STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Compliance Examination

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

June 30, 2014

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

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the State of Illinois)

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ILLINOIS HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the State of Illinois)

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Year ended June 30, 2014

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

Agency Officials

Executive Director	Mary R. Kenney
Assistant Executive Director/Chief of Staff	Bryan E. Zises
General Counsel	Maureen G. Ohle
Chief Financial Officer (4/21/14 - Present)	Nandini Natarajan
Acting Chief Financial Officer (12/7/13 - 4/21/14)	Bryan E. Zises
Chief Financial Officer (4/18/11 - 12/6/13)	Hazim Taib
Controller	Michele Williams

Agency Officials are located at:

401 North Michigan Avenue, Suite 700
Chicago, Illinois 60611

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

March 16, 2015

KPMG LLP
200 East Randolph Street, Suite 5500
Chicago, Illinois 60601

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 (IHDA). 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 IHDA's compliance with the following assertions during the year ended June 30, 2014. Based on this evaluation, we assert that during the year ended June 30, 2014, IHDA has materially complied with the assertions below.

A. IHDA 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. IHDA 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. IHDA 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 IHDA 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 IHDA on behalf of the State or held in trust by IHDA have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

Illinois Housing Development Authority

Mary R. Kenney, Executive Director

Natarajan
Nandini Natarajan, Chief Financial Officer

Maureen G. Ohle, General Counsel/Assistant Secretary

Michele Williams
Michele Williams, Controller

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Compliance Report Summary

Year ended June 30, 2014

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
Findings	11	10
Repeated findings	2	6
Prior recommendations implemented or not repeated	8	7

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

Schedule of Findings and Questioned Costs

Findings (*Government Auditing Standards*)

Item No.	Page	Description	Finding Type
2014-001	18	Inadequate Allowance for Loan Loss Methodology and Loan Rating Review Process	Material weakness
2014-002	22	Inaccurate Recording of Grant Revenue	Material weakness

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

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Compliance Report Summary

Year ended June 30, 2014

Findings (*Federal Compliance*)

Item No.	Page	Description	Finding Type
2014-003	24	Failure to Follow Established Subrecipient Monitoring Procedures for the Section 8 Project Based Cluster Program	Noncompliance and significant deficiency
2014-004	26	Failure to Follow Established Subrecipient Monitoring Procedures for the Home Investment Partnership Program	Noncompliance and significant deficiency
2014-005	28	Failure to Follow Established Subrecipient Monitoring Procedures for the Community Development Block Grant Cluster Program	Noncompliance and significant deficiency
2014-006	30	Inadequate Review of OMB Circular A-133 Audit Reports	Noncompliance and significant deficiency
2014-007	33	Failure to Report Subaward Information Required by FFATA	Noncompliance and significant deficiency
2014-008	35	Failure to Notify Subrecipients of Federal Funding	Noncompliance and significant deficiency

Findings (*State Compliance*)

Item No.	Page	Description	Finding Type
2014-009	37	Inadequate Controls Over Information Systems User Access Controls	Noncompliance and significant deficiency
2014-010	39	Inadequate Monitoring of Cash Collateralization Requirements	Noncompliance and significant deficiency
2014-011	41	Improper Calculation of Payroll Adjustments	Noncompliance and significant deficiency

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ILLINOIS HOUSING DEVELOPMENT AUTHORITY

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Compliance Report Summary

Year ended June 30, 2014

In addition, the following findings which are reported as current findings relating to *Government Auditing Standards* also meet the reporting requirements for State Compliance.

Item No.	**Page**	**Description**	**Finding Type**
2014-001	18	Inadequate Allowance for Loan Loss Methodology and Loan Rating Review Process	Noncompliance and material weakness
2014-002	22	Inaccurate Recording of Grant Revenue	Noncompliance and material weakness

Item No.	**Page**	**Prior Year Findings Not Repeated (*Government Auditing Standards)* Description**	**Finding Type**
A	43	Loan Receivable Balance and Allowance for Loan Loss Balance Overstated	Noncompliance and significant deficiency
B	43	Capital Assets Not Being Depreciated	Noncompliance and significant deficiency
C	43	Loan Interest Receivable and Revenue Overstated	Noncompliance and significant deficiency

Prior Year Findings Not Repeated (*Federal Compliance*)

Item No.	**Page**	**Description**	**Finding Type**
D	43	Improper Preparation of the Consolidated Plan-Annual Performance Report	Noncompliance and significant deficiency
E	43	Internal Policies Not Followed for Administering Section 236 Program	Noncompliance and significant deficiency
F	43	Untimely Submission of the Section 3 Summary Report	Noncompliance and significant deficiency

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ILLINOIS HOUSING DEVELOPMENT AUTHORITY

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Year ended June 30, 2014

Prior Year Findings Not Repeated (*State Compliance*)

Item No.	Page	Description	Finding Type
G	44	Voucher Processing Needs Improvement	Noncompliance and significant deficiency
H	44	Incorrect Payment to Local Administering Agency	Noncompliance and significant deficiency

(Continued)

Exit Conference

The federal and state compliance findings and recommendations appearing in this report were discussed with Authority personnel at an exit conference on March 12, 2015. Attending were:

Illinois Housing Development Authority

Mary Kenney	Executive Director
Bryan Zises	Assistant Executive Director/Chief of Staff
Nandini Natarajan	Chief Financial Officer
Michele Williams	Controller
Kevin O'Connor	Chief Internal Auditor
Maureen Ohle	General Counsel
Jolyn Heun	Staff Counsel
Neil O'Callaghan	IT Managing Director

KPMG LLP

Catherine Baumann	Partner
Jason Rosheisen	Senior Manager

Illinois Office of the Auditor General

Thomas L. Kizziah	Audit Manager
Kathleen Devitt	IS Audit Manager

The responses to the findings were received in an email dated March 16, 2015 from Michele Williams, Controller.

KPMG LLP
Aon Center
Suite 5500
200 East Randolph Drive
Chicago, IL 60601-6436

**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 Board of Directors
Illinois Housing Development Authority:

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the Illinois Housing Development Authority's 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, 2014. 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.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the Authority's compliance with those requirements 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 compliance requirements listed in the first paragraph of this report during the year ended June 30, 2014. However, the results of our procedures disclosed other instances of noncompliance with the requirements, 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 2014-001, 2014-002, and 2014-009 through 2014-011.

Internal Control

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 to determine the examination procedures that are appropriate in the circumstances 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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 a 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 2014-001 and 2014-002 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 2014-009 through 2014-011 to be significant deficiencies.

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

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 the responses.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Illinois Housing Development Authority (the Authority), a component unit of the State of Illinois, as of and for the year ended June 30, 2014, and have issued our report thereon dated November 26, 2014, which contained unmodified opinions on those financial statements. Our report included an emphasis of matter paragraph stating the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to November 26, 2014. The accompanying supplementary information for the year ended June 30, 2014 in Schedules 1 through 10 is presented for the purposes of additional analysis and is not a required part of the basic financial statements of the Authority. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying supplementary information for the year ended June 30, 2014 in Schedules 1 through 10 has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the year ended June 30, 2014 in Schedules 1 through 10 is fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2014.

The Authority's basic financial statements for the year ended June 30, 2013 (not presented herein), were audited by other auditors whose report thereon dated November 5, 2013, expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information. The report of the other auditors dated November 5, 2013, stated that the supplementary information included herein for the year ended June 30, 2013 in Schedules 1 through 6 was subjected to the auditing procedures applied in the audit of the 2013 basic financial statements and certain additional auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those basic financial statements or the those basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and, in their opinion, was fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2013.

The accompanying supplementary information in the Analysis of Operations Section is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

KPMG LLP

Chicago, Illinois
March 16, 2015

KPMG LLP
Aon Center
Suite 5500
200 East Randolph Drive
Chicago, IL 60601-6436

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 Board of Directors
Illinois Housing Development Authority:

As Special Assistant Auditors for the Auditor General of the State of Illinois, we have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Illinois Housing Development Authority (the Authority), a component unit of the State of Illinois, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 26, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 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 the accompanying schedule of findings and questioned costs as findings 2014-001 and 2014-002 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

Authority's Response to Findings

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Chicago, Illinois
November 26, 2014

KPMG LLP
Aon Center
Suite 5500
200 East Randolph Drive
Chicago, IL 60601-6436

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

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

Report on Compliance for Each Major Federal Program

We have audited the Illinois Housing Development Authority's (the Authority) compliance with the types of compliance requirements described in the *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, 2014. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. 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 considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance 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, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as findings 2014-003 through 2014-008. Our opinion on each major federal program is not modified with respect to these matters.

The Authority's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 and 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 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 and corrected, on a timely basis. 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.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2014-003 through 2014-008, that we consider to be significant deficiencies.

The Authority's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority, a component unit of the State of Illinois, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated November 26, 2014, which contained unmodified opinions on those financial statements. Our report included an emphasis of matter paragraph stating the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to November 26, 2014. 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Chicago, Illinois
March 16, 2015

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the State of Illinois)

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified 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:	Unmodified opinions			
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
14.103	Interest Reduction Payments (Section 236)
14.182 and 14.856	Section 8 Project-Based Cluster
14.228	State Administered CDBG Cluster
14.239	HOME Investment Partnerships Program

Dollar threshold used to distinguish between type A and type B programs:	$3,000,000			
Auditee qualified as low-risk auditee?	✓	Yes		No

(Continued)

Finding 2014-001 **Inadequate Allowance for Loan Loss Methodology and Loan Rating Review Process**

The Illinois Housing Development Authority (Authority) was unable to support the historical detail assumptions used in its allowance for loan loss calculation for both the single family loan programs and the multi-family loan programs. Additionally, the Authority has not established adequate internal controls over updating loan ratings with current information, documenting the rationale for certain loan ratings, and ensuring the allowance for loan loss is properly calculated and presented in its financial statements.

During our audit, we reviewed the allowance for loan loss methodology for the single family loan program and the multi-family loan program and noted that the Authority could not produce an analysis supporting the rationale for its calculation of the loan loss reserve factors (probability of default and expected loss) that are used in its allowance for loan loss calculation and has not recently performed an analysis to further substantiate the ongoing appropriateness of the metrics' used in the allowance for loan loss estimate. The Authority has not documented how the loan loss reserve factors have been historically calculated and over what period the probability of default is measured. Further, the Authority did not perform back-testing (typically performed on at least an annual basis) on its allowance for loan loss estimates to determine whether the allowance for loan loss produces estimates that have been historically sufficient to cover incurred losses over a period of time that aligns with the period used to estimate the probability of default values.

Additionally, during our testing of 40 multi-family loan relationships risk ratings (61 loans) as of June 30, 2014, we noted differences in the ratings determined by the Authority on their loan rating scale compared to our independent ratings determined during our review. We found the Authority's risk ratings to be reasonable on 29 of the 40 relationships (46 of the 61 loans) and we found the Authority's risk ratings to be unreasonable for 11 of the 40 relationships (15 of the 61 loans). These loan rating differences are primarily attributable to the timing of updating the loan risk ratings by the Authority and the Authority's reliance on the mitigating factor of the "Extended Use Period" relating to low income housing tax credits (LIHTCs) to not downgrade a loan risk rating.

The most recent risk rating form for all loans reviewed had been completed using the fiscal year 2012 financial statements of the borrower (generally December 31st), with the exception of loans rated substandard or below. These risk rating forms were the source of the risk rating input used within the Authority's allowance for loan loss calculation as of June 30, 2014. We further noted that in most instances the fiscal year 2013 financial statements had been obtained and evaluated for the debt service coverage ratio prior to June 30, 2014, however, an updated risk rating form was not completed and the risk rating was not updated. This practice results in a timing lag between when updated financial statement information is received and when the associated impact to the risk rating is reflected.

The following differences in loan ratings are attributable to the timing of updating the loan risk ratings by the Authority:

- Two differences in Home loan ratings resulted in an under reserve of $633,445 and four differences in Home loan ratings resulted in an over reserve of $306,997 for the Home Program Fund. A proposed adjustment for these differences was not recorded by the Authority.
- One difference in a Multi-Family Initiative loan rating resulted in an over reserve of $46,716 for the Mortgage Loan Program Fund. A proposed adjustment for this difference was not recorded by the Authority.
- Three differences in Housing Trust Fund loan ratings resulted in an over reserve of $456,625 and one difference in a Housing Trust Fund loan rating resulted in an under reserve of $161,283 for the Illinois Affordable Housing Trust Fund. A proposed adjustment for these differences was not recorded by the Authority.

The following differences in loan ratings are attributable to the Authority's reliance on the mitigating factor of the "Extended Use Period" relating to LIHTCs:

- One Administrative loan rating difference, one Housing Trust Fund loan rating difference, and two Trust Fund Bonds loan rating differences resulted in an under reserve of $49,486 for the Administrative Fund, $38,304 for the Illinois Affordable Housing Trust Fund, and $551,241 for the Mortgage Loan Program Fund, respectively. In these instances, the Authority should not have relied upon the "Extended Use Period" relating to the LIHTC's in estimating the ratings on these respective loans. A proposed adjustment for these differences was not recorded by the Authority.

Additionally, there were four loans within our testing where the file materials lacked sufficient documentation to support the Authority's reliance on LIHTCs in estimating the ratings on these respective loans.

Furthermore, the Authority is not consistently applying the allowance for loan loss methodology for the Build Illinois Bond Program Fund, the Hardest Hit Fund, the Administrative Fund, and the Single Family Program Fund as noted below:

- The Build Illinois Bond Program Fund had a net program loans receivable balance at June 30, 2014 of $2,717,000, however, the Authority did not record an allowance for loan loss related to these loans, as these loans were initially funded in the second half of the Authority's 2014 fiscal year. An adjustment was not recorded in the Authority's financial statements.
- The Authority's reserving methodology for the Hardest Hit Fund is to reserve 50% of outstanding program loans receivable, however, during fiscal year 2014 the percentage of the allowance for loan loss ($17,304,094) to the outstanding program loans receivable balance ($26,653,653) was calculated at 65%. The resulting allowance for loan loss was within our acceptable range and an adjustment was not recorded in the Authority's financial statements.

- The Authority erroneously included twenty-two Section 1602 grants totaling $75,185,477 in its calculation of the loan reserve for the Administrative Fund, however, these amounts were properly excluded from the Authority's outstanding loan receivable balance at June 30, 2014. This resulted in an over reserve of $1,576,023. The difference was adjusted and corrected in the Authority's financial statements.
- The allowance for loan losses for the program loans receivable within the Single Family Program Fund were incorrectly calculated at June 30, 2014, resulting in an over reserve of $802,111. A proposed adjustment for this difference was not recorded by the Authority.

Generally accepted accounting principles require the estimate for the allowance for loan loss to be supported by appropriate assumptions and accurate information. Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Authority to establish and maintain a system or systems of internal fiscal and administrative controls, which shall provide assurance that: (1) resources are utilized efficiently, effectively and in compliance with applicable law; (2) obligations and costs are in compliance with applicable law; (3) funds, property and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation; (4) revenues, expenditures, and transfers of assets resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources; and (5) funds held outside the State Treasury are managed, used, and obtained in strict accordance with the terms of their enabling authorities and that no unauthorized funds exist. Effective internal controls should include procedures to ensure the assumptions used in the allowance for loan loss calculation are appropriate and that loan ratings are adequately documented.

Authority management stated turnover within the asset management financial analysis staff who are responsible for rating multi-family loans and maintaining sufficient documentation to support the loan ratings has contributed to the time lag in applying the most current information available to the loan rating that is used for calculating the allowance for loan loss.

Failure to support the assumptions in the allowance for loan loss calculation, appropriately document loan ratings, and calculate the allowance for loan loss may result in the misstatement of the allowance for loan loss in the Authority's financial statements. (Finding Code No. 2014-001)

Recommendation:

We recommend the Authority review its current policies and procedures to ensure the assumptions used in the allowance for loan loss calculation are appropriate, loan rating assessments are performed timely based on available financial information, and that loan ratings are adequately documented.

Authority Response:

Authority management concurs with the recommendation and will analyze assumptions used in its policies for the allowance for estimated losses regarding loan loss calculations are appropriate based on market conditions and other related factors that may impact the risk of loss associated for at risk loans within the portfolio. Asset Management staff will timely update the loan rating forms simultaneously with the annual review of the audits and/or financial statements. The Asset Management staff will update its policies and procedures to reduce the time lag for addressing loan ratings to include acknowledgment by the Asset Management, Accounting and Loan and Portfolio departments for any revisions resulting from loan rating form updates or changes made during the loan monitoring and special mentions meetings.

Finding 2014-002 Inaccurate Recording of Grant Revenue

The Illinois Housing Development Authority (Authority) did not accurately record grant revenue received from the State of Illinois.

The grant revenue received from the State of Illinois recorded by the Authority is appropriated to the Illinois Department of Revenue (IDOR) by the General Assembly and the funds are held by the State Treasurer. The Authority submits payout requests to IDOR for expenses incurred to administer State grants and the State Treasurer will pay funds to the Authority from the funds appropriated to IDOR.

During fiscal year 2014, the Authority submitted payout requests to IDOR for expenses incurred during the fiscal year to administer State grants. The State Treasurer paid certain funds to the Authority during the State lapse period (July 1, 2014 through August 31, 2014), however, the Authority did not properly record these payout requests as of June 30, 2014. As a result, we noted the following adjustments were required to accurately record the lapse period appropriations:

- $1,250,000 adjustment was made to the Illinois Affordable Housing Trust Fund to record a grant receivable.
- $10,107,604 adjustment was made to the Rental Housing Support Program Fund to record a grant receivable and grant revenue.
- $2,294,572 adjustment was made to the Foreclosure Prevention Program Fund to record a grant receivable and grant revenue.
- $6,869,687 adjustment was made to the Abandoned Property Program Fund to record grant revenue.

Governmental Accounting Standards Board Statement No. 33 requires grant revenue to be recorded when all applicable eligibility requirements have been met. On the modified accrual basis, grant revenues should be recorded when all applicable eligibility requirements have been met and the resources are available. Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Authority to establish and maintain a system or systems of internal fiscal and administrative controls, which shall provide assurance that: (1) resources are utilized efficiently, effectively and in compliance with applicable law; (2) obligations and costs are in compliance with applicable law; (3) funds, property and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation; (4) revenues, expenditures, and transfers of assets resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources; and (5) funds held outside the State Treasury are managed, used, and obtained in strict accordance with the terms of their enabling authorities and that no unauthorized funds exist. Effective internal controls should include procedures to accurately record grant revenue.

Authority management stated there were a number of disbursement requests submitted by various program staff of the Authority to the Illinois Department of Revenue during the lapse period for funding various approved projects. Some of these requests were not properly communicated to the Accounting Department and therefore this oversight caused the non-recognition of grant revenues that should have been captured as part of the fiscal year 2014 appropriation period.

Failure to accurately record grant revenue may result in the misstatement of the Authority's financial statements. (Finding Code No. 2014-002)

Recommendation:

We recommend the Authority review its current policies and procedures to ensure grant revenue is accurately reported in the financial statements.

Authority Response:

Authority management concurs with the recommendation and will revise its governmental accounting policies and procedures for the fiscal year end close process to include a detailed review of payout requests sent by program staff responsible for remitting such requests to the Illinois Department of Revenue during the lapse period. We believe this additional level of review will provide for proper communications to occur between the Accounting department and IDOR for recording disbursements made during the lapse period to the correct fiscal year appropriation.

(Continued)

Federal Agency: U.S. Department of Housing and Urban Development (USHUD)

Program Name: Section 8 Project-Based Cluster

CFDA # and Program Expenditures: 14.182/14.856 ($114,816,439)

Award Numbers: None

Questioned Costs: None

Finding 2014-003 **Failure to Follow Established Subrecipient Monitoring Procedures for the Section 8 Project Based Cluster Program**

The Authority did not follow its established policies and procedures for monitoring subrecipients of the Section 8 Project Based (Section 8) Cluster program.

The Authority has implemented procedures whereby program staff perform periodic on-site and desk reviews of subrecipient compliance with regulations applicable to the Section 8 Cluster program administered by the Authority. These reviews are formally documented and include the issuance of a report of the review results to the subrecipient summarizing the procedures performed, results of the procedures, and any findings or observations for improvement noted. The Authority's policies require the subrecipient to respond to each finding by providing a written response.

During our testwork over on-site review procedures performed for 25 subrecipients (with expenditures of $49,703,246) of the Section 8 Cluster program, we noted the Authority did not follow its established on-site monitoring procedures as follows:

- The Authority did not receive timely written responses (within 60 days) to the findings of the on-site reviews for 9 subrecipients (with expenditures of $22,066,857) and appropriate follow-up action was not taken. Delays in obtaining the written responses ranged from 12 to 266 days after the required timeframe.
- The Authority did not timely close out (within 90 days) the on-site review for seven subrecipients (with expenditures of $18,324,164). Delays in closing out the on-site reviews ranged from 1 to 236 days.
- The Authority did not have evidence in the on-site monitoring review file that a findings notification letter was sent out for one subrecipient (with expenditures of $2,230,741).
- The Authority did not receive written responses to the findings after communicating the on-site review findings for two subrecipients (with expenditures of $2,440,305).

Amounts passed through to subrecipients of the Section 8 Cluster program during the year ended June 30, 2014 totaled $114,816,439.

(Continued)

According to OMB Circular A-133 __.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Additionally, OMB Circular A-102, Grants and Cooperative Agreements with State and Local Governments, requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include ensuring on-site review procedures are performed in a timely manner and are designed to monitor fiscal controls.

Authority management stated that delays in sending out letters and the missing documentation were largely due to staff turnover.

Failure to adequately perform and document on-site monitoring reviews of subrecipients and notify the subrecipients of findings in a timely manner may result in subrecipients not properly administering the Section 8 Cluster program in accordance with laws, regulations, and the grant agreement. (Finding Code 2014-003, 2013-005, 12-05, 11-11)

Recommendation:

We recommend the Authority ensure on-site monitoring reviews are performed and documented for subrecipients in accordance with established policies and procedures. In addition, we recommend the Authority review its process for reporting and following up on findings relative to subrecipient on-site monitoring reviews to ensure timely corrective action is taken.

Authority Response:

Authority management concurs with the recommendation. The Asset Management department will work to alleviate these delays by providing asset managers with reminder e-mails as the required tasks near the deadlines required in the policies and procedures. In addition Asset Management has hired two new asset managers to fill staff vacancies; the new staff start on March 16, 2015. The department will review and/or update internal policies and procedures as needed to ensure they address instances in which exceptions to required timelines or other requirements may be allowed.

Federal Agency: U.S. Department of Housing and Urban Development (USHUD)

Program Name: Home Investment Partnership Program

CFDA # and Program Expenditures: 14.239 ($19,277,633)

Award Numbers: M-13-SG-17-0100

Questioned Costs: None

Finding 2014-004 **Failure to Follow Established Subrecipient Monitoring Procedures for the Home Investment Partnerships Program**

The Authority did not follow its established policies and procedures for monitoring subrecipients of the Home Investment Partnerships (Home) program.

The Authority has implemented procedures whereby program staff perform periodic on-site and desk reviews of subrecipient compliance with regulations applicable to the Home program administered by the Authority. These reviews are formally documented and include the issuance of a report of the review results to the subrecipient summarizing the procedures performed, results of the procedures, and any findings or observations for improvement noted. The Authority's policies require the subrecipient to respond to each finding by providing a written response.

During our testwork over on-site review procedures performed for 19 subrecipients (with expenditures of $7,484,768) of the Home program, we noted the Authority did not follow it established on-site monitoring procedures as follows:

- The Authority did not receive timely written responses (within 60 days) to the findings of the on-site reviews for two subrecipients (with expenditures of $978,404) and appropriate follow-up action was not taken. Delays in obtaining the written responses ranged from 5 to 25 days after the required timeframe.
- The Authority did not receive written responses to the findings after communicating the on-site review findings for two subrecipients (with expenditures of $360,790).
- During our testwork performed, we noted that the Authority did not perform on-site monitoring reviews of three subrecipients (with expenditures of $1,387,785) in fiscal year 2014 in accordance with the Authority's planned monitoring schedule.

Amounts passed through to subrecipients under the Home program during the year ended June 30, 2014 totaled $19,277,633.

According to OMB Circular A-133 __.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Additionally, OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments*, requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include ensuring on-site review procedures are performed in a timely manner, are designed to monitor fiscal controls, and are performed to ensure compliance with program regulations.

Authority management stated that delays in follow up and performing reviews were due to staffing constraints.

Failure to adequately perform and document on-site monitoring reviews of subrecipients and notify the subrecipients of findings in a timely manner may result in subrecipients not properly administering the Home program in accordance with laws, regulations, and the grant agreement. (Finding Code 2014-004, 2013-007)

Recommendation:

We recommend the Authority ensure on-site monitoring reviews are performed and documented for subrecipients in accordance with established policies and procedures. In addition, we recommend the Authority review its process for reporting and following up on findings relative to subrecipient on-site monitoring reviews to ensure timely corrective action is taken.

Authority Response:

Authority management concurs with the recommendation. Going forward a monitoring plan will be developed at the beginning of each year to provide additional oversight to planned monitoring activities to better ensure compliance with internal policies and procedures and regulatory compliance.

(Continued)

Federal Agency: U.S. Department of Housing and Urban Development (USHUD)

Program Name: State Administered Community Development Block Grant Cluster

CFDA # and Program Expenditures: 14.228 ($7,859,857)

Award Numbers: B-11-DN-17-0001/08-351001

Questioned Costs: None

Finding 2014-005 **Failure to Follow Established Subrecipient Monitoring Procedures for the Community Development Block Grant Cluster Program**

The Authority did not follow its established policies and procedures for monitoring subrecipients of the Community Development Block Grant (CDBG) Cluster program.

The Authority has implemented procedures whereby program staff perform periodic on-site and desk reviews of subrecipient compliance with regulations applicable to the CDBG Cluster program administered by the Authority. These reviews are formally documented and include the issuance of a report of the review results to the subrecipient summarizing the procedures performed, results of the procedures, and any findings or observations for improvement noted. The Authority's policies require the subrecipient to respond to each finding by providing a written response.

During our testwork over on-site review procedures performed for 5 subrecipients (with expenditures of $3,749,661) of the CDBG Cluster program, we noted the Authority did not follow its established on-site monitoring procedures for four subrecipients (with expenditures of $3,450,916) in fiscal year 2014 in accordance with the Authority's planned monitoring schedule.

Amounts passed through to subrecipients under the CDBG Cluster program during the year ended June 30, 2014 totaled $7,859,857.

According to OMB Circular A-133 __.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Additionally, OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments*, requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include ensuring on-site review procedures are performed in a timely manner and are designed to monitor fiscal controls.

(Continued)

Authority management stated that the delays in monitoring procedures were due to staff vacancies.

Failure to adequately perform and document on-site monitoring reviews of subrecipients and notify the subrecipients of findings in a timely manner may result in subrecipients not properly administering the CDBG Cluster program in accordance with laws, regulations, and the grant agreement. (Finding Code 2014-005)

Recommendation:

We recommend the Authority ensure on-site monitoring reviews are performed and documented for subrecipients in accordance with established policies and procedures.

Authority Response:

Authority management concurs with the recommendation. The Asset Management department will complete loan risk analysis for these developments and will conduct future inspections based on the risks identified from such analysis. We will also continue to perform MOR inspections on all new CDBG developments as they are transferred to the Asset Management Department for long term monitoring. The Asset Management department will review its policies and procedures for MOR inspections and update them as needed to be in compliance with established policies and procedures.

(Continued)

Federal Agency: U.S. Department of Housing and Urban Development (USHUD)

Program Name: State Administered Community Development Block Grant Cluster
Home Investment Partnership Program

CFDA # and Program Expenditures: 14.228 ($7,859,857)
14.239 ($19,277,633)

Award Numbers: B-11-DN-17-0001/08-351001
M-13-SG-17-0100

Questioned Costs: None

Finding 2014-006 Inadequate Review of OMB Circular A-133 Audit Reports

The Authority did not adequately review OMB Circular A-133 audit reports received from its subrecipients for the Community Development Block Grant (CDBG) Cluster and Home Investment Partnerships (Home) programs.

Subrecipients who receive more than $500,000 in federal awards are required to submit an OMB Circular A-133 audit report to the Authority. The Authority is responsible for reviewing these reports and working with program personnel to issue management decisions on any findings applicable to the Authority's programs.

During our testwork over 10 subrecipients of the CDBG Cluster program (with expenditures of $6,620,904), we noted the following exceptions:

- For 6 of the 10 subrecipients (with expenditures of $4,361,674), an A-133 report was not obtained and reviewed during the fiscal year.
- For 4 of the 10 subrecipients (within expenditures of $2,259,230), an A-133 report was obtained but a review of the report was not documented during the fiscal year.

Additionally, during our testwork over 19 subrecipients of the Home program (with expenditures of $7,484,768), we noted for 8 subrecipients (with expenditures of $2,538,522) the Authority did not review audit reports in a timely manner or issue management decisions on reported findings within six months of receiving the audit reports as required. The reviews were completed between 11-71 days after the due date for the review. Accordingly, management decisions were issued late.

Amounts passed through to subrecipients under the CDBG Cluster and Home programs totaled $7,859,857 and $19,277,633, respectively.

(Continued)

According to OMB Circular A-133 § .400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to the OMB Circular A-133 compliance supplement , a pass-through entity is required to 1) ensure that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period, 2) issue a management decision on audit findings within six months after receipt of the subrecipient's audit report, and 3) ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In the cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Additionally, OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments*, requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure (1) federal awards passed through to subrecipients have been properly included in the subrecipients' OMB Circular A-133 audits, (2) subrecipients expending $500,000 or more in Federal awards during the subrecipients fiscal year have met the audit requirements of OMB Circular A-133, including that the audits are completed within nine months after the end of the subrecipients fiscal year end, (3) the subrecipient audit reports are reviewed in a timely manner, and (4) management decisions on reported findings are issued within six months after receipt of the subrecipients' audit reports.

Authority management stated that delays in performing reviews of audit reports for the CDBG Cluster program were due to transfers of responsibilities between departments and staff vacancies. The delays related to the HOME program resulted from the Authority's practice of only requiring an initial report review to be completed within a six month timeframe.

Failure to obtain and review subrecipient OMB Circular A-133 audit reports in a timely manner could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations and the grant agreement. Additionally, failure to issue management decisions within six months of receiving OMB Circular A-133 audit reports results in noncompliance with federal regulations. (Finding Code 2014-006)

Recommendation:

We recommend the Authority establish procedures to ensure: (1) subrecipient A-133 audit reports are obtained and reviewed within established deadlines, (2) management decisions are issued for all findings affecting its federal programs in accordance with OMB Circular A-133, and (3) follow up procedures are performed to ensure subrecipients have taken timely and appropriate corrective action.

(Continued)

Authority Response:

Authority management concurs with the recommendation. During FY2014, the area responsible for tracking and reviewing audits experienced a 100% turnover in staff, which affected its ability to perform reviews in a timely manner. To address this problem, the department is restructuring its Financial Portfolio Management division to improve efficiencies, establish clearer tracking mechanisms and reduce staff turnover in an effort to complete its reviews within the specified time requirements. The Authority believes that reasonable controls are in place for the HOME program and believes that were any significant issues found by the program officer during their review, the issues would have been brought to the attention of the supervisor for immediate attention and/or action as warranted. The Authority has updated its internal procedures to reflect both levels of review within the six month timeframe.

(Continued)

Federal Agency: U.S. Department of Housing and Urban Development (USHUD)

Program Name: State Administered Community Development Block Grant Cluster
Home Investment Partnership Program

CFDA # and Program Expenditures: 14.228 ($7,859,857)
14.239 ($19,277,633)

Award Numbers: B-11-DN-17-0001/08-351001
M-13-SG-17-0100

Questioned Costs: None

Finding 2014-007 Failure to Report Subaward Information Required by FFATA

The Authority did not report information required by the Federal Funding Accountability and Transparency Act (FFATA) for awards granted to subrecipients of the Community Development Block Grant (CDBG) and Home Investment Partnerships (Home) programs.

FFATA requires the Authority to report certain identifying information related to awards made to subrecipients in amounts greater than or equal to $25,000 under federal grants awarded on or after October 1, 2010. Information required to be reported includes: (1) the agreement date, (2) the subrecipient's nine-digit Data Universal Numbering System (DUNS) number, (3) the amount of the subaward, (4) the date the subaward agreement was signed, and (5) the subaward or other identifying number assigned by the State. During our testwork, we noted the Authority did not report information required by FFATA for subawards made to subrecipients of the CDBG and Home programs during the year ended June 30, 2014. Federal awards passed through to subrecipients of the CDBG and Home programs subject to FFATA reporting requirements totaled $5,911,185 and $10,683,023, respectively, for the year ended June 30, 2014.

According to 2 CFR 170, a pass through entity is required to report certain identifying information for each subaward of federal funds greater than or equal to $25,000. The Federal Funding Accountability and Transparency Act requires the Authority to report certain identifying information related to awards made to subrecipients in amounts greater than or equal to $25,000 under federal grants awarded on or after October 1, 2010. Information required to be reported includes: (1) the agreement date, (2) the subrecipient's nine-digit Data Universal Numbering System (DUNS) number, (3) the amount of the subaward, (4) the date the subaward agreement was signed, and (5) the subaward or other identifying number assigned by the Authority.

Additionally, OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments*, requires nonfederal entities receiving awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

Effective internal controls should include establishing procedures (1) to identify awards subject to FFATA and (2) to ensure subawards are properly reported in accordance with FFATA.

Authority management stated that they have been unable to report the required information due to difficulties which the federal reporting system that have not been resolved since originally identified in 2012.

Failure to report subawards under FFATA in a timely manner reduces the transparency of federal spending to the public and results in noncompliance with federal regulations. (Finding Code 2014-007)

Recommendation:

We recommend the Authority implement procedures to identify and report required subaward information in accordance with FFATA.

Authority Response:

Authority Management concurs with the recommendation and recognizes the importance of timely reporting and compliance with all applicable guidelines. We have collected, and will continue to collect, the appropriate FFATA reporting information as required for both the CDBG and HOME programs. Until HUD provides guidance related to a solution for our inability to access the reporting system or we are granted access, the Authority will attempt to input the information into the federal reporting system on at least a quarterly basis. The Authority continues to work with the HUD representative to obtain guidance.

(Continued)

Federal Agency: U.S. Department of Housing and Urban Development (USHUD)

Program Name: State Administered Community Development Block Grant Cluster

CFDA # and Program Expenditures: 14.228 ($7,859,857)

Award Numbers: B-11-DN-17-0001/08-351001

Questioned Costs: None

Finding 2014-008 Failure to Notify Subrecipients of Federal Funding

The Authority did not communicate required federal program information to subrecipients of the Community Development Block Grant (CDBG) Cluster program.

During our testwork over 10 subrecipients of the CDBG Cluster program (with expenditures of $6,620,904), we noted the Authority did not communicate the Catalog of Federal Domestic Assistance (CFDA) number or Federal Award Number to any of the subrecipients tested.

Amounts passed through to subrecipients under the CDBG Cluster program totaled $7,859,857 during the year ended June 30, 2014.

According to OMB Circular A-133 § .400(d), a pass-through entity is required to identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is research and development, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.

Additionally, OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments*, requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure all required information is provided to each subrecipient.

Authority management stated that it did not communicate certain federal program information to the sub-recipients but did communicate the best information available at the time of the execution of the agreements with the sub-recipients.

Failure to notify subrecipients of federal award information could result in subrecipients improperly omitting expenditures from their schedules of expenditures of federal awards, expending federal funds for unallowable purposes, or not receiving a single audit in accordance with OMB Circular A-133. (Finding Code 2014-008)

Recommendation:

We recommend the Authority review its current process for preparing subrecipient funding notifications to ensure all required information is properly communicated to its subrecipients.

Authority Response:

Authority management concurs with the recommendation and notes that for the Community Development Block Grant-Disaster Recovery ("IKE") Program ("CDBG Program"), the Authority communicated all the same information it received from the Illinois Department of Commerce and Economic Opportunity ("DCEO"), the administrator of the CDBG Program, to the sub recipients. Going forward, the Authority will confirm with the granting agency, the CFDA title and number, award name and number, award year, and if the award is research and development, the name of the Federal agency. The Authority will include the information provided to it from the granting agency on the commitment letter or funding notification to sub recipients.

Finding 2014-009 Inadequate Controls Over Information Systems User Access Controls

The Authority had not established adequate internal controls over information systems used in its financial reporting process.

The Authority operates and maintains a general ledger system application to manage the accounts payable, fixed assets, and purchasing activities of the Authority in addition to supporting information system applications for accounts receivable and loan servicing. During the course of the examination, we identified the following:

- The Authority did not perform a periodic review of user access rights to ensure the current access rights were correctly defined for all users.
- The Authority's network password configuration did not always meet the requirements as defined in their internal policies and procedures.

The Authority's IT Policies and Procedures Manual states user access to systems is based on the least privileged model and requires users to only have access based upon assigned job functions. We noted the Authority does have an effective internal control for user access additions or modifications, but does not perform periodic reviews of all user access rights to ensure the current access is correctly defined within its information systems.

The IT Policies and Procedures Manual also addresses computer security, password management, disaster recovery, and physical security of the information systems to ensure the reliability of the data generated by the systems. The Authority's network password configurations did not meet the requirements as defined in the Manual. During testing, we found instances where users had excessive login attempts and password expiration dates. Also, the external access method did not maintain a password history, which would allow the reuse of old passwords.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls. In addition, generally accepted information technology guidance endorses the development and implementation of suitable change management procedures to control changes to information systems. In addition, effective computer security controls, including unique User-IDs and regularly changed passwords, provide for safeguarding, securing, and controlling access to hardware, software, and information stored in information systems.

Authority management stated the review of current user access is included in the current policy and periodic review plan; however, the instances of excessive login attempts were a misconfiguration.

Without adequate access management procedures, there is a greater risk of unauthorized or improper access to information systems. In addition, lack of strong security parameters increase the risk of unauthorized access to information systems. (Finding Code 2014-009)

(Continued)

Recommendation:

We recommend the Authority perform a periodic review of current user access to information systems to ensure access granted to users is still appropriate and required based on job functions. Additionally, we recommend the Authority update password settings to comply with those documented in the Authority's IT Policies and Procedures Manual.

Authority Response:

Authority management concurs with the recommendation. We have since removed Novell from the authentication process and now use Active Directory as the login authenticator with password settings that comply with the Authority's IT Policies and Procedures. The Authority will enhance the training and oversight for administrators so the review of current user access is consistently performed and documented.

(Continued)

Finding 2014-010 Inadequate Monitoring of Cash Collateralization Requirements

The Authority has not established adequate internal controls to ensure sufficient collateral is obtained to secure public funds held at a bank or savings and loan association where those funds are not covered by the Federal Deposit Insurance Corporation (the "FDIC").

During our audit, we noted the Authority had cash deposits in the amount of $297,102,546. However, the Authority does not have a monitoring process in place to ensure cash deposits held at individual banks that exceeded the FDIC coverage limit of $250,000 were secured with adequate collateral at June 30, 2014. We noted the Authority had not performed an analysis to evaluate whether cash deposits in excess of the FDIC coverage limit were sufficiently collateralized.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Authority to establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that: (1) resources are utilized efficiently, effectively and in compliance with applicable law; (2) obligations and costs are in compliance with applicable law; (3) funds, property and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation; (4) revenues, expenditures, and transfers of assets resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources; and (5) funds held outside the State Treasury are managed, used, and obtained in strict accordance with the terms of their enabling authorities and that no unauthorized funds exist. Effective internal controls should include procedures to monitor cash collateralization requirements to ensure sufficient collateral is obtained for all public funds held at banking institutions where those funds are not covered by the FDIC.

Authority management stated while it is true that the Authority has not monitored the level of collateralization in cash accounts on an ongoing basis it follows the guidelines of its financial management policy, which addresses the collateralization requirements under the various types of investment agreements that the Authority is allowed to engage in. The policy does not specifically address the collateralization requirements of depository accounts that hold cash balances in excess of FDIC coverage limits.

Failure to obtain collateral for deposits held at financial institutions puts the Authority's funds at risk in the event that the financial institution incurs financial difficulties. (Finding Code 2014-010)

Recommendation:

We recommend the Authority review its current procedures to monitor cash deposits held at banking institutions where those deposits exceed the FDIC coverage limit to ensure sufficient collateral is obtained, and/or put preventative measures in place to keep such accounts from exceeding FDIC coverage limits.

(Continued)

Authority Response:

Authority management concurs with the recommendation and has since obtained records from its depository institutions that show sufficient amounts of collateral for nearly all of the funds held at these institutions. The Authority is confident that the risk of loss due to inadequate amounts of collateralization is extremely low, and has further mitigated custodial credit risk associated with its depository institutions by investing its cash funds among a diverse set of banking institutions that maintain sufficiently high ratings from the credit rating agencies to be considered safe. The Authority will, under newly created procedures, receive and review monthly collateral statements from each of its depository institutions. In addition, the Authority will establish guidelines under its financial management policy to address the collateralization requirements of depository accounts as applicable.

Finding 2014-011 Improper Calculation of Payroll Adjustments

The Authority did not properly calculate payments for employees who terminated employment or took a leave of absence.

In connection with processing normal payroll transactions each pay cycle, the Authority makes adjustments to payroll amounts for employees who terminate employment or take a leave of absence. Employees whose employment is terminated are entitled to receive payment for services rendered during the final pay period, adjusted for any accrued or unearned vacation days. The payroll for employees who take an approved leave of absence is reduced for the number of leave days taken. During our testwork of 18 terminated employees and 40 payroll transactions (totaling $100,245), we noted the following errors were made in processing payroll adjustments:

- Two terminated employees (with payments of $8,821) were paid for the entire pay period rather than just the days worked during the pay period. As a result, these employees were overpaid $3,208.
- One terminated employee (with a payment of $298) received a reduction in the final pay amount for seven unearned vacation days; however, the employee had only taken five unearned vacation days. As a result, the employee was underpaid $655.
- One employee on a leave of absence (with a payment of $594) received a payment adjustment for eight days of leave when the approved leave form stated the leave was only for seven days. As a result, the employee was underpaid $198.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Authority to establish and maintain a system or systems of internal fiscal and administrative controls, which shall provide assurance revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the Authority's resources. Effective internal controls should include procedures to ensure payroll adjustments are properly calculated.

Authority management stated with respect to the two terminated employees who were overpaid, a clerical error input the 'effective date' as a 'termination date' on our internal documentation of payroll. This clerical error was due to new staff being trained on our payroll system. Similarly for the terminated employee with unearned vacation days, new HR staff incorrectly calculated the number of days earned by the employee. With respect to the employee on leave of absence, this employee returned from their leave earlier than anticipated, which resulted in the incorrect payment. This was adjusted during a following pay period.

Failure to properly calculate payroll adjustments may result in inaccurate payments to employees and noncompliance with Labor regulations. (Finding Code 2014-011)

(Continued)

Recommendation:

We recommend the Authority review its process for calculating employee payroll adjustments and implement changes necessary to ensure adjustments are properly calculated and paid. We further recommend the Authority make an attempt to recover the overpayments and settle the underpayments identified in the finding.

Authority Response:

Authority management concurs with the recommendation and will ensure that the appropriate staff is trained on payroll processes. In addition, a supervisor will confirm that the payroll authorization form clearly indicates what should be calculated for payroll adjustments.

Prior Findings Not Repeated

Government Auditing Standards

A. Loan Receivable Balance and Allowance for Loan Loss Balance Overstated

The Authority had loan balances in the multi-family program recorded in its financial statements that should have been removed due to the loans being uncollectible. (Finding Code 2013-001, 12-01, 11-02, 10-03, 09-02, 08-03)

In the current year, the Authority obtained approval for additional write-offs from the Illinois Attorney General's Office.

B. Capital Assets Not Being Depreciated

The Authority did not depreciate capital asset additions made to real estate owned. (Finding Code 2013-002)

In the current year, similar exceptions were not identified in the sample tested.

C. Loan Interest Receivable and Revenue Overstated

The Authority over accrued interest receivable for program loans in the Single Family Loan Program Fund. (Finding Code 2013-003)

In the current year, similar exceptions were not identified in the sample tested.

Federal Compliance

D. Improper Preparation of the Consolidated Plan-Annual Performance Report

The Authority had inadequate procedures in preparing the Section 3 Summary Report resulting in the improper preparation of the Consolidated Plan – Annual Performance Report. (Finding Code 2013-004, 12-08)

In the current year, similar exceptions were not identified in our testing of these reports.

E. Internal Policies Not Followed for Administering Section 236 Program

The Authority did not follow internal policies in administering the Section 236 Program. (Finding Code 2013-006, 12-09)

In the current year, similar exceptions were not identified in the sample tested.

F. Untimely Submission of the Section 3 Summary Report

The Authority failed to submit its Section 3 Summary Report on time. (Finding Code 2013-008, 12-10)

In the current year, the Compliance Supplement does not include procedures to test timely submission of reports.

(Continued)

State Compliance

G. Voucher Processing Needs Improvement

The Authority had inconsistent documentation to support its vouchers processed (Finding Code 2013-009, 12-11)

In the current year, similar exceptions were not identified in the sample tested.

H. Incorrect Payment to Local Administering Agency

The Authority made an incorrect payment for the annual operating fees to a Local Administering Agency; the amount did not agree to the Annual administrative fee per the Funding Agreement. (Finding Code 2013-010)

In the current year, similar exceptions were not identified in the sample tested.

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the State of Illinois)

Financial Related Information Summary

Year ended June 30, 2014

Financial related information presented in this section of the report includes the following:

- Financial Related Schedules:
  - Schedule of Expenditures of Federal Awards
  - Notes to the Schedule of Expenditures of Federal Awards

The Schedule of Expenditures of Federal Awards presented in this section has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditor's opinion, it is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The findings and auditor's reports on compliance testing and questioned costs and internal control related to federal awards are presented in the Compliance Report section of this report.

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

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

Federal grant/program title	CFDA number	Award amount	Due to (from) June 30, 2013	Revenue	Expense/ expenditure	Due to (from) HUD June 30, 2014
U.S. Department of Housing and Urban Development:						
Major programs:						
Section 8 Project-Based Cluster:						
Section 8 New Construction and Substantial Rehabilitation	14.182	$ —	—	107,498,703	107,498,703	—
Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation	14.856	—	847,296	7,338,222	7,317,736	867,782
Total Section 8 Project-Based Cluster		—	847,296	114,836,925	114,816,439	867,782
HOME Investment Partnerships Program	14.239	19,277,633	—	19,277,633	19,277,633	—
Community Development Block Grants/ State's program:						
Neighborhood Stabilization Program III	14.228	1,948,672	—	1,948,672	1,948,672	—
Community Development Block Grant	14.228	5,911,185	—	5,911,185	5,911,185	—
Interest Reduction Payments – Rental and Cooperative Housing for Lower Income Families	14.103	3,232,530	—	3,232,530	3,232,530	—
U.S. Department of the Treasury:						
Nonmajor program:						
National Foreclosure Mitigation Counseling Program	21.000	1,836,158	—	1,836,158	1,836,158	—
Total		$ 32,206,178	847,296	147,043,103	147,022,617	867,782

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

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the State of Illinois)

Notes to Schedule of Expenditures of Federal Awards

June 30, 2014

(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, 2014 of $867,782 is included in the business-type activities Administrative Fund with accrued liabilities and other on the Authority's Statement of Net Position.

(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 $10,710,541 in grant expenditures. The amount of HOME loans disbursed during the year ended June 30, 2014 is $6,518,486. The amount of HOME loans outstanding at June 30, 2014 is $235,355,349.

Expense/Expenditure

Amounts reported as expenses on this schedule include approximately $ 7,678,919 in administrative fees retained by the Authority.

Subrecipients

The following amounts were passed through to subrecipients during the year ended June 30, 2014:

CFDA number		Subrecipient amount
14.182 and 14.856	$	114,816,439
14.239		19,277,633
14.103		3,232,530
14.228		7,859,857
21.000		1,836,158
	$	147,022,617

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

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Supplementary Information for State Compliance Purposes

Summary

Year ended June 30, 2014

Summary

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

Fiscal Schedules and Analysis Section:
- 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 Expenditures/Expenses
- Analysis of Administrative Costs
- Description of Cash Accounts
- Description of Investments
- Affordable Housing Trust Fund
- Schedule of Federal and Nonfederal Expenses

Analysis of Operations Section (Unaudited):
- Authority Functions and Planning Program (Unaudited)
- Average Number of Employees (Unaudited)
- Emergency Purchases (Unaudited)
- 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 the Fiscal Schedules and Analysis Section has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditors' opinion, it is fairly stated in all material respects in relation to the basic financial statements as a whole from which it has been derived. The accountants' report also states the Analysis of Operations Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, they do not express an opinion or provide any assurance on it.

Schedule 1

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the State of Illinois)

Fiscal Schedules and Analysis Section

Comparative Schedule of Cash Receipts

Years ended June 30, 2014 and 2013

	2014	**2013**
Administrative Fund:		
Cash received from:		
Interest from program loans	$ 1,977,099	3,791,311
Service fees from program loans	12,379,450	13,857,848
Principal from program loans and other	6,475,068	46,665,377
	20,831,617	64,314,536
Proceeds from federal assistance programs	116,914,884	129,158,231
Proceeds from sale of revenue bonds and notes	41,396,400	18,057,500
Interest on investments	16,768,328	3,058,728
Interest on escrow deposits		56,603
Proceeds from sales and maturities of investment securities	574,507,062	355,627,656
Other	15,623,040	15,150,288
Total	$ 786,041,331	585,423,542
Mortgage Loan Program Fund – Housing Bonds:		
Cash received from:		
Interest from program loans	$ 21,902,215	20,929,263
Principal from program loans	61,804,372	48,101,308
	83,706,587	69,030,571
Proceeds from federal assistance programs	2,975,794	3,858,028
Proceeds from sale of revenue bonds and notes	12,000,000	133,380,000
Interest on investments	261,508	7,664,438
Proceeds from sales and maturities of investment securities	312,035,121	194,542,663
Other	7,280,675	6,001,005
Total	$ 418,259,685	414,476,705

(Continued)

Schedule 1

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the State of Illinois)

Fiscal Schedules and Analysis Section

Comparative Schedule of Cash Receipts

Years ended June 30, 2014 and 2013

		2014	2013
Single Family Program Fund:			
Cash received from:			
Interest from program loans	$	23,113,449	15,336,349
Principal from program loans		70,297,714	93,861,778
Receipts for real estate held for sale		1,006,546	—
		94,417,709	109,198,127
Interest on investments		10,940,632	4,863,683
Proceeds from sale of revenue bonds		16,927,940	140,864,675
Proceeds from sales and maturities of investment securities		184,195,193	1,373,129,781
Transfer of funds from administrative funds		—	1,742,268
Other		6,055,593	11,513
Total	$	312,537,067	1,629,810,047
Illinois Affordable Housing Trust Fund:			
Cash received from:			
Interest on investments	$	8,507	1,580
Grant from State of Illinois		12,511,098	12,280,516
Total	$	12,519,605	12,282,096
Mortgage Loan Program Fund – Affordable Housing Program Trust Fund Bonds:			
Cash received from:			
Interest from program loans	$	1,103,283	1,000,838
Principal from program loans		8,160,127	8,335,768
		9,263,410	9,336,606
Interest on investments		75,984	36,331
Transfer of funds from Illinois Affordable Housing Trust Fund		5,200,000	5,200,000
Proceeds from sales and maturities of investment securities		61,911,814	40,576,321
Other		1,771	28,137
Total	$	76,452,979	55,177,395

(Continued)

Schedule 1

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

Fiscal Schedules and Analysis Section

Comparative Schedule of Cash Receipts

Years ended June 30, 2014 and 2013

		2014	2013
HOME Program Fund:			
Cash received from:			
Interest from program loans	$	2,107,216	2,028,897
Principal from program loans		4,008,808	2,963,224
Other		924,247	372,514
		7,040,271	5,364,635
Interest on investments		9,404	3,913
Federal HOME funds		19,334,416	17,195,734
Total	$	26,384,091	22,564,282
Mortgage Loan Program Fund – Multi-Family Housing Revenue Bonds (Marywood):			
Cash received from:			
Transfers in	$	11,522,731	744,250
Other		4,106,514	—
Total	$	15,629,245	744,250

(Continued)

Schedule 1

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
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Fiscal Schedules and Analysis Section

Comparative Schedule of Cash Receipts

Years ended June 30, 2014 and 2013

		2014	2013
Mortgage Loan Program Fund – Multi-Family Bonds (Turnberry):			
Cash received from:			
Interest from program loans	$	20,772	250,965
Principal from program loans		4,887,499	61,109
Other		21,940	703
		4,930,211	312,777
Interest on investments		—	—
Proceeds from sales and maturities of investment securities		—	549,706
Total	$	4,930,211	862,483
Rental Housing Support Program Fund:			
Cash received from:			
Interest on investments	$	46,452	84,568
Grant from State of Illinois		8,800,174	10,317,701
Total	$	8,846,626	10,402,269
Mortgage Loan Program Fund – Multifamily Initiative Bonds:			
Cash received from:			
Interest from program loans	$	2,328,594	2,844,383
Principal from program loans		12,407,695	4,848,459
Other		37,379	74,131
		14,773,668	7,766,973
Interest on investments		1,128	3,678
Proceeds from sale of revenue bonds		—	—
Proceeds from sales and maturities of investment securities		1,995,695	975,564
Total	$	16,770,491	8,746,215
ARRA Fund:			
Cash received from:			
Interest from program loans	$	211,615	238,680
Principal from program loans		146,341	204,098
Total	$	357,956	442,778

(Continued)

Schedule 1

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

Fiscal Schedules and Analysis Section

Comparative Schedule of Cash Receipts

Years ended June 30, 2014 and 2013

		2014	**2013**
Hardest Hit Fund			
Cash received from:			
Principal from program loans	$	3,891,813	—
Borrower payments		20,570,803	14,022,801
		24,462,616	14,022,801
Interest on investments		2,438	3,701
Federal grant funds		150,000,000	113,500,000
Total	$	174,465,054	127,526,502
Build Illinois Bond Program Fund:			
Cash received from:			
Interest on investments	$	21,691	1,611
Grant from State of Illinois		80,519,847	24,447,133
Total	$	80,541,538	24,448,744
Foreclosure Prevention Program Fund:			
Cash received from:			
Grant from State of Illinois	$	1,230,587	4,181,755
Total	$	1,230,587	4,181,755
Community Development Block Grant Fund:			
Cash received from:			
Federal grant funds	$	6,157,249	10,403,067
Total	$	6,157,249	10,403,067
Neighborhood Stabilization Fund:			
Cash received from:			
Grant recapture payments	$	2,972,772	1,090,894
Federal grant funds		3,325,201	20,744,607
Total	$	6,297,973	21,835,501

See accompanying independent accountants’ report.

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

Fiscal Schedules and Analysis Section

Schedule of Changes in Authority Property

Year ended June 30, 2014

Description	Balance at June 30, 2013	Additions	Depreciation and amortization expense	Retirements	Balance at June 30, 2014
Land	$ 2,600,000	—	—	(2,600,000)	—
Real estate	41,981,402	341,551	—	—	42,322,953
Accumulated depreciation – real estate	(17,378,069)	—	(885,783)	—	(18,263,852)
Building	3,779,900	—	—	(3,779,900)	—
Accumulated depreciation – building	(73,893)	—	73,893	—	—
Furniture and equipment	101,935	—	—	—	101,935
Accumulated depreciation – furniture and equipment	(62,216)	—	(12,845)	—	(75,061)
Computer equipment	520,635	180,082	—	(10,000)	690,717
Accumulated depreciation – computer equipment	(159,209)	—	(114,301)	—	(273,510)
Computer software	1,954,517	750,397	—	(40,847)	2,664,067
Accumulated amortization – computer software	(1,583,107)	—	(154,580)	—	(1,737,687)
Leasehold improvements	18,370	—	—	—	18,370
Accumulated amortization – leasehold improvements	(7,864)	—	(3,158)	—	(11,022)
	$ 31,692,401	1,272,030	(1,096,774)	(6,430,747)	25,436,910

This schedule has been reconciled to property reports submitted to the Office of the Comptroller.
See accompanying independent accountants' report.

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the State of Illinois)

Fiscal Schedules and Analysis Section

Furniture, Equipment, and Leasehold Improvements

June 30, 2014

The Authority leases office facilities at two locations, 401 N. Michigan Ave. (401 facility) and 122 S. Michigan Ave. (122 facility) in Chicago, Illinois. The lease for the 401 facility extends through July 31, 2016 and provides the Authority two successive five-year options to extend the lease beyond that date and, during certain time periods, to lease additional office facilities. The 122 facility is leased through July 31, 2016 under a space utilization agreement with another Illinois agency.

Capital assets in the Administrative Fund consist of investments in furniture, fixtures, and equipment; computer hardware; computer software; and leasehold improvements and are defined by the Authority as assets with an initial, individual historical cost of $5,000 or more. Depreciation and amortization is on a straight-line basis over a period of five to ten years, depending upon the nature of the asset. Leasehold improvements are amortized over the term of the lease.

The Authority records depreciation against Lakeshore Plaza (ML-181) on a straight-line basis over forty years. At June 30, 2014, the net carrying value of ML-181 was $24,059,101 which is net of accumulated depreciation of $18,263,852. Depreciation expense for fiscal year 2014 was $885,783. Although the Authority does not regularly own and operate properties as part of its normal business operations for the benefit of furthering their affordable housing mission it is within their scope to do so. Since its acquisition ML-181 has continued to be owned and operated by the Authority as part of its business operations and therefore is reported as a capital asset. The Authority will continue to evaluate the operation of ML-181 and its impact on operations accordingly.

Capital assets for governmental activities at June 30, 2014 totaling $285,867 are used in the Hardest Hit Fund (HHF). Depreciation and amortization for these items are recorded on a straight-line basis over three years and amounted to $23,944 during fiscal year 2014.

See accompanying independent accountants' report.

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the State of Illinois)

Fiscal Schedules and Analysis Section

Analysis of Significant Account Balances

June 30, 2014

Cash and investments of the Authority's proprietary funds decreased $57.0 million from June 30, 2013 to $919.9 million at June 30, 2014. This decrease is primarily a net result of the following factors:

(a) Cash receipts from interest, service fees, and principal on program loans exceeded interest paid on revenue bonds and notes and cash payments for operating expenses by $145.3 million.

(b) Interest received on investments and transfers in (net) totaled $33.2 million.

(c) Other receipts totaled $18.4 million.

(d) Payments for loan originations totaled $89.8 million.

(e) Payments of bond principal exceeded proceeds of bond issuances by $167.7 million.

Net program loans receivable of the Authority's proprietary funds decreased approximately $75.1 million during fiscal year 2014. This decrease is attributable to decreases in the Authority's Single Family Program Fund ($72.8 million) and the Mortgage Loan Program Fund ($58.6 million), partially offset by increases in the Administrative Fund ($54.2 million) primarily due to financing of short term Multi-Family loans. The decrease in program loans receivable in the Single Family Program was due to Illinois whole loans being packaged into GNMA certificates and FNMA mortgage-backed securities.

Net position of the Authority's governmental activities increased $89.4 million from the June 30, 2013 balance mainly from increases in the Federal HOME program due to the conversion of grant revenues to program loans receivable and grant receipts in the Build Illinois Bond (BIB) Program, HHF and Nonmajor Governmental Funds. There are no net positions for two of the Authority's governmental activities. The equity of the Illinois Affordable Housing Trust Fund (Housing Program) is recorded as due to the State of Illinois. All revenues of the Rental Housing Support Program Fund are ultimately disbursed as grants or administrative expenses, and therefore no net position is recorded on the Authority's financial statements.

Net program loans receivable for the Authority's governmental activities increased by $1.3 million primarily attributable to the BIB program. Cash and investments increased by $106.2 million. State statute and federal regulations restrict the use of governmental funds to program activities.

At June 30, 2014, total outstanding bonds and notes payable were approximately $167.7 million below the prior fiscal year-end. Issuance of the following bonds and notes (with a balance outstanding at June 30, 2014) occurred during fiscal year 2014 (in millions):

Housing Revenue Bonds, Series 2013C	$	16.7
Housing Bonds, 2013 Series D		12.0
Direct Bank Loans		41.4

(Continued)

Schedule 4

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the State of Illinois)

Fiscal Schedules and Analysis Section

Analysis of Significant Account Balances

June 30, 2014

The Authority redeemed $167.3 million of Mortgage Loan Program Bonds and $66.3 million of Single Family Program Fund Bonds and during the fiscal year.

As of June 30, 2014, the Authority had the following debt outstanding (net of unamortized discount and deferred loss on refunding, thereon):

	Number of outstanding issues		**Balance June 30, 2014** (In millions)
Housing Bonds	30	$	394.0
Multifamily Initiative Bonds	9		152.5
Affordable Housing Program Trust Fund Bonds	1		21.1
Total Mortgage Loan Program Fund	40		567.6
Residential Mortgage Revenue Bonds	6		0.2
Homeowner Mortgage Revenue Bonds	19		444.4
Housing Revenue Bonds	7		195.6
Total Single Family Program Fund	32		640.2
Administrative Fund	6		73.9
Total Proprietary Funds	78	$	1,281.7

Deposits held in escrow decreased $7.8 million, due to lower required funding levels. Capital assets decreased approximately $3.5 million primarily due to depreciation of Lakeshore Plaza ($0.9 million) and the disposal of land from IHDA Dispositions LLC Fund ($2.6 million) related to the sale of Marywood Apartment Homes. A portion of the Authority's Administrative Funds Unrestricted Net Position has been designated by resolution. Net Position designated by resolution of the Authority ($130.0 million) changed from the amount designated as of June 30, 2013. The Members of the Authority have designated $60.0 million to purchase homeownership mortgage loans and/or mortgage-backed securities under the Homeownership Mortgage Loan Program which will eventually be purchased with proceeds from future issuance of Authority debt or sold in the secondary market, $40.0 million to provide funds and reserves to support the Mortgage Participation Certificate Program, including the purchase of loans within the Program, $5.0 million to pay expenses for planned technology program enhancements, $10.0 million to the Down Payment Assistance Program, and $15.0 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.

See accompanying independent accountants' report.

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the State of Illinois)

Fiscal Schedules and Analysis Section

Analysis of Significant Variations in Revenues and Significant

Variations in Expenditures/Expenses

June 30, 2014

Proprietary Funds

Interest earned on program loans decreased by $8.2 million, or 14.8% due to decreases within the Authority's Administrative Fund ($1.7 million) and the Single Family Program Fund ($6.9 million), partially offset by increases in the Mortgage Loan Program Fund ($0.4 million) primarily due to the implementation of GASB Statement No. 65 which recognized unamortized loan origination fees and costs in the amount of $8,263,000. Investment income increased $23.5 million or 283.2% due to increased sales of mortgage backed securities sold at a premium compared to the prior year.

Interest expense decreased $2.7 million, or 5.3% mainly due to decreased expenses within the Mortgage Loan Program Fund ($1.7 million) and the Single Family Program Fund ($1.3 million), partially offset by increased expenses within the Administrative Fund ($0.3 million).

Operating expenses, other than interest expense and federal assistance programs, increased approximately $20.8 million. The major components of the change were:

a. A $0.5 million (3.3%) increase in salaries and benefits primarily due to timing of hiring staff and compensation levels, in addition to lower allocations of these costs in some instances to governmental programs that experienced budget constraints, the administration for which the Authority is reimbursed. Gross salary and benefit expenses (before allocations and deferrals) remained flat to the prior year due to the timing of hiring upper management staff for the financial and programmatic areas in addition to lower accrued vacation pay. The average number of full-time equivalent employees for fiscal years 2011 through 2014 is listed in the Analysis of Operations-Average Number of Employees section of this report.

b. A $0.2 million (27.5%) decrease in professional fees primarily due to decreased legal fees and expenses.

c. A $5.4 million (109.6%) increase in general and administrative expenses due to decreases in a number of Administrative Fund accounts and the Single Family Program Fund.

d. A $8.3 million (65.4%) decrease in financing costs.

e. A $12.2 million increase in the allowance for estimated losses on program loans receivable and mortgage participation certificate program. The above allowance is determined based on the Authority's ratings of virtually every loan in its portfolio which were adjusted to reflect the Authority's portion of Risk Share Loans.

(Continued)

f. A $2.2 million increase in program grant expenses due to increased funding for down payment assistance than in the prior year.

Governmental Activities

Total revenues of the Authority's governmental activities increased $102.1 million from the prior year, primarily due to increases in the Illinois Affordable Housing Trust Fund ($7.3 million), HOME Program Fund ($3.4 million), Rental Housing Support Program Fund ($8.3 million), HHF ($43.1 million), BIB Program Fund ($56.1 million) and in Nonmajor Governmental Funds ($6.7 million).

Total expenses of the Authority's governmental activities increased $22.5 million from the prior year, primarily due to increases in the Illinois Affordable Housing Trust Fund ($7.3 million), HOME Program Fund ($0.8 million), Rental Housing Support Program Fund ($8.3 million), HHF ($22.4 million), BIB Program Fund ($4.8 million) and Nonmajor Governmental Funds ($2.4 million). The transfer ($5.2 million) from the governmental activities to the Authority's business-type activities represents an annual transfer, pursuant to the Illinois Affordable Housing Act, from the Illinois Affordable Housing Trust Fund to the Mortgage Loan Program Fund.

See accompanying independent accountants' report.

Schedule 6

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the State of Illinois)

Fiscal Schedules and Analysis Section

Analysis of Administrative Costs

June 30, 2014

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

Description		2014	2013
Employee holiday reception	$	7,500	9,908

See accompanying independent accountants’ report.

Schedule 7

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the State of Illinois)

Fiscal Schedules and Analysis Section

Description of Cash Accounts

June 30, 2014

The Authority's cash and cash equivalents for proprietary funds at June 30, 2014 were maintained in bank accounts, as follows:

Administrative Fund:		
The Northern Trust Company – HUD Section 8 Depository	$	867,781
Bank of America		43,048,349
Bank of New York		155,392,521
Chase Bank		7,985,366
Federal Home Loan Bank of Chicago		60,583,015
Total Administrative Fund		267,877,032
Mortgage Loan Program Fund:		
Housing Bonds:		
Bank of New York		81,153,191
Multifamily Initiative Bonds:		
Bank of New York		3,699,681
Affordable Housing Program Trust Fund Bonds:		
Bank of New York		10,370,461
Total Mortgage Loan Program Fund		95,223,333
Single Family Program Fund:		
Homeowner Mortgage Revenue Bonds:		
Bank of New York		67,299,689
Residential Mortgage Revenue Bonds:		
Bank of New York		143,822
Housing Revenue Bonds:		
Bank of New York		2,986,398
Total Single Family Program Fund		70,429,909
Illinois Housing Authority, LLC:		
Bank of America		1,234,058
PNC Bank		4,846
Total Illinois Housing Authority, LLC		1,238,904
Total Proprietary Funds	$	434,769,178

See accompanying independent accountants' report.

Schedule 8

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the State of Illinois)

Fiscal Schedules and Analysis Section

Description of Investments

June 30, 2014

The fair value of investments for the Authority's governmental and proprietary funds at June 30, 2014 is delineated by type, as follows:

Type		Fair value
Demand Repurchase Agreements	$	223,462
United States Agency Obligations		487,516,572
United States Government Obligations		24,002,267
Municipal Obligations		399,909
	$	512,142,210

See accompanying independent accountants' report.

Schedule 9

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the State of Illinois)

Fiscal Schedules and Analysis Section

Affordable Housing Trust Fund

June 30, 2014

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 generated from the State real estate transfer tax collected by the Illinois Department of Revenue and held within the State Treasury. At June 30, 2014, total funds held were $38,455,406, which consisted of cash held by the Authority escrow agent for pending disbursement of loans and grants.

See accompanying independent accountants' report.

Schedule 10

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the State of Illinois)

Fiscal Schedules and Analysis Section

Schedule of Federal and Nonfederal Expenses

June 30, 2014

		Amount	Percent
Federal expenditures (A)	$	147,022,617	33%
Nonfederal expenditures/expenses		302,413,201	67%
Total expenditures/expenses		449,435,818	100%
Less amount representing loans		(5,022,151)	
Total expenses (B)	$	444,413,667	

Source:
(A) Schedule of Expenditures of Federal Awards
(B) Statement of Activities for the year ended June 30, 2014

See accompanying independent accountants' report.

Authority Functions and Planning Program

The Authority is governed by a bipartisan Board of nine members appointed by the Governor and confirmed by the State Senate. Ms. Mary R. Kenney is the Executive Director of the Authority. In addition, the Authority employs a staff of approximately 253 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-backed securities with underlying mortgage loans on which it provides affordable 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, the Rental Housing Support Program and the Foreclosure Prevention Fund.

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 Build Illinois Bond Program which is funded by bond proceeds, allocated for affordable housing, from the Build Illinois Bond Fund. The funds are appropriated to the Illinois Department of Revenue by the General Assembly. Under this program, the Authority makes affordable

(Continued)

housing grants, loans and investments for low-income families, individuals, senior citizens and persons with disabilities, and at-risk displaced veterans.

The Authority is the administrator of the Foreclosure Prevention Program which is funded by a $50 filing fee the plaintiff pays each time a foreclosure complaint is filed. The funds are appropriated to the Illinois Department of Revenue by the General Assembly. Under this program, the Authority makes grants to HUD certified counseling agencies and community based organizations statewide for pre and post purchase housing counseling, foreclosure counseling/education, counselor/staff training, outreach events, and other capacity building activities.

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, $470.0 million and $15.5 million for federal fiscal years 1992 through 2013 and 2014, 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-nine Risk Sharing Loans totaling $286,115,699 and elected that HUD assume 10% to 90% of the loss with respect to these loans. Nine of these loans totaling $59,121,699 were financed through the issuance of the Authority's Housing Bonds, ten loans totaling $67,898,000 were financed through the issuance of the Authority's Multifamily Initiative Bonds, four loans totaling $15,975,000 were financed by the Administrative Fund, and one loan in the amount of $15,460,000 was financed through the issuance of the Authority's Multi-Family Housing Revenue Bonds (Marywood). The remaining twenty-five loans totaling $127,661,000 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 2014, Standard & Poor's upgraded the Authority's Issuer Credit Rating to AA- from A+ and revised the outlook to stable from positive. The Authority's Issuer Credit Ratings remained at A1/AA- by Moody's Investors Service and Fitch Ratings, respectively. 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, 2014 comprised approximately .01% 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 monies 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.

Since fiscal year 2010, the Authority has replaced its single family whole loans program to mortgage-backed securities in which it would originate and securitize loans backed by government guarantees. Under the Authority's Homeowner Mortgage loan Program, the Authority offers homebuyers two loans: a first mortgage 30-Year Fixed Rate Loan and an optional second mortgage Down Payment Assistance loan. The first mortgage 30-Year Fixed Rate Loan is a 30-year fixed rate amortizing loan and is insured either by FHA, USDA, VA or private mortgage insurance. Each mortgage loan upon funding would be securitized into mortgage-backed securities either as GNMA or Fannie Mae. The Authority would either issue bonds to finance the acquisition of the mortgage-backed securities or sell it into the secondary market.

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.

The Authority is the administrator for the Hardest Hit Fund (HHF) for grants appropriated to the State of Illinois by the United States Department of the Treasury (Treasury) to assist unemployed or substantially underemployed homeowners with interim mortgage payment assistance that will allow them to pursue sustainable income and homeownership through new employment or job training efforts without the immediate threat of default or foreclosure.

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.

(Continued)

Average Number of Employees

	2014	2013	2012	2011
Financial and computer services	42	44	44	44
Human resources, administration, and legal	44	38	36	28
Director's office and housing programs	167	183	192	149
Total	253	265	272	221

Emergency Purchases

The Authority did not have any emergency purchases during fiscal year 2014.

Summary Production Data

Unit production for fiscal year 2014 was 8,824 units, and total production since Authority inception was 233,430 units.

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

Service Efforts and Accomplishments

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.

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

Analysis of Operations Section (Unaudited)

Service Efforts and Accomplishments

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

June 30, 2014

(Unaudited)

	Active		No longer active (3)		Total	
Portfolio	**Developments**	**Units**	**Developments**	**Units**	**Developments**	**Units**
Multi-family Programs	1,480	111,220	320	23,054	1,800	134,274
Single Family Programs (1)	349	3,791	970	24,528	1,319	28,319
Technical Assistance	2	—	69	1,513	71	1,513
MCC & MRB (2)	n/a	69,324	n/a	n/a	—	69,324
Totals	1,831	184,335	1,359	49,095	3,190	233,430

(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

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

Analysis of Operations Section (Unaudited)

Service Efforts and Accomplishments

Unit Production by Percent of Area Median Income Since Inception

June 30, 2014

(Unaudited)

Percent of Area Median Income	Multi-family and single family programs	MCC & MRB (1) (2)	Total
Less than 30%	6,424	819	7,243
31%–50%	57,386	9,304	66,690
51%–80%	84,880	29,641	114,521
81%–100%	n/a	16,993	16,993
101%–120%	268	8,165	8,433
Greater than 121% or Market	15,148	4,402	19,550
Totals	164,106	69,324	233,430

(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.

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

Analysis of Operations Section (Unaudited)

Service Efforts and Accomplishments

Unit Production by Economic Development Region Since Inception

June 30, 2014

(Unaudited)

	Programs				
Region (1)	**Multi-Family**	**Single Family**	**Technical Assistance**	**MCC & MRB (2)**	**Total Developments**
Central	6,841	1,128	—	5,363	13,332
East Central	3,504	586	—	3,154	7,244
North Central	6,649	2,168	—	6,640	15,457
Northeast	92,334	6,936	13	34,646	133,929
Northern Stateline	3,860	800	—	4,707	9,367
Northwest	7,199	2,145	—	3,912	13,256
Southeastern	2,176	876	—	1,452	4,504
Southern	3,175	4,737	—	2,011	9,923
Southwestern	4,538	3,378	—	5,228	13,144
West Central	2,565	1,293	—	2,211	6,069
Statewide	1,433	4,272	1,500	—	7,205
Total	134,274	28,319	1,513	69,324	233,430

(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 – Bureau, 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