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, 2009

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, 2009

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Financial Statement Report:

The Authority's financial statement report for the year ending June 30, 2009, 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, 2009

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STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Agency Officials

Executive Director	DeShana L. Forney	7/1/2008 – 9/17/2009
Executive Director	Gloria Materre	9/18/2009 - Current
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

February 16, 2010

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

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Illinois Housing 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, 2009. Based on this evaluation, we assert that during the year ended June 30, 2009, 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

Gloria Materre
Executive Director

Ronald J. Gajos
Assistant Controller

Robert W. Kugel
Chief Financial Officer

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STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Compliance Report Summary

Year ended June 30, 2009

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	Current report	Prior report(s)
Findings	9	10
Repeated findings	6	5
Prior recommendations implemented or not repeated	4	5

Details of findings are presented in the separately tabbed report section of this report.

Schedule of Findings and Questioned Costs

Findings and Responses *(Government Auditing Standards* and State Compliance*)*

Item No.	Page		Finding Type
09-01	15	Inconsistencies in the Loan Monitoring and Loan Rating System	Significant Deficiency and Noncompliance
09-02	16	Loan Receivable Balance and Allowance for Loan Loss Balance Overstated	Significant Deficiency and Noncompliance

Compliance Report Summary (Continued)

Year ended June 30, 2009

Findings and Questioned Costs (Federal Compliance)

Item No.	Page	Description	Finding Type
09-03	17	Inadequate Monitoring of Section 3 Reports from Single-Family and Inadequate Procedures in Preparing Section 3 Summary Report of the Authority	Significant Deficiency and Noncompliance
09-04	19	Inadequate Administration of the Section 8 Moderate Rehabilitation Program	Significant Deficiency and Noncompliance
09-05	22	Inadequate Monitoring of Housing Quality Standards (HQS) Inspections	Significant Deficiency and Noncompliance
09-06	24	Inadequate Monitoring of Residual Receipts	Significant Deficiency and Noncompliance
09-07	26	Inadequate Cash Management Procedures for the National Foreclosure Mitigation Counseling Program (NFMCP)	Significant Deficiency and Noncompliance
09-08	28	Inadequate Subrecipient Monitoring Procedures for the Foreclosure Mitigation Counseling Program (NFMCP)	Significant Deficiency and Noncompliance
09-09	29	Inadequate Subrecipient Monitoring Procedures of the HOME Program	Significant Deficiency and Noncompliance

Item No.	Page	Description
		Prior Findings Not Repeated *(Government Auditing Standards)*
A	30	Inadequate Reconciliation Procedures for Deposits Held in Escrow
		Prior Findings Not Repeated *(Federal Compliance)*
B	30	Inadequate Cash Management Procedures for Section 8 & Section 236 Programs
C	30	Inadequate Monitoring of Davis Bacon Act Requirements
		Prior Findings Not Repeated *(State Compliance)*
D	30	Office of Internal Audit Deficiencies

Exit Conference

The findings and recommendations appearing in this report were discussed with the Authority personnel at an exit conference on January 19, 2010. Attending were:

Illinois Housing Development Authority		McGladrey & Pullen, LLP	
Gloria Meterre	Executive Director	Joseph Evans	Partner
Phil Culpepper	Deputy Executive Director	Sean Hickey	Manager
Robert W. Kugel	Chief Financial Officer	Tiffany Floresca	Staff
James J. Kregor	Controller		
Barbara Manning	Chief Internal Auditor		

Office of the Auditor General

Tom Kizziah — Manager

Responses to the recommendations were provided by Gloria Meterre in a letter dated February 16, 2010.

McGladrey & Pullen
Certified Public Accountants

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

The Honorable William G. Holland, Auditor
General of the State of Illinois, and the Members of the Board of the
Illinois Housing 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, 2009. 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. 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. 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.

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

In our opinion, the Authority complied, in all material respects, with the requirements listed in the first paragraph of this report during the year ended June 30, 2009. However, the results of our procedures disclosed instances of noncompliance, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings and questioned costs as findings 09-01 and 09-02.

Internal Control

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the Authority's internal control over compliance with the requirements listed in the first paragraph of this report as a basis for designing our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the 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 *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 and correct noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected on a timely basis.

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

However, the results of our procedures disclosed other matters involving internal control over compliance which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings and questioned costs as findings 09-01 and 09-02.

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.

As required by the Audit Guide, immaterial findings excluded from this report have been reported in a separate letter to your office.

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 and each major fund of the Authority as of and for the year ended June 30, 2009, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 23, 2009. 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. The 2009 Supplementary Information for State Compliance Purposes, 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, 2009, taken as a whole.

We have also previously audited, in accordance with auditing standards generally accepted in the United States, the Authority's basic financial statements for the year ended June 30, 2008. In our report dated October 24, 2008, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information. In our opinion, the 2008 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 year ended June 30, 2008 taken as a whole.

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.

McGladrey & Pullen, LLP

Schaumburg, Illinois
February 16, 2010

McGladrey & Pullen
Certified Public Accountants

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

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

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the business-type activities and each major fund of the Illinois Housing Development Authority (the Authority), a component unit of the State of Illinois, as of and for the year ended June 30, 2009, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 23, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in findings 09-01 and 09-02 in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

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

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, Authority management 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.

McGladrey & Pullen, LLP

Schaumburg, Illinois
October 23, 2009

McGladrey & Pullen
Certified Public Accountants

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 Board 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, 2009. 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.

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.

In our opinion, 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, 2009. However, the results of our auditing procedures 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 items 09-03, 09-04, 09-05, 09-06, 09-07, 09-08 and 09-09.

Internal Control over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the 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 first paragraph of this section and would not necessarily identify all deficiencies in 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.

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 items 09-03, 09-04, 09-05, 09-06, 09-07, 09-08, and 09-09 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. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs 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 aggregate remaining fund information of the Authority as of and for the year ended June 30, 2009, and have issued our report thereon dated October 23, 2009. 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.

McGladrey & Pullen, LLP

Schaumburg, Illinois
February 16, 2010

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

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)?	✓	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: ***unqualified.***

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
21.000	National Foreclosure Mitigation Counseling Program

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

Auditee qualified as low-risk auditee?		Yes	✓	No

Finding 09-01 Inconsistencies in the Loan Monitoring and Loan Rating System

The Illinois Housing Development Authority (Authority) has inconsistencies in the process for monitoring problem loans and inconsistencies in the evaluation of factors used to rate loans for the allowance for loan loss estimate.

The Authority's Assets Management Services Department performs an annual property inspection and loan review in order to rate loans for the calculation of the allowance for loan loss estimate. We tested over 250 loans for various aspects of compliance with established procedures to rate loans. During one of our tests we noted that two loan ratings were not updated in the system, resulting in an under reserve of $239,442. In addition, 3 loans did not contain the proper support for the change in loan rating during the year.

During our audit of the Authority's loan receivable balances, we noted the "watch list"; a tool to monitor problem loans, was incomplete according to the Authority's rating policies of a "watch list" loan. The Authority's policy states any loan rated a 5, 6, 7 or 8 should be listed on the "watch list". The Authority had 252 loans rated a 5, 6, 7 or 8. Of the 252 loans, 82 loans were listed on the "watch list".

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

Authority management stated that the loan monitoring and rating system, which was implemented in stages beginning in May 2007, with the adoption of a comprehensive Loan Loss Rating Policy, includes risk analysis of the entire multi-family portfolio. The Authority recognizes that inconsistencies have occurred as its staff continues to adjust to new procedures to implement the policy. The Authority stated that it is continuing its efforts to reduce any inconsistencies or weaknesses detected.

The allowance for loan loss estimate as of June 30, 2009 was $43,630,000. Without consistent tools to monitor and rate the collectability of the loans, the estimate could be over or under stated. (Finding Code No. 09-01, 08-02).

Recommendation

We recommend that the Authority develop policies and procedures to ensure the "watch list" reports are complete and accurate. In addition, we recommend the Authority implement procedures to ensure that the Asset Management Services department receives the necessary documents to accurately perform their annual loan review, and update the loan ratings in the Asset Management System.

Authority Response

The Authority concurs with the recommendations and is continuing its efforts to correct inconsistencies as it continues to implement its comprehensive Loan Loss Rating Policy. The Authority is in the process of rewriting its watch list criteria, policy and procedures to more precisely define criteria for inclusion in the watch list, as the current criteria appear to be overly inclusive. The revised procedures will also address the requirements to receive documentation necessary to accurately perform annual loan reviews and to update the loan ratings in the Asset Management System.

Finding # 09-02 Loan Receivable Balance and Allowance for Loan Loss Balance Overstated

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

During our audit of the Authority's allowance for loan loss estimate, we noted loans totaling approximately $17.2 million were recorded on the Authority's financial statements for which a 100% allowance reserve was recorded. The Authority anticipates that most of these loans will be written off.

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

Authority management stated that eight additional loans were certified by the Authority during fiscal year 2009 as uncollectible, but the Authority has not yet received the approval from the Attorney General's Office to write off any of these loans. The Authority is continuing to submit additional requests. Approximately one-half of the loan amounts for which a 100% allowance is recorded are still in the foreclosure, settlement or workout process and are not yet at a point in which they can be certified as being uncollectible.

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

Recommendation

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

Authority Response

The Authority concurs with the recommendation and will continue to work with the Attorney General's Office to obtain approvals to write-off the uncollectible loan balances.

09-03 Inadequate Monitoring of Section 3 Reports from Single-Family and Inadequate Procedures in Preparing Section 3 Summary Report of the Authority

Federal Agency:	*U.S. Department of Housing and Urban Development*
Program Name:	*HOME Investment Partnerships Program*
CFDA# and Program Expenditures:	*14.239 ($32,336,665)*
Award Number:	*M-08-SG-17-0100*
	M-09-SG-17-0100
Questioned Costs:	*None*

The Authority has inadequate monitoring procedures of Section 3 Reports from Single Family projects and inadequate procedures in preparing the Section 3 Summary Report of the Authority.

Based on the review of all the Section 3 reports of each Single Family project subrecipient, 11 out of 54 Section 3 Summary Reports were dated after the submission date of the Section 3 Summary Report of the Authority on 03/30/09. The information from the eleven reports dated in July and September 2009 were not taken into proper consideration. Per review of these reports, there was no change in the Authority's Section 3 report; however, these reports should have been submitted prior to the submission of the Authority's report to HUD. An amended report was submitted on 06/15/09. Based on the review of the amended report, the Authority did not capture all the Section 3 information from the related project. In addition, there was no supervisory review performed on the Authority's Section 3 Summary Report before its submission to HUD.

Section 3 is a provision of the Housing and Urban Development (HUD) Act of 1968 that helps foster local economic development, neighborhood economic improvement, and individual self-sufficiency. The Section 3 program requires that recipients of certain HUD financial assistance, to the greatest extent feasible, provide job training, employment, and contracting opportunities for low- or very-low income residents in connection with projects and activities in their neighborhoods.

HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons* (*OMB No. 2529-0043*) – For each grant over $200,000 that involves housing rehabilitation, housing construction, or other public construction, the prime recipient must submit Form HUD 60002 (24 CFR sections 135.3(a) and 135.90).

The purpose of Section 3 of the Housing and Urban Development Act of 1968 is to ensure that employment and other economic opportunities generated by certain HUD financial assistance shall, to the greatest extent feasible, and consistent with existing Federal, State and local laws and regulations, be directed to low- and very low- income persons particularly those who are recipients of government assistance for housing, and to business concerns which provide economic opportunities to low- and very low-income persons.

09-03 Inadequate Monitoring of Section 3 Reports from Single-Family and Inadequate Procedures in Preparing Section 3 Summary Report of the Authority (Continued)

Authority management indicated that sub recipient and Authority compliance with the requirements of Section 3 Reports has continued to take some time as the grantees adjust to the requirements imposed, and the Authority has recently implemented additional internal procedures and personnel assignments to address the reporting deficiencies.

Failure to accurately report Section 3 information prevents the U.S. Department of Housing and Urban Development from effectively monitoring the HOME program. (Finding Code No. 09-03, 08-06, 07-06)

Recommendation

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

Authority Response

The Authority concurs with the above recommendation and during 2009 has implemented procedures to confirm the accuracy of Section 3 Reports. In addition, an individual has been assigned the responsibility to coordinate the Authority activities and prepare the Section 3 Summary Report for the Authority.

09-04 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:	*14.856 ($5,169,146)*
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 assisted 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.

Per the 2007 corrective action plan, the Authority stated it will continue to consult with HUD. If it cannot resolve the matter regarding the interpretation of the federal laws and regulations relating to the administration of the Section 8 Moderate Rehabilitation Program, the Authority will request a waiver to allow it to continue to administer the program in accordance with its recently revised administrative plan. The Authority sent a follow up response to the Final

09-04 Inadequate Administration of the Section 8 Moderate Rehabilitation Program (Continued)

Assessment Report for Section 8 Moderate Rehabilitation Program dated September 12, 2008.

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 stated that, on December 17, 2008, the Authority received a response from HUD to the Authority's September 12, 2008 follow-up response to the Final Assessment for Section 8 Mod Rehab Program. In this response, HUD closed six of its previous findings and indicated that three more of the findings would be closed once the Authority hired a new staff person dedicated to the oversight of the Section 8 Mod Rehab Program developments. The Authority did hire a Section 8 Mod Rehab Coordinator, and the Authority's letter to HUD dated August 5, 2009 outlined the tasks the Section 8 Mod Rehab Coordinator position would include (including references to related open findings), and consequently, the three additional findings should be considered closed as well. The remaining findings are related to those tasks for which the Authority has requested a waiver from HUD to continue to delegate certain functions to the Mod Rehab Program developments.

Failure to administer the Section 8 Mod Rehab program in accordance with HUD regulations could result in the payment of ineligible payments, resulting in unallowable costs. (Finding Code No. 09-04, 08-07, 07-05)

Recommendation

We recommend the Authority continue to 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 to those requirements.

09-04 Inadequate Administration of the Section 8 Moderate Rehabilitation Program (Continued)

Authority Response

The Authority concurs with the recommendation that it continue to 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 to those requirements. As noted above, the Authority has responded to, and resolved, a number of the issues that HUD raised, and has requested a waiver regarding the un-resolved issues.

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, and does not retain ownership and control of the developments receiving assistance. Therefore, the Authority can not directly manage PHA functions for privately owned developments, 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, with the Authority maintaining oversight.

The Authority believes that its administration has been adequate, and has continued to consult with HUD to reach a resolution on this matter. The Authority has not yet received a response from HUD to its letter of August 9, 2009, in which the Authority requested a waiver from HUD to continue to delegate certain functions to the Mod Rehab Program developments.

09-05 Inadequate Monitoring of Housing Quality Standards (HQS) Inspections

Federal Agency:	*U.S. Department of Housing and Urban Development*
Program Name:	*Section 8 Project-Based Cluster*
	HOME Investment Partnerships Program
CFDA# and Program Expenditures:	*14.182 ($127,910,181)*
	14.856 ($5,169,146)
	14.239 ($32,336,665)
Award Number:	*M-08-SG-17-0100 (HOME Program)*
	M-09-SG-17-0100 (HOME Program)
Questioned Costs:	*None*

The Authority did not adequately monitor the Housing Quality Standards (HQS) Inspections for the Section 8 Programs and the HOME Investment Partnerships Program.

During the review of 60 development Housing Quality Standards (HQS) Inspections, we noted the following:

- In 3 of the 60 developments tested, we noted the Authority sent incorrect correspondence to developers.
- In 9 of the 60 developments tested, we noted inspection reports were not properly completed by the inspectors.
- In 1 of the 60 developments tested, we noted the Authority did not have proper documentation that deficiencies were properly corrected.
- In 2 of the 60 developments tested, we noted the Authority provided incorrect date of inspections.

According to 24 CFR 982.401 (a), performance and acceptability requirements, housing quality standards (HQS) for housing assisted projects must meet the following acceptability criteria or HUD approved variations in the acceptability criteria, namely: sanitary facilities, food preparation and refuse disposal, space and security, thermal environment, illumination and electricity, structure and materials, interior air quality, water supply, lead-based paint, access, site and neighborhood, sanitary conditions; and smoke detectors. According to 24 CFR 982.401 (a)(3), all program housing must meet the HQS performance requirements both at commencement of assisted occupancy, and throughout the assisted tenancy.

The Authority has updated its administrative procedures of HQS inspections, resulting in stricter enforcement. This has resulted in improved documentation of corrected deficiencies and reduced administrative errors. The inspectors continue to erroneously complete one section of the inspection report form, indicating a need for either additional review of completed forms or a change to the format of the inspection report.

09-05 Inadequate Monitoring of Housing Quality Standards (HQS) Inspections (Continued)

Failure to monitor the Housing Quality Standards (HQS) Inspections for Section 8 Programs and the HOME Investment Partnership Program could result in sanctions from the cognizant agency and it may result in loss of funding. (Finding Code No. 09-05, 08-08)

Recommendation

We recommend that the Authority strictly enforce its HQS inspection procedures in place which include timely follow ups, keeping the Inspection Tracking Report current, maintaining proper documentation of all inspections conducted, maintaining support for all deficiencies corrected and correspondence to developments regarding the inspections.

Authority Response

The Authority concurs with the recommendation and has been strictly enforcing its HQS inspection procedures in place. This has resulted in improved documentation of corrected deficiencies, timely follow-up, and ensured that the Inspection Tracking Report is current. The Authority will continue to re-evaluate and update its administrative procedures to include improving the accuracy of inspection forms and to eliminate administrative errors such as misdated correspondence or inspection dates.

09-06 Inadequate Monitoring of Residual Receipts

Federal Agency:	*U.S. Department of Housing and Urban Development*
Program Name:	*Section 8 Project-Based Cluster*
CFDA# and Program Expenditures:	*14.182 ($127,910,181)*
	14.856 ($5,169,146)
Award Number:	*None*
Questioned Costs:	*None*

Residual receipts due from the developments are not deposited within the required 90 days grace period following the development's year end.

During our audit, we tested 16 residual receipts totaling $660,350 and noted that all developers did not deposit residual receipts within the timeframe set forth by the program.

Per A-133 Compliance Supplement of the Section 8 cluster, any project funds in the project funds account (including earned interest) at the end of the fiscal year shall be deposited with the mortgagee or other HUD-approved depository in an interest bearing account. For projects under 24 CFR part 883, the funds must be deposited with the State Agency or other Agency-approved depository in an interest bearing account. Withdrawals from this account may be made only for project purposes and with the approval of HUD or the State Agency for 24 CFR part 883 projects, as applicable (24 CFR sections 880.601, 881.601, and 883.701). The main objective of this special provision is for a residual receipts account to be properly established, required deposits made within the 90 days following year-end, and disbursements only for approved project purposes.

HUD encourages, and many programs require, owners to invest Replacement Reserves and Residual Receipts funds in order to offset inflationary increases in repairs and replacements costs and to enhance a project's financial condition. Inadequate monitoring of the residual receipts account may result in not meeting HUD's objectives in setting up these funds.

Authority management indicated that the Regulatory Agreement and Authority procedures require developments to submit audited financial statements with surplus cash calculations within 90-120 days of the end of their fiscal year. Prior to collecting residual receipts from developments, the Authority reviews each audit's surplus cash calculation to determine if it was prepared in accordance with the Regulatory Agreement, HUD, and Authority guidelines. Once the review is completed, the developments are required to deposit residual receipts into an interest-bearing account with the Authority within 90 days. This has resulted in a number of developments not depositing residual receipts within the 90 days of the fiscal year-end as required by HUD.

Inadequate monitoring of the residual receipts could result in sanctions from the cognizant agency. (Finding Code No. 09-06, 08-09)

09-06 Inadequate Monitoring of Residual Receipts (Continued)

Recommendation

We recommend the Authority implement procedures to ensure residual receipts are deposited within the required timeframe.

Authority Response

The Authority concurs in principal with the recommendation to implement procedures to ensure residual receipts are deposited within the required timeframe. Under the currently well-established procedures, the amounts of the residual receipts to be deposited are not determined until the audits of the existing developments are completed. From these audits, the Authority then makes a determination of the residual receipt amount and then bills the developments for these amounts. It is not possible for all audits and the ensuing determination processes to be completed within the 90 day time frame, as there are only a limited number of firms conducting such audits. The Authority also wishes to note that, for most of its financed developments, the residual receipts account is well established and funded, and existing funds are sufficient to meet capital needs, such that any requested withdrawals are not dependent upon making the current year deposit within the 90 day time frame.

HUD has never expressed to the Authority any concern over this matter. The Authority recently has discussed this requirement with HUD and is seeking a determination of their expectations of developments meeting this requirement. The Authority has also discussed with HUD whether a waiver to this requirement can be granted. HUD has agreed to review this issue.

09-07 Inadequate Cash Management Procedures for the National Foreclosure Mitigation Counseling Program (NFMCP)

Federal Agency:	*U.S. Department of the Treasury*
Program Name:	*National Foreclosure Mitigation Counseling Program (NFMCP)*
CFDA# and Program Expenditures:	*21.000 ($905,929)*
Award Number:	*None*
Questioned Costs:	*None*

The Illinois Housing Development Authority (IHDA) does not have procedures in place to ensure cash draws are performed in accordance with the funding agreement of the program.

During the testing of 25 payouts in Expenditure and Cash Management Testing, test results showed that all payouts were wired late to its sub-grantees. Funds received are wired directly to the Authority. The Authority's Grants and Special Projects coordinator was not aware when funds were received by the Authority and indicated that NeighborWorks America had not been informing her working group when actual funds were wired. Wire requests to sub-grantees were not being processed until her working group had been informed by the Accounting Services Department that funds had been received. The Accounting Services Department would send this information via memorandum to the coordinator, but the information was usually communicated close to or after the 14-day time-frame.

Per Round 1 Funding Announcement included in the grant agreement, the grantee must be able to disburse funds received within 14 calendar days to their sub-grantees.

According to the terms of the agreement, the Authority requests payouts from NeighborWorks America based on total goals reached by the sub-grantee. As frequently as desired, but no less than quarterly, the Authority will upload client level data to the Data Collection System. Details of these data points are listed at Exhibit 4 of the Final Funding Announcements for both Round 1 and 2. When a sub-grantee submits a counseling report, the Authority will upload all the information to the Data Collection System (system used by NeighborWorks America). All data points are to be assessed by NeighborWorks America prior to any payment. No payment request shall be approved for a Grantee that has an overdue quarterly report until the report has been submitted by the Grantee and approved by NeighborWorks America, nor will payments be made to Grantees that are not in compliance with the terms of the grant, as outlined in the Funding Announcement, Notice of Intent to Award Funds, and Grant Agreement. NeighborWorks America reserves the right to adjust the Grantee's draw schedule and amount if Grantee is expending the funds at a pace slower than projected. Grantor may also reallocate or recapture funds from Grantee in the event that demand for Grantee counseling services falls short of its projected. Once payouts are approved, NeighborWorks America wires the funds to the Authority.

09-07 Inadequate Cash Management Procedures for the National Foreclosure Mitigation Counseling Program (NFMCP) (Continued)

Authority management indicated that payouts to sub-grantees had not been made within the required time due to programmatic constraints caused by both the grantor and by needed adherence to Authority policies and procedures. The requirement to disburse payments has since been increased to 30 days and the Authority is now receiving notice from the grantor well in advance of payments received by the Authority.

The untimely receipt of funding by the sub-grantees may result in unmet production/counseling goals and delays in providing assistance to those in need.

Failure to wire funds to sub-grantees within the required timeframe of 14 calendar days may result in sanctions to the Authority for noncompliance or could result in reduced funding from the National Foreclosure Mitigation Counseling Program. (Finding Code No. 09-07)

Recommendation

We recommend the Authority implement procedures to ensure federal funds are disbursed in accordance with the Funding Announcement of the program.

Authority Response

The Authority concurs with the recommendation and has implemented such procedures to ensure federal funds are disbursed in accordance with the Funding Announcement of the program. Since the initiation of the National Foreclosure Mitigation Counseling Program, and the difficulties surrounding the 14 day disbursement requirement, both the grantor and the Authority have made changes to the process. The requirement to disburse payments is now 30 days and the Authority is receiving notices from the grantor well in advance of payments received. Authority departments involved now have an improved knowledge of the required disbursement process and procedures have been implemented to assure improved internal communications. The Authority has subsequently received awards to participate in Rounds 2 and 3 of the Program.

09-08 Inadequate Subrecipient Monitoring Procedures for the National Foreclosure Mitigation Counseling Program (NFMCP)

Federal Agency:	*U.S. Department of the Treasury*
Program Name:	*National Foreclosure Mitigation Counseling Program (NFMCP)*
CFDA# and Program Expenditures:	*21.000 ($905,929)*
Award Number:	*None*
Questioned Costs:	*None*

The Illinois Housing Development Authority (IHDA) does not have procedures in place to ensure that submission and review of audits were performed in accordance with the grant agreement of the program.

The Authority only monitored the submission of A-133 reports of their sub-grantees when requested by the Auditors.

Per the OMB Circular A-133 March 2009 Compliance Supplement for Sub-recipient Monitoring, the Authority is required to ensure that sub-grantees who receive and expend more than $500,000.00 in federal funds must have an A-133 audit as required by the Office of Management and Budget. Non-submission of the required audits would result in non-compliance of this requirement.

The Authority management indicated that it believed that requiring sub-grantees to adhere to the requirements of the Circular A-133 was sufficient to be in compliance with the grant from NeighborWorks America.

Failure to monitor the A-133 audits of the sub-grantees could result in undetected unallowable activities, resulting in unallowable costs or non-eligibility to the program. (Finding Code No. 09-08)

Recommendation

We recommend that the Authority include in their sub-recipient monitoring procedures the submission of A-133 audits to ensure that required reports are submitted in a timely manner in accordance with the Funding Announcement of the program.

Authority Response

The Authority concurs with the recommendation to include in its sub-recipient monitoring procedures the submission of A-133 audits and has amended its procedures to incorporate this.

09-09 Inadequate Subrecipient Monitoring Procedures of the HOME Program

Federal Agency:	*U.S. Department of Housing and Urban Development*
Program Name:	*HOME Investment Partnerships Program*
CFDA# and Program Expenditures:	*14.239 ($32,336,665)*
Award Number:	*M-08-SG-17-0100* *M-09-SG-17-0100*
Questioned Costs:	*None*

The Authority maintains a monitoring spreadsheet for its site, desk and construction visits. However, 21 out of 26 dates in this spreadsheet are inconsistent with the actual date of visits conducted.

The Authority receives audited financial statements from recipients of HOME program funds but does not have a tracking tool to monitor when the reports are received and reviewed. In addition, there was insufficient documentation of the follow up work on audited financial statements that were submitted late to the Authority.

As a pass through entity, the Authority is required to monitor the activities of the recipients of the HOME program. The HOME Investment Partnership Act strongly (24 CFR Part 92) recommends record keeping requirements of the HOME Program Regulations at Section 92.508. The Authority must establish and maintain sufficient records to enable HUD to determine that program requirements are being met.

Authority management indicated that the monitoring spreadsheet contained estimated dates that were not used for external reporting and the follow-ups on A-133 audit deficiencies or non-receipt of the audits were generally made via undocumented phone calls.

Failure to effectively monitor proper implementation of the HOME Program may result in incorrect data in the Consolidated Plan Performance Report and Consolidated Action Plan which the Authority submits to HUD. Lack of proper monitoring of HOME recipients may also result in the misuse of HOME funds. (Finding Code No. 09-09)

Recommendation

We recommend the Authority implement their procedures to ensure that the HOME program requirements are met by their recipients and for the Authority to provide accurate information to HUD.

Authority Response

The Authority concurs with the recommendations and will amend its procedures to include the recording of actual dates on the monitoring spreadsheet and documentation of all follow up communications with the grant recipients.

Government Auditing Standards

A. Inadequate Reconciliation Procedures for Deposits Held in Escrow

In the prior fiscal year, the Authority did not have an adequate process for reconciling the general ledger with the subsidiary ledger used to account for deposits held in escrow. (Finding Code No. 08-01, 07-03)

During the current fiscal year, the Authority implemented procedures to reconcile the deposits held in escrow balances.

Federal Compliance

B. Inadequate Cash Management Procedures for Section 8 & Section 236 Programs

In the prior fiscal year, the Authority did not have adequate procedures in place to ensure that they met the disbursement requirements of the U.S. Treasury Regulations. (Finding Code No. 08-04, 07-08, 06-03, 05-04, 04-05)

During the current fiscal year, the Authority implemented additional procedures to address making disbursements to its subrecipients on a timely basis.

C. Inadequate Monitoring of Davis Bacon Act Requirements

In the prior fiscal year, the Authority did not have adequate monitoring procedures in place to ensure that it's subcontractors that work on construction contracts in excess of $2,000 were in compliance with the Davis Bacon Act requirements. (Finding Code No. 08-05)

During the current fiscal year, the Authority implemented procedures to address monitoring its subcontractors compliance with Davis Bacon Act requirements of the program.

State Compliance

D. Office of Internal Audit Deficiencies

In the prior fiscal year, the Authority's Office of Internal Audit (OIA) 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. (Finding Code No. 08-10)

During the current fiscal year, the Authority implemented additional procedures and practices which are required by International Standards for the Professional Practice of Internal Auditing and the Fiscal Control and Internal Auditing Act of the State of Illinois.

Supplementary Information for State Compliance Purposes

Year Ended June 30, 2009

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
  Schedule of Federal and Nonfederal Expenditures

- Analysis of Operations:

  Authority Functions and Planning Program
  Average Number of Employees (Unaudited)
  Emergency Purchases
  Summary Production Data (Unaudited)
  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)

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.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2009

Federal grant/program title	CFDA number	Award amount	Due to (from) June 30, 2008	Revenue	Expense/ expenditure	Due to (from) HUD June 30, 2009
U.S. Department of Housing and Urban Development:						
Major programs:						
Section 8 Project-Based Cluster:						
Section 8 New Construction and Substantial Rehabilitation	14.182	$ -	$ -	$ 127,910,181	$ 127,910,181	$ -
Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation	14.856	-	(16,273)	5,939,065	5,169,146	753,646
Total Section 8 Project-Based Cluster		-	(16,273)	133,849,246	133,079,327	753,646
HOME Investment Partnerships Program	14.239	32,336,665	-	32,336,665	32,336,665	-
Interest Reduction Payments – Rental and Cooperative Housing for Lower Income Families	14.103	4,947,904	-	4,947,904	4,947,904	-
U.S. Department of the Treasury:						
Major program:						
National Foreclosure Mitigation Counseling Program	21.000	905,929		905,929	905,929	-
Total		$ 38,190,498	$ (16,273)	$ 172,039,744	$ 171,269,825	$ 753,646

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

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2009

(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, 2009 of $753,646 is included in the business-type activities Administrative Fund with accrued liabilities and other on 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 $11,457,171 in grant expenditures. The amount of HOME loans disbursed during the year ended June 30, 2009 is $22,325,000. The amount of HOME loans outstanding at June 30, 2009 is $194,047,460.

Expense/Expenditure

Amounts reported as expenses on this schedule include approximately $5,100,000 in administrative fees retained by the Authority.

Subrecipients

The following amounts were passed through to subrecipients during the year ended June 30, 2009:

CFDA number	Subrecipient Amount
14.182 and 14.856	$ 133,079,327
14.239	32,336,665
14.103	4,947,904
21.000	905,929
	$ 171,269,825

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY
Fiscal Schedules and Analysis
Comparative Schedule of Cash Receipts
Years Ended June 30, 2009 and 2008

	2009	2008
Administrative Fund:		
Cash received from:		
Interest from program loans	$ 5,496,622	$ 1,599,583
Service fees from program loans	10,041,960	9,660,338
Principal from program loans	5,645,865	7,835,430
	21,184,447	19,095,351
Proceeds from federal assistance programs	134,470,130	133,240,360
Proceeds from program grant	1,666,666	2,900,000
Interest on investments	1,637,665	4,364,033
Interest on escrow deposits	2,381,232	7,752,958
Proceeds from sales and maturities of investment securities	869,408,418	745,452,089
Transfer of funds from mortgage loan program funds	-	8,273
Transfer of funds from single family program funds	464	10,667
Other	2,688,317	6,057,725
Total	$ 1,033,437,339	$ 918,881,456
(1) Mortgage Loan Program Fund – Multi-Family Program Bonds:		
Cash received from:		
Interest from program loans	$ -	$ 744,841
Principal from program loans	-	46,612,404
	-	47,357,245
Interest on investments	-	1,216,376
Proceeds from sales and maturities of investment securities	-	108,717,605
Other	-	953,034
Total	$ -	$ 158,244,260

(1) In 2009, the Program was closed and funds were transferred to the Mortgage Loan Program-Housing Bonds.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY
Fiscal Schedules and Analysis
Comparative Schedule of Cash Receipts (Continued)
Years Ended June 30, 2009 and 2008

	2009	2008
Mortgage Loan Program Fund – Housing Bonds:		
Cash received from:		
Interest from program loans	$ 26,516,853	$ 27,713,834
Principal from program loans	63,507,770	51,184,588
	90,024,623	78,898,422
Proceeds from sale of revenue bonds	-	145,719,750
Proceeds from federal assistance programs	4,463,030	5,070,786
Interest on investments	1,981,941	4,547,903
Proceeds from sales and maturities of investment securities	921,824,763	931,126,212
Transfer of funds from single family program	238	29,064,293
Other	4,870,152	1,945,930
Total	$ 1,023,164,747	$ 1,196,373,296
(1) Mortgage Loan Program Fund – Multi-Family Variable Rate Demand Bonds:		
Cash received from:		
Interest from program loans	$ -	$ 61,552
Principal from program loans	-	2,775,277
	-	2,836,829
Interest on investments	-	70,817
Proceeds from sales and maturities of investment securities	-	8,057,870
Total	$ -	$ 10,965,516
(1) Mortgage Loan Program Fund – Multi-Family Housing Revenue Bonds:		
Cash received from:		
Interest from program loans	$ -	$ 937,817
Principal from program loans	-	9,796,400
	-	10,734,217
Interest on investments	-	490,615
Proceeds from sales and maturities of investment securities	-	40,212,246
Other	-	41,423,623
Total	$ -	$ 92,860,701

(1) In 2009, the Program was closed and funds were transferred to the Mortgage Loan Program-Housing Bonds.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY
Fiscal Schedules and Analysis
Comparative Schedule of Cash Receipts (Continued)
Years Ended June 30, 2009 and 2008

	2009	2008
Single Family Program Fund:		
Cash received from:		
Interest from program loans	$ 43,058,367	$ 43,775,651
Principal from program loans	105,055,304	77,033,071
	148,113,671	120,808,722
Interest on investments	6,146,042	12,397,148
Proceeds from sale of revenue bonds	1,031	256,040,928
Proceeds from sales and maturities of investment securities	1,008,401,257	722,345,856
Transfer of funds from administrative funds	35,000,000	2,622,469
Other	-	154,220
Total	$ 1,197,662,001	$ 1,114,369,343
Illinois Affordable Housing Trust Fund:		
Cash received from:		
Interest on investments	$ 766,503	$ 2,586,338
Grant from State of Illinois	17,960,546	14,000,521
Total	$ 18,727,049	$ 16,586,859
Mortgage Loan Program Fund – Affordable Housing Program Trust Fund Bonds:		
Cash received from:		
Interest from program loans	$ 1,666,265	$ 1,856,479
Principal from program loans	4,360,681	7,032,792
	6,026,946	8,889,271
Interest on investments	984,083	1,816,220
Transfer of fund from Illinois Affordable Housing Trust Fund	5,200,000	5,200,000
Proceeds from sales and maturities of investment securities	157,884,970	124,081,292
Other	-	1,329
Total	$ 170,095,999	$ 139,988,112

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY
Fiscal Schedules and Analysis
Comparative Schedule of Cash Receipts (Continued)
Years Ended June 30, 2009 and 2008

	2009	2008
HOME Program Fund:		
Cash received from:		
Interest from program loans	$ 1,703,228	$ 1,540,965
Principal from program loans	1,548,301	1,492,478
	3,251,529	3,033,443
Interest on investments	35,973	82,091
Federal HOME Funds	32,336,665	21,850,617
Total	$ 35,624,167	$ 24,966,151
[(1)] Mortgage Loan Program Fund – Housing Finance Bonds:		
Cash received from:		
Interest from program loans	$ -	$ 259,235
Principal from program loans	-	13,394,034
	-	13,653,269
Interest on investments	-	38,382
Proceeds from sales and maturities of investment securities	-	1,474,036
Total	$ -	$ 15,165,687
Mortgage Loan Program Fund – Multi-Family Housing Revenue Bonds (Marywood):		
Cash received from:		
Interest from program loans	$ -	$ 533,516
Principal from program loans	-	10,408
	-	543,924
Proceeds from sale of revenue bonds	$ 14,884,996	$ -
Interest on investments	8,235	36,049
Proceeds from sales and maturities of investment securities	17,985,775	5,232,449
Transfer of funds from Administrative funds	469,704	-
Total	$ 33,348,710	$ 5,812,422

(1) In 2009, the Program was closed and funds were transferred to the Mortgage Loan Program-Housing Bonds.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY
Fiscal Schedules and Analysis
Comparative Schedule of Cash Receipts (Continued)
Years ended June 30, 2009 and 2008

	2009	2008
Mortgage Loan Program Fund – Multi-Family Bonds (Turnberry):		
Cash received from:		
Interest from program loans	$ 264,439	$ 264,695
Principal from program loans	49,855	47,381
	314,294	312,076
Interest on investments	2,594	7,102
Proceeds from sales and maturities of investment securities	813,712	936,445
Total	$ 1,130,600	$ 1,255,623
Rental Housing Support Program Fund:		
Cash received from:		
Interest on investments	$ 390,704	$ -
Grant from State of Illinois	39,690,589	10,973,926
Total	$ 40,081,293	$ 10,973,926

See accompanying independent accountants' report.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY
Fiscal Schedules and Analysis
Schedule of Changes in Authority Property
Year ended June 30, 2009

Description	Balance at June 30, 2008	Additions	Depreciation and amortization expense	Retirements	Balance at June 30, 2009
Real estate	$ 40,821,023	$ 298,547	$ -	$ -	$ 41,119,570
Accumulated depreciation – real estate	(11,811,000)	-	(800,000)	-	(12,611,000)
Furniture and equipment	121,975	-	-	(1,295)	120,680
Accumulated depreciation – furniture and equipment	(129,057) *	-	49,475	1,295	(78,287)
Computer equipment	207,457	-	-	(101,196)	106,261
Accumulated depreciation – computer equipment	(198,615)	-	(2,106)	101,196	(99,525)
Computer software	1,636,298	-	-	-	1,636,298
Amortized computer software	(1,489,667)	-	(65,853)	-	(1,555,520)
Leasehold improvements	1,805,108	-	-	-	1,805,108
Amortized leasehold improvements	(1,805,108)	-	-	-	(1,805,108)
	$ 29,158,414	$ 298,547	$ (818,484)	$ -	$ 28,638,477

This schedule has been reconciled to property reports submitted to the Office of the Comptroller.

* An adjustment of $63,766 was made in fiscal year 2009 to correct an error to accumulated depreciation-furniture and equipment.

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's Administrative Fund 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 $9,865 were expensed during fiscal year 2009.

Capital Assets in the Mortgage Loan Program Fund represent the net carrying value of Lakeshore Plaza (ML-181), which the Authority acquired by deed in lieu of foreclosure on April 27, 1990. The Authority records depreciation against ML-181 on a straight-line basis over forty years, as past market conditions did not allow for a sale of the property. During the year ended June 30, 2009, the Authority recorded capital expenditures of $298,547 related to the ML-181.

Analysis of Significant Account Balances

Cash and investments of the Authority's proprietary funds decreased approximately $83.8 million from June 30, 2008 to $637.2 million at June 30, 2009. This decrease 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 $163.3 million.

(b) Interest received on investments and transfers in (net) totaled $16.0 million.

(c) Other receipts totaled $12.8 million.

(d) Payments for loan originations totaled $175.1 million.

(e) Payments of bond principal exceeded proceeds of bond issuances by $98.4 million.

(f) Payments of amounts held on behalf of others were $2.1 million

Net program loans receivable of the Authority's proprietary funds decreased approximately $56.2 million during fiscal year 2009. This decrease is attributable primarily to decreases in the Authority's Single Family Program Fund ($81.2 million), partially offset by increases in the Authority's Administrative Funds ($16.0 million) and the Mortgage Loan Program Funds ($9.0 million), both of which were impacted by the inclusion of additional Mortgage Participation Certificate Program Loans acquired during the fiscal year. The decrease in program loans receivable in the Single Family Program was due to adverse market conditions, characterized by an inability to issue Mortgage Revenue Bonds during the fiscal year, which severely limited the Authority's loan origination activities, combined with loan prepayments. The fiscal year 2009 decline in Single Family Program Fund loans receivable ended a period of four straight year-to-year increases following a three year period of decreases. Loan originations of $23.8 million within the Program Fund were the lowest since fiscal year 1994.

Net assets of the Authority's governmental funds increased $19.6 million from the June 30, 2008 balance from an increase in the HOME program, due to the conversion of grant revenues to program loans receivable. No net assets of the Authority's other two governmental activities are recorded on the Authority's financial statements. The equity of the Affordable Housing Trust Fund (Housing Program) is recorded as due to the State of Illinois. All revenues of the Rental Housing Support Program are ultimately disbursed as grant or administrative expenses, and therefore no equity is recorded on the Authority's financial statements.

Total program loans receivable of the Authority's governmental funds increased by $39.4 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 decreased by $1.9 million, due primarily to timing differences in year end collections, as the Authority was holding lower amounts pending disbursement of funds to the State.

At June 30, 2009, total outstanding bonds and notes payable was approximately $98.4 million below the prior fiscal year-end. Issuance of the following bonds and notes (with a balance outstanding at June 30, 2009) occurred during fiscal year 2009:

	Balance June 30, 2009 (In millions)
HUD Riskshare Debenture	$ 14.9
Administrative Fund, Term Loan	1.7

The Authority redeemed $42.1 million of various Single Family Program Fund Bonds and $74.0 million of Mortgage Loan Program Bonds during the fiscal year.

As of June 30, 2009, the Authority had the following debt outstanding (net of unamortized discount and deferred loss on refunding, thereon):

	Number of outstanding issues	Balance June 30, 2009 (In millions)
Housing Bonds	33	$ 452.7
HUD Riskshare Debenture (Marywood)	1	14.9
Multifamily Bonds (Turnberry II)	1	5.1
Affordable Housing Program Trust Fund Bonds	2	66.9
Total Mortgage Loan Program Fund	37	539.6
Residential Mortgage Revenue Bonds	7	0.3
Homeowner Mortgage Revenue Bonds	42	1,000.4
Total Single Family Program Fund	49	1,000.7
Administrative Fund	1	6.3
Total Proprietary Funds	87	$ 1,546.6

Deposits held in escrow decreased approximately $11.8 million, due to reductions in funding levels and the pre-payments of loans for which escrow amounts had been maintained. Capital assets decreased approximately $0.5 million as depreciation more than offset purchases. Net assets designated by resolution of the Authority ($84.4 million) were unchanged from the amount designated as of June 30, 2008. The Members of the Authority have designated $35.0 million to purchase single family loans which eventually will be purchased with proceeds from future issuances of Authority bonds, $40.0 million to provide funds and reserves to support the Mortgage Participation Certificate Program, including the purchase of loans within the Program, $1.0 million to pay expenses for planned technology program enhancements, $4.4 million to the Housing Partnership Program, and $4.0 million to pay possible losses arising in the Multi-Family Bond Program attributable, but not limited to, delinquencies or defaults on uninsured or unsubsidized loans.

Analysis of Significant Variations in Revenue and Significant Variations in Expenses

Proprietary Funds

Interest earned on program loans decreased by $2.1 million, or 2.7% due to decreases within the Authority's Mortgage Loan ($4.4 million) and Single Family Program ($1.8 million) Funds, partially offset by an increase ($4.1 million) within the Administrative Fund. The decreases within the Authority's Mortgage Loan Program were due to loan prepayments and the impacts of a number of developments being in the later stages of their amortization schedules, which resulted in increases in the proportion of principal versus interest payments. Loans outstanding as of June 30, 2009 in the Single Family were $81.2 million below the prior year-end amounts, which resulted in the decline in interest earned on program loans. Interest earned on program loans within the Authority's Administrative Funds increased due to the inclusion of interest earned on purchased Mortgage Participation Certificate Program loans and the receipt of past due, and un-accrued, interest on the refinancing and settlement of a loan. Investment income decreased $13.2 million, or 56.9% due to lower yields on investments and the use of funds to acquire Mortgage Participation Certificate loans.

Interest expense decreased $5.9 million, or 7.3% due to decreased expenses within the Mortgage Loan ($4.1 million) and Single Family ($1.9 million) Program Funds, due to $57.8 million and $42.3 million, respectively, lower debt outstanding at fiscal year end.

Operating expenses, other than interest expense and federal assistance programs, increased approximately $4.7 million. The major components of the change were:

a. A $1.1 million (8.7%) increase in salaries and benefits primarily due to increased staffing and compensation levels, partially offset by higher allocations of these costs to governmental programs, the administration for which the Authority is reimbursed. Gross salary and benefit expenses (before allocations and deferrals) increased $1.5 million or 9.5%. The average number of full-time equivalent employees for fiscal years 2006 through 2009 is listed in the Analysis of Operations Average Number of Employees section of this report.

b. A $0.6 million (55.4%) increase in professional fees primarily due to increased legal fees and expenses ($0.6 million).

c. A $0.2 million (5.6%) decrease in general and administrative expenses due to expense reductions in a number of Administrative Fund accounts.

d. A $.2 million (15.4%) increase in financing costs due to increased expenses within the Authority's Administrative Fund ($0.2 million), primarily from expenses associated with a line of credit and the Mortgage Loan Participation Certificate Program, and Mortgage Loan Program Fund ($0.1 million), partially offset by decreased costs with the Single Family Program Fund, due to decreased Trustee activities within the program.

e. A $3.0 million increase in the allowance for estimated losses on program loans receivable and mortgage participation certificate program. The above allowance is determined based on the Authority's ratings of virtually every loan in its portfolio which were, in general, adversely affected during fiscal year 2009 by adverse economic conditions.

Governmental Funds

Total revenues of the Authority's governmental funds increased $42.1 million from the prior year. Federal revenues of the HOME Program were $10.5 million above the prior year, due mainly to higher loan disbursements. Revenues arising from the Rental Housing Support Program increased $29.0 million due to increased grant awards as the program is continuing its expansion throughout the State. At June 30, 2009, loan and grant commitments authorized by the Members of the Authority for the HOME program totaled $17.4 million.

Total expenditures of the Authority's governmental funds increased $30.3 million from the prior year, primarily due to increased expenses of the Rental Housing Support Program ($28.9 million). The Rental Housing Support Program recorded its first activities in fiscal year 2007, and activities have continued to increase as a number of new grant commitments to additional entities throughout the State were made.

Analysis of Administrative Costs

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

Description	2009	2008	2007
Employee holiday reception	$ 3,940	$ 4,367	$ -
Employee retirement, recognition parties	6,042	3,650	9,532
	$ 9,982	$ 8,017	$ 9,532

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.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY
Fiscal Schedules and Analysis
Description of Cash Accounts
Year ended June 30, 2009

The Authority's cash and cash equivalents for proprietary funds at June 30, 2009 were maintained in bank accounts, as follows:

Administrative Fund:	
Bank of New York	$ 15,935
The Northern Trust Company – HUD Section 8 Depository	1,646
Bank of America	6,694
Chase Bank	149,302
Total Administrative Fund	173,577
Mortgage Loan Program Fund:	
Housing Bonds:	
Bank of New York	151,958
Multifamily Bonds (Turnberry):	
Bank of New York	234
Affordable Housing Program Trust Fund Bonds:	
Bank of New York	68,073
Total Mortgage Loan Program Fund	220,265
Single Family Program Fund:	
Homeowner Mortgage Revenue Bonds:	
Bank of New York	6,351,943
Residential Mortgage Revenue Bonds:	
Bank of New York	967
Total Single Family Program Fund	6,352,910
Total Proprietary Funds	$ 6,746,752

See accompanying independent accountants' report.

Description of Investments

The carrying value of investments for the Authority's governmental and proprietary funds at June 30, 2009 are delineated by type, as follows:

Type	Carrying value
Demand Repurchase Agreements	$ 41,403,047
United States Agency Obligations	586,959,735
United States Government Obligations	63,307,665
Municipal Obligations and Other	146,087
	$ 691,816,534

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, 2009, total funds held were $37,309,957, which consisted of cash and investments held by Authority escrow agents for pending disbursement of loans and grants.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Schedule of Federal and Nonfederal Expenditures
Year Ended June 30, 2009

	Amount	Percent
Federal expenditures (A)	$ 171,269,825	52%
Nonfederal funds	156,554,455	48%
Total expenditures	327,824,280	100%
Less: Amount representing loans	(17,844,673)	
Total expenditures (B)	$ 309,979,607	

Source:

(A) Schedule of Expenditures of Federal Awards
(B) Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds and the Statement of Activities - Proprietary Funds, for year ended June 30, 2009.

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. Gloria L. Materre is the Executive Director of the Authority. In addition, the Authority employs a staff of approximately 200 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, $376.9 million and $24.2 million for federal fiscal years 1992 through 2008 and 2009, 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.

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.

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-nine Risk Sharing Loans totaling $220,975,699 and elected that HUD assume 10% to 90% of the loss. Except for eleven loans totaling $67,412,699 financed through the issuance of the Authority's Housing 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. The agreement allows (or provides) the Authority to share its risk with Ambac on the aggregate loan portfolio after the satisfaction of certain requirements and thresholds. As of June 30, 2009, the Authority has entered into eight Ambac Loans totaling $32,392,200. Except for one loan in the amount of $5,320,000 financed through the issuance of the Authority's Multifamily Bonds (Turnberry), these loans are not included in the Authority's financial statements as the Authority sold 100% participation interests in the loans to outside parties.

The Participation and Servicing Agreements for ten loans previously issued under the program contained a provision that, if Standard and Poor's Rating Services and Fitch IBCA, or their successors, both lowered the general obligation rating of Ambac to a level below AAA and Moody's Investor Service, Inc. or its successor also lowered the general obligation rating of Ambac to a level below Aaa, and if the Authority was unable within sixty business days to find a substitute guarantor of the payments due under the Participation Interest with a general obligation rating of AAA or Aaa by any nationally recognized rating agency maintaining a general obligation rating on such insurer, or the Participant had the right to require the repurchase of the Mortgage Loan, then the Participant may elect to require the Authority to repurchase the Ownership Interest from the Participant within ten business days.

As of June 30, 2008 the above three rating services had lowered their general obligation ratings of Ambac to below the prescribed levels. The Authority did not provide a substitute guarantor, and the holder of the participation interests of four of the above loans, with outstanding balances totaling approximately $33.9 million, during fiscal year 2009 exercised its right to require the repurchase of the Mortgage Loans. The Authority recorded as of June 30, 2008 a short term liability to purchase the four loans that the Participant elected to require the Authority to repurchase, and during fiscal year 2009 completed the purchase. The owner of the participation interests in the remaining six loans requested, and the Authority granted, an extension of the sixty day time period for the above actions or determinations to be made. The owner subsequently exercised its right to require the repurchase of the Mortgage Loans, and the Authority in November 2008 completed the purchase, the outstanding principal balances of which totaled approximately $81.9 million. The remaining eight loans for which outside parties hold 100% participation interests do not have a re-purchase provision.

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 is awarding funds to local administering agencies, which 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 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 and the Rental Housing Support Program 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 2009, 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. The Moody's rating on the Authority Homeowner Mortgage Revenue Bonds was downgraded from Aa2 to Aa3 in June 2009. No bonds or notes of the Authority are debts of the State of Illinois. With respect to certain outstanding debt, which as of June 30, 2009 comprised approximately .01% of the Authority's 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

A number of financial institutions providing insurance, investment guarantees or other assurance services to the Authority received ratings downgrades during fiscal year 2009, as a result of the economic disruptions occurring within the credit liquidity markets. The declines resulted in the financial institutions no longer being able to meet bond resolution or other contractual requirements for the procurement of new contracts, thus limiting the Authority's supply for services.

Although substantially all mortgage loans funded by the Homeowner Mortgage Revenue Bonds were covered by pool insurance as of June 30, 2009, due to the ratings downgrades noted above, accompanied by premium increases of insurers that continue to meet the Authority ratings criteria and a decline in mortgage rates, the Authority during fiscal year 2009 was severely limited in its capacity to originate such loans in a cost effective manner. These financial institutions, however, continued to meet the obligations of their existing contracts during fiscal year 2009.

The Authority is implementing programs in which it would originate and securitize such loans backed by government guarantees. Under the Authority's Illinois Home Start Loan Program, the Authority offers homebuyers two loans: the Home Start 30 Year Fixed Rate Loan and an optional Home Start Down Payment Assistance Loan. The Home Start 30 year Fixed Rate Loan is a 30 year fixed rate amortizing loan insured by the Federal Housing Administration. In addition, the credit markets have improved to the extent that the Authority expects to again issue bonds within its Single Family Program Fund, for the purpose of obtaining funds to acquire or to securitize mortgage loans, in the near future.

The Authority, pursuant to Section 1602 of the American Recovery and Reinvestment Act of 2009 ("ARRA") has applied to the Treasury to exchange a portion of its 2009 Federal Tax Credits and has received a grant allocation in the amount of $55,395,657. In addition, HUD has awarded a Tax Credit Assistance Program ("TCAP") to the Authority in the amount of $94,676,979 to facilitate the development of projects that received or will receive funding in order to be completed and placed in service in accordance with the requirements of Section 42 of the Internal Revenue Code of 1986 and the regulations promulgated there-under. These awards will be allocated to sub-grantees and the Authority will be responsible for the monitoring and reporting of the use of these funds.

The Authority, through federal grants provided through the National Foreclosure Mitigation Counseling program, is allocating these grants to various partner agencies to fund free foreclosure counseling help for homeowners throughout Illinois.

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 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, the needs of Illinois citizens and goals as identified in the State Annual Comprehensive Housing Plan. The Authority's programs are being implemented as planned in coordination with the goals and objectives of other governmental entities providing similar services.

Analysis of Operations

Year Ended June 30, 2009

Average Number of Employees (Unaudited)

	2009	2008	2007	2006
Financial and computer services	47	50	49	48
Human resources, administration, and legal	28	26	26	26
Director's office and housing programs	127	121	114	115
Total	202	197	189	189

The average number of full-time employees of 202 in fiscal year 2009 was 2.5% above the fiscal year 2008 average primarily from increases in staffing of the Legal, Internal Audit, Asset Management and Executive departments.

Emergency Purchases

The Authority had no emergency purchases during the year ended June 30, 2009.

Summary Production Data (Unaudited)

Unit production for fiscal year 2009 was 4,654 units, and total production since Authority inception was 195,479 units.

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

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.

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.

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Multi-Family and Single Family Production – Activities Closed or Placed into Service Since Inception
June 30, 2009
(Unaudited)

	Active		No Longer Active (3)		Total	
Portfolio	Developments	Units	Developments	Units	Developments	Units
Multi-family Programs	1,255	95,859	291	19,923	1,546	115,782
Single Family Programs (1)	1,017	24,117	4	250	1,021	24,367
MCC & MRB (2)	n/a	15,073	n/a	40,257	n/a	55,330
Totals	2,272	135,049	295	60,430	2,567	195,479

(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

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Unit Production by Percent of Area Median Income Since Inception
June 30, 2009
(Unaudited)

Percent of Area Median Income	Multi-Family and Single Family Programs	MCC and MRB (1) (2)	Total
Less than 30%	2,856	5,495	8,351
31% – 50%	51,753	6,230	57,983
51% – 80%	72,351	21,774	94,125
81% – 100%	n/a	12,698	12,698
101% – 120%	27	5,838	5,865
Greater than 121% or Market	13,162	3,295	16,457
Totals	140,149	55,330	195,479

(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.

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Unit Production by Economic Development Region Since Inception
June 30, 2009
(Unaudited)

	Programs			
Region (1)	Multi-Family	Single Family	MCC & MRB (2)	Total Developments
Central	5,995	1,030	3,724	10,749
East Central	3,216	586	2,383	6,185
North Central	5,543	1,792	4,286	11,621
Northeast	80,089	6,287	28,233	114,609
Northern Stateline	2,813	578	3,352	6,743
Northwest	5,491	1,341	3,469	10,301
Southeastern	1,733	722	1,403	3,858
Southern	2,474	4,297	1,877	8,648
Southwestern	3,777	2,730	4,242	10,749
West Central	1,962	1,065	2,164	5,191
Statewide	2,689	3,939	197	6,825
Total	115,782	24,367	55,330	195,479

(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