STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Compliance Examination

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

Year ended June 30, 2007

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

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Compliance Examination

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

Year ended June 30, 2007

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The Authority's financial statement report for the year ending June 30, 2007, which includes the report of independent auditors, management's discussion and analysis, basic financial statements, supplementary information, and the independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of basic financial statements performed in accordance with *Government Auditing Standards* has been issued separately.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Compliance Examination

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

Year ended June 30, 2007

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STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Agency Officials

Executive Director (effective 1/19/07)	DeShana L. Forney
Executive Director (through 1/18/07)	Kelly King Dibble
General Counsel	Mary R. Kenney
Chief Financial Officer	Robert W. Kugel
Controller	James J. Kregor

Agency Officials are located at:

401 North Michigan Avenue, Suite 700
Chicago, Illinois 60611

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Management Assertion Letter

KPMG LLP
303 East Wacker Drive
Chicago, Illinois 60601

April 23, 2008

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grants that could have a material effect on the operations of the Illinois Housing Development Authority (Authority). We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the Authority's compliance with the following assertions during the year ended June 30, 2007. Based on this evaluation, we assert that during the year ended June 30, 2007, the Authority has materially complied with the assertions below.

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

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

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

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

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

Very truly yours,

Illinois Housing Development Authority

DeShana L. Forney
Executive Director

Robert W. Kugel
Chief Financial Officer

James J. Kregor
Controller

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Compliance Report Summary

Year ended June 30, 2007

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

Accountants' Report

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

Summary of Findings

Number of	Compliance report	Financial report	Prior Compliance report
Findings	6	4	9
Repeated findings	3	1	6
Prior recommendations implemented or not repeated	5	—	4

Details of Federal and State Compliance findings are presented in a separately tabbed report section. Details of *Government Auditing Standards* findings are issues related to significant deficiencies and material weaknesses in internal control over financial reporting. Findings related to *Government Auditing Standards* have been issued separately with the Authority's Financial Audit Report.

(Continued)

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Compliance Report Summary

Year ended June 30, 2007

Schedule of Findings and Questioned Costs

Findings and Responses (Government Auditing Standards)

Item No.	Page	Description
07-01	*	Incomplete Documentation for the Risk Ratings Assigned to Program Loans
07-02	*	Inadequate Process for the Establishment of New Loans in the Loan Subsidiary System
07-03	*	Inadequate Reconciliation Procedures for Deposits Held in Escrow
07-04	*	Inadequate Process for Calculating and Reporting Loss on Debt Refunding Transaction

Findings and Questioned Costs (Federal Compliance)

Item No.	Page	Description
07-05	13	Inadequate Administration of the Section 8 Moderate Rehabilitation Program
07-06	16	Unsupported Annual Performance Report
07-07	18	Inaccurate Financial Reports
07-08	20	Inadequate Cash Management Procedures
07-09	22	Failure to Obtain Suspension and Debarment Certifications

(Continued)

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Compliance Report Summary

Year ended June 30, 2007

Findings (State Compliance)

Item No.	Page	Description
07-10	24	Office of Internal Audit Deficiencies

Prior Findings Not Repeated (Government Auditing Standards)

Item No.	Page	Description
		None

Prior Findings Not Repeated (Federal Compliance)

Item No.	Page	Description
07-11	26	Inadequate Review of Maximum Per Unit Subsidy Calculation
07-12	26	Inaccurate Calculation and Reporting of Match Expenditures

Prior Findings Not Repeated (State Compliance)

Item No.	Page	Description
07-13	26	Inadequate Process for Timely Preparation of Financial Information and Statements
07-14	26	Documentation of Internal Control Structure
07-15	26	Loan Loss Reserve Calculation Does Not Consider All Relevant Factors

Exit Conference

The Authority reviewed the findings and recommendations in this report and waived a formal exit conference. The responses to the recommendations were provided by Jim Kregor, Controller, in a letter dated April 23, 2008.

* Findings related to *Government Auditing Standards* are included in the Authority's separately issued Financial Audit Report.

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

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

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

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the Illinois Housing Development Authority's, a component unit of the State of Illinois, compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2007. The management of the Illinois Housing Development Authority (the Authority) is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Authority's compliance based on our examination.

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

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

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

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

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

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

In our opinion, the Illinois Housing Development Authority complied, in all material respects, with the aforementioned requirements during the year ended June 30, 2007. However, the results of our procedures disclosed an instance of noncompliance with those requirements which is required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which is described in the accompanying schedule of State findings and questioned costs as finding 07-10.

As required by the Audit Guide, immaterial findings related to instances of noncompliance excluded from this report have been reported in a separate letter to your office dated April 23, 2008.

Internal Control

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

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to comply with the requirements listed in the first paragraph of this report such that there is more than a remote likelihood that noncompliance with a requirement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance with the requirements listed in the first paragraph of this report was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

As required by the Audit Guide, immaterial findings relating to internal control deficiencies excluded from this report have been reported in a separate letter to your office dated April 23, 2008.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the nonmajor governmental fund of the Authority as of and for the year ended June 30, 2007, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 26, 2007. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. Such information, except for that portion marked “unaudited” on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2007, taken as a whole.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the Authority’s basic financial statements as of and for the years ended June 30, 2006 and June 30, 2005. In our reports dated November 7, 2006 and October 28, 2005, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the nonmajor governmental fund. In our opinion, the 2006 and 2005 Supplementary Information for State Compliance Purposes, except for the portion marked “unaudited,” is fairly stated in all material respects in relation to the basic financial statements for the years ended June 30, 2006 and June 30, 2005, taken as a whole.

The Authority’s responses to the findings identified in our examination are described in the accompanying schedule of findings and questioned costs. We did not examine 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 and Board members, and federal awarding agencies and pass through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Chicago, Illinois
April 23, 2008, except for paragraph ten as to which the date is October 26, 2007.

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

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

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

Compliance

We have audited the compliance of the Illinois Housing Development Authority (the Authority), a component unit of the State of Illinois, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The Authority's major federal programs are identified in the Summary of Auditors' Results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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

As described in finding 07-06 in the accompanying schedule of findings and questioned costs, we were unable to obtain sufficient documentation supporting the compliance of the Authority with the HOME Investment Partnerships Program regarding reporting, nor were we able to satisfy ourselves as to the Authority's compliance with those requirements by other auditing procedures.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the Authority's compliance with the requirements of the HOME Investment Partnerships Program regarding reporting, the Illinois Housing Development Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures also disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as findings 07-05, 07-07, 07-08, and 07-09.

Internal Control over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 07-06, 07-07, 07-08, and 07-09 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider findings 07-06 and 07-09 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the nonmajor governmental fund of the Authority as of and for the year ended June 30, 2007, and have issued our report thereon dated October 26, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. 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 and Board members, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Chicago, Illinois
April 23, 2008, except for paragraph nine as to which the date is October 26, 2007

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Summary of Auditors' Results

Financial Statements

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

Internal control over financial reporting:

• Material weakness(es) identified?		Yes	✓	No
• Significant deficiencies identified that are not considered to be material weakness(es)? (Findings related to *Government Auditing Standards* are included in the Authority's separately issued Financial Audit Report)	✓	Yes		None reported
• Noncompliance material to financial statements noted?		Yes	✓	No

Federal Awards

Internal control over major programs:

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

Type of auditors' report issued on compliance for major programs: ***qualified (scope limitation) for the HOME Investment Partnerships Program, unqualified for Section 8 Project-Based Cluster and unqualified for Interest Reduction Payments – Rental and Cooperative Housing for Lower Income Families***

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

Identification of major programs:

CFDA number(s)	**Name of federal program or cluster**
14.182 and 14.856	Section 8 Project-Based Cluster
14.239	HOME Investment Partnerships Program
14.103	Interest Reduction Payments – Rental and Cooperative Housing for Lower Income Families

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

Auditee qualified as low-risk auditee?		Yes	✓	No

(Continued)

07-05 Inadequate Administration of the Section 8 Moderate Rehabilitation Program

Federal Agency:	***U.S. Department of Housing and Urban Development***
Program Name:	***Section 8 Project-Based Cluster***
CFDA# and Program Expenditures:	***14.182 ($139,717,620)***
	14.856 ($7,414,065)
Award Number:	***None***
Questioned Costs:	***None***

The Authority is not properly administering the Section 8 Moderate Rehabilitation Program.

The Section 8 Moderate Rehabilitation (Mod Rehab) Program assists low income families to obtain decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low income families. The Mod Rehab program assistance is considered a project-based subsidy because the assistance is tied to specific units under an assistance contract with the owner for a specified term. A family that moves from a unit with project-based assistance does not have any right to continued assistance. As provided in the Authority's Administrative Plan for the Mod Rehab Program, the Authority passes through the Mod Rehab subsidies to the developments or the owners of the property, which the Authority considers to be subrecipients of the program. The Authority conducts on-site programmatic and fiscal monitoring as well as desk reviews of audit reports of the subrecipients to monitor compliance with the Mod Rehab Program requirements.

During fiscal year 2007, staff from the Illinois Office of Public Housing (a regional office of the U.S. Department of Housing and Urban Development (HUD)) conducted an audit of the Authority's Mod Rehab Program to assess the Authority's compliance with HUD regulations. The final audit report received from the Illinois Office of Public Housing indicated the Authority did not comply with numerous HUD regulations when the audit team assessed the Authority's overall program operation of the Section 8 Mod Rehab Program. The final audit report stated that the Authority is receiving administrative fees to operate the Section 8 Mod Rehab program, yet it is not performing the major administrative functions HUD expects it to perform under its contractual obligations with HUD due to the manner in which the Authority delegates the performance of programmatic activities to its subrecipients. HUD is concerned that the Authority is not maintaining a waiting list for the Mod Rehab Program. Additionally, HUD is concerned that the Authority is not assessing eligibility, conducting briefings, conducting reexaminations, monitoring the assignment of appropriate unit sizes, evaluating Utility Schedules or conducting inspections regularly. The audit report states that the Authority is overseeing the administration of these functions by monitoring the properties that receive funding for units under the Section 8 Mod Rehab program. However, the entities actually administering the program do not have contracts with the Authority to administer the program, nor are they operating it in accordance with the applicable HUD regulations. The audit report further states that there is no provision in the federal law that would allow the Authority to contract its oversight functions to the owner. To allow this to occur would be a conflict of interest.

(Continued)

According to 24 CFR 882.513, 882.514(b), the public housing authority (PHA) must maintain a waiting list for applicants for the Mod Rehab Program. When vacancies occur, the public housing authority will refer to the owner one or more appropriate size families on its waiting list. According to 24 CFR 882.514, the PHA is responsible for receipt and review of applications and determination of family eligibility for participation in accordance with HUD regulations. According to 24 CFR 882.514(d), when a family is initially determined to be eligible for housing assistance payments or is selected for participation in accordance with this section, the PHA must provide the family with information (brief the family) as to the Tenant Rent and the PHA's schedule of utility allowances. According to 24 CFR 882.515, the PHA must reexamine the income and composition of all families at least once every 12 months. According to 24 CFR 882.510, the PHA must determine, at least annually, whether an adjustment is required in the Utility Allowance applicable to the dwelling units in the Program, on grounds of changes in utility rates or other change of general applicability to all units in the Program. According to 24 CFR 882.516 (b), in addition to the inspections required prior to execution of the Contract, the PHA must inspect or cause to be inspected each dwelling unit under Contract at least annually and at other times as may be necessary to assure that the Owner is meeting the obligation to maintain the unit in decent, safe and sanitary condition and to provide the agreed upon utilities and other services.

Authority management indicated that it is administering the Mod Rehab Program in accordance with its Administrative Plan, which has been in place since the inception of the program in 1984, and allows for the delegation of these functions to the owners of each property. They stated they are in the process of filing for a waiver to allow them to continue to administer the Mod Rehab program in accordance with their administrative plan.

Failure to administer the Mod Rehab program in accordance with HUD regulations could result in the payment of ineligible payments, resulting in unallowable costs. (Finding Code No. 07-05)

Recommendation

We recommend the Authority consult with the U.S. Department of Housing and Urban Development to interpret the federal laws and regulations relating to the administration of the Section 8 Moderate Rehabilitation Program and make necessary changes to conform with those requirements.

Authority Response

The Authority concurs with the recommendations to consult with the U.S. Department of Housing and Urban Development (HUD) regarding the interpretation of the federal laws and regulations relating to the administration of the Section 8 Moderate Rehabilitation Program. It does, however, intend to request a waiver to allow it to continue to administer the program in accordance with its recently revised administrative plan.

(Continued)

As noted in the auditor's comments, the Authority has operated this program in accordance with various administrative plans, beginning in 1984, and has delegated a number of program functions to development owners and agents during this time. The Authority entered this program, along with a number of other State Housing Authorities, at HUD's invitation, and over the years HUD did not object, until recently, to the above delegations of program functions.

The Authority is not a public housing authority (PHA) in the manner that HUD envisions, which entails ownership and control of the developments receiving assistance. Therefore, it was never feasible for the Authority to directly manage PHA functions such as processing Tenant Applications and Waiting Lists, calculation of Tenant Rent and preparation of the schedule of utility allowances. As a result, these functions were delegated, but the Authority maintained oversight.

The Authority does not agree that its administration has been inadequate, and will continue to consult with HUD to reach a resolution on this matter.

07-06 Unsupported Annual Performance Report

Federal Agency:	***U.S. Department of Housing and Urban Development***
Program Name:	***HOME Investment Partnerships Program***
CFDA# and Program Expenditures:	***14.239 ($29,019,515)***
Award Number:	***M-07-SG-17-0100***
Questioned Costs:	***None***

We were unable to determine whether the Illinois Housing Development Authority (Authority) accurately prepared the "HUD 60002, *Section 3 Summary Report*, Economic Opportunities for Low-and Very Low-Income Persons" for the HOME Investment Partnerships (HOME) Program.

The Authority is required to submit an annual "HUD 60002, *Section 3 Summary Report,* Economic Opportunities for Low-and Very Low-Income Persons" (Section 3 Summary Report) to report annual accomplishments regarding employment and other economic opportunities provided to low and very low income persons under Section 3 of the Housing and Urban Development Act of 1968. The amounts reported include Section 3 expenditure data from the subrecipients of the HOME program.

During our audit, we noted the Authority did not have procedures in place to ensure amounts reported on the Section 3 Summary Report for the year ended December 31, 2006 include all Section 3 activities for all of the subrecipients. We were unable to determine if the amounts reported were complete or accurate.

According to 24 CFR Section 135.90, each recipient which receives directly from HUD financial assistance that is subject to the requirements of this part shall submit an annual report in such form and with such information as the Assistant Secretary may request for the purpose of determining the effectiveness of Section 3. Additionally, the A-102 Common Rule requires non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure performance reports are complete and accurate.

Authority management stated that the Authority was in the process of developing procedures guiding the submission of these reports from the subrecipients.

Failure to accurately report Section 3 expenditures prevents the U.S. Department of Housing and Urban Development from effectively monitoring the Section 3 program. (Finding Code No. 07-06)

Recommendation

We recommend the Authority implement procedures to ensure information reported in the annual Section 3 Summary Report is complete and accurate.

(Continued)

Authority Response

The Authority concurs with the recommendation to implement procedures to ensure that information reported in the annual Section 3 Summary Report is complete. HUD regulations indicate that the information for the Section 3 reporting will be furnished by the subrecipients. The Authority's review of the information received from the subrecipients of the Federal funds is primarily limited to checking for the completeness of the information. The Authority has recently developed procedures guiding the submission of these reports, and performs a review of these reports for completeness.

07-07 Inaccurate Financial Reports

Federal Agency:	***U.S. Department of Housing and Urban Development***
Program Name:	***Section 8 Project-Based Cluster***
CFDA# and Program Expenditures:	***14.182 ($139,717,620)***
	14.856 ($7,414,065)
Award Number:	***None***
Questioned Costs:	***None***

The Illinois Housing Development Authority (Authority) did not accurately prepare the "HUD 52663, *Requisition for Partial Payment of Annual Contribution,*" (HUD 52663) report and the "HUD 52681, *Voucher for Payment of Annual contributions and Operating Statement,*" (HUD 52681) report for the Section 8 Project-Based Cluster (Section 8) Program.

The Authority submits the HUD 52663 and the HUD 52681 reports on an annual basis. The HUD 52663 report is the budget for each subrecipient that receives Section 8 Program funding. The HUD 52681 report is submitted at year-end to report actual payments as compared to the budget amounts for each subrecipient to arrive at either an overpayment or underpayment of Section 8 funding. The overpayments and underpayments are taken into consideration when the U.S. Department of Housing and Urban Development (USHUD) establishes the funding for the following year.

During our audit we noted the Authority incorrectly reported amounts in both reports for three subrecipients as follows:

Report	Line Number	Line Description	Amount Reported	Correct Amount	Amount due from (to) USHUD
52681	28	Project receipts	$ 7,510	7,810	(300)
52681	17	Housing assistance payments	2,010,865	2,040,865	30,000
52663	13	Estimated housing assistance payments	736,968	742,296	5,328

According to the U.S. Department of Housing and Urban Development, Office of Public and Indian Housing, Handbook No. 7420.8, the Authority is required to submit the HUD 52663 and HUD 52681 reports for each Section 8 Program development. Additionally, the A-102 Common Rule requires non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure financial reports are complete and accurate.

(Continued)

Authority management stated the errors were the result of typographical mistakes made when the reports were being prepared.

Failure to accurately report information on the HUD 52663 and HUD 52681 reports prevents the U.S. Department of Housing and Urban Development from effectively monitoring the Section 8 program. (Finding Code No. 07-07)

Recommendation

We recommend the Authority implement procedures to ensure information reported on the HUD 52663 and HUD 52681 reports is complete and accurate.

Authority Response

While the Authority concurs with the recommendation that it should have procedures that ensure complete and accurate reporting to HUD, the Authority also feels that its current procedures are adequate to provide that insurance. However, the Authority will review the applicable procedures with the intent of improving these where possible and will take additional steps to enforce the procedures in place. It should be noted that, effective July 1, 2007 (FY 2008), HUD has eliminated, for the New Construction / Substantial Rehabilitation developments, the processes referred to in this finding. For these developments, which comprise most of Authority's Section 8 developments, the forms HUD 52663 and HUD 52681 are no longer required by HUD and therefore were not prepared for FY 2008. These forms are still required for the thirteen Section 8 Moderate Rehabilitation developments.

 (Continued)

07-08 Inadequate Cash Management Procedures

Federal Agency:	***U.S. Department of Housing and Urban Development***
Program Name:	***Section 8 Project-Based Cluster***
	Interest Reduction Payments – Rental and Cooperative Housing for Lower Income Families
CFDA# and Program Expenditures:	***14.182 ($139,717,620)***
	14.856 ($7,414,065)
	14.103 ($5,288,726)
Award Number:	***None***
Questioned Costs:	***None***

The Illinois Housing Development Authority (Authority) does not have procedures in place to ensure cash draws are performed in accordance with U.S. Treasury Regulations for the Section 8 Project-Based Cluster (Section 8) Program and the Interest Reduction Payments – Rental and Cooperative Housing for Lower Income Families (Interest Reduction) Program.

The Authority receives its Section 8 program funding during the first week of each month, based upon a budgeted amount approved at the beginning of the year by the U.S. Department of Housing and Urban Development. The Authority receives its Interest Reduction Program funding during the first week of each month based upon amounts approved by the U.S. Department of Housing and Urban Development in the Housing Assistance Payment (HAP) contracts. The Authority either applies the amounts received to the loan principal or interest balance or transfers the amount to the development during the third week of the month. During our testing we selected sixty Section 8 and 32 Interest Reduction subsidy payments received and noted that the Authority held funds for six to ten days before the funds were either applied to the loan balances or disbursed to the development.

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

(Continued)

Authority management stated that wire transfers are performed each Thursday. Several days following the date of the receipt of the funds is needed to reconcile the funds received prior to wiring them to the subrecipients.

Failure to draw funds in accordance with the U.S. Treasury Regulations could result in the cognizant agency, the U.S. Department of Housing and Urban Development, to sanction the Authority for noncompliance or possibly reduce the funding of the Section 8 and Interest Reduction Programs. (Finding Code No. 07-08, 06-03, 05-04, 04-05)

Recommendation

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

Authority Response

The Authority concurs that federal funds should be disbursed in accordance with the U.S. Treasury Regulation but believes that its existing procedures, which include an acceleration of its billing cycle in fiscal year 2006 in order to accelerate the federal funds disbursement process, are administratively feasible and cannot be further accelerated without introducing the risk of making inaccurate transfers. When federal funds are received, they are immediately invested in U.S. Treasury securities, rather than left as cash, which does not earn any funds. HUD requires that such funds be invested in interest bearing, FDIC insured accounts or invested. The Authority invests these funds in U.S. Treasury obligations, which always mature on a Thursday, and that maturity date dictates when wire transfers may be made. The Authority needs several days from the receipt of the funds to determine their application, as HUD has recently changed its process to transfer only the approved funds to the development, but does not send to the Authority reports that detail these transfers. Thus, the Authority before releasing these funds must go through a matching process to ensure that the proper amounts are being transferred.

The timing of passing through Section 8 and Section 236 project funding is performed in conjunction with the billing cycle, which was previously accelerated to the second week of the month. Through the billing cycle, a number of reports are generated that document the transfer process. A large portion of the funds are not passed through directly to the recipient, but instead are retained by the Authority to pay the recipient's debt service payments and to fund escrow accounts. Any amounts in excess of the debt service and escrow funding requirements are then transferred to the recipient. This process assists recipients to streamline the administrative process for the payment of debt service and escrow funding. Section 8 and Section 236 projects funds to recipients that do not have loans to the Authority are transferred to these recipients on either the first or second Thursday of each month.

The Authority is of the opinion that, to further accelerate the transfer of funds to meet the 3 to 5 day business day requirement for the transfer of funds, improper amounts could be transferred. In addition, funds management would be inefficient, as funds would be un-invested until a wire transfer could be made. The Authority will review this with HUD and request that they issue a final determination letter on this matter.

07-09 Failure to Obtain Suspension and Debarment Certifications

Program Name:	***Section 8 Project-Based Cluster***
	Interest Reduction Payments – Rental and Cooperative Housing for Lower Income Families
CFDA# and Program Expenditures:	***14.182 ($139,717,620)***
	14.856 ($7,414,065)
	14.103 ($5,288,726)
Award Number:	***None***
Questioned Costs:	***None***

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

During our review of 30 subrecipients of the Section 8 program and 3 subrecipients of the Interest Reduction program, we noted the Authority did not include a suspension and debarment certification in its subrecipient agreements. As a result, the Authority did not receive certifications that any of the subrecipients of the Section 8 and Interest Reduction programs were not suspended or debarred from participation in Federal assistance programs. Additionally, the Authority did not perform a verification check with the EPLS maintained by the General Services Administration for any of its subrecipients; however, as a result of our audit test work we noted that none of these subrecipients were suspended or debarred from participation in Federal assistance programs. During the year ended June 30, 2007, the Authority passed through approximately $147,132,000 and $5,288,726 to subrecipients of the Section 8 and Interest Reduction programs, respectively.

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

Authority management indicated the lack of certifications was an oversight.

(Continued)

Failure to obtain the required certifications or perform verification procedures with the EPLS could result in the awarding of Federal funds to subrecipients that are suspended or debarred from participation in Federal assistance programs. (Finding Code No. 07-09, 06-04)

Recommendation

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

Authority Response

The Authority agrees with the recommendation that grantees receiving individual awards for $25,000 or more certify that their organization is not suspended or debarred or otherwise excluded from participation in Federal assistance programs. The Authority has existing procedures and will continue to require that grantees receiving initial rewards for $25,000 or more certify that their organization is not suspended or debarred or otherwise excluded from participation in Federal Assistance programs. In addition, the Authority will institute a procedure to perform an annual verification check with the EPLS for existing awards, although it does not believe this is required under existing regulations.

07-10 Office of Internal Audit Deficiencies

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

In August, 2006, the Authority's Office of Internal Audit (OIA) conducted a quality assurance self-assessment to determine whether the OIA's activities conform with the Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing, the IIA's Code of Ethics, and the Fiscal Control and Internal Auditing Act of the State of Illinois. The self-assessment was validated by an independent external party. The final report dated in March, 2007 indicated significant findings and recommendations related to the Standards for the Professional Practice of Internal Auditing and the Fiscal Control and Internal Auditing Act of the State of Illinois of the State of Illinois.

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

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

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

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

(Continued)

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

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

Authority management stated that it has implemented procedures to address each finding from the OIA quality assurance self-assessment, and has taken steps to obtain an external validator to perform the subsequent review to clear each finding, but was unable to have the review completed prior to year-end.

Without performing internal audits in accordance with professional standards and without completing audits timely in accordance with an approved audit plan, the Authority may fail to detect weaknesses in its internal control in a timely manner. (Finding Code No. 07-10, 06-09)

Recommendation

We recommend the Authority ensure the external validator completes the subsequent review of the internal audit department to confirm the resolution of each finding.

Authority Response

The Authority concurs with the recommendation that the Authority ensure the external validator completes the subsequent review of the internal audit department to confirm the resolution of each finding. This process is now taking place, and the external validator is to identify any actions, if any, to correct any unresolved findings.

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Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

Year ended June 30, 2007

Federal Compliance

07-11 Inadequate Review of Maximum Per Unit Subsidy Calculation

The Illinois Housing Development Authority (Authority) did not perform a supervisory review of the maximum per unit subsidy calculation, and incorrect subsidy limits were used for the calculation.

In the current year, the Authority reviewed the calculation and no errors were noted. (Finding Code No. 06-01, 05-02, 04-03)

07-12 Inaccurate Calculation and Reporting of Match Expenditures

The Authority did not accurately calculate and report its match for the Home Investment Partnerships Program (HOME).

In the current year, the Authority accurately calculated and reported its match expenditure for the HOME program. (Finding Code No. 06-02, 05-03, 04-04)

State Compliance

07-13 Inadequate Process for Timely Preparation of Financial Information and Statements

The Authority did not have an adequate process to ensure financial reporting is completed in a timely manner. The first complete draft of the financial statements was not received until September 29, 2006, which was ten business days later than what had been planned.

In the current year, the Authority completed draft financial statements in accordance with the original deadlines established at the beginning of the audit. (Finding Code No. 06-05, 05-06)

07-14 Documentation of Internal Control Structure

The Authority did not have adequate documentation of its internal control structure.

In the current year, the Authority finalized internal control structure flowcharts of its internal control structure. (Finding Code No. 06-06, 05-07, 04-06)

07-15 Loan Loss Reserve Calculation Does Not Consider all Relevant Factors

The Authority's methodology for establishing the loan loss reserve did not incorporate all relevant factors needed to ensure complete information is used to accurately estimate the loan loss reserve.

In the current year, the Authority significantly modified the methodology used to assign risk ratings to program loans. (Finding Code No. 06-08, 05-09, 04-09)

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Supplementary Information for State Compliance Purposes

Year ended June 30, 2007

Summary

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

- Fiscal Schedules and Analysis:

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

- Analysis of Operations:

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

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

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

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Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

Federal grant/program title	CFDA number	Award amount	Due to (from) HUD June 30, 2006	Revenue	Expense/ expenditure	Due to (from) HUD June 30, 2007
U.S. Department of Housing and Urban Development:						
Major programs:						
Section 8 Project-Based Cluster:						
Section 8 New Construction and Substantial Rehabilitation	14.182	$ —	11,543,118	140,619,381	139,717,620	12,444,879
Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation	14.856	—	810,334	6,454,853	7,414,065	(148,878)
Total Section 8 Project-Based Cluster		—	12,353,452	147,074,234	147,131,685	12,296,001
HOME Investment Partnerships Program	14.239	29,019,515	—	29,019,515	29,019,515	—
Interest Reduction Payments – Rental and Cooperative Housing for Lower Income Families	14.103	5,288,726	—	5,288,726	5,288,726	—
Total		$ 34,308,241	12,353,452	181,382,475	181,439,926	12,296,001

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

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Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

(1) General

The Schedule of Expenditures of Federal Awards (Schedule) presents the activity of all federal financial assistance programs of the Authority. The amount due to the U.S. Department of Housing and Urban Development (HUD) at June 30, 2007 is included in the business-type activities of the Authority's Statement of Net Assets.

(2) Summary of Significant Accounting Policies

Basis of Accounting

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

Relation to the Schedule of Expenditures of Federal Awards

Amounts reported in the Schedule of Expenditures of Federal Awards reconcile with the amounts reported in the related federal financial reports. For the HOME program, amounts reported as expenditures include $11,406,611 in grant expenditures. The amount of HOME loans disbursed during the year ended June 30, 2007 is $18,794,000. The amount of HOME loans outstanding at June 30, 2007 is $161,980,116.

Expense/Expenditure

Amounts reported as expenses on this Schedule include approximately $5,312,000 in administrative fees retained by the Authority.

Subrecipients

The following amounts were passed through to subrecipients during the year ended June 30, 2007:

CFDA number	Subrecipient amount
14.182 and 14.856	$ 147,131,685
14.239	11,406,611
14.103	5,288,726
	$ 163,827,022

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Fiscal Schedules and Analysis

Comparative Schedule of Cash Receipts

Years ended June 30, 2007 and 2006

		2007	2006
Administrative Fund:			
Cash received from:			
Interest from program loans	$	1,256,319	2,424,541
Service fees from program loans		9,960,474	11,989,827
Principal from program loans		2,224,432	3,879,059
		13,441,225	18,293,427
Proceeds from federal assistance programs		147,397,197	148,171,776
Proceeds from program grant		1,666,667	—
Interest on investments		3,846,027	1,490,516
Interest on escrow deposits		7,766,328	5,423,047
Proceeds from sales and maturities of investment securities		704,629,019	846,485,146
Transfer of funds from mortgage loan program funds		—	5,734,786
Transfer of funds from single family program funds		650,137	9,324
Receipts for amounts held on behalf of others		—	40,423,973
Other		25,699,423	—
Total	$	905,096,023	1,066,031,995

		2007	2006
Mortgage Loan Program Fund – Multi-Family Housing Bonds:			
Cash received from:			
Interest from program loans	$	3,901,601	9,723,163
Principal from program loans		117,684,420	8,715,333
		121,586,021	18,438,496
Proceeds from federal assistance programs		63,597	152,725
Interest on investments		2,616,656	2,797,220
Proceeds from sales and maturities of investment securities		219,475,178	110,260,388
Other		—	8,743
Total	$	343,741,452	131,657,572

		2007	2006
Mortgage Loan Program Fund – Multi-Family Program Bonds:			
Cash received from:			
Interest from program loans	$	3,200,221	4,832,627
Principal from program loans		3,599,824	51,340,447
		6,800,045	56,173,074
Interest on investments		1,244,367	1,541,982
Proceeds from sales and maturities of investment securities		11,678,634	91,530,591
Other		157,752	1,297,559
Total	$	19,880,798	150,543,206

(Continued)

STATE OF ILLINOIS
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Fiscal Schedules and Analysis

Comparative Schedule of Cash Receipts

Years ended June 30, 2007 and 2006

		2007	2006
Mortgage Loan Program Fund – Housing Bonds:			
Cash received from:			
Interest from program loans	$	20,342,846	13,413,094
Service fees from program loans		—	89,122
Principal from program loans		7,640,669	14,652,720
		27,983,515	28,154,936
Proceeds from sale of revenue bonds		137,219,148	80,935,000
Proceeds from federal assistance programs		4,959,617	4,815,341
Interest on investments		4,781,893	2,446,076
Proceeds from sales and maturities of investment securities		733,266,741	428,568,904
Transfer of funds from multi-family housing bonds		65,228,046	277,701
Receipts for amounts held on behalf of others		—	3,195,585
Other		6,030,783	—
Total	$	979,469,743	548,393,543
Mortgage Loan Program Fund – Multi-Family Variable Rate Demand Bonds:			
Cash received from:			
Interest from program loans	$	189,224	505,495
Principal from program loans		68,852	5,174,544
		258,076	5,680,039
Interest on investments		139,325	102,760
Proceeds from sales and maturities of investment securities		3,848,255	16,500,023
Other		20,763	—
Total	$	4,266,419	22,282,822
Mortgage Loan Program Fund – Multi-Family Housing Revenue Bonds:			
Cash received from:			
Interest from program loans	$	1,376,214	4,239,066
		1,376,214	4,239,066
Interest on investments		480,938	330,612
Proceeds from sales and maturities of investment securities		19,724,370	46,529,367
Other		5,451,559	5,434,786
Total	$	27,033,081	56,533,831

(Continued)

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Fiscal Schedules and Analysis

Comparative Schedule of Cash Receipts

Years ended June 30, 2007 and 2006

		2007	2006
Single Family Program Fund:			
Cash received from:			
Interest from program loans	$	38,322,239	32,261,558
Principal from program loans		65,703,889	85,873,085
		104,026,128	118,134,643
Interest on investments		11,078,631	9,310,499
Proceeds from sale of revenue bonds		365,925,835	99,997,950
Proceeds from sales and maturities of investment securities		705,790,981	743,691,613
Transfer of funds from administrative funds		2,392,874	1,655,860
Other		—	1,650,073
Total	$	1,189,214,449	974,440,638
Illinois Affordable Housing Trust Fund:			
Cash received from:			
Interest on investments	$	3,087,499	2,237,516
Grant from State of Illinois		15,057,894	15,574,118
Total	$	18,145,393	17,811,634
Mortgage Loan Program Fund – Affordable Housing Program Trust Fund Bonds:			
Cash received from:			
Interest from program loans	$	2,310,862	2,308,414
Service fees from program loans		—	4,353
Principal from program loans		8,862,490	3,128,695
		11,173,352	5,441,462
Interest on investments		1,508,318	1,094,538
Transfer of fund from Illinois Affordable Housing Trust Fund		5,200,000	5,200,000
Proceeds from sales and maturities of investment securities		57,190,029	57,794,389
Other		2,313	—
Total	$	75,074,012	69,530,389

(Continued)

STATE OF ILLINOIS
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Fiscal Schedules and Analysis

Comparative Schedule of Cash Receipts

Years ended June 30, 2007 and 2006

		2007	2006
HOME Program Fund:			
Cash received from:			
Interest from program loans	$	1,461,969	1,009,982
Principal from program loans		1,260,734	1,097,999
		2,722,703	2,107,981
Interest on investments		52,835	43,001
Federal HOME Funds		29,019,515	31,248,364
Total	$	31,795,053	33,399,346
Mortgage Loan Program Fund – Housing Finance Bonds:			
Cash received from:			
Interest from program loans	$	851,632	866,216
Principal from program loans		239,482	224,897
		1,091,114	1,091,113
Interest on investments		63,033	61,744
Proceeds from sales and maturities of investment securities		1,108,233	1,116,085
Other		1,422	—
Total	$	2,263,802	2,268,942
Mortgage Loan Program Fund – Multi-Family Housing Revenue Bonds (Marywood):			
Cash received from:			
Interest from program loans	$	1,192,135	402,242
Principal from program loans		236,516	—
		1,428,651	402,242
Interest on investments		47,614	22,998
Proceeds from sales and maturities of investment securities		4,549,963	8,854,206
Other		17,890	1,138
Total	$	6,044,118	9,280,584

(Continued)

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Fiscal Schedules and Analysis

Comparative Schedule of Cash Receipts

Years ended June 30, 2007 and 2006

		2007	2006
Mortgage Loan Program Fund – Multi-Family Bonds (Turnberry):			
Cash received from:			
Interest from program loans	$	267,042	269,306
Principal from program loans		45,030	42,796
		312,072	312,102
Interest on investments		9,573	5,265
Proceeds from sales and maturities of investment securities		495,820	398,417
Other		3,417	1,463
Total	$	820,882	717,247

		2007	2006
Rental Housing Support Program Fund:			
Cash received from:			
Grant from State of Illinois	$	7,083,890	—

See accompanying independent accountants’ report.

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Fiscal Schedules and Analysis

Schedule of Changes in Authority Property

Year ended June 30, 2007

Description		Balance at June 30, 2006	Additions	Depreciation and amortization expense	Retirements	Balance at June 30, 2007
Furniture and equipment	$	554,269	27,671	—	(458,670)	123,270
Accumulated depreciation – furniture and equipment		(496,913)	—	(19,453)	403,689	(112,677)
Computer equipment		437,996	6,593	—	(188,900)	255,689
Accumulated depreciation – computer equipment		(424,789)	—	(5,904)	188,900	(241,793)
Computer software		1,555,028	21,000	—	(15,423)	1,560,605
Amortized computer software		(1,263,791)	—	(133,194)	15,423	(1,381,562)
Leasehold improvements		1,805,108	—	—	—	1,805,108
Amortized leasehold improvements		(1,805,108)	—	—	—	(1,805,108)
	$	361,800	55,264	(158,551)	(54,981)	203,532

See accompanying independent accountants’ report.

Furniture, Equipment, and Leasehold Improvements

The Authority leases office facilities under a lease which extends through July 31, 2016, 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.

Capital assets of the Authority consist of investments in furniture, fixtures, and equipment, computer hardware, and computer software. For such investments made beginning and after July 1, 2002, capital assets are defined by the Authority as assets with an initial, individual cost of $5,000 or more and are depreciated or amortized on a straight-line basis over a period of five to ten years, depending on the nature of the asset. The limitation amount in prior fiscal years was $1,000. Purchases of furniture and equipment in the amount of $74,205 were expensed during fiscal year 2007.

During the year ended June 30, 2007, the Authority capitalized $27,671 of furniture and equipment purchases, $6,593 of computer equipment purchases, and $21,000 of computer software.

See accompanying independent accountants' report.

Analysis of Significant Account Balances

Cash and investments of the Authority's proprietary funds increased approximately $69.5 million from June 30, 2006 to $735.3 million at June 30, 2007. This increase is primarily a net result of the following factors:

(a) Cash receipts from interest, service fees, and principal on program loans exceeded interest paid on revenue bonds and notes and cash payments for operating expenses by $216.3 million.

(b) Proceeds of bond issuances exceeded payments of bond principal by $164.8 million.

(c) Interest received on investments and transfers in (net) totaled $31.0 million.

(d) Other receipts totaled $11.1 million.

(e) Payments for loan originations totaled $320.0 million.

(f) Payments of amounts held on behalf of others were $35.0 million

Net program loans receivable of the Authority's proprietary funds increased approximately $126.3 million during fiscal year 2007. This increase is attributable primarily to increases in the Authority's Single Family Program Fund ($89.3 million) and the Mortgage Loan Program Fund ($32.0 million). The increase in program loans receivable of the Single Family Program was the third straight year-to-year increase following a three year period of decreases caused by declining interest rates, which resulted in loan principal payments and loan prepayments exceeding originations. Interest rate increases over the past three years have resulted in a slowing of the prepayment rate to the extent that program loans receivable are again increasing. In addition, the fiscal year 2007 increase in program loan receivables of the Mortgage Loan Program Fund was the first year-to-year increase in the fund since fiscal year 1995 as the Authority was able to originate new loans and re-finance a number of existing loans.

Net assets of the Authority's governmental funds increased $18.6 million from the June 30, 2006 balance from an increase in the HOME program, due to the conversion of grant revenues to program loans receivable. All equity of the Authority's other two governmental activities, the Affordable Housing Trust Fund (Housing Program) and the Rental Housing Support Program, are recorded as due to the State of Illinois and, as a result, no net assets for these activities are recorded on the Authority's financial statements.

Total program loans receivable of the Authority's governmental funds increased by $55.3 million due mainly to continued strong demand in both the Housing Program and the HOME program for loans to support low and very low income housing. Cash and investments increased by $3.2 million, as the Authority was holding slightly higher amounts pending disbursement of funds for loans and grants to Housing Program recipients.

At June 30, 2007, total outstanding bonds and notes payable was approximately $164.8 million above the prior fiscal year-end. Issuance of the following bonds and notes (with a balance outstanding at June 30, 2007) occurred during fiscal year 2007:

	Balance June 30, 2007 (In millions)
Housing Bonds, 2006 Series A	$ 8.1
Housing Bonds, 2006 Series D	6.2
Housing Bonds, 2006 Series E	8.2
Housing Bonds, 2006 Series F	4.0
Housing Bonds, 2006 Series G	63.3
Housing Bonds, 2006 Series H	11.3
Housing Bonds, 2006 Series I	7.2
Housing Bonds, 2006 Series J	3.5
Housing Bonds, 2006 Series K	24.7
Housing Bonds, 2006 Series M	12.5
Homeowner Mortgage Revenue Bonds, 2006 Series C	124.7
Homeowner Mortgage Revenue Bonds, 2007 Series A	65.0
Homeowner Mortgage Revenue Bonds, 2007 Series C	58.0
Administrative Fund, Term Loan	1.7

The Authority redeemed $200.6 million of various Single Family Program Fund Bonds and $139.3 million of Mortgage Loan Program Bonds during the fiscal year.

The proceeds of the issuance of the Housing Bonds, 2006 Series G and Housing Bonds, 2006 Series K were used, in part, to defease, until their January 1, 2007 redemption dates, six outstanding series of Multi-Family Housing bonds. The differences between the reacquisition price and the net carrying amount of the refunded bonds ($12.4 million) have been deferred and are being amortized as a component of interest expense over the remaining life of the refunded bonds.

(Continued)

As of June 30, 2007, the Authority had the following debt outstanding (net of unamortized discount and deferred loss on refunding, thereon):

	Number of outstanding issues		Balance June 30, 2007
			(In millions)
Multi-Family Program Bonds	3	$	52.6
Housing Bonds	25		396.4
Housing Finance Bonds	2		13.9
Multi-Family Variable Rate Demand Bonds	1		2.8
Multi-Family Housing Revenue Bonds	2		53.1
Multifamily Housing Revenue Bonds (Marywood)	1		15.6
Multifamily Bonds (Turnberry II)	1		5.2
Affordable Housing Program Trust Fund Bonds	3		77.1
Total Mortgage Loan Program Fund	38		616.7
Residential Mortgage Revenue Bonds	7		0.3
Homeowner Mortgage Revenue Bonds	40		968.8
Total Single Family Program Fund	47		969.1
Administrative Fund	1		1.7
Total Proprietary Funds	86	$	1,587.5

Deposits held in escrow increased approximately $16.8 million, due to the establishment of escrows for newly funded loans and increases in escrow amounts for certain refinanced developments for physical improvements. Capital assets decreased approximately $0.2 million as depreciation more than offset purchases. Net assets designated by resolution of the Authority ($85.0 million) were $4.0 million higher than the amount designated as of June 30, 2006, as the Members of the Authority increased by $5.0 million the designation to provide to purchase single family mortgage loans which will eventually be purchased with proceeds from future issuances of Authority bonds, and decreased by $1.0 million the designation to the Housing Partnership Program, due to lower amounts outstanding under the program.

See accompanying independent accountants' report

Analysis of Significant Variations in Revenue and Significant Variations in Expenses

Proprietary Funds

Interest earned on program loans increased by $5.6 million, or 8.3% due to increases within the Authority's Single Family Program Fund ($5.6 million) and the Mortgage Loan Program Fund ($1.1 million), due to increases in loans outstanding, partially offset by a decrease ($1.1 million) within the Authority's Administrative Fund, as the prior year benefited from an acceleration of deferred income due to prepayments of mortgage loans. Loans outstanding, before the application of the allowance for estimated losses, as of June 30, 2007 in the Single Family and the Mortgage Loan Program Funds were $89.3 million and $26.9 million, respectively, above the prior year-end amounts. Investment income increased $6.3 million, or 32.1%. Investment income before the adjustment of investments to fair value increased $4.1 million from the prior year due to higher market interest rates. The adjustment of investments to fair value decreased investment income by $0.6 million in fiscal year 2007, whereas in fiscal year 2006 the impact was to decrease investment income $2.7 million. The increases in investment income were from Single Family Program Fund ($2.4 million), the Mortgage Loan Program Fund ($1.9 million) and the Administrative Fund ($2.0 million).

Interest expense increased $5.4 million, or 7.2% due to increased expenses within the Single Family Program Fund ($5.8 million, due to $165.3 million higher debt outstanding at fiscal year end), partially offset by slightly decreased expenses within the Mortgage Loan Program Fund ($0.4 million).

Operating expenses, other than interest expense and federal assistance programs, decreased approximately $12.4 million. The major components of the change were:

a. A $.8 million (7.5%) increase in salaries and benefits primarily due to increased salaries and reduced deferred multi-family loan origination costs. Gross salary and benefit expenses (before allocations and deferrals) increased $.6 million or 4.3%, due primarily to salary increases, as overall staffing levels were unchanged. The average number of full-time equivalent employees for fiscal years 2004 through 2007 is listed in the Analysis of Operations Average Number of Employees section of this report.

b. A $.7 million (58.7%) increase in professional fees primarily due to the expense recognition of the non-reimbursed portion of prior years' homebuyer counseling costs ($0.6 million), and increased outside contractual expenses ($0.2 million) pertaining to the Authority's multi-family housing preservation activities.

c. A $.1 million (1.8%) increase in general and administrative expenses due primarily to expenses related to the inaugural Statewide Housing Conferences held in Chicago and Springfield. Most of these expenses were offset by conference fees, which were recorded in Other Income of the Authority.

d. A $.3 million (20.8%) increase in financing costs due to increased expenses within the Authority's Mortgage Loan Program Fund, primarily from the Affordable Housing Trust Fund Bond accounts.

e. A $11.1 million decrease in the allowance for estimated losses on program loans receivable and mortgage participation certificate program compared to a $4.8 million increase the prior year. During fiscal year 2007, the Authority adopted a revised loan loss rating policy, which included lower allowance for estimated loss provision percentages assigned for certain grades of loans, based primarily upon the

Authority's experience with such loans. The implementation of the policy resulted in a change of estimate of the Authority's allowances for estimated losses on program loans receivable.

Governmental Funds

Total revenues of the Authority's governmental funds increased by $5.3 million from the prior year, mainly from initial revenues of $7.1 million arising from the Rental Housing Support Program, $7.0 million of which were passed through to grant recipients. Federal revenues of the HOME Program were $2.2 million below the prior year, due mainly to lower loan disbursements. At June 30, 2007, loan and grant commitments authorized by the Members of the Authority for the HOME program totaled $22.2 million.

Total expenditures of the Authority's governmental funds increased by $6.5 million from the prior year, due to the initial expenses of the Rental Housing Support Program. During fiscal year 2006, the Authority recorded an expense of $280.0 million for the transfer of interest in equity of the Housing Program to the State of Illinois. Based on statutory amendments to the Illinois Affordable Housing Act during fiscal year 2006 in relation to the Housing Program, the Authority concluded that it is only the administrator of the Housing Program, and recorded the above transfer of interest in equity.

See accompanying independent accountants' report.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Fiscal Schedules and Analysis

Year ended June 30, 2007

Analysis of Administrative Costs

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

Description		2007	2006	2005
Employee holiday reception	$	—	12,061	15,280
Employee retirement, recognition parties		9,532	9,048	8,550
	$	9,532	21,109	23,830

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

See accompanying independent accountants' report.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Fiscal Schedules and Analysis

Description of Cash Accounts

Year ended June 30, 2007

The Authority's cash and cash equivalents for proprietary funds at June 30, 2007 were maintained in bank accounts, as follows:

Administrative Fund:		
Bank of New York	$	8,589,000
The Northern Trust Company – HUD Section 8 Depository		832
LaSalle Bank		84,068
Lakeside Bank		1,276,547
Total Administrative Fund		9,950,447
Mortgage Loan Program Fund:		
Multi-Family Program Bonds:		
Amalgamated Bank		15,766
Housing Bonds:		
Bank of New York		1,305,562
U.S. Bank		361,774
Total Housing Bonds		1,667,336
Multi-Family Variable Rate Demand Bonds:		
Bank of New York		125,680
Multi-Family Housing Revenue Bonds:		
Bank of New York		86,073
Multi-Family Housing Revenue Bonds (Marywood):		
Bank of New York		2,391
Multifamily Bonds (Turnberry):		
U.S. Bank		771
Affordable Housing Program Trust Fund Bonds:		
U.S. Bank		105,236
Total Mortgage Loan Program Fund		2,003,253
Single Family Program Fund:		
Homeowner Mortgage Revenue Bonds:		
Bank of New York		5,091,499
Residential Mortgage Revenue Bonds:		
Bank of New York		530
Total Single Family Program Fund		5,092,029
Total Proprietary Funds	$	17,045,729

See accompanying independent accountants' report.

Description of Investments

The carrying value of investments for the Authority's governmental and proprietary funds at June 30, 2007 are delineated by type, as follows:

Type		Carrying value
Demand Repurchase Agreements	$	180,890,183
United States Agency Obligations		530,256,089
United States Government Obligations		61,467,720
Municipal Obligations and Other		2,272,761
	$	774,886,753

Affordable Housing Trust Fund

The Authority is designated the administrator of the Illinois Affordable Housing Program. The program is funded by the Illinois Affordable Housing Trust Fund with funds generated from the state real estate transfer tax collected by the Illinois Department of Revenue and held within the State Treasury. At June 30, 2007, total funds held were $57,607,206, which consisted of cash and investments held by Authority escrow agents for pending disbursement of loans and grants.

See accompanying independent accountants' report.

Authority Functions and Planning Program

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

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

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

In addition, the Authority has been designated as the statewide administrator of the Federal HOME program. Under this program, $332.1 million and $23.0 million for federal fiscal years 1992 through 2006 and 2007, respectively, have been allocated to be administered by the Authority under the HOME provisions of the 1990 National Affordable Housing Act.

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

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

(Continued)

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

Executive Order 2003-18, issued in September of 2003, called for the creation of a State Annual Comprehensive Housing Plan to be created by a Governor appointed Housing Task Force, of which the Authority's Executive Director was designated as Chair. The first plan, Building for Success, was issued in January 2005, with annual plans published in each subsequent year, as well as annual progress reports. In June 2006, the General Assembly codified the Governor's Executive Order into law with the passage of the Comprehensive Housing Planning Act, which extended the Housing Task Force and its successful planning efforts until 2016.

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

The Authority is generally able to make loans at rates lower than those of commercial lenders because interest on its qualified bonds and notes are tax-exempt. Except for the Affordable Housing Bond Program, which receives funds to use in support of the Program Bonds, the interest rates charged by the Authority on loans are directly related to interest paid by the Authority on its bonds and notes. The Authority obtains favorable interest rates on its debt because the Authority has consistently received high Moody's and Standard & Poor's ratings on such debt. During fiscal year 2007, the Authority's Issuer Credit Ratings remained at A+/A1/A+ by Fitch Ratings, Moody's Investors Service and Standard & Poor's Ratings Services, respectively. No bonds or notes of the Authority are debts of the State of Illinois. With respect to certain outstanding debt, in the event the Authority determines at any time that its moneys are insufficient to pay principal of and interest on its bonds in the next State fiscal period, the Chairman of the Authority shall certify the deficiency to the Governor, who shall include the amount in the State budget. However, payment of any amounts by the State on behalf of the Authority is subject to appropriation by the General Assembly. Accordingly, the Illinois Housing Development Act does not create a legally enforceable obligation on the part of the State for the payment of such moneys nor does it create a debt enforceable against the State.

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

New Program Development

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

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

The Authority has entered into thirty-seven Risk Sharing Loans totaling $209,042,148 and elected that HUD assume 10% to 90% of the loss. Except for six loans totaling $38,888,148 financed through the issuance of the Authority's Housing Bonds, three loans totaling $16,591,000 financed through the issuance of the Authority's Housing Finance Bonds, and one loan in the amount of $15,460,000 financed through the issuance of the Authority's Multi-Family Housing Revenue bonds (Marywood), these loans are not included in the Authority's financial statements as the Authority sold 100% participation interests to outside parties. The program's service and insurance fee incomes are recorded in the Administrative and Other Funds of the Authority.

In December 2000, the Authority received a commitment from Ambac Assurance Corporation (Ambac) under which Ambac will insure mortgage loans (Ambac Loans) on multi-family housing developments under the Authority's Mortgage Participation Certificate Program. Ambac has guaranteed repayment of principal and interest due on a timely or accelerated basis in accordance with the agreement between the Authority and Ambac. Once Ambac Loans are issued and minimum threshold requirements are met, Ambac and the Authority will enter into a sharing agreement on the remaining principal balance on each mortgage loan. As of June 30, 2007, the Authority has entered into seventeen Ambac Loans totaling $154,830,700. 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.

As a result of the July 2005 enactment of the Rental Housing Support Program Act, the Authority is the administrator of the Rental Housing Support Program and will award funds to local administering agencies, which will contract with local landlords to make rental units affordable to households who earn less than 30% of the area median income. The program is funded by a surcharge for the recordation of any real estate-related document. The funds are appropriated to the Illinois Department of Revenue by the General Assembly. The Program's fiscal year 2007 activities, as administered by the Authority, consisted of the pass-through of grants to one municipality.

Planning Program

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

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

Average Number of Employees (Unaudited)

		2007	2006	2005	2004
Financial and computer services	$	49	48	47	50
Human resources, administration, and legal		26	26	26	27
Director's office and housing programs		114	115	120	121
Total	$	189	189	193	198

The average number of full-time employees of 189 in fiscal year 2007 was unchanged from the fiscal year 2006 average.

Emergency Purchases

The Authority had three emergency purchases during the year ended June 30, 2007. The first, in the amount of $11,500, was awarded to Security Intervention Network Agency, Inc., and the purchase was to provide security for the Washington Courts development, a property in which the Authority was in the process of taking title through foreclosure, 24 hours a day, 7 days a week. The second, in the amount of $132,000, was awarded to Vacant Property Security, Inc. to provide vacant property security doors and windows at two developments to protect against damage and protect the Authority's interest in the properties while facilitating the disposition process. The third, in the amount of $25,500, was awarded to Security Intervention Network Agency, Inc. to provide two full time security guards at the 7600 S. Essex Building while the Authority was in the process of facilitating the disposition and loan sale of this property.

Service Efforts and Accomplishments (Unaudited)

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

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

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Analysis of Operations

Service Efforts and Accomplishments

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

June 30, 2007

(Unaudited)

	Active		No Longer Active (3)		Total	
Portfolio	**Developments**	**Units**	**Developments**	**Units**	**Developments**	**Units**
Multi-family Programs	1,164	89,303	259	15,913	1,423	105,216
Single Family Programs (1)	859	20,503	4	250	863	20,753
MCC & MRB (2)	n/a	14,410	n/a	38,386	n/a	52,796
Totals	2,023	124,216	263	54,549	2,286	178,765

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

See accompanying independent accountants' report.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Analysis of Operations

Service Efforts and Accomplishments

Unit Production by Percent of Area Median Income Since Inception

June 30, 2007

(Unaudited)

Percent of Area Median Income	Multi-Family and Single Family Programs	MCC and MRB (1) (2)	Total
Less than 30%	1,634	5,165	6,799
31% – 50%	46,506	5,874	52,380
51% – 80%	65,367	20,748	86,115
81% – 100%	n/a	12,138	12,138
101% – 120%	14	5,616	5,630
Greater than 121% or Market	12,448	3,255	15,703
Totals	125,969	52,796	178,765

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

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

See accompanying independent accountants' report.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Analysis of Operations

Service Efforts and Accomplishments

Unit Production by Economic Development Region Since Inception

June 30, 2007

(Unaudited)

	Programs			
Region (1)	**Multi-Family**	**Single Family**	**MCC & MRB (2)**	**Total Developments**
Central	5,200	648	3,469	9,317
East Central	3,070	566	2,160	5,796
North Central	5,385	1,405	3,841	10,631
Northeast	72,387	5,630	27,449	105,466
Northern Stateline	2,816	552	3,169	6,537
Northwest	5,089	1,248	3,291	9,628
Southeastern	1,683	638	1,341	3,662
Southern	2,228	3,984	1,801	8,013
Southwestern	3,458	2,171	4,088	9,717
West Central	1,962	942	1,980	4,884
Statewide	1,938	2,969	207	5,114
Total	105,216	20,753	52,796	178,765

(1) Counties included in each region are as follows:

Central – Cass, Christian, Greene, Logan, Macon, Menard, Montgomery, Morgan, Moultrie, Sangamon, Scott, and Shelby (Metro areas Decatur and Springfield)

East Central – Champaign, Douglas, Ford, Iroquois, Platt, and Vermilion (Metro area Champaign)

North Central – Dewitt, Fulton, Livingston, Marshall, Mason, McLean, Peoria, Seark, Tazewell, and Woodford (Metro areas Bloomington Normal and Peoria)

Northeast – Cook, DeKalb, DuPage, Grundy, Kane, Kankakee, Kendall, Lake, McHenry, and Will (Metro areas Chicago, DeKalb, and Kankakee)

Northern Stateline – Boone, Ogle, Stephenson, and Winnebago (Metro area Rockford)

Northwest – Bueau, Carroll, Henry, Jo Daviess, La Salle, Lee, Mercer, Rock Island, Putnam, and Whiteside (Metro area Rock Island)

Southeastern – Clark, Clay, Coles, Crawford, Cumberland, Edgar, Effingham, Fayette, Jasper Lawrence, Marion, and Richland

Southern – Alexander, Edwards, Franklin, Gallatin, Hamilton, Hardin, Jackson, Jefferson, Johnson, Massac, Perry, Pope, Pulaski, Saline Union, Wabash, Wayne, White, and Williamson

Southwestern – Bond, Calhoun, Clinton, Jersey, Madison, Macoupin, Monroe, Randolph, St. Clair, and Washington (Metro area East St. Louis)

West Central – Adams, Brown, Hancock, Henderson, Knox, McDonough, Pike, Schuyler, and Warren

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

See accompanying independent accountants' report.

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

Summary Production Data (Unaudited)

Unit production for fiscal year 2007 was 12,565 units, and total production since Authority inception was 178,765 units.

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

See accompanying independent accountants' report.