**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, 2010

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, 2010

## Table of Contents



Financial Statement Report:

The Authority's financial statement report for the year ended June 30, 2010, 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, 2010

## Table of Contents

**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 | |
| Deputy Executive Director/Chief of Staff | Phil Culpepper | 10/16/2009 - Current |
| Chief Financial Officer | Robert W. Kugel | |
| Controller | James J. Kregor | 12/01/1985 - 02/01/2010 |
| Controller | Michele Williams | 05/19/2010 - Current |

Agency offices are located at:

401 North Michigan Avenue, Suite 700
Chicago, Illinois 60611

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

January 26, 2011

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, 2010. Based on this evaluation, we assert that during the year ended June 30, 2010, 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*

Robert W. Kugel
*Chief Financial Officer*

Michele Williams
Michele Williams
*Controller*



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**STATE OF ILLINOIS**
**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

Compliance Report Summary

Year Ended June 30, 2010

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 | 12 | 9 |
| Repeated findings | 6 | 6 |
| Prior recommendations implemented or not repeated | 3 | 4 |

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 |
|---|---|---|---|
| 10-01 | 15 | Financial Statement Adjustments | Material Weakness and Noncompliance |
| 10-02 | 19 | Inconsistences in the Loan Monitoring and Loan Rating System | Significant Deficiency and Noncompliance |
| 10-03 | 21 | Loan Receivable Balance and Allowance for Loan Loss Balance Overstated | Significant Deficiency and Noncompliance |
| 10-04 | 22 | Inadequate Reconciliation Procedures for Deposits Held in Escrow | Significant Deficiency and Noncompliance |
| 10-05 | 24 | Duplicate Vendors in the Accounts Payable Master Vendor List | Significant Deficiency and Noncompliance |
| 10-06 | 25 | No Formal Process to Evaluate and Estimate Allowance for Loan Loss in the Single Family Loan Program | Material Weakness and Noncompliance |

**Findings and Questioned Costs (Federal Compliance)**

| Item No. | Page | Description | Finding Type |
|---|---|---|---|
| 10-07 | 27 | Inadequate Administration of the Section 8 Moderate Rehabilitation Program | Significant Deficiency and Noncompliance |
| 10-08 | 30 | Inadequate Monitoring of Housing Quality Standards (HQS) Inspections | Significant Deficiency and Noncompliance |
| 10-09 | 32 | Inadequate Monitoring of Residual Receipts | Significant Deficiency and Noncompliance |
| 10-10 | 34 | Inadequate Subrecipient Monitoring Procedures of the Section 8 New Construction and Substantial Rehabilitation | Significant Deficiency and Noncompliance |
| 10-11 | 36 | Inadequate Monitoring of the Davis-Bacon Act Requirements | Significant Deficiency and Noncompliance |
| 10-12 | 38 | Inadequate Monitoring of Section 3 Reports from Homeownership Single Family and Multifamily and Inadequate Procedures in Preparing Section 3 Summary Report of the Authority | Significant Deficiency and Noncompliance |

**Prior Findings Not Repeated (Federal Compliance)**

| Item No. | Page | Description | |
|---|---|---|---|
| A. | 40 | Inadequate Cash Management Procedures for the National Foreclosure Mitigation Counseling Program (NFMCP) | Significant Deficiency and Noncompliance |
| B. | 40 | Inadequate Subrecipient Monitoring Procedures for the National Foreclosure Mitigation Counseling Program (NFMCP) | Significant Deficiency and Noncompliance |
| C. | 40 | Inadequate Subrecipient Monitoring Procedures of the HOME Program | Significant Deficiency and Noncompliance |

## Exit Conference

The findings and recommendations appearing in this report were discussed with the Authority personnel at an exit conference on January 11, 2011. Attending were:

| Illinois Housing Development Authority | | McGladrey & Pullen, LLP | |
|---|---|---|---|
| Gloria Materre | Executive Director | Joseph Evans | Partner |
| Robert W. Kugel | Chief Financial Officer | Sean Hickey | Manager |
| Michele Williams | Controller | Tiffany Floresca | Staff |
| Barbara Manning | Chief Internal Auditor | | |

Office of the Auditor General
Tom Kizziah Manager

Responses to the recommendations were provided by Gloria Materre in a letter dated January 21, 2011.

McGladrey

**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, 2010. 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, 2010. 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 10-01, 10-02, 10-03, 10-04, 10-05 and 10-06.

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

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

However, 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 10-01, 10-02, 10-03, 10-04, 10-05 and 10-06.

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, 2010, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 15, 2010. 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 2010 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, 2010, 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, 2009. In our report dated October 23, 2009, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities and each major fund. In our opinion, the 2009 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, 2009 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
January 26, 2011

**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, 2010, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 15, 2010. 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, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in findings 10-01 and 10-06 in the accompanying schedule of findings and responses to be material weaknesses.

A *significant deficiency* is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in findings 10-02, 10-03, 10-04, and 10-05 in the accompanying schedule of findings and responses to be significant deficiencies.

**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 the responses.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, Authority management and Board members, and 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
November 15, 2010

McGladrey

**Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program, on Internal Control Over Compliance, and on the Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133**

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 could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2010. 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. 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 10-07, 10-08, 10-09, 10-10, 10-11 and 10-12.

**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 the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect or correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of control deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected or corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 10-07, 10-08, 10-09, 10-10, 10-11 and 10-12. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

**Schedule of Expenditures of Federal Awards**

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, 2010, and have issued our report thereon dated November 15, 2010. 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 the responses.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, Authority management and Board members, and 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
January 26, 2011, except for the Schedule of Federal Awards,
as to which the date is November 15, 2010

**STATE OF ILLINOIS**
**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

Schedule of Findings and Questioned Costs

Year Ended June 30, 2010

## 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 |
| 14.258 | Tax Credit Assistance Program (TCAP) (Recovery Act Funded) |
| 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 |

### Current Year Findings – *Government Auditing Standards*

### Finding 10-01 Financial Statement Adjustments

The Illinois Housing Development Authority (Authority) did not provide the auditors with complete and accurate financial statements.

During our audit of the financial statements we noted the following:

- For several years, the Authority has entered into multi-year take-out agreements with liquidity providers to convert variable rate bonds into installment loans if the bonds cannot be remarketed. The take-out agreement for the 2008 A, B and C Housing Bonds will expire April 30, 2011. Since the take-out agreement expires within the next fiscal year, the bonds payable balances of approximately $50 million had to be reclassified from non-current to current.

  In accordance with GASB Interpretation 1, "Demand Bonds issued by State and Local Governmental Entities," if the take-out agreement expires within one year of the balance sheet date, the related outstanding bonds payable balances are required to be classified as current liabilities. A correction to the financial statements was made to reflect the required reclassification of the $50 million in bonds payable.

- Upon review of the Single Family Program Fund, we discovered there were 673 loans totaling $65,526,828 that did not have pool insurance and did not have an allowance for loss recorded. This creates a risk of loss due to potential uncollectible loan receivables. The Authority recorded an entry to estimate an allowance for loan loss in the Single Family Program Fund of $1,324,389. See separate finding 10-06 for more information.

  In accordance with accounting principles generally accepted in the United States of America (GAAP), loss contingencies that are probable and that can be reasonably estimated should be recorded as a loss accrual in the financial statements.

- During our testing of the allowance for loan loss in the Illinois Affordable Housing Trust Fund, we noted 2 loans that were sent to the Attorney General for write off approval but were not fully reserved in the financial statements. The Authority has since made an entry to increase the allowance for loan loss in the Illinois Affordable Housing Trust Fund by $900,046. See separate finding 10-02 for more information.

  In accordance with accounting principles generally accepted in the United States of America (GAAP), loss contingencies that are probable and that can be reasonably estimated should be recorded as a loss accrual in the financial statements.

- There was an error in the cash flow statements showing an inflow of cash in the payment to suppliers' line item.

  In accordance with GASB Statement No. 9, cash payments to suppliers should be shown as a cash outflow. A correction to the financial statements was made to record the $4,441,283 outflow amount.

**Current Year Findings – *Government Auditing Standards* (Continued)**

**Finding 10-01 Financial Statement Adjustments (Continued)**

- The cash flow statements did not have the information relating to the increase/decrease in the fair value of the investments. Additionally, cash flows from investing activities was not calculated properly as investment income amounts included in the non cash adjustments to the net appreciation in the fair value of the investments.

  In accordance with GASB Statement No. 9, cash flow statements are required to present noncash investing, capital and financing transactions. A correction to the financial statements was made to disclose the $1,573,515 increase in fair value of investments and remove the amounts from cash flows from investing activities.

- The disclosures for derivative instruments were incomplete. The disclosures were missing the change in fair value of derivative instruments, the classification of the type of hedge item and the classification of the hedge item as deferred inflow/outflow, as well as required disclosures for rollover risk for its interest rate caps.

  In accordance with GASB Statement No. 53, the changes in fair value and the classification of hedge items and the classification of deferred inflow/outflow are required. This Statement also requires disclosure of certain risks, including rollover risk. A correction to the financial statements was made to disclose the required information.

- The Authority initially did not include the footnote disclosures required by GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.* In accordance with this Statement, pledged revenues are those specific revenues that have been formally committed to directly collateralize or secure the Authority's debt. For each period in which the secured debt remains outstanding, the Authority should disclose, in the notes to financial statements, information about specific revenues pledged, including:

  a. Identification of the specific revenue pledged and the approximate amount of the pledge. Generally, the approximate amount of the pledge would be equal to the remaining principal and interest requirements of the secured debt.
  b. Identification of, and general purpose for, the debt secured by the pledged revenue.
  c. The term of the commitment—that is, the period during which the revenue will not be available for other purposes.
  d. The relationship of the pledged amount to the total for that specific revenue, if estimable—that is, the proportion of the specific revenue stream that has been pledged.
  e. A comparison of the pledged revenues recognized during the period to the principal and interest requirements for the debt directly or indirectly collateralized by those revenues.

  The required disclosures were made for the final financial statements.

**Current Year Findings – *Government Auditing Standards* (Continued)**

**Finding 10-01 Financial Statement Adjustments (Continued)**

- The Authority has not presented certain investment risk disclosures in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3).* Paragraph 4 of this statement states “Unless otherwise required, investment disclosures should be organized by investment type, such as U.S. Treasuries, corporate bonds, or commercial paper. Dissimilar investments, such as U.S. Treasury bills and U.S. Treasury strips, should not be aggregated into a single investment type.” The Authority has not complied with this principal in the preparation of the footnote disclosure and has aggregated dissimilar investment types. Additionally, the Authority has not presented the related risk disclosures for its investments held in money market funds that are classified as cash equivalents in the Statement of Net Assets.

  The required disclosures were made for the final financial statements.

Authority management stated they were operating without a Controller from February 2010 through mid May 2010. In addition the application of GASB No. 53 effective for this fiscal year posed additional complexities as available guidance for implementation of this new reporting requirement and related disclosures was limited for some hedge items and additional clarification would be made available by GASB in later months however not in time for our fiscal year end process. We recognize that a lapse in Controllers in close proximity to our fiscal year end and the available information for a new GASB reporting requirement were contributing factors for the adjustments made and we believe this process can be mitigated as more familiarity is gained with Authority business and through continual process improvements.

Submitting incomplete and inaccurate draft financial statements could lead to material misstatements and results in delays in completing the audit and the timely release of the Authority’s financial reports to users. (Finding Code No. 10-01)

<u>Recommendation</u>

We recommend internal controls over financial reporting be strengthened as follows:

- The Authority should develop policies and procedures to review take-out agreements on long-term variable rate debt to ensure agreements are at least one year beyond the balance sheet date for all noncurrent debt.

- The Authority needs to develop policies and procedures to establish appropriate loan loss reserves for the Single Family Program loans.

- The Authority needs to ensure established policies for determining loan loss reserves in the Multi-Family Housing Program are followed.

- The Authority needs to develop policies and procedures to ensure GASB Statement No. 9 is followed in the preparation of the cash flows statement.

- The Authority needs to develop policies and procedures to ensure GASB Statement No. 53 is followed in the preparation of the financial statements.

**Current Year Findings – *Government Auditing Standards* (Continued)**

**Finding 10-01 Financial Statement Adjustments (Continued)**

- The Authority needs to develop policies and procedures to ensure GASB Statement No. 48 disclosures are included in the financial statements.

- The Authority needs to ensure GASB Statement No. 40 footnote disclosures are presented by major investment type.

<u>Authority Response</u>

The Authority concurs with the recommendations and plans to review and update policies and procedures to reflect current business processes and to ensure alignment with Generally Accepted Accounting Principles. The Authority continues to ensure that the established policies for determining loan loss reserves in the Multi-Family Housing Program are followed through additional staff training on policies and procedures that occurred during April 2010, in addition to requiring that all loans are re-rated under the new policies by the end of fiscal year 2011. Based on a recent review of the outstanding mortgage loans in the Single Family Program management determined that approximately 9.39% of the loans were not covered by pool insurance. Since in previous years pool insurance has been sufficient protection against uncollectible loan balances there was no formal procedure to estimate losses in the portfolio. As a result management will develop policies and procedures to determine loan loss reserves in the Single Family Program while this risk continues to exist.

**Current Year Findings – *Government Auditing Standards* (Continued)**

**Finding 10-02 Inconsistencies in the Loan Monitoring and Loan Rating System**

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

The Authority has established a comprehensive loan rating system to enable the Authority to establish appropriate loan loss reserve amounts for the multi-family loan program. We conducted three separate loan reviews testing current, delinquent and "watch list" loans. A total of 95 multi-family program loans were tested for compliance with the Authority's loan rating policy.

The Authority's policy is to fully reserve for outstanding loan balances that are deemed uncollectible. During one of our tests we noted that 2 of the 4 (50%) loans sent to the Attorney General to be certified as uncollectible in the current fiscal year did not have a full reserve for the outstanding loan balance in accordance with the Authority's loan rating policy, resulting in an under reserve in the Illinois Affordable Housing Trust Fund of $900,046. As noted in finding 10-01, the financial statements for the current year were corrected to reflect this adjustment.

During our tests 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 6, 7 or 8 should be listed on the "watch list". The Authority had 56 loans rated a 6, 7 or 8. Of the 56 loans, 3 loans totaling $1,390,293 were not listed on the "watch list".

A "watch list" loan receives special monitoring and attention to evaluate and identify any potential loss. Because these items failed to make the "watch list," they were not subjected to the required additional scrutiny.

The calculation of the allowance for loan loss estimate requires various elements of monitoring and evaluating the collectibility 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 has continued to be implemented in stages since its establishment in May 2007, with the adoption of a comprehensive Loan Loss Rating Policy that includes risk analysis of the entire multi-family portfolio. Along with additional staff training a new loan rating form was implemented in April 2010 to further simplify the rating system and to ensure alignment with the Loan Loss Rating Policy criteria. The Authority recognizes that inconsistencies have occurred as its staff continues to adjust to new procedures and a new rating form to implement the policy. The Authority stated that it is continuing its efforts to reduce any inconsistencies or weaknesses detected.

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

<u>Recommendation</u>

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 loans that are deemed uncollectible are fully reserved for in accordance with the Authority's internal policies.

**Current Year Findings – *Government Auditing Standards* (Continued)**

**Finding 10-02 Inconsistencies in the Loan Monitoring and Loan Rating System (Continued)**

Authority Response

The Authority concurs with the recommendation. Management will review the current policies and procedures and make any revisions as needed to ensure that the "watch list" reports are complete and accurate for all loans. In addition management will review the policies and procedures for uncollectible loans to ensure that the amounts to be reserved are accurate and consistent with established policies for loan loss reserves.

## Current Year Findings – *Government Auditing Standards* (Continued)

### Finding 10-03 Loan Receivable Balance and Allowance for Loan Loss Balance Overstated

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

During our audit of the Authority's allowance for loan loss estimate, we noted 44 loans totaling approximately $20.7 million were recorded on the Authority's financial statements for which a 100% allowance reserve was recorded. The Authority anticipates that most of these loans will ultimately be written off.

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

Authority management stated that additional loans were certified by the Authority during fiscal year 2010 as uncollectible and although one loan was approved for write off from prior submissions, the Authority has not yet received the approval from the Attorney General's Office to write off any additional loans. The Authority is continuing to submit additional requests as required to the Attorney General's Office and will inquire about status of write off requests on a periodic basis throughout the fiscal year to monitor timely write off of uncollectible loan amounts.

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

<u>Recommendation</u>

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

<u>Authority Response</u>

The Authority concurs with the recommendation and will continue to work with the Attorney General's office to get approval for write-off of uncollectible loan balances through periodic inquiries on the status of submitted requests.

## Current Year Findings – *Government Auditing Standards* (Continued)

### Finding 10-04 Inadequate Reconciliation Procedures for Deposits Held in Escrow

The Illinois Housing Development Authority (Authority) did not have an adequate process for reconciling the general ledger with the subsidiary ledger used to account for deposits held in escrow.

The Authority is holding $156,444,691 in escrow deposit balances as of June 30, 2010. Deposits from developers, which are held in escrow by the Authority, are primarily used to pay tax and insurance payments and capital improvements. Also, the deposits are used to make principal and interest payments and fund construction cost overruns, change orders or operating deficits. There are approximately 480 individual escrow balances. All escrow deposit balance transactions must be tracked in detail in a subsidiary ledger.

The Authority uses two separate software programs to track the individual escrow accounts. One program is used to track the escrow deposit liabilities and the other program is used to track the cash and investments. These software systems are not directly integrated with the general ledger system. The lack of integration requires numerous manual processes to identify and reconcile variances for the escrow liability accounts and corresponding cash and investments. The total of escrow liabilities should match the total of escrow assets.

For each month of the year, the detailed subsidiary ledger for cash and investments was out of balance with the general ledger. The largest discrepancy noted was $3,374,180 in February 2010. In June 2010, the Authority made an adjusting entry of $3,076,474 to reconcile the escrow cash and investment balances tracked in the separate software system to the escrow assets and recorded on the general ledger at June 30, 2010.

As for the escrow liability balances, this system also requires numerous manual adjustments to reconcile the detailed subsidiary ledger to the general ledger. As of June 30, 2010, the amount of unreconciled liabilities totaled $9,483.

The Authority should be reconciling the subsidiary records to the general ledger on a monthly basis and resolving discrepancies timely. Because the Authority does not have an integrated system that would simultaneously update cash, investments, liabilities and the general ledger, they must maintain an up-to-date manual reconciliation to ensure funds are properly tracked.

Authority management stated that through the internal audit process they were made aware of inconsistencies that exist within the escrow reconciliation process between the detailed subsidiary ledgers and the general ledger. As a result staff conducted monthly reconciliations and prepared written procedures to identify the discrepancies between the general ledger escrow assets and liabilities amounts to the two detailed subsidiary ledgers. Once the variances remained stable an adjustment was made to the general ledger to reconcile the balances to the detailed subsidiary ledger amounts. We believe the process established to maintain monthly reconciliations will ensure timely resolutions of any discrepancies and through the internal audit process we can monitor the effectiveness of such procedures and make continual improvements to this process as needed.

Without adequately reconciling the deposits held in escrow, the Authority may not have adequate funds on hand to satisfy liabilities incurred that are funded with escrow balances. (Finding Code No. 10-04).

## Current Year Findings – *Government Auditing Standards* (Continued)

### Finding 10-04 Inadequate Reconciliation Procedures for Deposits Held in Escrow (Continued)

Recommendation

We recommend that the Authority reconcile escrow asset and liability accounts on a regular basis in order to prevent unidentified variances.

Authority Response

The Authority concurs with the recommendation and will continue to evaluate the policies and procedures established to conduct regular reconciliations of escrow asset and liability accounts to prevent unidentified variances. The escrow reconciliation process will continue to be reviewed through the internal audit process to ensure variances are identified and resolved in a timely manner. In addition, the Authority is reviewing “Best Practices” for escrow reconciliations with the assistance of an outside consultant.

## Current Year Findings – *Government Auditing Standards* (Continued)

### Finding 10-05 Duplicate Vendors in the Accounts Payable Master Vendor List

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

During our testing of the master vendor list, we noted of the 7,324 vendor records there were 2,042 duplicate records (28%) representing 602 vendors. The vendors had the same name but were given different vendor identification numbers in the accounts payable system. Below is a breakdown of instances of duplication:

- 24 vendors were in the system 10 times or more
- 45 vendors were in the system 5 to 9 times
- 533 vendors were in the system 2 to 4 times

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

Authority management stated that an upgrade of the Accounts Payable system occurred at the end of December 2009 and staff received training at that time on the new features. It was recommended by the software vendor not to conduct a purge until one year after the upgrades so by December 2010. A large number of duplicate vendors related to real estate tax payments that had several different parcels however payment of taxes has since moved to an electronic tax payment system that allows for multiple parcels to be attached to a single payment. Staff also are in the process of writing new procedures to manage the process for adding new vendors and for periodic updates to maintain a master vendor list. We believe the scheduled purge for December 2010 will address many of the duplicate vendors identified and through the establishment of a regular purge process we can continually monitor the maintenance of an accurate master vendor list.

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

Recommendation

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

Authority Response

The Authority concurs with the recommendation and will be implementing procedures to manage the vendor identification numbers assigned to vendors to prevent multiple vendors in the accounts payable system. A purge of inactive and duplicate vendors was already planned for the end of December 2010 based upon vendor guidelines given during the system upgrades that occurred in December 2009. Once the scheduled purge occurs management believes a significant number of inactive and duplicate vendors will be eliminated. In addition procedures will be written to review the master vendor list regularly and to establish a regular purge cycle to ensure an accurate master vendor list is maintained.

**Current Year Findings – *Government Auditing Standards* (Continued)**

**Finding 10-06 No Formal Process to Evaluate and Estimate Allowance for Loan Loss in the Single Family Loan Program**

The Illinois Housing Development Authority (Authority) did not have a formal process to evaluate and estimate allowance for loan losses for the Single Family Loan Program.

In previous years, the Authority carried pool insurance on 100% of its Single Family Program loans. With pool insurance, the Authority was able to recover all losses and, therefore, a separate loan loss reserve was not necessary.

During our review of the draft financial statements for the year ended June 30, 2010, we noted that the Authority had 673 loans totaling $65,526,828 in the Single Family Program Fund that were not covered by pool insurance. The Authority attempted, but could not obtain pool insurance on these loans due to poor economic conditions. By not having the pool insurance, there is a risk that some of the loan receivable balances might not be collected.

In the past, the Authority relied on 100% of the loan portfolio being covered by pool insurance, therefore, not requiring an estimate to be recorded for loan losses. Since the Authority does not have a formal process to estimate loan losses in the Single Family Program Fund, they took industry data for similar entities and the Authority recorded an adjustment for an allowance for loan loss in the Single Family Program Fund in the amount of $1,324,389. This issue is in the Financial Statement Adjustment finding at 10-01.

The calculation of the allowance for loan loss estimate requires various elements of monitoring and evaluating the collectibility of loan receivable balances. In accordance with generally accepted accounting principles, the estimate should be supported by detailed information including information regarding segment of loans, identifying various risks of loans, considering general economic conditions and applying a factor to each segment.

Authority management stated that during a recent review of the outstanding mortgage loans for the Single Family Program Fund it was determined that 9.39% of the Program mortgage loans were not covered by pool insurance and therefore a potential risk exists. Since in previous years pool insurance has been sufficient protection against uncollectible loan balances there was no formal procedure to estimate losses in the portfolio. Once the exposure was identified for those loans without pool insurance management agreed an estimated loss should be recorded in the financial statements. Since the Authority has ceased issuing whole loans and moved to mortgage backed securities we believe this will further lessen the risk associated with the portfolio. Authority management believes that a formal procedure to estimate losses is needed while this element continues to exist in the portfolio.

The result of not having pool insurance for these loans creates a risk of loss. Without a formal process to evaluate and estimate potential losses in the Single Family Program Fund, the allowance for loan loss could be understated. (Finding Code No. 10-06)

Recommendation

We recommend the Authority develop a formal process to evaluate and estimate the allowance for loan loss for the Single Family Program Fund.

**Current Year Findings – *Government Auditing Standards* (Continued)**

**Finding 10-06 No Formal Process to Evaluate and Estimate Allowance for Loan Loss in the Single Family Loan Program (Continued)**

Authority Response

The Authority concurs with the recommendation to develop a formal process to evaluate and estimate the allowance for loan loss for the Single Family Program Fund while the identified risk of loans without pool insurance continues to exist in the portfolio. The Authority will evaluate the loss history and performance of the portfolio to develop policies and procedures to estimate an allowance for loan loss based upon these findings. Since the Authority has changed direction from issuing any future whole loans and moved to mortgage backed securities we believe this will further lessen the risk of loss associated with the portfolio.

**Current Year Findings – Federal Compliance**

**10-07 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 ($6,954,866)***
***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.

**Current Year Findings – Federal Compliance (Continued)**

**10-07 Inadequate Administration of the Section 8 Moderate Rehabilitation Program (Continued)**

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 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.

According to OMB Circular A-102 Common Rule, grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

According to OMB Circular A-133 the Authority is required to maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Authority management indicated that it is administering the Moderate Rehabilitation Program in accordance with its administrative plan, which has been in place since the inception of the program in 1984, and was recently revised to accommodate a portion of HUD's concerns, but continues to allow for the delegation of certain functions to the owners of each property.

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. 10-07, 09-04, 08-07, 07-05)

**Current Year Findings – Federal Compliance (Continued)**

**10-07 Inadequate Administration of the Section 8 Moderate Rehabilitation Program (Continued)**

**Recommendation**

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

**Authority Response**

Authority management concurs with the recommendation and has consulted with the U.S. Department of Housing and Urban Development regarding administration of the Section 8 Moderate Rehabilitation Program. Management will update its administrative plan and procedures to perform certain functions previously delegated to the owners of each property.

**Current Year Findings – Federal Compliance (Continued)**

**Finding 10-08 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***<br>***HOME Investment Partnerships Program*** |
| ***CFDA# and Program Expenditures:*** | ***14.182 ($125,472,529)***<br>***14.856 ($6,954,866)***<br>***14.239 ($17,547,828)*** |
| ***Award Number:*** | ***None*** |
| ***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 our sample testing of 17 (Section 8 Programs) and 7 (HOME Program) developments Housing Quality Standards (HQS) Inspections, we noted the following:

*Section 8 Programs*

- In 2 of the 17 developments tested, we noted the Authority didn't have proper supporting documentation on the deficiencies prior to the issuance of pass letters.
- In 2 of the 17 developments tested, we noted that the monitoring schedule was not properly updated with the correct results of the most current inspection.

*Home Program*

- In 1 of the 7 developments tested, we noted the Authority didn't have proper supporting documentation on the deficiencies prior to the issuance of pass letters.
- In 4 of the 7 developments tested, we noted that the monitoring schedule was not properly updated with the correct results of the most current inspection.

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. Based on these guidelines, the Authority is required to inspect properties to ensure developments comply with the HQS performance requirements.

According to OMB Circular A-102 Common Rule, grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

According to OMB Circular A-133 the Authority is required to maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

**Current Year Findings – Federal Compliance (Continued)**

**Finding 10-08 Inadequate Monitoring of Housing Quality Standards (HQS) Inspections (Continued)**

Authority management indicated that the inspectors were incorrectly issuing pass letters upon receipt of summary evidence that deficiencies were corrected instead of holding pass letters until complete documentation was received. Inadequate staffing of the field inspectors resulted in inconsistent updating of the HQS monitoring schedule. Since the field inspectors are out of the office performing property inspections during most of their working days, there has not been sufficient time to devote to updating the schedule of inspections that have taken place.

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. 10-08, 09-05, 08-08)

**Recommendation**

We recommend that the Authority strictly enforce its HQS inspection procedures which include timely follow up, 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**

Authority management concurs with the recommendation and has filled open field inspector positions and believes with the necessary training that the inspections can be completed timely which includes timely follow up and regular maintenance of the Inspection Tracking Report.

**Current Year Findings – Federal Compliance (Continued)**

**Finding 10-09 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 ($125,472,529)*** |
| | ***14.856 ($6,954,866)*** |
| ***Award Number:*** | ***None*** |
| ***Questioned Costs:*** | ***None*** |

Residual receipts due from the developments are not deposited within the required 60 days grace period following the development's year end.

During our audit, we tested all 15 residual receipts requested by the Authority from developments totaling $1,579,733 and noted that 11 of the 15 developments did not deposit residual receipts within the timeframe set forth by the program. The deposits were received between 25-227 days late. It was determined subsequent to the request that the other 4 developments were not required to submit residual receipts.

Per HUD Financial Handbook 7475.1 Rev., Chapter 5-4(b) states that, at the end of a PHA's fiscal year, residual receipts should be remitted not later than 60 days to HUD by check if $2,000.00 or less. A copy of the check shall be forwarded to the PHA's respective Field Office to be maintained on file and will serve as a record of payment remittal. Checks shall be made payable to the Department of Housing and Urban Development and mailed to the Director, Office of Finance and Accounting. If residual receipts are over $2,000.00, payments should be by wire transfer in accordance with the instructions in Chapter 10, Exhibit 10-1, not later than 60 days after the end of the PHA's fiscal year. A copy of Exhibit 10-1(D) shall be forwarded to the PHA's respective Field Office to be maintained on file and serve as a record of payment remittal.

According to OMB Circular A-102 Common Rule, grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

According to OMB Circular A-133 the Authority is required to maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Authority management stated it has relied on the audited financial statements supplied by developments to determine if developments will be required to submit residual receipts for a fiscal year. Most of the Authority's regulatory and loan documents do not require submission of audited financial statements until 120 days after the end of the development's fiscal year. This has resulted in most developments submitting required residual receipts deposits after the 60-day period required by HUD.

Inadequate monitoring of the residual receipts could result in sanctions from the cognizant agency. (Finding Code No. 10-09, 09-06, 08-09)

**Current Year Findings – Federal Compliance (Continued)**

**Finding 10-09 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**

Authority management concurs with the recommendation and will require developments to submit unaudited financial statements to the Authority to determine whether residual receipts are required for deposit. Once the audited financial statements are received at the end of the development's fiscal year then a new determination will be made for the residual receipts requirement and any adjustments made at that time. The Authority believes this practice will assist in the collection and deposit of residual receipts within the required timeframe.

**Current Year Findings – Federal Compliance (Continued)**

**Finding 10-10 Inadequate Subrecipient Monitoring Procedures of the Section 8 New Construction and Substantial Rehabilitation**

| | |
|---|---|
| ***Federal Agency:*** | ***U.S. Department of Housing and Urban Development*** |
| ***Program Name:*** | ***Section 8 Project-Based Cluster*** |
| ***CFDA# and Program Expenditures:*** | ***14.182 ($125,472,529)*** |
| | ***14.856 ($6,954,866)*** |
| ***Award Number:*** | ***None*** |
| ***Questioned Costs:*** | ***None*** |

The Authority is deficient in implementing its own subrecipient monitoring procedures.

The Authority maintains monitoring spreadsheets for site and desk monitoring visits. One important function of the Authority for this program is to conduct management reviews and review audited financial statements of developments under the program. Another function is to conduct site visits and review program files maintained by the developments under this program.

During our sample tests made on subrecipient monitoring, the following deficiencies were noted:

- In 5 of the 13 financial statements submitted by the developments, we noted that the Authority was not able to meet its own review deadline of 30 days. The reviews were performed from 8-23 days late.

- In 7 of the 14 site visits performed, we noted that the Authority was not able to meet its own deadline in issuing close out letters (result of the monitoring visits) to the developments within 21 business days from date of the monitoring visits. The close-out letters were issued from 1-61 days late.

- In 1 of the 14 site visits performed, we noted that the Authority was not able to meet the required number of units to be tested for their monitoring requirement.

As a pass-through entity, the Authority is required to monitor activities of recipients of the Section 8 Program. The Authority follows HUD Handbook 4350.3: Occupancy Requirements of Subsidized Multifamily Housing Programs in monitoring developments under the program.

According to OMB Circular A-102 Common Rule, grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

According to OMB Circular A-133 the Authority is required to maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

**Current Year Findings – Federal Compliance (Continued)**

**Finding 10-10 Inadequate Subrecipient Monitoring Procedures of the Section 8 New Construction and Substantial Rehabilitation (Continued)**

Authority management stated the Asset Management Department implemented a new internal guideline for the review of audited financial statements within 30 days of receipt. In all cases the statements were reviewed; however, staff vacancies resulted in some delays in implementing this new internal guideline.

Authority management stated the Technical Services Department experienced staff vacancies and new hires for Compliance Officers responsible for conducting site visits throughout fiscal year 2010. These vacancies and the impact of new staff to the Authority contributed to some instances where the internal guideline of 21 days from the date of the audit was not met timely, in addition to one site visit where the required number of units to be tested was not met.

Failure to effectively monitor proper implementation of the Section 8 Program may result in overpayments or underpayments of housing assistance payments, eligibility issues, and non-compliance of developments with the program requirements. (Finding Code No. 10-10)

**Recommendation**

We recommend the Authority implement a process to ensure that Authority staff complies with the internal procedures developed to monitor subrecipients of the programs.

**Authority Response**

Authority management concurs with the recommendation and has filled open vacancies in the Technical Services and Asset Management Departments to ensure all required reviews of financial statements and conducting all site visits are met within the required timelines set forth in the procedures.

**Current Year Findings – Federal Compliance (Continued)**

**Finding 10-11 Inadequate Monitoring of the Davis-Bacon Act Requirements**

| | |
|---|---|
| ***Federal Agency:*** | ***U.S. Department of Housing and Urban Development*** |
| ***Program Name:*** | ***HOME Investment Partnerships Program*** |
| | ***Tax Credit Assistance Program (TCAP)*** |
| ***CFDA# and Program Expenditures:*** | ***14.239 ($17,547,828)*** |
| | ***14.258 ($34,187,735)*** |
| ***Award Number:*** | ***None*** |
| ***Questioned Costs:*** | ***None*** |

The Authority does not properly maintain a historical record of when Payroll Worksheets are submitted by the General Contractor and received by the Authority. In addition, one subcontractor under the TCAP Program failed to follow the prevailing wage rate, resulting in underpayments to four employees.

The Authority maintains a worksheet for both the HOME Program and Tax Credit Assistance Program (TCAP) to track compliance with the Davis-Bacon Act; however, the tracking worksheet only has the most recent Payroll Worksheet information. As a result, the Authority is not maintaining historical documentation to support the actual dates these worksheets are submitted. In addition, under the TCAP Program, 1 of the 40 payrolls tested, we noted a subcontractor failed to follow the prevailing wage rate.

Pursuant to Title 40 of the United States Code, Section 3142(b), the minimum wages to be paid shall be based on the wages the Secretary of Labor determines to be prevailing for the corresponding classes of laborers and mechanics employed on projects of a character similar to the contract work in the civil subdivision of the State in which the work is to be performed.

According to OMB Circular A-133 the Authority is required to maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Authority management stated the Multifamily Department agrees that the current system does not adequately document the receipt of weekly payroll worksheets from the general contractors.

Failure to maintain historical records of payroll worksheets does not allow for an adequate trail from which to determine the Authority's compliance over monitoring a General Contractors compliance with the Davis-Bacon Act. Failure to monitor the Davis-Bacon Act requirements in accordance with HUD regulations could result in underpayments to workers. (Finding Code No. 10-11)

**Recommendation**

We recommend that the Authority implement procedures to maintain historical data on the submission of Payroll Worksheets in order to document the General Contractors compliance with the Davis-Bacon Act.

**Current Year Findings – Federal Compliance (Continued)**

**Finding 10-11 Inadequate Monitoring of the Davis-Bacon Act Requirements (Continued)**

**Authority Response**

Authority management concurs with the recommendation and stated the Multifamily Construction and Architectural Services Department does maintain a paper file and an electronic worksheet to record the submission of the weekly Payroll Worksheets from each General Contractor affected by the requirement and all Payroll Worksheets are reviewed for compliance prior to approval of payment to a General Contractor. Management will review the current process and implement procedures as necessary to provide an adequate historical record for receipt of the Payroll Worksheets.

**Current Year Findings – Federal Compliance (Continued)**

**Finding 10-12 Inadequate Monitoring of Section 3 Reports from Homeownership Single Family and Multifamily 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 ($17,547,828)*** |
| ***Award Number:*** | ***None*** |
| ***Questioned Costs:*** | ***None*** |

The Authority has inadequate monitoring procedures of Section 3 Reports for the Single Family Program and the Multifamily Program and did not adequately prepare the Section 3 Summary Report sent 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.

Based on a review of all the Section 3 reports for Single Family developments:

- 3 out of 75 Section 3 Summary Reports received from the developments did not agree to the final Section 3 Report maintained by the Authority, and eventually submitted to HUD.

Based on a review of the 3 Multifamily developments:

- 1 development's Section 3 Report did not agree to the final Section 3 Report maintained by the Authority, and eventually submitted to HUD.
- 2 of the contractors for 1 of the developments selected for testing were not included in the final Section 3 Report submitted to HUD, which resulted in a new hire and/or trainee number that was incorrect. This also resulted in incorrect information provided to HUD in the Authority's Consolidated Plan Performance Report for Program Year 2009.

The Section 3 Summary Report, also known as HUD Form 60002, states that the form must be collected annually to assist HUD in meeting its reporting requirements under Section 808(e)(6) of the Fair Housing Act and Section 916 of the HCDA of 1992. Proper internal controls would require that complete and accurate information is reported in the Section 3 Summary Report.

**Current Year Findings – Federal Compliance (Continued)**

**Finding 10-12 Inadequate Monitoring of Section 3 Reports from Homeownership Single Family and Multifamily and Inadequate Procedures in Preparing Section 3 Summary Report of the Authority (Continued)**

Authority management stated that the exceptions were due to errors in processing the information.

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.10-12, 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**

Authority management concurs with the recommendation and stated the Multifamily Department requires data collection and submission of Section 3 Summary information when the development is at least 90% complete. Based on the status of the developments at the time of report submission those that had not reached the required 90% completion status were not included in the final Section 3 Report. The Section 3 Guidelines for data collection will be revised to reflect data collection at project completion to provide the most accurate information of all activities.

Authority management stated that as a result of the Authority's FY2009 Audit, the Homeownership Department amended its procedures to collect the Section 3 Summary information from its state and sub-recipients on a quarterly basis. This quarterly data was maintained in spreadsheets and used to collect the Department's Section 3 data. Due to an error found in the master spreadsheet this lead to inaccurate information being included in the final Section 3 Report. The procedures for collecting and preparing Section 3 Summary information will be reviewed and adjustments made as necessary to ensure accurate information is included in the final Section 3 Report. We have moved to an annual submission process for sub grantees to minimize the risk of double reporting. This will also simplify the Authority's data collection for preparing the final Section 3 Report. In addition management will institute a full bi-level review prior to submission of the report to HUD.

***Federal Compliance***

**A. Inadequate Cash Management Procedures for the National Foreclosure Mitigation Counseling Program (NFMCP)**

The Authority did not have adequate procedures in place to ensure that payouts are wired to subrecipients in a timely manner as required of them by the grantor. (Finding Code No. 09-07)

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

**B. Inadequate Subrecipient Monitoring Procedures for the National Foreclosure Mitigation Counseling Program (NFMCP)**

The Authority did not have adequate procedures in place to monitor the submission and reviews of audits were performed in accordance with the grant agreement of the program. (Finding Code No. 09-08)

During the current fiscal year, the Authority implemented additional procedures to address monitoring of its subrecipients compliance with the grant agreement of the program.

**C. Inadequate Subrecipient Monitoring Procedures of the HOME Program**

The Authority did not have adequate procedures in place in keeping monitoring information consistent with actual files. (Finding Code No. 09-09)

During the current fiscal year, the Authority implemented additional procedures to address maintaining monitoring information consistent with actual files.

**STATE OF ILLINOIS**
**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

Supplementary Information for State Compliance Purposes

Year Ended June 30, 2010

## 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, 2010

| Federal grant/program title | CFDA number | Award amount | Due to (from) June 30, 2009 | Revenue | Expense/ expenditure | Due to (from) HUD June 30, 2010 |
|---|---|---|---|---|---|---|
| U.S. Department of Housing and Urban Development: | | | | | | |
| Major programs: | | | | | | |
| Section 8 Project-Based Cluster: | | | | | | |
| Section 8 New Construction and Substantial Rehabilitation | 14.182 | $ - | $ - | $ 125,472,529 | $ 125,472,529 | $ - |
| Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation | 14.856 | - | 753,646 | 6,957,046 | 6,954,866 | 755,826 |
| Total Section 8 Project-Based Cluster | | - | 753,646 | 132,429,575 | 132,427,395 | 755,826 |
| HOME Investment Partnerships Program | 14.239 | 17,547,828 | - | 17,547,828 | 17,547,828 | - |
| American Recovery and Reinvestment Act Tax Credit Assistance Program | 14.258 | 34,187,735 | - | 34,187,735 | 34,187,735 | - |
| Nonmajor programs: | | | | | | |
| Interest Reduction Payments – Rental and Cooperative Housing for Lower Income Families | 14.103 | 4,506,178 | - | 4,506,178 | 4,506,178 | - |
| Neighborhood Stabilization Program | 14.228 | 110,036 | - | 110,036 | 110,036 | - |
| U.S. Department of the Treasury: | | | | | | |
| Major program: | | | | | | |
| National Foreclosure Mitigation Counseling Program | 21.000 | 905,929 | - | 3,434,937 | 3,434,937 | - |
| Total | | $ 57,257,706 | $ 753,646 | $ 192,216,289 | $ 192,214,109 | $ 755,826 |

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, 2010

## (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, 2010 of $755,826 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 $10,557,851 in grant expenditures. The amount of HOME loans disbursed during the year ended June 30, 2010 is $7,627,147. The amount of HOME loans outstanding at June 30, 2010 is $200,006,748.

### *Expense/Expenditure*

Amounts reported as expenses on this schedule include approximately $5,440,000 in administrative fees retained by the Authority.

### *Subrecipients*

The following amounts were passed through to subrecipients during the year ended June 30, 2010:

| CFDA number | Amount |
|---|---|
| 14.182 and 14.856 | $ 132,427,395 |
| 14.258 | 34,187,735 |
| 14.239 | 17,547,828 |
| 14.103 | 4,506,178 |
| 21.000 | 3,434,937 |
| 14.228 | 110,036 |
| | $ 192,214,109 |

**STATE OF ILLINOIS**
**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**
Fiscal Schedules and Analysis
Comparative Schedule of Cash Receipts
Years Ended June 30, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| Administrative Fund: | | |
| Cash received from: | | |
| Interest from program loans | $ 4,042,634 | $ 5,496,622 |
| Service fees from program loans | 10,109,565 | 10,041,960 |
| Principal from program loans | 1,959,165 | 5,645,865 |
| | 16,111,364 | 21,184,447 |
| Proceeds from federal assistance programs | 136,409,676 | 134,470,130 |
| Proceeds from program grant | 1,666,666 | 1,666,666 |
| Interest on investments | 510,685 | 1,637,665 |
| Interest on escrow deposits | 1,379,113 | 2,381,232 |
| Proceeds from sales and maturities of investment securities | 681,237,124 | 869,408,418 |
| Transfer of funds from single family program funds | 26,685 | 464 |
| Other | 13,709,078 | 2,688,317 |
| Total | $ 851,050,391 | $1,033,437,339 |
| Mortgage Loan Program Fund – Housing Bonds: | | |
| Cash received from: | | |
| Interest from program loans | $ 25,989,359 | $ 26,516,853 |
| Principal from program loans | 25,803,643 | 63,507,770 |
| | 51,793,002 | 90,024,623 |
| Proceeds from federal assistance programs | 4,068,870 | 4,463,030 |
| Interest on investments | 3,336,340 | 1,981,941 |
| Proceeds from sales and maturities of investment securities | 210,612,694 | 921,824,763 |
| Transfer of funds from single family program | - | 238 |
| Other | 7,741,516 | 4,870,152 |
| Total | $ 277,552,422 | $1,023,164,747 |

**STATE OF ILLINOIS**
**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**
Fiscal Schedules and Analysis
Comparative Schedule of Cash Receipts (Continued)
Years Ended June 30, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| Single Family Program Fund: | | |
| Cash received from: | | |
| Interest from program loans | $ 29,002,205 | $ 43,058,367 |
| Principal from program loans | 99,570,761 | 105,055,304 |
| | 128,572,966 | 148,113,671 |
| Interest on investments | 2,852,031 | 6,146,042 |
| Proceeds from sale of revenue bonds | 200,001,147 | 1,031 |
| Proceeds from sales and maturities of investment securities | 2,242,751,838 | 1,008,401,257 |
| Transfer of funds from administrative funds | - | 35,000,000 |
| Total | $2,574,177,982 | $1,197,662,001 |
| Illinois Affordable Housing Trust Fund: | | |
| Cash received from: | | |
| Interest on investments | $ 53,617 | $ 766,503 |
| Grant from State of Illinois | 13,022,755 | 17,960,546 |
| Total | $ 13,076,372 | $ 18,727,049 |
| Mortgage Loan Program Fund – Affordable Housing Program Trust Fund Bonds: | | |
| Cash received from: | | |
| Interest from program loans | $ 1,520,400 | $ 1,666,265 |
| Principal from program loans | 3,138,764 | 4,360,681 |
| | 4,659,164 | 6,026,946 |
| Interest on investments | 152,145 | 984,083 |
| Transfer of fund from Illinois Affordable Housing Trust Fund | 5,200,000 | 5,200,000 |
| Proceeds from sales and maturities of investment securities | 46,064,563 | 157,884,970 |
| Total | $ 56,075,872 | $ 170,095,999 |

**STATE OF ILLINOIS**
**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**
Fiscal Schedules and Analysis
Comparative Schedule of Cash Receipts (Continued)
Years Ended June 30, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| HOME Program Fund: | | |
| Cash received from: | | |
| Interest from program loans | $ 1,539,841 | $ 1,703,228 |
| Principal from program loans | 1,667,859 | 1,548,301 |
| Other | 238,689 | - |
| | 3,446,389 | 3,251,529 |
| Interest on investments | 4,267 | 35,973 |
| Federal HOME Funds | 17,177,917 | 32,336,665 |
| Total | $ 20,628,573 | $ 35,624,167 |
| Mortgage Loan Program Fund – Multi-Family Housing Revenue Bonds (Marywood): | | |
| Cash received from: | | |
| Loan from Administrative funds for interest payment | $ 744,250 | $ - |
| | 744,250 | - |
| Proceeds from sale of revenue bonds | - | 14,884,996 |
| Interest on investments | - | 8,235 |
| Proceeds from sales and maturities of investment securities | - | 17,985,775 |
| Transfer of funds from Administrative funds | - | 469,704 |
| Total | $ 744,250 | $ 33,348,710 |

**STATE OF ILLINOIS**

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

Fiscal Schedules and Analysis

Comparative Schedule of Cash Receipts (Continued)

Years Ended June 30, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| Mortgage Loan Program Fund – Multi-Family Bonds (Turnberry): | | |
| Cash received from: | | |
| Interest from program loans | $ 259,617 | $ 264,439 |
| Principal from program loans | 52,458 | 49,855 |
| Other | 6,664 | - |
| | 318,739 | 314,294 |
| Interest on investments | 507 | 2,594 |
| Proceeds from sales and maturities of investment securities | 487,782 | 813,712 |
| Total | $ 807,028 | $ 1,130,600 |
| Rental Housing Support Program Fund: | | |
| Cash received from: | | |
| Interest on investments | $ 142,740 | $ 390,704 |
| Grant from State of Illinois | 24,446,600 | 39,690,589 |
| Total | $ 24,589,340 | $ 40,081,293 |
| Mortgage Loan Program Fund – Multifamily Initiative Bonds: | | |
| Cash received from: | | |
| Proceeds from sale of revenue bonds | $ 184,080,000 | $ - |
| Other | 17,125 | - |
| | 184,097,125 | - |
| Interest on investments | 56,431 | - |
| Proceeds from sales and maturities of investment securities | 920,460,384 | |
| Transfer in | 454,120 | - |
| Total | $ 1,105,068,060 | $ - |
| ARRA Fund | | |
| Cash received from: | | |
| Federal ARRA funds | $ 30,375,081 | $ - |
| Total | $ 30,375,081 | $ - |

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, 2010

| Description | Balance at June 30, 2009 | Additions | Depreciation and amortization expense | Retirements | Balance at June 30, 2010 |
|---|---|---|---|---|---|
| Real estate | $ 41,119,570 | $ - | $ - | $ (68,524) | $ 41,051,046 |
| Accumulated depreciation – real estate | (12,611,000) | - | (800,000) | - | (13,411,000) |
| Furniture and equipment | 120,680 | - | - | - | 120,680 |
| Accumulated depreciation – furniture and equipment | (78,287) | - | (14,148) | - | (92,435) |
| Computer equipment | 106,261 | 10,000 | - | - | 116,261 |
| Accumulated depreciation – computer equipment | (99,525) | - | (3,213) | - | (102,738) |
| Computer software | 1,636,298 | 19,795 | - | (161,529) | 1,494,564 |
| Amortized computer software | (1,555,520) | - | (30,336) | 161,529 | (1,424,327) |
| Leasehold improvements | 1,805,108 | - | - | (1,805,108) | - |
| Amortized leasehold improvements | (1,805,108) | - | - | 1,805,108 | - |
| | $ 28,638,477 | $ 29,795 | $ (847,697) | $ (68,524) | $ 27,752,051 |

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

### 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. Purchases of furniture and equipment in the amount of $2,450 were expensed during fiscal year 2010.

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.

### Analysis of Significant Account Balances

Cash and investments of the Authority's proprietary funds increased $297 million from June 30, 2009 to $934.2 million at June 30, 2010. This increase is primarily a net result of the following factors:

(a) Cash receipts from interest, service fees, and principal on program loans exceeded interest paid on revenue bonds and notes and cash payments for operating expenses by $139.4 million.

(b) Interest received on investments and transfers in (net) totaled $12.1 million.

(c) Other receipts totaled $12.4 million.

(d) Payments for loan originations totaled $46.7 million.

(e) Proceeds of bond issuances exceeded payments of bond principal by $155.3 million.

Net program loans receivable of the Authority's proprietary funds decreased approximately $135.2 million during fiscal year 2010. This decrease is attributable to decreases in the Authority's Single Family Program Fund ($100.9 million), decreases in the Authority's Administrative Funds ($2.5 million) and the Mortgage Loan Program Funds ($31.8 million). The decrease in program loans receivable in the Single Family Program was due to adverse market conditions and the purchase of GNMA certificates secured with Illinois whole loans.

Net assets of the Authority's governmental funds increased $32.5 million from the June 30, 2009 balance from an increase in the HOME program and Federal ARRA Fund, 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 $35.8 million primarily due to the Federal ARRA Fund for loans to support low income housing. Cash and investments increased by $12 million, due primarily to timing differences in year end collections and increased Rental Housing Support Program revenues pending disbursement as grants.

At June 30, 2010, total outstanding bonds and notes payable was approximately $155.3 million above the prior fiscal year-end. Issuance of the following bonds and notes (with a balance outstanding at June 30, 2010) occurred during fiscal year 2010:

| | | Balance June 30, 2010 (In millions) |
|---|---|---|
| Homeowner Mortgage Revenue Bonds, 2009 Series B | $ | 200.0 |
| Multifamily Initiative Bonds, Series 2009A | | 184.1 |
| Administrative Fund, Term Loan | | 1.7 |

The Authority redeemed $205.7 million of various Single Family Program Fund Bonds and $26.0 million of Mortgage Loan Program Bonds during the fiscal year.

As of June 30, 2010, the Authority had the following debt outstanding (net of unamortized discount and deferred loss on refunding, thereon):

| | **Number of outstanding issues** | **Balance June 30, 2010** |
|---|---|---|
| | | (In millions) |
| Housing Bonds | 33 | $ 437.9 |
| Multifamily Initiative Bonds | 1 | 184.1 |
| HUD Riskshare Debenture (Marywood) | 1 | 14.9 |
| Multifamily Bonds (Turnberry II) | 1 | 5.1 |
| Affordable Housing Program Trust Fund Bonds | 2 | 64.3 |
| Total Mortgage Loan Program Fund | 38 | 706.3 |
| Residential Mortgage Revenue Bonds | 7 | 0.3 |
| Homeowner Mortgage Revenue Bonds | 32 | 993.2 |
| Total Single Family Program Fund | 39 | 993.5 |
| Administrative Fund | 1 | 7.9 |
| Total Proprietary Funds | 78 | $ 1,707.7 |

Deposits held in escrow increased approximately $2.1 million, due to additions in funding levels related to the implementation of programs within the Federal ARRA Fund. Capital assets increased approximately $0.2 million primarily due to depreciation of Lakeshore Plaza. A portion of the Authority's Administrative Funds Unrestricted Net Assets have been designated by resolution. Net assets designated by resolution of the Authority ($84.4 million) were unchanged from the amount designated as of June 30, 2009. 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**

<u>Proprietary Funds</u>

Interest earned on program loans decreased by $6.6 million, or 8.7% due to decreases within the Authority's Mortgage Loan Program Fund ($0.2 million), Single Family Program Fund ($4.8 million), and Administrative Fund ($1.6 million). 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, 2010 in the Single Family Program Fund were $100.9 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 decreased due to settlement of a loan and the related payoff during fiscal year 2009. Investment income decreased $2.5 million, or 25% due to lower yields on investments.

Interest expense decreased $8.5 million, or 11.3% due to decreased expenses within the Administrative Fund ($0.1 million), Mortgage Loan ($2.4 million) and Single Family ($6.0 million) Program Funds.

Operating expenses, other than interest expense and federal assistance programs, decreased approximately $3.1 million. The major components of the change were:

a. A $1.0 million (7.3%) 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 $0.6 million or 3.7%. The average number of full-time equivalent employees for fiscal years 2007 through 2010 is listed in the Analysis of Operations Average Number of Employees section of this report.

b. A $0.5 million (27.8%) decrease in professional fees primarily due to decreased legal fees and expenses.

c. A $0.1 million (3.2%) decrease in general and administrative expenses due to expense reductions in a number of Administrative Fund accounts.

d. A $0.2 million (11.1%) decrease in financing costs due to decreased costs with the Single Family Program Fund, due to decreased Trustee activities within the program.

e. A $1.7 million decrease 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 adjusted to reflect the Authority's portion of Risk Share Loans.

f. A $1.6 million decrease in program grant expenses due to the completion of a three year term grant at the end of fiscal year 2009.

Governmental Funds

Total revenues of the Authority's governmental funds increased $23 million from the prior year, primarily due to Federal revenues of the ARRA Fund ($58.7 million), partially offset by lower Federal revenues in the HOME Program of ($14.7 million). Revenues from the Rental Housing Support Program decreased $15.5 million based upon annual state appropriations. At June 30, 2010, loan and grant commitments authorized by the Members of the Authority for the HOME program totaled $29.8 million.

Total expenditures of the Authority's governmental funds increased $10.1 million from the prior year, primarily due to new program initiatives within the Federal ARRA Fund ($30.4 million), partially offset by decreases in the Rental Housing Support Program ($15.5 million) and the Illinois Affordable Housing Trust Fund ($5.6 million).

**Analysis of Administrative Costs**

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

| Description | 2010 | 2009 | 2008 |
|---|---|---|---|
| Employee holiday reception | $ 6,210 | $ 3,940 | $ 4,367 |
| Employee retirement, recognition parties | 500 | 6,042 | 3,650 |
| | $ 6,710 | $ 9,982 | $ 8,017 |

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, 2010

The Authority's cash and cash equivalents for proprietary funds at June 30, 2010 were maintained in bank accounts, as follows:

| | |
|---|---|
| Administrative Fund: | |
| The Northern Trust Company – HUD Section 8 Depository | $ 1,286 |
| Bank of America | 36,748 |
| Chase Bank | 199,811 |
| Total Administrative Fund | 237,845 |
| Mortgage Loan Program Fund: | |
| Housing Bonds: | |
| Bank of New York | 96,919 |
| Multifamily Initiative Bonds: | |
| Bank of New York | 17,556 |
| Multifamily Bonds (Turnberry): | |
| Bank of New York | 27,570 |
| Affordable Housing Program Trust Fund Bonds: | |
| Bank of New York | 483,933 |
| Total Mortgage Loan Program Fund | 625,978 |
| Single Family Program Fund: | |
| Homeowner Mortgage Revenue Bonds: | |
| Bank of New York | 4,937,007 |
| Residential Mortgage Revenue Bonds: | |
| Bank of New York | 300 |
| Total Single Family Program Fund | 4,937,307 |
| Total Proprietary Funds | $ 5,801,130 |

See accompanying independent accountants' report.

### Description of Investments

The fair value of investments for the Authority's governmental and proprietary funds at June 30, 2010 are delineated by type, as follows:

| Type | Fair value |
|---|---|
| Demand Repurchase Agreements | $ 22,567,878 |
| United States Agency Obligations | 385,821,951 |
| United States Government Obligations | 591,214,691 |
| Other | 56,942 |
| | $ 999,661,462 |

### 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, 2010, total funds held were $37,624,208, 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, 2010

| | Amount | Percent |
|---|---|---|
| Federal expenditures (A) | $ 192,214,109 | 56% |
| Nonfederal funds | 148,498,378 | 44% |
| Total expenditures | 340,712,487 | 100% |
| Less: Amount representing loans | (30,684,821) | |
| Total expenditures (B) | $ 310,027,666 | |

Source:

(A) Schedule of Expenditures of Federal Awards
(B) Statement of Activities for the year ended June 30, 2010

**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 212 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 State and Federal programs. *The Mortgage Loan Program and The Affordable Housing Bond Program* 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 through a Master Servicer, 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'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 Illinois Affordable Housing Program and the Rental Housing Support Program.

The Authority formed the Office of Housing Coordination Service, 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.

The Authority is the designated 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.

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 is the administrator of 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 State-level Tax Credit administrator for the Low Income Housing Tax Credit Program, 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 City of Chicago serves in the same capacity as a local tax credit administrator for its allowed home rule proportional allotment of credits.

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 addition, the Authority has been designated as the statewide administrator of the Federal HOME program. Under this program, $397.2 million and $24.2 million for federal fiscal years 1992 through 2009 and 2010, respectively, have been allocated to be administered by the Authority under the HOME provisions of the 1990 National Affordable Housing Act.

Throughout the years various state and federal legislation has impacted the Section 8 Housing Program and bond issuances therefore the Authority found it necessary to devise other types of credit enhancements to continue its ability to provide mortgage financing rates at lower than those of commercial lenders. As such insurance and other surety protection was sought to ensure that the Authority is able to issue its bonds and notes at the lowest possible interest rates.

The Authority has entered into a Risk Sharing Agreement ("Agreement") with HUD and through 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 forty Risk Sharing Loans totaling $226,312,699 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, 2010, the Authority has entered into eight Ambac Loans totaling $32,392,000. 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 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 2010, the Authority's Issuer Credit Ratings remained at A1/A+ by Moody's Investors Service and Standard & Poor's Ratings Services, respectively. The Fitch Ratings upgraded the Authority's issuer rating from A+ to AA- on December 15, 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, 2010 comprised approximately .02% of the

Authority's outstanding debt, in the event the Authority determines at any time that its monies 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.

A number of financial institutions providing insurance, investment guarantees or other assurance services to the Authority received ratings downgrades during fiscal year 2010, 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.

Due to the ratings downgrades noted above, the Authority has implemented programs in which it would originate and securitize loans backed by government guarantees. Under the Authority's Homeowner Mortgage Purchase Program, the Authority offers homebuyers two loans: The 30 Year Fixed Rate Loan and an optional Down Payment Assistance Loan. The 30 year Fixed Rate Loan is a 30 year fixed rate amortizing federally insured loan such as FHA. 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 is the designated program administrator for Section 1602 of the American Recovery and Reinvestment Act of 2009 ("ARRA") for grants appropriated to the State of Illinois by the United States Department of the Treasury to finance construction or acquisition and rehabilitation of qualified low-income building for low-income housing in lieu of low-income housing tax credits. In addition, HUD makes awards to the Authority under the Tax Credit Assistance Program ("TCAP") to facilitate the development of projects that received or will receive funding in order to be completed and placed in service in accordance with the requirements of Section 42 of the Internal Revenue Code of 1986 and the regulations promulgated thereunder. These awards are then allocated to sub-grantees and the Authority will be responsible for the monitoring and reporting of the use of these funds.

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.

The Authority is the administrator of the Cook County Mortgage Foreclosure Mediation Program which provides legal guidance to homeowners facing foreclosure through the use of a mediator to facilitate discussions between the mortgage company and the borrower for an end solution.

The Authority is the administrator for the Neighborhood Stabilization Program which provides grants and/or loans to municipalities and developers to rehabilitate abandoned or foreclosed properties in communities adversely affected by the foreclosure crisis.

*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.

**Average Number of Employees (Unaudited)**

| | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|
| Financial and computer services | 45 | 47 | 50 | 49 |
| Human resources, administration, and legal | 29 | 28 | 26 | 26 |
| Director's office and housing programs | 138 | 127 | 121 | 114 |
| Total | 212 | 202 | 197 | 189 |

The average number of full-time employees of 212 in fiscal year 2010 was 5% above the fiscal year 2009 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, 2010.

**Summary Production Data (Unaudited)**

Unit production for fiscal year 2010 was 5,188 units, and total production since Authority inception was 199,483 units.

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

**STATE OF ILLINOIS**
**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

Analysis of Operations

Year Ended June 30, 2010

**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.

**STATE OF ILLINOIS**
**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**
Analysis of Operations
Service Efforts and Accomplishments
Multi-Family and Single Family Production – Activities Closed or Placed into Service Since Inception
June 30, 2010
(Unaudited)

| | Active | | No Longer Active (3) | | Total | |
|---|---|---|---|---|---|---|
| Portfolio | Developments | Units | Developments | Units | Developments | Units |
| Multi-family Programs | 1,265 | 96,239 | 296 | 21,313 | 1,561 | 117,552 |
| Single Family Programs (1) | 396 | 4,445 | 729 | 21,285 | 1,125 | 25,730 |
| Technical Assistance | 20 | 400 | 28 | 1,113 | 48 | 1,513 |
| MCC & MRB (2) | n/a | 14,380 | n/a | 41,821 | n/a | 56,201 |
| Totals | 1,681 | 115,464 | 1,053 | 85,532 | 2,734 | 200,996 |

(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

**STATE OF ILLINOIS**
**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**
Analysis of Operations
Service Efforts and Accomplishments
Unit Production by Percent of Area Median Income Since Inception
June 30, 2010
(Unaudited)

| Percent of Area Median Income | Multi-Family and Single Family Programs | MCC and MRB (1) (2) | Total |
|---|---|---|---|
| Less than 30% | 3,543 | 5,534 | 9,077 |
| 31% – 50% | 52,823 | 6,442 | 59,265 |
| 51% – 80% | 75,092 | 22,214 | 97,306 |
| 81% – 100% | n/a | 12,843 | 12,843 |
| 101% – 120% | 27 | 5,870 | 5,897 |
| Greater than 121% or Market | 13,310 | 3,298 | 16,608 |
| Totals | 144,795 | 56,201 | 200,996 |

(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.

**STATE OF ILLINOIS**
**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**
Analysis of Operations
Service Efforts and Accomplishments
Unit Production by Economic Development Region Since Inception
June 30, 2010
(Unaudited)

| | Programs | | | | |
|---|---|---|---|---|---|
| **Region (1)** | **Multi-Family** | **Single Family** | **Technical Assistance** | **MCC & MRB (2)** | **Total Developments** |
| Central | 6,218 | 1,042 | - | 3,789 | 11,049 |
| East Central | 3,276 | 586 | - | 2,484 | 6,346 |
| North Central | 5,695 | 1,906 | - | 4,491 | 12,092 |
| Northeast | 81,262 | 6,506 | 13 | 28,595 | 116,376 |
| Northern Stateline | 3,378 | 659 | - | 3,437 | 7,474 |
| Northwest | 5,799 | 1,463 | - | 3,496 | 10,758 |
| Southeastern | 1,783 | 779 | - | 1,403 | 3,965 |
| Southern | 2,613 | 4,497 | - | 1,877 | 8,987 |
| Southwestern | 4,028 | 2,977 | - | 4,246 | 11,251 |
| West Central | 2,067 | 1,181 | - | 2,186 | 5,434 |
| Statewide | 1,433 | 4,134 | 1,500 | 197 | 7,264 |
| Total | 117,552 | 25,730 | 1,513 | 56,201 | 200,996 |

(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