restricted, committed and assigned fund balances are available for use, the Authority's policy is to use restricted resources first, followed by committed resources, then assigned resources, as needed.

**Net Assets**

In the government-wide and proprietary fund financial statements, net assets is displayed in the following components:

**Invested in Capital Assets, net of related debt** – This consists of capital assets, net of accumulated depreciation and related debt.

**Restricted** – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation.

All net assets of the governmental activities column of the government-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 5 for schedules of aging for the loans made under these programs.)

The use of assets of each of the proprietary fund 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. 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.

**Unrestricted** – This consists of net assets that do not meet the criteria of the two preceding categories.



## ILLINOIS HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the State of Illinois)

### Notes to Financial Statements

June 30, 2011

Designations of net assets 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.

A portion of the Authority's Administrative Fund unrestricted net assets as of June 30, 2011 are designated as follows:

Housing Partnership Program	\$ 4,400,000
To pay expenses for planned technology enhancements	1,000,000
To pay possible losses arising in the Multi-Family Bond Program attributable, but not limited to, delinquencies or defaults on uninsured or unsubsidized loans	4,000,000
Provide funds to purchase single family loans which eventually will be purchased with proceeds from future issuances of Authority bonds	35,000,000
Provide funds and reserves to support the Mortgage Participation Certificate Program, including the purchase of loans within the Program	<u>40,000,000</u>
	<u>\$ 84,400,000</u>

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

#### 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. Such changes could materially affect the amounts reported in the balance sheet and the statement 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 with original maturity dates of three months or less to be cash equivalents.

## **ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

### Notes to Financial Statements

June 30, 2011

#### **Investments**

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

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

#### **Program Loans Receivable**

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

#### **Capital Assets**

Capital assets in the Administrative Fund consist of investments in furniture, fixtures, and equipment; computer hardware; computer software; and leasehold improvements and are defined by the Authority as assets with an initial, individual cost of \$5,000 or more. Depreciation and amortization is on a straight-line basis over a period of five to ten years, depending upon the nature of the asset. Leasehold improvements are amortized over the term of the lease. Depreciation and amortization expenses for fiscal year 2011 were \$42,274. Capital assets in the Mortgage Loan Program Fund represents the net carrying value of Lakeshore Plaza (ML-181), which the Authority acquired by deed in lieu of foreclosure on April 27, 1990. The Authority records depreciation against ML-181 on a straight-line basis over forty years, as past market conditions did not allow for a sale of the property. At June 30, 2011, the net carrying value of ML-181 was \$27,013,690 and accumulated depreciation was \$14,211,000. The Authority will continue to own and operate ML-181 until the sale or other disposition of the development occurs. Depreciation expense for fiscal year 2011 was \$800,000. Capital assets for governmental activities total \$50,000; \$40,000 for computer software and \$10,000 for desktop computers used in the Hardest Hit program. Depreciation and amortization for these items are recorded on a straight-line basis over three years and amounted to \$1,389 during fiscal year 2011.

#### **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 is recorded at the lesser of unpaid principal balance plus accrued interest on the loans as of the date the loans become real estate owned, plus subsequent expenses incurred less any insurance or other loan related payments received or fair market value less costs to sell. Since a substantial majority of all such loans are covered by pool insurance, based on the Authority's past experience, it is anticipated that the Authority will recover a majority of the unpaid principal balances of the loans through proceeds arising from the sale of such property and certain insurance proceeds.

## **ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

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Notes to Financial Statements

June 30, 2011

### **Bond Discount, Issuance Costs and Deferred Amounts on Refunding**

Discounts on bonds are 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 amortized bond issuance costs are expensed to the Administrative Fund. Deferred amounts on refunding are amortized over the shorter of the life of the old or new debt as a component of interest expense.

### **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 8), are recognized as income in the Administrative Fund generally at the time of initial closing.

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

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

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

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

### **Compensated Absences**

The Authority grants vacation and sick leave to all employees and accrues for unused compensated absences. Vacations are allotted on a calendar year basis and are intended to be taken during that year. Unused sick leave allowance is carried forward and accumulated. In the event of termination, employees are paid for all earned but unused vacation time and, within a maximum time limit, for one half of accumulated sick leave earned. The Authority has no other post-employment benefits (OPEB).

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

Notes to Financial Statements

June 30, 2011

The following is the activity for the compensated absences recorded as other liabilities:

Balance June 30,2010	Additions	Retirements	Balance June 30,2011	Due Within One Year
\$ 644,112	\$ 1,467,771	\$ (1,566,003)	\$ 545,880	\$ 545,880

These amounts are recorded as other liabilities and liquidated from the Administrative Fund.

**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 multi-family and developer loan portfolios and provides additional amounts, if it deems necessary, for estimated losses for individual loans in the funds. In making such review and evaluation, the Authority considers current economic conditions, occupancy and rental level projections, financial statement analyses, on-site inspections, independent appraisals of certain developments, insurance coverage, and such other factors as it deems necessary. The estimated losses of the single family loan portfolio are based upon a periodic review and evaluation of the loan portfolio, including real estate owned properties for any uninsured loans and considers such factors as delinquencies, interest costs, holding costs, sales proceeds, and PMI recoveries for estimating losses.

**New and Pending Accounting Pronouncements**

The Governmental Accounting Standards Board has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This Statement also clarified the definitions of the governmental fund types. The Authority implemented this Statement for the year ended June 30, 2011.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, will be effective for the Authority beginning with its year ending June 30, 2013. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, will be effective for the Authority beginning with its year ending June 30, 2013. The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

# ILLINOIS HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the State of Illinois)

## Notes to Financial Statements

June 30, 2011

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure

Management has not determined the impact of the pending pronouncements not yet adopted on its financial statements.

### Note 3. 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 are from securities defaults or erosion of market value.
- *Liquidity* – The investments portfolio shall remain sufficiently flexible to enable the Authority to meet all operating requirements which may be reasonably anticipated in any fund. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demand.
- *Maximum rate of return* – The investment portfolio shall be designed with the purpose of regularly exceeding the average return of United States Treasury obligations of comparable maturities. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein and prudent investment principles.

### Interest Rate Risk

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

As of June 30, 2011, the Authority had the following cash equivalents held in investments:

Investment	Carrying amount	Investment maturities (in days)			
		Less than 7	Less than 30	Less than 60	Less than 90
Sweep Accounts-Repurchase Agreements	\$ 18,902,456	\$ 18,902,456	\$ -	\$ -	\$ -
Sweep Accounts-Money Market Fund	181,283,967	181,283,967	-	-	-
	<u>\$ 200,186,423</u>	<u>\$ 200,186,423</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Repurchase agreements and money market funds are collateralized by obligations of the United States Government or its agencies, or direct investments of such obligations overnight and funds are available the next day.

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As of June 30, 2011, the Authority had the following investments:

Investment	Carrying Amount	Investment maturities (in years)			
		Less than 1	1 - 5	6 - 10	More than 10
Demand repurchase agreements	\$ 8,351,128	\$ -	\$ -	\$ 300,000	\$ 8,051,128
Federal Home Loan Bank Bonds	8,594,545	7,539,965	1,054,580	-	-
Federal Farm Credit Bank Bonds	3,748,497	2,411,594	1,336,903	-	-
Federal Home Loan Mortgage Corp.	1,362,111	-	-	-	1,362,111
Federal National Mortgage Assn. Benchmark Notes	4,631,912	1,838,459	1,284,530	-	1,508,923
Federal National Mortgage Assn. Discount Notes	127,071,493	127,071,493	-	-	-
Federal Home Loan Bank Discount Notes	143,357,994	143,357,994	-	-	-
Federal Home Loan Mortgage Corp. Discount Notes	45,501,612	45,501,612	-	-	-
Government National Mortgage Association	54,863,659	-	-	-	54,863,659
Federal National Mortgage Assn.	1,947,568	-	-	-	1,947,568
United States Treasury Strips	850,704	-	-	-	850,704
United States Treasury Bonds	8,184,749	-	247,025	7,937,724	-
United States Treasury Notes	24,547,731	10,267,153	14,280,578	-	-
United States Treasury Bill	334,375,417	334,375,417	-	-	-
	<u>\$ 767,389,120</u>	<u>\$ 672,363,687</u>	<u>\$ 18,203,616</u>	<u>\$ 8,237,724</u>	<u>\$ 68,584,093</u>

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

**Credit Risk**

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

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

The counterparties to the demand repurchase agreements and 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, 2011 are listed below.

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Counterparty	Rating S&P / Moody's	Carrying Value
Morgan Guaranty Trust Company	AA-/Aa1	\$ 300,000
Morgan Stanley & Co., Inc.	A/A2	1,879,137
Trinity Plus Funding Co.	AA+/Aa2	1,511,930
Westdeutsche Landesbank (1)	AA-/Aa1	4,660,061
Total Investments		\$ 8,351,128
Bank of America	A+/Aa3	\$ 18,902,456
Total Cash and Cash Equivalents		\$ 18,902,456

(1) Ratings are in accordance with a grandfathering arrangement agreed to by the EU Commission and the German authorities.

**Custodial Credit Risk**

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Authority will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Authority will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

The Authority's cash and cash equivalents at June 30, 2011, consisted of sweep accounts, held in the Authority's name, with the funds in these accounts invested in money market funds that invest in U.S. Treasury securities, or were held in accounts that were either FDIC insured or collateralized with U.S. government obligations. The Authority's investments at June 30, 2011 were held in the Authority's name in separate Authority custodial accounts. Collateral is pledged in the Authority's name and consists of U.S. Treasury obligations.

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in any one single issuer. The Authority's policy does not limit the amounts the Authority may invest in any one issuer. The Authority is considered to have a concentration of credit risk if its investments in any one single issuer (other than securities explicitly guaranteed by the U.S. government) are greater than 5% of total investments. Investments which comprise more than 5% of the Authority's investments as of June 30, 2011 are as follows:

Investment	Fair Value
Federal Home Loan Bank	\$ 151,952,539
Federal National Mortgage Association	133,650,973
Federal Home Loan Mortgage Corporation	46,863,723

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**Note 4. 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, 2011 consisted of the following:

Receivable To	Payable From						Total
	Home Program	Hardest Hit Fund	Nonmajor Governmental Funds	Administrative	Mortgage Loan Program	Single Family Program	
Administrative	\$1,636,746	\$1,420,754	\$256,873	\$ -	\$4,141,530	\$707,056	\$8,162,959
Mortgage Loan Program	-	-	-	14,332,552	-	-	14,332,552
Single Family Program	-	-	-	351,293	-	-	351,293
	<u>\$1,636,746</u>	<u>\$1,420,754</u>	<u>\$256,873</u>	<u>\$14,683,845</u>	<u>\$4,141,530</u>	<u>\$707,056</u>	<u>\$22,846,804</u>

The interfund accounts receivable (payable) between the Mortgage Loan Program Fund and the Administrative Fund primarily consist of a fiscal year 2000 operating transfer of \$10.4 million to the Multi-Family Housing Revenue Bond Accounts made from the Administrative Fund in conjunction with the issuance of the Multi-Family Housing Revenue Bonds, Series 2000A (Lakeshore Plaza Development) and the corresponding transfer of the carrying value of the real estate investment, ML-181, to these accounts, partially reversed by a \$5.4 million fiscal year 2006 transfer to the Administrative Fund, plus interfund accounts receivables related to mortgage assistance provided to two previously distressed loans, Innsbruck Apartments (\$4.4 million) and Larkin Village (\$2.8 million). The Authority intends to reverse the remaining amounts of the transfers upon the disposition of the properties.

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, 2011 consisted of the following:

Transfer in	Transfers Out		
	Illinois Affordable Housing Trust	Administrative	Total
Mortgage Loan Program	\$ 5,200,000	\$ -	\$ 5,200,000
Single Family Program	-	496,057	496,057
	<u>\$ 5,200,000</u>	<u>\$ 496,057</u>	<u>\$ 5,696,057</u>

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



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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, 2011 totaled \$5,200,000. The \$496,057 transfer from the Administrative Fund to the Single Family Program Fund was to pay issuance and other costs of Homeowner Mortgage Revenue Bonds.

### Note 5. Program Loans Receivable

The Authority has loans throughout the State, of which approximately two-thirds are in the Chicago metropolitan area. The following summarizes the Program Loans Receivable activity for the Authority for the year ended June 30, 2011:

	Net program loans receivable June 30, 2010	Loan disbursements	Loan repayments	Change in loan loss provision	Change in net deferred fees	Net program loans receivable June 30, 2011
(Dollars in thousands)						
Governmental Funds:						
Illinois Affordable Housing Trust Fund	\$ 307,934	\$ 8,645	\$ (5,005)	\$ (2,648)	\$ -	\$ 308,926
HOME Program Fund	192,352	15,544	(1,973)	(85)	-	205,838
ARRA Program	28,344	43,669	-	(453)	-	71,560
<b>Total Governmental Funds</b>	<b>\$ 528,630</b>	<b>\$ 67,858</b>	<b>\$ (6,978)</b>	<b>\$ (3,186)</b>	<b>\$ -</b>	<b>\$ 586,324</b>
Proprietary Funds:						
Administrative Fund	\$ 83,937	\$ 3,712	\$ (2,968)	\$ 504	\$ (1,685)	\$ 83,500
Mortgage Loan Program Fund						
Housing Bonds	471,067	926	(35,857)	2,746	93	438,975
Multifamily Initiative Bonds	-	31,434	(38)	(13)	-	31,383
Multifamily Housing Revenue Bonds (Marywood)	10,933	-	-	-	-	10,933
Multifamily Bonds (Turnberry)	4,758	-	(46)	3	-	4,715
Affordable Housing Program Trust Fund Bonds	48,789	921	(12,204)	636	-	38,142
<b>Total Mortgage Loan Program Fund</b>	<b>535,547</b>	<b>33,281</b>	<b>(48,145)</b>	<b>3,372</b>	<b>93</b>	<b>524,148</b>
Single Family Program Fund	682,125	-	(93,529)	(958)	(1,254)	586,384
<b>Total Proprietary Funds</b>	<b>\$ 1,301,609</b>	<b>\$ 36,993</b>	<b>\$ (144,642)</b>	<b>\$ 2,918</b>	<b>\$ (2,846)</b>	<b>\$ 1,194,032</b>

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 9 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 Housing 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

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funds to pay the costs of operation, maintenance, administration, mortgage payments, and Authority fees with respect to each of the developments.

At June 30, 2011, 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 \$996,979 and \$851,482, 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 \$3.8 million first mortgage for Innsbruck Apartments, ML-19. Under this agreement, upon the development's payment of a debt service amount as set forth in the agreement, the Authority, from its Administrative Fund, was obligated to subsidize debt service payments related to the first mortgage up to a maximum of \$6.2 million. The subsidy payments were applied to receivables within the Mortgage Loan Program. The maximum subsidy amount was reached in May 1999, after which the development became fully obligated for debt service of the receivables of the above bond accounts. The development is obligated to reimburse the Administrative Fund debt service subsidy payments from a portion of residual receipts generated from the development or upon sale of the development.

The Authority's policy for converting mortgage loans, except for loans financed under the Single Family Mortgage Loan Program, to non-accrual status is to discontinue the accrual of interest when a loan becomes 90 days past due. In addition, the Authority does not accrue interest income on loans in which payments are to be made from residual receipts of the development. Payments on such loans are recognized only as received. For loans receivable within the Single Family Mortgage Loan Program, the Authority accrues interest income on all loans unless they become Real Estate Owned properties, at which time the accrual is suspended.

As of June 30, 2011, the accrual of interest and service fee income was suspended on approximately \$2.1 million of mortgage loans in the Mortgage Loan Program Fund and such income was recognized only as received. Interest and service fee income due but not accrued was approximately \$594,000 in the Mortgage Loan Program Fund and \$43,000 in the Administrative Fund. In addition, the Authority does not accrue interest income on approximately \$12.1 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

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development funds, are recognized only as received. The annual amount of interest on these loans is approximately \$200,000.

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, 2011, loans receivable under this program were approximately \$1.3 million.

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

The Authority, as of June 30, 2011, has entered into fifty-two Risk Sharing Loans totaling \$290,946,699 and elected that HUD assume 10% to 90% of the loss with respect to those loans. Eleven of these loans totaling \$67,412,699 were financed through the issuance of the Authority's Housing Bonds, eleven loans totaling \$61,120,000 were financed through the issuance of the Authority's Multifamily Initiative Bonds and one loan in the amount of \$15,460,000 was financed through the issuance of the Authority's Multi-Family Housing Revenue Bonds (Marywood). The remaining twenty-nine loans totaling \$146,954,000 are not included in the Authority's financial statements as the Authority sold 100% participation interests in the loans to outside parties.

Marywood Apartments Homes, L.P., the borrower for the Marywood Apartment Homes development, has defaulted under the loans made by the Authority, which include the Risk Sharing Loan within the Authority's Multi-Family Housing Revenue Bonds (Marywood) and loans within the Administrative Fund and Housing Bond Fund Accounts. The Authority has filed a foreclosure action and a claim with HUD for payment of the Risk Share Insurance. HUD has paid to the Authority during fiscal year 2009 the Risk Share Insurance and the Authority has taken the proceeds of the insurance and redeemed the Authority's Multi-Family Housing Revenue Bonds (Marywood). The Risk Share Insurance regulations required the Authority to issue to HUD a debenture, which bears interest at an annual rate of 5% and matures in five years, in the amount of \$14,884,996, which is the amount of the proceeds of the Risk Share Insurance provided by HUD.

Under the terms of the Risk Share insurance in respect to the above development, HUD will bear 50% of the loss on the Risk Sharing loan. The Authority has reviewed the program loans receivable pertaining to the Marywood Apartment Homes development, for the purpose of determining ultimate collectibility, and believes that the allowances for estimated losses at June 30, 2011 in the accompanying financial statements are adequate to cover estimated losses of the loans.

At June 30, 2011, for loans financed under the Risk Sharing Program where the Authority sold 100% participation interests in the loans to outside parties, there were no amounts in arrears equal to more than two months debt service payments or required deposits to tax and insurance and/or replacement reserves.

As of June 30, 2011, for mortgage loans insured with Ambac Assurance Corporation (Ambac Loans) on multi-family housing developments under the Authority's Mortgage Participation Certificate Program, the Authority has entered into eight Ambac Loans totaling \$32,392,200. Except for one loan in the amount of \$5,320,000 financed through the issuance of the Authority's Multifamily Bonds (Turnberry), these loans are not included in the Authority's financial statements as the Authority sold 100% participation interests in the loans to outside parties. Ambac has guaranteed repayment of principal and interest due on a timely or accelerated basis in

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accordance with the agreement between the Authority and Ambac. The agreement allows (or provides) the Authority to share its risk with Ambac on the aggregate loan portfolio after the satisfaction of certain requirements and thresholds.

At June 30, 2011, for loans financed under the Mortgage Participation Certificate Program where the Authority sold 100% participation interests in the loans to outside parties, there were no amounts in arrears equal to more than two months debt service payments or required deposits to tax and insurance and/or replacement reserves.

With respect to the mortgage loans funded by the Homeowner Mortgage Revenue Bonds, a substantial majority of all delinquent mortgage loans receivable at June 30, 2011, 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 5.75%, 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, 2011 are as follows:

Interest rate %	Principal due by June 30				Total
	2012	2013 - 2017	2018 - 2027	After 2027	
	(Dollars in thousands)				
0 – 0.99	\$ 1,313	\$ 9,771	\$ 38,930	\$ 103,743	\$ 153,757
1 – 1.99	2,882	15,593	54,509	84,584	157,568
2 – 3.99	776	2,680	6,886	7,639	17,981
4 – 5.75	90	527	1,663	390	2,670
	<u>\$ 5,061</u>	<u>\$ 28,571</u>	<u>\$ 101,988</u>	<u>\$ 196,356</u>	<u>\$ 331,976</u>

Loans are made through the HOME Program in order to provide decent and affordable housing, particularly housing for low- and very low-income Americans. Interest rates on these loans are set at below market rates and have ranged from 0% to 6.50%, with most rates set at 2.0% or below. The approximate aging of the receivables of the HOME program as of June 30, 2011 are as follows:

Interest rate %	Principal due by June 30				Total
	2012	2013 - 2017	2018 - 2027	After 2027	
	(Dollars in thousands)				
0 – 0.99	\$ 199	\$ 3,836	\$ 25,680	\$ 26,353	\$ 56,068
1 – 1.99	1,314	14,021	56,190	69,813	141,338
2 – 3.99	381	2,006	3,953	3,706	10,046
4 – 6.50	167	958	3,838	1,162	6,125
	<u>\$ 2,061</u>	<u>\$ 20,821</u>	<u>\$ 89,661</u>	<u>\$ 101,034</u>	<u>\$ 213,577</u>

On loans made through the ARRA Fund, no repayments of principal are due on these loans until their final maturity dates. All principal is due after June 30, 2026.

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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, 2011 in the accompanying financial statements are adequate to cover estimated losses of the various funds. The following summarizes the changes in the allowance for estimated losses on program loans receivable during the year ended June 30, 2011:

	<b>Allowance for estimated losses June 30, 2010</b>	<b>Provision for estimated losses</b>	<b>Write-offs of uncollectible losses, net of Recoveries</b>	<b>Allowance for estimated losses June 30, 2011</b>
	(Dollars in thousands)			
Illinois Affordable Housing Trust Fund	\$ 20,402	\$ 2,930	\$ (282)	\$ 23,050
HOME Program Fund	7,655	84	-	7,739
ARRA Fund	-	453	-	453
<b>Total governmental funds</b>	<b>\$ 28,057</b>	<b>\$ 3,467</b>	<b>\$ (282)</b>	<b>\$ 31,242</b>
Administrative Fund	\$ 5,012	\$ (504)	\$ -	\$ 4,508
Mortgage Loan Program Fund	18,182	(3,372)	-	14,810
Single Family Program Fund	1,324	958	-	2,282
<b>Total proprietary funds</b>	<b>\$ 24,518</b>	<b>\$ (2,918)</b>	<b>\$ -</b>	<b>\$ 21,600</b>

State statute requires that all uncollected receivables due that exceed \$1,000 be submitted to the Attorney General to be certified as uncollectible before the Authority can delete such receivables from its records. As of June 30, 2011, the Authority has requested thirty-six such certifications totaling \$7,495,025, all for loans within the Illinois Affordable Housing Trust Fund. Additional certification requests are anticipated to be filed as loss amounts are determined following the conclusion of foreclosure or other loss mitigation activities. The Authority has established provisions for estimated losses against such loans requested and to be requested for such certifications in amounts equal to the outstanding principal balances of the loans.

Scheduled receipts of principal on proprietary fund program loans receivable in the five years subsequent to June 30, 2011 and thereafter are as follows (Dollars in thousands):

2012	\$ 44,642
2013	45,572
2014	82,624
2015	43,846
2016	41,017
After 2016	957,931
	<b>\$ 1,215,632</b>

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**Note 6. Other Real Estate Owned**

An analysis of other real estate owned is as follows:

	Mortgage Loan Program	Single Family Program	Total
Balance at 6/30/10	\$ 123,558	\$ 12,970,291	\$ 13,093,849
Transfers of loans	-	5,455,346	5,455,346
Writedown to realizable value	-	(773,197)	(773,197)
Proceeds received	(73,028)	(9,572,411)	(9,645,439)
Balance at 6/30/11	<u>\$ 50,530</u>	<u>\$ 8,080,029</u>	<u>\$ 8,130,559</u>

**Note 7. Capital Assets**

Capital asset activity for the year ended June 30, 2011 for governmental activities was as follows:

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
<b><u>Cost</u></b>				
Capital Assets Being Depreciated:				
Furniture and Equipment	\$ -	\$ 50,000	\$ -	\$ 50,000
Total Capital Assets Being Depreciated	-	50,000	-	50,000
<b><u>Accumulated Depreciation</u></b>				
Furniture and Equipment	-	1,389	-	1,389
Total Accumulated Depreciation	-	1,389	-	1,389
<b><u>Capital Assets, Net of Depreciation</u></b>	<u>\$ -</u>	<u>\$ 48,611</u>	<u>\$ -</u>	<u>\$ 48,611</u>

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Capital asset activity for the year ended June 30, 2011 for business-type activities was as follows:

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
<b><u>Cost</u></b>				
<u>Administrative Fund</u>				
Furniture and Equipment	\$ 1,731,505	\$ 5,367	\$ 59,242	\$ 1,677,630
<u>Mortgage Loan Program Fund</u>				
Real Estate	41,051,046	173,644	-	41,224,690
Total Capital Assets Being Depreciated	42,782,551	179,011	59,242	42,902,320
<b><u>Accumulated Depreciation</u></b>				
<u>Administrative Fund</u>				
Furniture and Equipment	1,619,500	42,274	59,242	1,602,532
<u>Mortgage Loan Program Fund</u>				
Real Estate	13,411,000	800,000	-	14,211,000
Total Accumulated Depreciation	15,030,500	842,274	59,242	15,813,532
<b><u>Capital Assets, Net of Depreciation</u></b>	<b>\$ 27,752,051</b>	<b>\$ (663,263)</b>	<b>\$ -</b>	<b>\$ 27,088,788</b>

**Note 8. 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 and Multi-family Bonds (Turnberry), 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.

The Authority has pledged future mortgage loan revenues, net of specified operating expenses, to repay the outstanding \$1.1 billion (principal) in S.L.O. Bonds as noted in the following schedules for our Mortgage Loan program and Single Family Program Funds. The total principal and interest remaining to be paid on the S.L.O. Bonds is \$1.7 billion. Interest paid for the current year was \$40,024,098, and total related mortgage loan principal and interest received were \$105,817,804 and \$37,619,234, respectively.

Bonds and notes outstanding at June 30, 2011 are as follows. The June 30, 2010 amounts are shown for comparative purposes only.

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***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	
				2011	2010
Housing Bonds:					
1999 Series A	2012-2031	4.75-5.25 %	G.O.	\$ 7,880,000	\$ 8,765,000
2003 Series A	2012-2046	4.00-5.05	G.O.	18,255,000	18,715,000
2003 Series B	2012-2041	3.55-5.05	G.O.	36,595,000	41,250,000
2003 Series C	2012-2035	4.00-4.95	G.O.	4,490,000	4,775,000
2004 Series A	2013-2040	2.90-4.70	G.O.	18,445,000	19,515,000
2004 Series B(1)	2012-2035	Variable	G.O.	5,450,000	6,250,000
2004 Series C	2012-2045	4.30-5.45	G.O.	10,385,000	10,845,000
2005 Series A	2012-2036	3.45-4.60	G.O.	19,405,000	20,430,000
2005 Series B (Taxable)	2012	4.95-5.02	G.O.	140,000	370,000
2005 Series C	2015-2042	4.38-5.00	G.O.	10,210,000	10,340,000
2005 Series D	2012-2048	4.88	G.O.	6,385,000	6,440,000
2005 Series E	2012-2036	3.65-4.80	G.O.	24,760,000	24,760,000
2005 Series F (Taxable)	2012-2029	4.95-5.84	G.O.	14,120,000	15,295,000
2006 Series A	2012-2039	4.20-5.05	G.O.	7,790,000	7,920,000
2006 Series B	2012-2047	4.75-5.00	G.O.	13,130,000	13,295,000
2006 Series D	2012-2042	4.85-5.00	G.O.	5,985,000	6,055,000
2006 Series E	2012-2042	4.10-4.95	G.O.	7,820,000	7,915,000
2006 Series F	2012-2047	4.10-5.00	G.O.	3,680,000	3,765,000
2006 Series G	2012-2037	3.95-4.85	G.O.	40,400,000	47,535,000
2006 Series H (Taxable)	2012-2029	5.31-6.06	G.O.	9,195,000	9,750,000
2006 Series I	2012-2049	4.70-4.85	G.O.	7,100,000	7,160,000
2006 Series J	2012-2049	4.50-5.00	G.O.	3,415,000	3,445,000
2006 Series K	2012-2024	3.95-4.60	G.O.	2,685,000	2,915,000
2006 Series M	2012-2048	3.75-4.50	G.O.	12,110,000	12,220,000
2007 Series A	2012-2048	3.90-5.55	G.O.	5,100,000	5,490,000
2007 Series C	2012-2045	3.90-5.38	G.O.	9,490,000	9,580,000
2007 Series D	2012-2043	3.75-5.05	G.O.	31,470,000	37,175,000
2007 Series E (Taxable)	2012-2033	5.66-6.54	G.O.	8,190,000	8,575,000
2007 Series F	2012-2044	4.70-5.35	G.O.	6,635,000	6,705,000
2007 Series G	2012-2044	4.70-5.35	G.O.	5,525,000	5,585,000
2008 Series A(1)	2027	Variable	G.O.	13,450,000	13,810,000
2008 Series B(1)	2012-2028	Variable	G.O.	34,585,000	35,785,000
2008 Series C(1)	2042	Variable	G.O.	5,350,000	5,425,000
				<u>409,625,000</u>	<u>437,855,000</u>
Less unamortized discount thereon				132,444	135,634
Less deferred loss on refunding				6,413,184	7,898,828
Plus deferred gain on refunding				766,182	916,555
Total Housing Bonds				<u>403,845,554</u>	<u>430,737,093</u>



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	Maturity dates	Interest rate range %	Debt class	Amount	
				June 30	
				2011	2010
Multifamily Initiative Bonds <sup>(2)</sup> :					
Series 2009A	2012	Variable %	S.L.O.	\$ 121,550,000	\$ 184,080,000
Series 2009B	2012-2052	3.50	S.L.O.	34,670,000	-
Series 2009C	2012-2052	3.01	S.L.O.	27,860,000	-
Total Multifamily Initiative Bonds				184,080,000	184,080,000
Multifamily Housing Revenue Bonds:					
Marywood Apartment Homes					
HUD Riskshare Debenture	2014	5.00	G.O.	14,884,996	14,884,996
Multifamily Bonds:					
Turnberry Village II Apartments	2012-2045	4.50-4.75	S.L.O.	4,995,000	5,055,000
Affordable Housing Program					
Trust Fund Bonds:					
Series 2004	2012-2026	5.50-6.21	S.L.O.	34,910,000	37,945,000
Series 2005 A	2012-2027	5.60-6.35	S.L.O.	25,145,000	26,370,000
Total Affordable Housing Program Trust Fund Bonds				60,055,000	64,315,000
Total Mortgage Loan Program Fund				\$ 667,860,550	\$ 699,072,089

- (1) In accordance with the indenture, interest rates on the bonds are determined weekly and are paid monthly at a rate established by the Remarketing Agents on each Rate Determination Date. The variable rates paid on the subject bonds ranged from .10% to .15% at June 30, 2011. Pursuant to the liquidity agreements, the bonds are subject for purchase by liquidity providers (Liquidity Providers) in the event of a tender by bondholders (Bank Bonds). Subject to other provisions within the liquidity agreements, the Bank Bonds will bear interest at a rate specified within the agreements and continue to be subject for remarketing by Remarketing Agents. In the event the Remarketing Agents are unable to remarket the Bank Bonds over a certain period of time, the Bank Bonds are subject to a put whereby the Authority is required to purchase and redeem the Bank Bonds over a period stated within the agreements. The Authority has a take-out agreement with the liquidity providers to convert the bonds to an installment loan payable over a three-to-five year period. The interest rate that is to be paid during the liquidity and the put periods is 1 Month LIBOR plus 50 basis points for the Housing Bonds 2004 Series B, and the higher of 7.5%, Prime Rate or Adjusted One Month LIBOR rate for the Housing Bonds 2008 A, B and C. The liquidity agreements for Housing Bonds 2004 Series B and Housing Bonds 2008 A, B and C will expire on March 31, 2014 and April 30, 2014, respectively. The bonds and Bank Bonds are general obligations of the Authority and the timely payment of principal and interest on the bonds and Bank Bonds are subject to the credit enhancement agreements with credit enhancement providers (Enhancement Providers). The Authority has a general obligation to reimburse the Liquidity Providers and Enhancement Providers for any such payments made.
- (2) In December 2009, the Authority participated in the Treasury Program by issuing \$184 million of Multifamily Initiative bonds held in escrow to be converted to long-term fixed rate and used to fund and finance multifamily developments within the Mortgage Loan Program fund. The Treasury Program provided the Authority the ability to convert up to three times the proceeds from the Bonds held in escrow. It also required the Authority to convert all funds held in escrow before December 31, 2010. On September 1, 2010, Treasury amended the Treasury Program by extending it from December 31, 2010 to December 31, 2011. The amended Treasury Program provides the Authority the ability to convert three additional times (or six in aggregate) to long-term fixed rate bonds and also allows for a lower rate to be paid on the roll out of the long-term fixed rate bonds. Any funds remaining in escrow on December 31, 2011 are subject to a mandatory tender. The variable rate is based on the four-week Treasury Bill. The rate was 4.1% at June 30, 2011.

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***Single Family Program Fund***

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

	<u>Maturity dates</u>	<u>Interest rate range %</u>	<u>Debt class</u>	<u>Amount</u>	
				<u>June 30</u>	
				<u>2011</u>	<u>2010</u>
Residential Mortgage Revenue Bonds:					
1983 Series A	2015	10.872 %	G.O.	\$ 3,421	\$ 3,077
1983 Series B	2015	10.746	G.O.	3,436	3,094
1984 Series B	2016	11.257	G.O.	3,027	2,713
1985 Series A	2017	10.75	G.O.	2,786	2,509
1987 Series B	2015	8.13	G.O.	100,000	100,000
1987 Series C	2014	7.50	G.O.	100,000	100,000
1987 Series D	2018	8.65	G.O.	100,000	100,000
Total Residential Mortgage Revenue Bonds				<u>\$ 312,670</u>	<u>\$ 311,393</u>

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

<u>Series</u>	<u>Redemption basis and period</u>	<u>Original issue amount (1)</u>	<u>Accreted value</u>		<u>Aggregate value to be redeemed</u>
			<u>June 30</u>		
			<u>2011</u>	<u>2010</u>	
1983 Series A	Maturity 2/1/15	\$ 180	\$ 3,421	\$ 3,077	\$ 5,000
1983 Series B	Maturity 2/1/15	193	3,436	3,094	5,000
1984 Series B	Maturity 2/1/16	166	3,027	2,713	5,000
1985 Series A	Maturity 2/1/17	190	2,786	2,509	5,000

(1) Amounts reflect original issue amounts of capital appreciation bonds outstanding as of June 30, 2011.

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	Maturity dates	Interest rate range %	Debt class	Amount	
				June 30	
				2011	2010
Homeowner Mortgage					
Revenue Bonds:					
1997 Series B (remarketed 6/29/98)	2012-2028	5.20-5.40 %	S.L.O.	\$ -	\$ 1,000,000
1998 Series A (Taxable)	2012-2016	6.45-6.52	S.L.O.	1,390,000	1,645,000
1998 Series D (remarketed 10/7/98)	2012-2018	5.00	S.L.O.	4,925,000	10,610,000
1998 Series D (remarketed 12/17/98)	2012-2018	5.05	S.L.O.	2,790,000	5,910,000
1998 Series D (remarketed 4/29/99)	2012-2018	5.10	S.L.O.	5,300,000	10,005,000
1998 Series G	2012-2030	5.00-5.25	S.L.O.	10,500,000	11,375,000
1999 Series D	2012-2016	5.30	S.L.O.	-	335,000
1999 Series G	2012-2031	5.35	S.L.O.	-	95,000
2000 Series D	2012-2012	5.10-5.35	S.L.O.	-	545,000
2000 Series E	2012-2013	5.00-5.30	S.L.O.	-	740,000
2001 Series A	2012-2019	4.70-5.35	S.L.O.	7,145,000	8,430,000
2001 Series C	2012-2018	4.55-5.10	S.L.O.	5,760,000	7,290,000
2001 Series E	2012-2018	5.00-5.20	S.L.O.	5,680,000	7,975,000
2001 Series F (Taxable) (1)	2016-2021	Variable	S.L.O.	10,000,000	10,000,000
2002 Series A	2012-2033	4.60-5.63	S.L.O.	-	4,845,000
2002 Series B (Taxable) (2)	2012-2023	Variable	S.L.O.	4,655,000	5,610,000
2002 Series C	2012-2032	4.00-5.30	S.L.O.	30,775,000	34,025,000
2003 Series B	2012-2034	3.90-5.15	S.L.O.	25,775,000	35,265,000
2004 Series A	2012-2035	3.15-4.75	S.L.O.	20,585,000	27,625,000
2004 Series A-3 (3)	2026-2035	Variable	S.L.O.	10,675,000	10,675,000
2004 Series C	2012-2035	4.15-5.35	S.L.O.	47,975,000	57,305,000
2004 Series C-3 (3)	2025-2035	Variable	S.L.O.	16,000,000	16,000,000
2005 Series A	2012-2036	3.50-5.00	S.L.O.	31,560,000	42,095,000
2005 Series A-3 (3)	2025-2036	Variable	S.L.O.	20,000,000	20,000,000
2005 Series C	2012-2036	3.55-5.25	S.L.O.	71,850,000	84,455,000
2006 Series A	2012-2037	3.80-5.00	S.L.O.	61,580,000	73,880,000
2006 Series C	2012-2038	4.05-5.15	S.L.O.	101,380,000	116,700,000
2007 Series A	2012-2038	4.00-4.90	S.L.O.	57,970,000	62,485,000
2007 Series D	2012-2039	4.25-5.35	S.L.O.	54,015,000	62,340,000
2007 Series H (remarketed 1/30/08)	2012-2039	3.25-5.20	S.L.O.	51,070,000	54,750,000
2008 Series A	2012-2039	3.15-5.20	S.L.O.	6,845,000	9,160,000
2009 Series B (4)	2012	Variable	S.L.O.	179,000,000	200,000,000
2009 Series B-1 (4)	2028-2042	3.70	S.L.O.	21,000,000	-
2011 Series A	2012-2019	1.60-4.30	S.L.O.	11,000,000	-
2011 Series B	2012-2029	1.20-5.00	S.L.O.	14,000,000	-
				<u>891,200,000</u>	<u>993,170,000</u>
Plus unamortized premium thereon				1,210,175	1,371,793
Total Homeowner Mortgage Revenue Bonds				<u>892,410,175</u>	<u>994,541,793</u>
Total Single Family Program Fund				<u>\$ 892,722,845</u>	<u>\$ 994,853,186</u>

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(1) In accordance with the indenture, interest rates on the bonds are determined and paid monthly based upon an index of one month LIBOR rate plus 0.40% for 2001 Series F. The variable rates paid on the subject bonds was .59103% at June 30, 2011. The Authority has entered into pay-fixed, receive variable, interest rate swap agreements in connection with these bonds, the objective of which is to establish a maximum debt service which may be paid over the life of the underlying bonds.

(2) In accordance with the indenture, interest rates on the bonds are determined and paid semi-annual based upon an index of one month LIBOR rate plus 0.415%. The variable rates paid on the subject bonds was .606% at June 30, 2011.

(3) In accordance with the indenture, interest rates on the bonds are determined weekly and are paid monthly at a rate established by the Remarketing Agents on each Rate Determination Date. The variable rates paid on the subject bonds ranged from .09% to .10% at June 30, 2011. Pursuant to the liquidity agreements, the bonds are subject for purchase by liquidity providers (Liquidity Providers) in the event of a tender by bondholders (Bank Bonds). Subject to other provisions within the liquidity agreements, the Bank Bonds will bear interest at a rate specified within the agreements and continue to be subject for remarketing by Remarketing Agents. In the event the Remarketing agents are unable to remarket the Bank Bonds over a certain period of time, the Bank Bonds are subject to a put whereby the Authority is required to purchase and redeem the Bank Bonds over a period stated within the agreements. The Authority has a take-out agreement with the liquidity providers to convert the bonds to an installment loan payable over a three-to-five year period. The interest rate that is to be paid during the liquidity and the put periods is 1 Month LIBOR plus 50 basis points for the Homeowner Mortgage Revenue Bonds (HMRB) 2004 Subseries A-3, and 3 Month LIBOR plus 150 basis points for the HMRB 2004 Subseries C-3 and the HMRB 2005 Subseries A-3. The liquidity agreements for HMRB 2004 Subseries A-3, HMRB Subseries C-3 and HMRB 2005 Subseries A-3 will expire on March 16, 2014, July 13, 2012 and March 10, 2013, respectively.

The Bank Bonds are general obligations of the Authority and the timely payment of principal and interest on some bonds are subject to the credit enhancement agreements with credit enhancement providers (Enhancement Providers). The Authority has a general obligation to reimburse the Liquidity Providers and Enhancement Providers for any such payments made.

(4) In December 2009, the Authority participated in the Treasury Program by issuing \$200 million of Homeowner Mortgage Revenue bonds held in escrow to be converted to long-term fixed rate and used to fund and finance single family loans within the Single Family Program Fund. The Treasury Program provided the Authority the ability to convert up to three times the proceeds from the Bonds held in escrow. It also required the Authority to convert all funds held in escrow before December 31, 2010. On September 1, 2010, Treasury amended the Treasury Program by extending it from December 31, 2010 to December 31, 2011. The amended Treasury Program also provides the Authority the ability to convert three additional times (or six in aggregate) to long-term fixed rate bonds and also allows for a lower rate to be paid on the roll out of the long-term fixed rate bonds. Any funds remaining in escrow on December 31, 2011 are subject to a mandatory tender.

**Administrative Fund**

Outstanding debt of the Administrative Fund is as follows:

	Maturity date	Interest rate	Debt class	Amount	
				June 30	
				2011	2010
Term loans	2012	1.79-5.45%	Loan	\$ 7,900,000	\$ 7,900,000

The Authority has entered into an agreement with a bank to obtain one or more term loans up to a total of \$10,000,000, of which \$5,000,000 is collateralized by a lien and security interest in the Lakeshore Plaza Development. As of June 30, 2011, the Authority had loans totaling \$7,900,000 against this agreement, at an interest rate of 5.45% for a borrowing of \$1,666,667, 5.03% for a borrowing of \$2,900,000, 4.18% for a borrowing of \$1,666,667 and 1.79% for a borrowing of \$1,666,666.

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The following summarizes the debt activity for the Authority's proprietary funds for the year ended June 30, 2011:

	<u>June 30, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2011</u>	<u>Amount due within one year</u>
Administrative Fund	\$ 7,900,000	\$ -	\$ -	\$ 7,900,000	\$ 7,900,000
Mortgage Loan Program Fund:					
Housing Bonds	437,855,000	-	(28,230,000)	409,625,000	19,765,000
Discount on Housing Bonds	(135,634)	-	3,190	(132,444)	-
Deferred loss on refunding					
Housing Bonds	(7,898,828)	-	1,485,644	(6,413,184)	-
Deferred gain on refunding					
Housing Bonds	916,555	-	(150,373)	766,182	-
Multifamily Initiative Bonds	184,080,000	62,530,000	(62,530,000)	184,080,000	130,920,000
Multifamily Housing Revenue					
Bonds (Marywood)	14,884,996	-	-	14,884,996	-
Multifamily Bonds (Turnberry II)	5,055,000	-	(60,000)	4,995,000	60,000
Affordable Housing Program					
Trust Fund Bonds	64,315,000	-	(4,260,000)	60,055,000	2,765,000
Total Mortgage Loan Program Fund	<u>699,072,089</u>	<u>62,530,000</u>	<u>(93,741,539)</u>	<u>667,860,550</u>	<u>153,510,000</u>
Single Family Program Fund:					
Residential Mortgage					
Revenue Bonds	311,393	1,277	-	312,670	-
Homeowner Mortgage					
Revenue Bonds	993,170,000	46,000,000	(147,970,000)	891,200,000	190,810,000
Premium on Homeowner Mortgage					
Revenue Bonds	1,371,793	-	(161,618)	1,210,175	-
Total Single Family Program Fund	<u>994,853,186</u>	<u>46,001,277</u>	<u>(148,131,618)</u>	<u>892,722,845</u>	<u>190,810,000</u>
Total Proprietary Funds	<u>\$ 1,701,825,275</u>	<u>\$ 108,531,277</u>	<u>\$ (241,873,157)</u>	<u>\$ 1,568,483,395</u>	<u>\$ 352,220,000</u>

**Defeased Debt**

The Authority has defeased debt by placing the proceeds of new bonds and other amounts in an irrevocable trust to provide for all future debt service payments of the old bonds. At June 30, 2011, the following outstanding bonds are considered defeased.

<u>Issue</u>	<u>Amount</u>
Insured Mortgage Housing Development Bonds, 1976 Series A	\$ 2,665,000
Multi-Family Housing Bonds, 1981 Series A	22,040,000
	<u>\$ 24,705,000</u>

**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 and the related mortgage loans are not included in the Authority's financial statements. The bonds do, however, apply toward the Authority's authorized debt limitation.

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As of June 30, 2011, there were forty series of such bonds or notes outstanding, with an aggregate principal amount payable of \$400,726,113.

***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:

<u>Bonds</u>	<u>Requirement</u>
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.
Housing Bonds	The amount established by each series resolution, currently six months of maximum principal and interest payments.
Multifamily Initiative Bonds	The maximum amount of principal and interest due on any interest payment date excluding the final interest payment date.
Homeowner Mortgage Revenue Bonds Residential Mortgage Revenue Bonds	The sum of all amounts established by each series resolution, but such amount cannot be less than 2% for the Homeowner Mortgage Revenue Bonds, and 4% for the Residential Mortgage Revenue Bonds, of the sum of (i) the outstanding principal balance of related mortgage loans and (ii) the amount on deposit to the credit of series program accounts of the program fund.

The amounts of such reserves, for measurement purposes against the various bond resolution reserve requirements, are valued at book value or par, or, if purchased at less than par, at their cost to the Authority. At June 30, 2011, these amounts, which were not less than the amounts required, are as follows:

Housing Bonds	\$ 19,785,245
Multifamily Initiative Bonds	1,410,000
Homeowner Mortgage Revenue Bonds	<u>29,718,864</u>
	<u>\$ 50,914,109</u>

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

<u>Issue</u>	<u>Valuation</u>
Housing Bonds, 2003 Series C	\$ 260,000
Housing Bonds, 2004 Series B	500,000
Multifamily Bonds, Series 2003 (Tumberry II)	Not Applicable
Affordable Housing Program Trust Fund Bonds, Series 2004 and 2005A	7,231,723

Debt service requirements (dollars in millions) through 2016 and in five-year increments thereafter to maturity for the Authority's proprietary funds are as follows:

	<u>Administrative Fund</u>		<u>Mortgage Loan Program Fund</u>		<u>Single Family Program Fund</u>		<u>Total</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal*</u>	<u>Interest</u>	<u>Principal*</u>	<u>Interest</u>	
Year ending June 30:									
2012	\$ 7.9	\$ 0.3	\$ 153.5	\$ 23.2	\$ 190.8	\$ 32.9	\$ 352.2	\$ 56.4	
2013	-	-	26.7	22.1	21.6	32.6	48.3	54.7	
2014	-	-	37.9	21.1	23.7	31.8	61.6	52.9	
2015	-	-	23.2	19.4	25.8	31.0	49.0	50.4	
2016	-	-	23.5	18.4	28.0	29.8	51.5	48.2	
Five years ending June 30:									
2017-2021	-	-	93.6	78.7	123.6	127.1	217.2	205.8	
2022-2026	-	-	85.8	59.5	117.5	106.1	203.3	165.6	
2027-2031	-	-	71.0	43.3	143.4	69.0	214.4	112.3	
2032-2036	-	-	66.6	29.6	167.1	34.5	233.7	64.1	
2037-2041	-	-	49.9	15.2	49.9	4.0	99.8	19.2	
2042-2046	-	-	32.1	5.6	0.1	0.1	32.2	5.7	
2047-2051	-	-	9.2	0.8	-	-	9.2	0.8	
2052-2056	-	-	0.6	0.1	-	-	0.6	0.1	
	<u>\$ 7.9</u>	<u>\$ 0.3</u>	<u>\$ 673.6</u>	<u>\$ 337.0</u>	<u>\$ 891.5</u>	<u>\$ 498.9</u>	<u>\$ 1,573.0</u>	<u>\$ 836.2</u>	

\*Includes capital appreciation bonds at their final redemption values.

## Derivatives

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

- a) The reduction of exposure to changes in interest rates on a particular financial transaction;
- b) A lower net cost of borrowing with respect to the Authority's debt;
- c) The management of variable interest rate exposure consistent with prudent debt practices;
- d) The achievement of more flexibility meeting overall financial and programmatic objectives that cannot be achieved in conventional markets.

# ILLINOIS HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the State of Illinois)

## Notes to Financial Statements

June 30, 2011

The Authority, as of June 30, 2011 has one active swap contract, four active interest rate caps and one forward (pending) interest rate cap. Details are shown in the following tables.

Business-type activities	Changes in Fair Value		Fair Value at June 30, 2011		Notional
	Classification	Amount	Classification	Amount	
Cash flow hedges:					
Pay-fixed interest rate swap:					
Series 2001 F	Deferred outflow	\$ 246,409	Debt*	\$ (2,583,647)	\$ 10,000,000
Rate caps	Deferred inflow	471,430	Debt**	427,607	57,535,000

\* The fair value is classified as derivative instrument liability

\*\* The fair value is classified as derivative instrument asset

The fair value of the interest rate swap was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

The fair value of the interest rate swap and rate caps were estimated using data provided by the counterparties.

Associated bond issue	Notional amounts	Effective date	Fixed rate paid (3)	Variable rate received	Fair values(1)	Termination date	Counter-party credit rating(2)
Active Swap contract:							
HMRB*:							
Series 2001 F	\$ 10,000,000	01/02	6.615	%1 mo LIBOR +40bp	\$ (2,583,647)	08/2020	A/A2
Active Interest Rate Caps:							
HB**:							
Series 2004 B	5,450,000	03/04	5.00	N/A	2	04/2012	AA-/Aa1
Series 2008 A	13,450,000	01/08	5.75	N/A	450	12/2012	AA-/Aa1
Series 2008 B (4)	33,285,000	07/11	5.50	N/A	259,835	06/2016	A+/A2
Series 2008 C	5,350,000	06/06	4.75	N/A	167,320	06/2021	A+/Aa3

\*Homeowner Mortgage Revenue Bonds

\*\*Housing Bonds

(1) includes accrued interest.

(2) Standard & Poors/Moody's

(3) Represents rate for swap and cap rate for interest rate caps.

(4) Series 2008 B cap was entered into with a trade date of 6/15/11 and an effective date of 7/1/11. The fair value of the cap is shown as of 6/30/11.

To protect against the potential of rising interest rates, the Authority has entered into one pay-fixed, receive variable, interest rate swap agreement, 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 four interest rate cap agreements, the objective of which is to establish a maximum debt service which may be paid over the life of the underlying bonds.

The terms, fair values, and credit ratings of the outstanding agreements as of June 30, 2011 are shown in the above table. The notional amount of the swap and caps match the principal amount of the associated debt.



## **ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

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### Notes to Financial Statements

June 30, 2011

The Authority's swap and cap agreements contains scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or an anticipated reduction in the associated bonds payable category.

Because interest rates have declined since the implementation of the swap agreement, it had negative fair value as of June 30, 2011. The negative fair value 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, 2011, the Authority was not exposed to credit risk for the swap that had negative fair value. As interest rates change and the fair value becomes positive, the Authority is exposed to credit risk in the amount of the swap's or cap's fair value. The Authority is exposed to credit risk on the caps with positive fair value (2004 B, 2008 A, and 2008 C). The aggregate fair value of hedging derivative instruments with positive fair value at June 30, 2011 was \$427,607. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. Fair value is a factor only upon termination.

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

The Authority or the counter-party may terminate the swap agreement if the other party fails to perform under the terms of the agreement. 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 agreement. The Authority is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, the Authority will be re-exposed to the risks being hedged by the hedging derivative instrument. The Authority is exposed to rollover risk on the caps which have termination dates that occur prior to the final maturity of the related bonds.

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

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## Notes to Financial Statements

June 30, 2011

As of June 30, 2011, 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:

	<b>Illinois Housing Development Authority Derivative Payments and Associated Debt</b>			
	<b>Variable-rate bonds</b>		<b>Interest rate swap, net</b>	<b>Total</b>
	<b>Principal</b>	<b>Interest</b>		
Year ending June 30:				
2012	\$ 2,590,000	\$ 126,972	\$ 602,397	\$ 3,319,369
2013	1,845,000	124,281	602,397	2,571,678
2014	1,950,000	122,149	602,397	2,674,546
2015	2,060,000	119,912	602,397	2,782,309
2016	3,070,000	117,611	602,397	3,790,008
Five years ending June 30:				
2021	21,365,000	386,956	1,355,393	23,107,349
2026	15,770,000	177,815	-	15,947,815
2031	16,245,000	53,286	-	16,298,286
2036	2,320,000	19,675	-	2,339,675
2041	1,430,000	7,538	-	1,437,538
Greater than 2041	190,000	783	-	190,783
Total	<u>\$ 68,835,000</u>	<u>\$ 1,256,978</u>	<u>\$ 4,367,378</u>	<u>\$ 74,459,356</u>

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

**Note 9. 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 10. Leases**

The Authority leases office facilities under a lease which extends through July 31, 2016, and which provides the Authority two successive five-year options to extend the lease beyond that date and, during certain time periods, to lease additional office facilities.

The office lease provides for annual base rent of approximately \$869,000 for fiscal year 2011, plus approximately \$875,000 for the Authority's 7.16% 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 2011, total rent expense of the Authority was \$1,601,600.

## ILLINOIS HOUSING DEVELOPMENT AUTHORITY

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### Notes to Financial Statements

June 30, 2011

The future minimum lease commitments in the five years subsequent to June 30, 2011 and thereafter are as follows:

2012	\$ 895,434
2013	921,835
2014	948,236
2015	974,636
2016	<u>1,001,036</u>
	<u>\$ 4,741,177</u>

#### Note 11. Other Liabilities

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

Excess earnings must be rebated annually, or every five years, depending on the date and type of bond issue. Included in other liabilities at June 30, 2011, is an estimated rebate liability of \$778,557.

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. Insurance coverage has not changed significantly since the prior year.

#### Note 12. 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 2011 was \$14,519,331. The Authority's contributions were calculated using the base salary amount of \$14,390,783. The Authority contributed \$863,447 or 6% of the base salary amount, in fiscal year 2011. Employee contributions amounted to \$930,220 in fiscal year 2011, or approximately 6.5% of the base salary amount.

#### Note 13. Commitments

At June 30, 2011, unexpended funds held by the Authority in the form of cash and investments amounting to \$151,369,851 in the Multifamily Initiative Bond accounts were identified for the purpose of purchasing various

## **ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

### Notes to Financial Statements

June 30, 2011

mortgage loans. At June 30, 2011, unexpended bond proceeds held by the Authority in the form of cash and investments amounting to \$275,110,822 in the Homeowner Mortgage Revenue Bond accounts were identified for the purpose of making various mortgage loans.

At June 30, 2011, the Authority had authorized loans and grants totaling \$15,702,679 for the Illinois Affordable Housing Trust Fund.

Under the HOME Program, \$421.9 million and \$21.6 million for federal fiscal years 1992 through 2010 and 2011, 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, 2011, the Authority had authorized loans and grants totaling \$24,571,042 for the HOME Program.

In accordance with an agreement (the "FAF 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. In November of 2006, the Authority entered into a new agreement (the "FAF Refunding Agreement") with HUD at the time of delivery of the Authority's Housing Bonds, 2007 Series G to refund the Multi-Family Housing Bonds, 1991 Series A, 1992 Series A, and 1993 Series A. 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, 2011, loans receivable under this program were approximately \$23.7 million.

#### **Note 14. Subsequent Events**

On July 28, 2011, the Authority provided a financing for Parkway Gardens through the issuance of \$59,500,000 of Series 2009 D (the "D Bonds") under Multifamily Initiative Bonds. Unlike prior issuances under the Multifamily Initiative Bonds whereby the collaterals are FHA Risk Share loans made by the Authority, the D Bonds are secured with a credit facility provided by Fannie Mae. A credit facility from Fannie Mae requires the Authority to assign the loan to Fannie Mae.

On August 5, 2011, Standard and Poor's (S&P) downgraded the United States of America long term rating from AAA to AA+. The downgrade only impacted the Multifamily Initiative Bonds (the "Bonds") by reducing the rating on the Bonds from AAA to AA+ as its assets are primarily backed by the full faith and credit of the United States of America. The Authority believes the downgrade will not impact its rating and other bond programs as the ratings are based on the strength of various asset classes and does not rely solely on federal guarantees.

The Authority leased additional office space for the administration of the Hardest Hit Fund ("HHF") program and moved HHF staff into the new building on July 5, 2011. This establishes a second office location for the Authority at 122 S. Michigan Avenue with an annual lease cost to commence in fiscal year 2012 of \$303,704.

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Notes to Financial Statements

June 30, 2011

The Authority received approval to create Illinois Housing Authority LLC ("The LLC") at the July 15, 2011 board meeting. This was done to create a legal entity to hold title to properties acquired via foreclosure or deed-in-lieu of foreclosure. The Authority is the sole member of the LLC. On September 15, 2011, the Authority gave title of Marywood Apartment Homes to the LLC representing a transfer in assets of \$10,932,499 and a transfer in liabilities of \$16,387,975.

On October 26, 2011, the Authority issued bonds under a stand-alone indenture in the amount of \$67,638,829. Proceeds from bonds will be used to provide funds for first-time homebuyers under its homeownership program. The bonds are limited obligations and not general obligations of the Authority. The bonds are secured only with Fannie Mae mortgage-backed securities and Ginnie Mae certificates that were purchased using proceeds of the bonds.

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Mortgage Loan Program Fund

Combining Schedule of Net Assets

6/30/2011

	Housing Bonds	Multifamily Initiative Bonds	Multifamily Housing Revenue Bonds (Marywood)	Multifamily Bonds (Turnberry)	Affordable Housing Program Trust Fund Bonds	Total
<b>Assets:</b>						
<b>Current assets:</b>						
Cash and cash equivalents	\$ 2,499,490	\$ 30,192,527	\$ -	\$ 77,258	\$ 497,745	\$ 33,267,020
Investment income receivable – restricted	152,236	248	-	-	54,408	206,892
Program loans receivable	19,147,872	5,448,422	-	67,473	3,430,985	28,094,752
Interest receivable on program loans	970,009	212,523	-	56,195	158,014	1,396,741
Due from other funds	14,310,612	-	-	21,940	-	14,332,552
Total current assets	<u>37,080,219</u>	<u>35,853,720</u>	<u>-</u>	<u>222,866</u>	<u>4,141,152</u>	<u>77,297,957</u>
<b>Noncurrent assets:</b>						
Investments – restricted	125,324,190	123,806,353	-	128,996	31,137,817	280,397,356
Program loans receivable, net of current portion	426,038,027	25,947,249	15,039,073	4,948,610	38,890,581	510,863,540
Less allowance for estimated losses	(6,210,282)	(12,999)	(4,106,574)	(300,965)	(4,179,462)	(14,810,282)
Net program loans receivable	<u>419,827,745</u>	<u>25,934,250</u>	<u>10,932,499</u>	<u>4,647,645</u>	<u>34,711,119</u>	<u>496,053,258</u>
Unamortized bond issuance costs	2,395,732	437,496	-	-	2,596,265	5,429,493
Real estate held for sale, net	50,530	-	-	-	-	50,530
Capital assets, net	27,013,690	-	-	-	-	27,013,690
Derivative instrument asset	427,607	-	-	-	-	427,607
Other	220,000	-	-	-	54,735	274,735
Total noncurrent assets	<u>575,259,494</u>	<u>150,178,099</u>	<u>10,932,499</u>	<u>4,776,641</u>	<u>68,499,936</u>	<u>809,646,669</u>
Total assets	<u>612,339,713</u>	<u>186,031,819</u>	<u>10,932,499</u>	<u>4,999,507</u>	<u>72,641,088</u>	<u>886,944,626</u>
<b>Liabilities:</b>						
<b>Current liabilities:</b>						
Bonds and notes payable	19,765,000	130,920,000	-	60,000	2,765,000	153,510,000
Accrued interest payable	8,346,869	805,004	469,291	77,538	305,291	10,003,993
Deferred revenue	307,104	-	-	-	-	307,104
Accrued liabilities and other	867,574	290,432	-	-	147,663	1,305,669
Due to other funds	3,060,839	14,114	1,033,688	11,126	21,763	4,141,530
Total current liabilities	<u>32,347,386</u>	<u>132,029,550</u>	<u>1,502,979</u>	<u>148,664</u>	<u>3,239,717</u>	<u>169,268,296</u>
<b>Noncurrent liabilities:</b>						
Bonds and notes payable, net of current portion	384,080,554	53,160,000	14,884,996	4,935,000	57,290,000	514,350,550
Deferred inflows of resources	427,607	-	-	-	-	427,607
Total liabilities	<u>416,855,547</u>	<u>185,189,550</u>	<u>16,387,975</u>	<u>5,083,664</u>	<u>60,529,717</u>	<u>684,046,453</u>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	(7,571,310)	-	-	-	-	(7,571,310)
Restricted for bond resolution purposes	203,055,476	842,269	-	-	12,111,371	216,009,116
Unrestricted	-	-	(5,455,476)	(84,157)	-	(5,539,633)
Total net assets	<u>\$ 195,484,166</u>	<u>\$ 842,269</u>	<u>\$ (5,455,476)</u>	<u>\$ (84,157)</u>	<u>\$ 12,111,371</u>	<u>\$ 202,898,173</u>

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Mortgage Loan Program Fund

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

Year ended June 30, 2011

	Housing Bonds	Multifamily Initiative Bonds	Multifamily Housing Revenue Bonds (Marywood)	Multifamily Bonds (Turnberry)	Affordable Housing Program Trust Fund Bonds	Total
Operating revenues:						
Interest and other investment income	\$ 969,883	\$ 124,634	\$ -	\$ 293	\$ 151,267	\$ 1,246,077
Net increase (decrease) in fair value of investments	<u>(384,896)</u>	<u>(401)</u>	<u>-</u>	<u>2</u>	<u>(81,207)</u>	<u>(466,502)</u>
Total investment income	584,987	124,233	-	295	70,060	779,575
Interest earned on program loans	24,003,204	1,499,541	460,911	256,643	1,391,212	27,611,511
Federal assistance programs	3,589,585	-	-	-	-	3,589,585
Other	<u>4,827,147</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,827,147</u>
Total operating revenues	<u>33,004,923</u>	<u>1,623,774</u>	<u>460,911</u>	<u>256,938</u>	<u>1,461,272</u>	<u>36,807,818</u>
Operating expenses:						
Interest expense	18,946,117	1,115,600	744,250	233,738	3,938,314	24,978,019
Federal assistance programs	3,589,585	-	-	-	-	3,589,585
Other general and administration	40,293	146,633	-	-	-	186,926
Financing costs	632,509	12,359	500	7,201	45,907	698,476
Program grant	-	-	-	-	229,347	229,347
Provision for (reversal of) estimated losses on program loans receivable	<u>(2,746,317)</u>	<u>12,999</u>	<u>-</u>	<u>(2,748)</u>	<u>(635,521)</u>	<u>(3,371,587)</u>
Total operating expenses	<u>20,462,187</u>	<u>1,287,591</u>	<u>744,750</u>	<u>238,191</u>	<u>3,578,047</u>	<u>26,310,766</u>
Operating income (loss)	<u>12,542,736</u>	<u>336,183</u>	<u>(283,839)</u>	<u>18,747</u>	<u>(2,116,775)</u>	<u>10,497,052</u>
Transfers in						
Total transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,200,000</u>	<u>5,200,000</u>
Change in net assets	12,542,736	336,183	(283,839)	18,747	3,083,225	15,697,052
Net assets at beginning of year	<u>182,941,430</u>	<u>506,086</u>	<u>(5,171,637)</u>	<u>(102,904)</u>	<u>9,028,146</u>	<u>187,201,121</u>
Net assets at end of year	<u>\$ 195,484,166</u>	<u>\$ 842,269</u>	<u>\$ (5,455,476)</u>	<u>\$ (84,157)</u>	<u>\$ 12,111,371</u>	<u>\$ 202,898,173</u>

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Mortgage Loan Program Fund

Combining Schedule of Cash Flows

Year ended June 30, 2011

	Housing Bonds	Multifamily Initiative Bonds	Multifamily Housing Revenue Bonds (Marywood)	Multifamily Bonds (Turnberry)	Affordable Housing Program Trust Fund Bonds	Total
<b>Cash flows from operating activities:</b>						
Receipts for program loans, interest and service fees	\$ 60,433,258	\$ 1,598,997	\$ 460,911	\$ 267,763	\$ 13,560,294	\$ 76,321,223
Receipts for real estate held for sale	73,028	-	-	-	-	73,028
Payments for program loans	(926,548)	(31,434,343)	-	-	(920,998)	(33,281,889)
Receipts for federal assistance programs	3,589,585	-	-	-	-	3,589,585
Payments for federal assistance programs	(3,589,585)	-	-	-	-	(3,589,585)
Payments to suppliers	(736,244)	(158,992)	(500)	(7,201)	(101,304)	(1,004,241)
Payments for program grants	-	-	-	-	(229,347)	(229,347)
Payments for amounts held on behalf of others	(599,363)	-	-	-	-	(599,363)
Other receipts	4,827,147	-	-	-	-	4,827,147
Net cash provided by (used in) operating activities	63,071,278	(29,994,338)	460,411	260,562	12,308,645	46,106,558
<b>Cash flows from noncapital financing activities:</b>						
Proceeds from sale of revenue bonds and notes	-	62,530,000	-	-	-	62,530,000
Principal paid on revenue bonds and notes	(26,891,539)	(62,530,000)	-	(60,000)	(4,260,000)	(93,741,539)
Interest paid on revenue bonds and notes	(19,271,913)	(298,514)	(744,249)	(234,638)	(3,542,524)	(24,091,838)
Due to other funds	250,409	14,114	283,838	519	3,530	552,410
Due from other funds	1,396,254	-	-	-	-	1,396,254
Transfers in	-	-	-	-	5,200,000	5,200,000
Net cash used in noncapital financing activities	(44,516,789)	(284,400)	(460,411)	(294,119)	(2,598,994)	(48,154,713)
<b>Cash flows from capital financing and related activities:</b>						
Acquisition of capital assets	(173,644)	-	-	-	-	(173,644)
<b>Cash flows from investing activities:</b>						
Purchase of investment securities	(267,700,781)	(2,454,212,523)	-	(477,054)	(83,161,893)	(2,805,552,251)
Proceeds from sales and maturities of investment securities	251,118,545	2,514,542,247	-	560,004	73,394,914	2,839,615,710
Interest received on investments	603,962	123,985	-	295	71,140	799,382
Net cash provided by (used in) investing activities	(15,978,274)	60,453,709	-	83,245	(9,695,839)	34,862,841
Net increase in cash and equivalents	2,402,571	30,174,971	-	49,688	13,812	32,641,042
Cash and cash equivalents at beginning of year	96,919	17,556	-	27,570	483,933	625,978
Cash and cash equivalents at end of year	\$ 2,499,490	\$ 30,192,527	\$ -	\$ 77,258	\$ 497,745	\$ 33,267,020
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>						
Operating income (loss)	\$ 12,542,736	\$ 336,183	\$ (283,839)	\$ 18,747	\$ (2,116,775)	\$ 10,497,052
<b>Adjustments to reconcile operating income (loss) to net cash provided by operating activities:</b>						
Investment income	(584,987)	(124,233)	-	(295)	(70,060)	(779,575)
Interest expense	18,946,117	1,115,600	744,250	233,738	3,938,314	24,978,019
Depreciation and amortization	800,000	-	-	-	-	800,000
Provision for estimated losses on program loans receivable	(2,746,316)	12,999	-	(2,748)	(635,522)	(3,371,587)
<b>Changes in assets and liabilities:</b>						
Program loans receivable	34,910,774	(31,395,671)	-	45,802	11,282,868	14,843,773
Interest receivable on program loans	85,759	(212,523)	-	(34,682)	(8,510)	(169,956)
Other liabilities	320,342	273,307	-	-	(55,397)	538,252
Other assets	(603,784)	-	-	-	(26,273)	(630,057)
Amounts held on behalf of others	(599,363)	-	-	-	-	(599,363)
Total adjustments	50,528,542	(30,330,521)	744,250	241,815	14,425,420	35,609,506
Net cash provided by (used in) operating activities	\$ 63,071,278	\$ (29,994,338)	\$ 460,411	\$ 260,562	\$ 12,308,645	\$ 46,106,558
The fair value of investments increased (decreased)	\$ (837,193)	\$ (478)	\$ -	\$ 81	\$ (67,674)	\$ (905,264)



**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Single Family Program Fund

Combining Schedule of Net Assets

June 30, 2011

	<b>Homeowner Mortgage Revenue Bonds</b>	<b>Residential Mortgage Revenue Bonds</b>	<b>Total</b>
<b>Assets:</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ 11,252,226	\$ 579	\$ 11,252,805
Investment income receivable – restricted	429,282	8,388	437,670
Program loans receivable	14,680,984	-	14,680,984
Interest receivable on program loans	2,806,117	-	2,806,117
Due from other funds	351,293	-	351,293
Total current assets	<u>29,519,902</u>	<u>8,967</u>	<u>29,528,869</u>
<b>Noncurrent assets:</b>			
Investments – restricted	378,459,710	454,998	378,914,708
Program loans receivable, net of current portion	573,985,133	-	573,985,133
Less allowance for estimated losses	<u>(2,282,237)</u>	<u>-</u>	<u>(2,282,237)</u>
Net program loans receivable	571,702,896	-	571,702,896
Unamortized bond issuance costs	6,145,572	-	6,145,572
Real estate held for sale, net	8,080,029	-	8,080,029
Deferred outflow of resources	2,583,647	-	2,583,647
Other	6,810,108	-	6,810,108
Total noncurrent assets	<u>973,781,962</u>	<u>454,998</u>	<u>974,236,960</u>
Total assets	<u>1,003,301,864</u>	<u>463,965</u>	<u>1,003,765,829</u>
<b>Liabilities:</b>			
<b>Current liabilities:</b>			
Bonds and notes payable	190,810,000	-	190,810,000
Accrued interest payable	13,136,424	10,115	13,146,539
Accrued liabilities and other	980,517	-	980,517
Due to other funds	707,056	-	707,056
Total current liabilities	<u>205,633,997</u>	<u>10,115</u>	<u>205,644,112</u>
<b>Noncurrent liabilities:</b>			
Bonds and notes payable, net of current portion	701,600,175	312,670	701,912,845
Derivative instrument liability	<u>2,583,647</u>	<u>-</u>	<u>2,583,647</u>
Total liabilities	<u>909,817,819</u>	<u>322,785</u>	<u>910,140,604</u>
<b>Net assets:</b>			
Restricted for bond resolution purposes	<u>93,484,045</u>	<u>141,180</u>	<u>93,625,225</u>
Total net assets	<u>\$ 93,484,045</u>	<u>\$ 141,180</u>	<u>\$ 93,625,225</u>

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Single Family Program Fund

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

Year ended June 30, 2011

	<b>Homeowner Mortgage Revenue Bonds</b>	<b>Residential Mortgage Revenue Bonds</b>	<b>Total</b>
<b>Operating revenues:</b>			
Interest and other investment income	\$ 2,998,573	\$ 20,553	\$ 3,019,126
Net increase in fair value of investments	<u>1,993,862</u>	<u>-</u>	<u>1,993,862</u>
Total investment income	4,992,435	20,553	5,012,988
Interest earned on program loans	<u>33,052,574</u>	<u>-</u>	<u>33,052,574</u>
Total operating revenues	<u>38,045,009</u>	<u>20,553</u>	<u>38,065,562</u>
<b>Operating expenses:</b>			
Interest expense	35,098,542	25,551	35,124,093
Other general and administrative	1,067,681	-	1,067,681
Financing costs	710,756	-	710,756
Provision for estimated losses on program loans receivable	<u>1,731,045</u>	<u>-</u>	<u>1,731,045</u>
Total operating expenses	<u>38,608,024</u>	<u>25,551</u>	<u>38,633,575</u>
Operating loss	<u>(563,015)</u>	<u>(4,998)</u>	<u>(568,013)</u>
Transfers in	<u>496,057</u>	<u>-</u>	<u>496,057</u>
Total transfers	<u>496,057</u>	<u>-</u>	<u>496,057</u>
Change in net assets	<u>(66,958)</u>	<u>(4,998)</u>	<u>(71,956)</u>
Net assets at beginning of year	<u>93,551,003</u>	<u>146,178</u>	<u>93,697,181</u>
Net assets at end of year	<u>\$ 93,484,045</u>	<u>\$ 141,180</u>	<u>\$ 93,625,225</u>

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Single Family Program Fund

Combining Schedule of Cash Flows

Year ended June 30, 2011

	<b>Homeowner Mortgage Revenue Bonds</b>	<b>Residential Mortgage Revenue Bonds</b>	<b>Total</b>
<b>Cash flows from operating activities:</b>			
Receipts for program loans, interest and service fees	\$ 117,922,880	\$ -	\$ 117,922,880
Receipts for real estate held for sale	9,572,411	-	9,572,411
Payments to suppliers	<u>(1,377,787)</u>	-	<u>(1,377,787)</u>
Net cash provided by operating activities	<u>126,117,504</u>	<u>-</u>	<u>126,117,504</u>
<b>Cash flows from noncapital financing activities:</b>			
Proceeds from sale of revenue bonds and notes	46,000,000	1,277	46,001,277
Principal paid on revenue bonds and notes	(148,131,618)	-	(148,131,618)
Interest paid on revenue bonds and notes	(36,166,421)	(25,551)	(36,191,972)
Due to other funds	(21,205)	-	(21,205)
Transfers in	<u>496,057</u>	-	<u>496,057</u>
Net cash used in noncapital financing activities	<u>(137,823,187)</u>	<u>(24,274)</u>	<u>(137,847,461)</u>
<b>Cash flows from investing activities:</b>			
Purchase of investment securities	(3,755,411,356)	(311,862)	(3,755,723,218)
Proceeds from sales and maturities of investment securities	3,768,261,591	315,861	3,768,577,452
Interest received on investments	<u>5,170,667</u>	<u>20,554</u>	<u>5,191,221</u>
Net cash provided by investing activities	<u>18,020,902</u>	<u>24,553</u>	<u>18,045,455</u>
Net (decrease) in cash and cash equivalents	6,315,219	279	6,315,498
Cash and cash equivalents at beginning of year	<u>4,937,007</u>	<u>300</u>	<u>4,937,307</u>
Cash and cash equivalents at end of year	<u>\$ 11,252,226</u>	<u>\$ 579</u>	<u>\$ 11,252,805</u>
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>			
Operating loss	\$ (563,015)	\$ (4,998)	\$ (568,013)
<b>Adjustments to reconcile operating loss to net cash provided by operating activities:</b>			
Investment income	(4,992,435)	(20,553)	(5,012,988)
Interest expense	35,098,542	25,551	35,124,093
Provision for estimated losses on real estate held for sale	773,197	-	773,197
Provision for estimated losses on program loans receivable	957,848	-	957,848
<b>Changes in assets and liabilities:</b>			
Program loans receivable	98,900,680	-	98,900,680
Interest receivable on program loans	418,853	-	418,853
Other liabilities	154,241	-	154,241
Other assets	<u>(4,630,407)</u>	-	<u>(4,630,407)</u>
Total adjustments	<u>126,680,519</u>	<u>4,998</u>	<u>126,685,517</u>
Net cash provided by operating activities	<u>\$ 126,117,504</u>	<u>\$ -</u>	<u>\$ 126,117,504</u>
<b>Noncash investing, capital and financing activities:</b>			
Transfer of foreclosed assets	<u>\$ 5,455,346</u>	<u>\$ -</u>	<u>\$ 5,455,346</u>
The fair value of investments increased	<u>\$ 1,414,276</u>	<u>\$ 40</u>	<u>\$ 1,414,316</u>



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

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

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information 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, 2011, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 20, 2011. Our report was modified to include an emphasis of a matter paragraph regarding the adoption of the reporting and disclosure requirements of Governmental Accounting Standards Board Statement No. 54. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses as 11-01, 11-02 and 11-03 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## Compliance and Other Matters

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

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

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

*McGladrey & Pullen, LLP*

Schaumburg, Illinois  
October 20, 2011

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

Schedule of Findings and Responses

Year Ended June 30, 2011

**Finding 11-01 Inconsistencies in the Loan Monitoring and Loan Rating System**

The Illinois Housing Development Authority (Authority) has inconsistencies in the process for monitoring problem loans and inconsistencies in rating loans that are deemed uncollectible in the multi-family loan program.

The Authority has established a comprehensive loan rating system to enable the Authority to establish appropriate loan loss reserve amounts for the multi-family loan program. We conducted three separate loan reviews testing current, delinquent and "watch list" loans. A total of 87 multi-family program loans were tested for compliance with the Authority's loan rating policy.

During our tests we noted that 2 of the 87 (2%) loans reviewed were not properly reserved for in accordance with the Authority's loan rating policy, resulting in an over reserve in the Administrative Fund of approximately \$408,000.

The calculation of the allowance for loan loss estimate requires various elements of monitoring and evaluating the collectability of loan receivable balances. In accordance with generally accepted accounting principles, the estimate should be supported by detailed information including information derived from monitoring tools and consistent loan rating factors.

Authority management stated that a new loan rating form was implemented in April 2010 and that all loans were rated using the new form. Further enhancements were made to the loan rating form following the FY2010 audit to ensure better alignment with the Loan Loss Rating policy. In addition the Authority conducted a wholesale review of all multifamily loan ratings as of February 2011 to ensure the ratings recorded in the loan servicing system reflected the most recent loan rating form. The Accounting Department also implemented a new procedure in January 2011 in which rating changes input into the loan servicing system are confirmed against the rating change report by Loan & Portfolio Management to further strengthen internal controls for maintaining accurate loan ratings used in calculating loan loss reserves. The Authority believes that the inconsistent ratings are the result of the overlap in audit periods with the implementation of the rating system enhancements as well as normal data entry error rather than inconsistent tools or processes that resulted in an overstatement of the loan loss reserve. The Authority has implemented improved internal controls and additional procedures in an effort to reduce any inconsistencies or weaknesses detected.

Without consistent tools to monitor and rate the collectability of the loans, the estimate could be over or under stated. (Finding Code No. 11-01, 10-02, 09-01, 08-02).

Recommendation

We recommend that the Authority implement policies and procedures to ensure changes to loan ratings are updated consistently in order to ensure an accurate calculation of the allowance for loan loss.

Authority Response

The Authority concurs with the recommendation and believes that the policies and procedures that were implemented during fiscal years 2010 and 2011 has helped to strengthen internal controls for changes to loan ratings to be updated consistently, resulting in a more accurate calculation of the allowance for loan loss.

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

Schedule of Findings and Responses

Year Ended June 30, 2011

**Finding 11-02 Loan Receivable Balance and Allowance for Loan Loss Balance Overstated**

The Illinois Housing Development Authority (Authority) has loan balances in the multi-family program recorded in their financial statements that should be removed due to the loans being uncollectible.

During our audit of the Authority's allowance for loan loss estimate, we noted 38 loans totaling approximately \$7.6 million were recorded on the Authority's financial statements for which a 100% allowance reserve was recorded. The Authority anticipates that most of these loans will ultimately be written off.

In accordance with generally accepted accounting principles, receivable balances that are uncollectible should be written off and removed from financial statements.

Authority management stated that they were successful in receiving a response to their inquiries regarding the status of loan write-off requests submitted to the Attorney General's office. During August 2011 the Authority received write-off approval for 9 loans totaling \$282,171 and continues to work with the Attorney General's office to receive additional approvals on such requests. Since regular follow up and communication has been established with the Attorney General's office the Authority believes this will improve the timeliness of receiving approvals to write-off uncollectible loan amounts.

The significant effect of not writing off the loan balances and the corresponding allowance, results in overstatements of the Authority's loans receivable balance and the allowance for loan loss balance. (Finding Code No. 11-02, 10-03, 09-02, 08-03).

Recommendation

We recommend that the Authority work with the Attorney General's Office to get approval to write-off the uncollectible loan balances.

Authority Response

Authority management concurs with the recommendation and continues to work with the Attorney General's office to acquire timely approvals of submitted loan writeoff requests. The Authority has established contact with the Chief Litigation Officer responsible for approving such requests and continues to work with the office to provide additional information if requested in order for approval to be granted for writeoff of uncollectible amounts. Based on the timelines provided to us by the Attorney General's office for reviewing and approving such requests the Authority believes that the process for approval will prove to be more efficient so that uncollectible loan balances can be written off in a timely manner.

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

Schedule of Findings and Responses

Year Ended June 30, 2011

**Finding 11-03 Duplicate Vendors in the Accounts Payable Master Vendor List**

The Illinois Housing Development Authority's (Authority) accounts payable master vendor list has duplicate vendors.

During our testing of the master vendor list, we noted of the 2,658 vendor records there were 502 duplicate records (19%) representing 52 vendors. The vendors had the same name but were given different vendor identification numbers in the accounts payable system. Below is a breakdown of instances of duplication:

- 2 vendors were in the system 10 times or more
- 15 vendors were in the system 5 to 9 times
- 167 vendors were in the system 2 to 4 times

Good business practices would necessitate that the master vendor listing be reviewed for possible duplicate vendors or other inappropriate vendor data such as inactive vendors. The Fiscal Control and Internal Auditing Act (30 ILCS 10/1002) requires each State Agency to establish and maintain an effective system of internal control, which would include controls over the master vendor listing.

Authority management stated that continuous process improvements throughout the fiscal year were made to the accounts payable system with the occurrence of two purges during March 2011 and June 2011 resulting in a 64% reduction of vendors on the master vendor listing (from 7,324 in FY2010 to 2,658 in FY2011). The number of duplicate vendors was reduced by 75% (from 2,042 in FY2010 to 502 in FY2011). The Authority has established procedures as of January 2011 requiring a form W-9 and vendor TIN in order to add new vendors into the accounts payable system as well as conducted a thorough review of the master vendor listing by requiring an updated form W-9 for all active vendors. The Authority continues to implement improved internal controls and additional process improvements and procedures to remove all duplicate vendors during FY2012 as well as establish procedures for an annual review and purge process to maintain an accurate master vendor listing.

Without adequate procedures to prevent multiple vendors from being created in the accounts payable system or to detect and purge multiple vendors in the accounts payable system, there exists the risk of an accounting error or a misappropriation of assets. (Finding Code No. 11-03, 10-05).

Recommendation

We recommend that the Authority implement procedures to assign one vendor identification number per vendor to prevent multiple vendors from being created on the system. We also recommend the Authority implement procedures to review the master vendor list regularly and purge duplicate vendor names from the system.



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

Schedule of Findings and Responses

Year Ended June 30, 2011

**Finding 11-03 Duplicate Vendors in the Accounts Payable Master Vendor List (Continued)**

Authority Response

The Authority concurs with the recommendation and has established a procedure as of January 2011 that requires a form W-9 to be on file for new and existing vendors which requires a valid TIN. The TIN will be used as a unique number to identify active vendors within the accounts payable system and is required to add any new vendors to the master vendor list. A new form was developed during October 2011 to be used for adding new vendors to the system or to make changes to existing vendors on the master vendor list. This form requires a review by the Assistant Controller and approval by the Controller before a new vendor can be added to the accounts payable system or for updates to be made to an active vendor's record. In addition the Authority completed another purge of the master vendor list during September 2011 to remove any remaining duplicate vendors. The documentation of the policy and procedures established for reviewing the master vendor list on an annual basis and determining the need for a purge of any old or duplicate vendor records based on the criteria set forth in the policy will be completed by December 2011. The Authority believes strengthened internal controls and policies and procedures established for vendor maintenance will help to reduce the risk for duplicate vendor records.

**STATE OF ILLINOIS  
ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

Year Ended June 30, 2011

**A. Financial Statement Adjustments**

The Illinois Housing Development Authority (Authority) did not provide the auditors with complete and accurate financial statements. (Finding Code No. 10-01)

During the current year, the Authority implemented procedures to provide the auditors with a complete and accurate set of financial statements.

**B. Inadequate Reconciliation Procedures for Deposits Held in Escrow**

The Illinois Housing Development Authority (Authority) did not have an adequate process for reconciling the general ledger with the subsidiary ledger used to account for deposits held in escrow. (Finding Code No. 10-04)

During the current year audit, the Authority provided the auditors with a reconciliation of the general ledger to the subsidiary ledger for deposits held in escrow.

**C. No Formal Process to Evaluate and Estimate Allowance for Loan Loss in the Single Family Loan Program**

The Illinois Housing Development Authority (Authority) did not have a formal process to evaluate and estimate allowance for loan losses for the Single Family Loan Program. (Finding Code No. 10-06)

During the current year audit, the Authority provided the auditors with a formal process to evaluate and estimate allowance for loan losses for the Single Family Loan Program.