

*In the opinion of Ungaretti & Harris and Hawkins, Delafield & Wood, Co-Bond Counsel, under existing statutes and court decisions, (i) interest on the Offered Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), except that no opinion is expressed as to the exclusion of interest on any Offered Bond for any period during which such Offered Bond is held by a person who, within the meaning of Section 147(a) of the Code, is (A) a "substantial user" of the facilities financed with Offered Bond proceeds, or (B) a "related person", (ii) interest on the Offered Bonds is treated as a preference item in calculating alternative minimum taxable income for purposes of the alternative minimum tax imposed under the Code with respect to individuals and corporations, and (iii) under the Illinois Housing Development Act, interest on the Offered Bonds is exempt from Illinois income tax. See "TAX MATTERS."*

**NEW ISSUE – BOOK-ENTRY ONLY**

**\$5,320,000**  
**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**  
**Multifamily Bonds, Series 2003**  
**(Turnberry Village II Apartments)**

**Dated:** Date of Delivery

**Due:** As shown below

The Series 2003 Bonds (the "Offered Bonds") are being issued by the Illinois Housing Development Authority (the "Authority") pursuant to a Trust Indenture dated as of May 1, 2003 (the "Indenture"), between the Authority and LaSalle Bank National Association, Chicago, Illinois, as trustee (the "Trustee"). The Offered Bonds will bear interest from their date of delivery, payable semiannually on each March 1 and September 1, with the first Interest Payment Date being September 1, 2003. Principal of and semiannual interest on the Offered Bonds will be paid by Bank One, National Association, Chicago, Illinois, as Master Paying Agent.

The Offered Bonds will be issued only in registered form. The Depository Trust Company ("DTC"), New York, New York will act as securities depository of the Offered Bonds and its nominee will be the registered owner of the Offered Bonds. Individual purchases of interests in the Offered Bonds must be in the principal amount of \$5,000 or any integral multiple thereof and will be recorded on a book-entry only system operated by DTC. For further details on ownership, payments, notices and other matters under the book-entry only system, see "THE OFFERED BONDS – General" and "DTC BOOK-ENTRY ONLY SYSTEM."

*The Offered Bonds are subject to redemption prior to maturity, including special redemption at par without premium, as more fully described herein under the caption "THE OFFERED BONDS – Redemption."*

The Offered Bonds are being issued to finance a portion of the cost of acquiring and constructing a 108-unit multifamily development to be located in Bloomington, Illinois, and to be known as the Turnberry Village II Apartments. The Authority will make a Mortgage Loan to TVA II, L.P., an Illinois limited partnership. The Mortgage Loan will be made pursuant to the Authority's Ambac Mortgage Participation Interest Certificate Program. Upon closing of the Mortgage Loan, the Authority will sell to the Trustee (and the Trustee will use proceeds of the Offered Bonds to purchase) a 100 percent beneficial ownership interest in the Mortgage Loan, which will be evidenced by a Participation Certificate. The Authority will use proceeds from the sale of the Participation Certificate to make the Mortgage Loan. The full and complete payment of all scheduled payments of principal of and interest on the Participation Certificate will be unconditionally and irrevocably guaranteed pursuant to a surety bond issued by Ambac Assurance Corporation.

The Offered Bonds are special limited obligations of the Authority, and have a claim for payment solely from the Trust Estate established under the Indenture, which includes the Participation Certificate, and all payments with respect thereto, the Pledged Receipts and the Special Funds (except the Rebate Fund), and all right, title and interest of the Authority in and to the Participation Agreement, except for the Unassigned Rights. See "SECURITY AND SOURCES OF PAYMENT FOR THE OFFERED BONDS."

**The Offered Bonds are not general obligations of the Authority and are not a debt of or guaranteed by the State or the United States or any agency or instrumentality thereof. The Authority has determined by resolution that Section 26.1 of the Act, which requires the Governor to submit to the General Assembly the amount certified by the Authority as being required to pay debt service on its bonds because of insufficient moneys available for such payments, shall not apply to the Offered Bonds.**

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**MATURITY SCHEDULES**

**Offered Bonds**

\$1,470,000 4.50% Term Bonds due September 1, 2024 **NOT REOFFERED**

\$1,430,000 4.625% Term Bonds due September 1, 2034 **NOT REOFFERED**

\$2,420,000 4.75% Term Bonds due March 1, 2045 **NOT REOFFERED**

**Price of all Bonds – 100%**

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The Offered Bonds are offered when, as and if issued and received by the Underwriter, subject to prior sale, withdrawal or modification without notice, and to the approval of legality by Ungaretti & Harris, Chicago, Illinois, and Hawkins, Delafield & Wood, New York, New York, Co-Bond Counsel. Certain legal matters will be passed upon for the Authority by its General Counsel, Mary R. Kenney, Esq., and by its counsel, Mayer, Brown, Rowe & Maw, Chicago, Illinois, and for the Underwriter by its counsel, Bell, Boyd & Lloyd LLC, Chicago, Illinois. See "LEGAL MATTERS." It is expected that the Offered Bonds will be available for delivery to DTC in New York, New York, on or about June 18, 2003.

**Bear, Stearns & Co. Inc.**

The date of this Official Statement is June 6, 2003.

No person has been authorized by the Authority, Ambac, the Borrower or the Underwriter to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority, Ambac, the Borrower or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of, the Offered Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made under it shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, Ambac or the Borrower since the date as of which information is given in this Official Statement. This Official Statement contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representations or warranty is made as to the correctness of such estimates and opinions or that they will be realized.

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THE OFFERED BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE INDENTURE RELATING TO THE OFFERED BONDS HAS NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE OFFERED BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF LAW OF THE STATES IN WHICH BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF.

THE UNDERWRITER HAS PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, ITS RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITER DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION. THE OFFERED BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THE OFFERING OF THE OFFERED BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THOSE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE UNDERWRITER INTENDS TO ENGAGE IN SECONDARY MARKET TRADING IN THE OFFERED BONDS, SUBJECT TO APPLICABLE SECURITIES LAWS. THE UNDERWRITER, HOWEVER, IS NOT OBLIGATED TO REPURCHASE ANY OF THOSE BONDS AT THE REQUEST OF ANY OWNER THEREOF. FOR INFORMATION WITH RESPECT TO THE UNDERWRITER, SEE “UNDERWRITING.”

## **OFFICIAL STATEMENT**

**relating to**

**\$5,320,000**

### **ILLINOIS HOUSING DEVELOPMENT AUTHORITY Multifamily Bonds, Series 2003 (Turnberry Village II Apartments)**

#### **INTRODUCTION**

This Official Statement, including the cover page and the Appendices, is being distributed by the Illinois Housing Development Authority (the “Authority”) in order to furnish information in connection with the sale of the Authority’s \$5,320,000 aggregate principal amount of Multifamily Bonds, Series 2003 (Turnberry Village II Apartments) (the “Offered Bonds”). The Offered Bonds are being issued by the Authority pursuant to the Illinois Housing Development Act 20 ILCS 3805/1, *et seq.* (the “Act”) and a Trust Indenture (the “Indenture”) dated as of May 1, 2003, between the Authority and LaSalle Bank National Association, Chicago, Illinois, as trustee (the “Trustee”). The Act authorizes the Authority to issue bonds to make or purchase mortgage loans for the construction and permanent financing of rental multi-family housing developments for persons and families of low and moderate income in the State of Illinois (the “State”). Initially capitalized terms used but not otherwise defined in this Official Statement have the same meanings given them in the Appendix C – “DEFINITIONS AND SUMMARY OF PRINCIPAL DOCUMENTS – DEFINITIONS.”

The Offered Bonds are being issued to finance a portion of the cost of acquiring and constructing a 108-unit multifamily development located in Bloomington, Illinois known as the Turnberry Village II Apartments (the “Development”). The Authority will use proceeds of the Offered Bonds to make a mortgage loan (the “Mortgage Loan”) to TVA II, L.P., an Illinois limited partnership (the “Borrower”), pursuant to a Loan Agreement dated as of May 1, 2003 (the “Loan Agreement”). The Mortgage Loan will be made pursuant to the Authority’s Ambac Mortgage Participation Interest Certificate Program (the “Ambac Program”).

The Authority and Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company (“Ambac”) established the Ambac Program pursuant to a Reimbursement Agreement dated as of May 18, 2001 (the “Reimbursement Agreement”). The Reimbursement Agreement contemplates that the Authority will make mortgage loans that meet the requirements of the Reimbursement Agreement to finance costs of acquiring, constructing and/or renovating multi-family housing developments. A default by the Authority under the Reimbursement Agreement does not constitute a default under the Offered Bonds. To finance a mortgage loan under the Ambac Program, the Authority will enter into a Participation and Servicing Agreement with a participant, such as the Trustee, who will purchase from the Authority a participation certificate representing the assigned interests in the mortgage loan. Proceeds from the sale of a participation certificate will be used to make the underlying mortgage loan. Payments due under the participation certificate will be guaranteed by Ambac pursuant to a surety bond issued by it. Under the Reimbursement Agreement, the Authority agrees to reimburse Ambac, upon demand,

any amount paid by Ambac under a surety bond, subject to certain limits set forth in the Reimbursement Agreement. **Ambac does not insure payment of principal of, interest on or premium in respect of the Offered Bonds.**

Upon delivery of the Offered Bonds:

- the Authority will make the Mortgage Loan to the Borrower. The Mortgage Loan will be evidenced by a note (the “Note”) and secured by a Mortgage (the “Mortgage”) on the Development,
- the Trustee (as the Participant under the Participation and Servicing Agreement, Ambac-Insured Participation Certificate (the “Participation Agreement”) between it and the Authority) will use proceeds of the Offered Bonds to purchase from the Authority a 100 percent beneficial ownership interest in the Mortgage Loan (the “Ownership Interest). The Ownership Interest will be evidenced by a participation certificate (the “Participation Certificate”). The Authority will remain the legal owner, mortgagee of record and servicer of the Mortgage Loan, and
- Ambac will deliver to the Trustee a Surety Bond (the “Ambac Surety Bond”). Under the Ambac Surety Bond, Ambac will unconditionally and irrevocably guaranty the full and complete payment of all scheduled payments of principal of and interest on the Participation Certificate.

The Development will be subject to various regulatory agreements and restrictive covenants. Among these are agreements that will require that certain units be occupied by families or individuals whose incomes are at or below certain median gross income limits. For more information on these and other restrictions placed on each Development see “THE BORROWER AND THE DEVELOPMENT – Rental and Occupancy Restrictions” and Appendix C – “DEFINITIONS AND SUMMARY OF PRINCIPAL DOCUMENTS – THE REGULATORY AGREEMENT.”

The Offered Bonds are special limited obligations of the Authority, and have a claim for payment solely from the Trust Estate established under the Indenture, which includes the Participation Certificate, and all payments with respect thereto, the Pledged Receipts and the Special Funds (except the Rebate Fund), and all right, title and interest of the Authority in and to the Participation Agreement, except for the Unassigned Rights. See “SECURITY AND SOURCES OF PAYMENT FOR THE OFFERED BONDS.”

**The Offered Bonds are not general obligations of the Authority and are not a debt of or guaranteed by the State or the United States or any agency or instrumentality thereof. The Authority has determined by resolution that Section 26.1 of the Act, which requires the Governor to submit to the General Assembly the amount certified by the Authority as being required to pay debt service on its bonds because of insufficient moneys available for such payments, shall not apply to the Offered Bonds.**

The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document.

## **SECURITY AND SOURCES OF PAYMENT FOR THE OFFERED BONDS**

### **General**

The Offered Bonds are special limited obligations of the Authority, and have a claim for payment solely from the Trust Estate established under the Indenture, which includes:

- The Participation Certificate, including all payments with respect thereto, the Pledged Receipts and the Project Fund, the Bond Fund, and the Expense Fund, including any securities in which moneys in any one or more of those Funds are invested, and all proceeds derived therefrom;
- All right, title and interest of the Authority in and to the Participation Agreement, except for the Unassigned Rights; and
- The Ambac Surety Bond and all payments made thereunder; and
- Any and all other real or personal property of every name and nature from time to time by delivery or by writing of any kind pledged, assigned or transferred, as and for additional security under the Indenture by the Authority or by anyone in its behalf, or with its written consent, to the Trustee, which is authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms of the Indenture; provided, however, that the Development and all income and assets derived therefrom or related thereto (other than amounts passed through as payments on the Participation Certificate) shall be excluded from the security granted under the Indenture.

### **Pledged Receipts**

The Pledged Receipts that are pledged as part of the Trust Estate include (a) payments required by the Participation Certificate and paid to or to be paid to the Authority or the Trustee from any source, including both timely and delinquent payments, (b) all other moneys received under the Participation Agreement, except certain fees and expenses, reimbursement and indemnity payments that are, pursuant to the provisions of the Participation Agreement, to be made by the Borrower directly to the Authority and the Trustee, (c) any moneys, Eligible Deposits and other securities on deposit in the Project Fund, the Bond Fund, and the Expense Fund, and (d) the income and profit from the investment of any moneys while held in the Project Fund, the Bond Fund, and the Expense Fund. The Pledged Receipts do not include moneys or securities held in the Rebate Fund.

## **Participation Certificate**

The Participation Certificate must be held at all times for the benefit of the Bond Fund. If the Trustee does not receive a payment on the Participation Certificate by the 24<sup>th</sup> day of any month, or if such date is not a Business Day, then on the next succeeding Business Day, the Trustee must notify the Authority by telephone and demand payment from the Authority in immediately available funds on that day. If the Trustee does not receive any such payment, the Trustee shall immediately file a Notice of Claim under the Ambac Surety Bond and demand payment from Ambac in immediately available funds on or before two business days following receipt of such notice. The Trustee's failure to give such notice does not relieve the Authority or Ambac of its duty to make payments under the Participation Certificate.

## **Ambac Surety Bond**

Ambac unconditionally and irrevocably guarantees the full and complete payment of the scheduled payments of principal and interest due under the Participation Certificate ("Insured Amounts") that are required to be made by or on behalf of the Authority to the Trustee, as such payments become due and payable pursuant to the terms of the Participation Certificate and the Participation Agreement ("Due for Payment") but shall not have been paid to the Trustee.

Ambac will make a deposit of funds in the Bond Fund with the Trustee sufficient for the payment to the Trustee of Insured Amounts that are then Due for Payment but that have not been paid by the Authority no later than 12:00 noon, New York City time, on the later of: (i) two Business Days after receipt on a Business Day by Ambac of a notice of claim and (ii) the Payment Date. "Payment Date" means the 24<sup>th</sup> day of each month (or the Business Day immediately following the 24<sup>th</sup> day, if the 24<sup>th</sup> day is not a Business Day).

Once Ambac has made payment of an Insured Amount to the Trustee, Ambac shall have no further obligation under the Ambac Surety Bond in respect of such Insured Amount. There may be no acceleration of any payment due under the Surety Bond except at the sole option of Ambac.

The Surety Bond is noncancelable. The Surety Bond expires five Business Days after the date on which, to the satisfaction of Ambac and the Trustee, all payments required to be made in respect of the Insured Amounts pursuant to the terms and provisions of the Participation Agreement and the Participation Certificate have been made. Notwithstanding the foregoing, if the payment of any Insured Amount is voided under certain insolvency proceedings, and, as a result thereof, the Trustee is required to return such voided payment, or any portion of such voided payment, Ambac will pay the amount of the such voided payment.

Ambac's obligations under the Surety Bond are irrevocable, absolute and unconditional, irrespective of the value, genuineness, validity, regularity or enforceability of the Participation Certificate or the Participation Agreement or any other agreement or instrument referred to therein, and, to the fullest extent permitted by applicable law, irrespective of any other circumstance whatsoever which might otherwise constitute a legal or equitable discharge or defense of a surety or guarantor.

**AMBAC DOES NOT INSURE PAYMENT OF PRINCIPAL OF, INTEREST ON OR PREMIUM IN RESPECT OF THE OFFERED BONDS.**

**Flow of Funds**

The Indenture creates the following funds to be held by the Trustee: (a) the Bond Fund; (b) the Project Fund (including the Participation Certificate Acquisition Account, the Costs of Issuance Account, and the Capitalized Interest Account therein); (c) the Expense Fund; and (d) the Rebate Fund.

The principal of, premium, if any, and interest on the Offered Bonds will be secured by the foregoing described funds (other than the Rebate Fund which is not available to pay debt service on the Offered Bonds and does not secure the Offered Bonds), including amounts held in the Project Fund and investments of other amounts held by the Trustee under the Indenture. Upon acquisition by the Trustee of the Participation Certificate, the principal of, premium, if any, and interest on the Offered Bonds will be secured by funds held in the Bond Fund and by the Participation Certificate.

Until all amounts due with respect to the Offered Bonds have been paid or provided for, neither the Authority nor the Borrower will have any interest in the Bond Fund or the moneys or Qualified Investments therein, which will always be maintained by the Trustee completely separate and segregated from all other moneys held hereunder and from any other moneys of the Authority and the Borrower.

The Trustee will deposit into the Bond Fund (i) amounts representing accrued interest received in connection with the sale of the Offered Bonds and other amounts required to be transferred from other Funds to the Bond Fund (such as, for example, amounts from the Expense Fund necessary to pay debt service if amounts in the Bond Fund are insufficient), (ii) all amounts received from or in connection with each of the Participation Certificate; (iii) all earnings and gains from the investment of money held in the Project Fund, the Expense Fund and the Bond Fund (subject to the necessary withdrawals and deposits of investment earnings from various Funds to the Rebate Fund pursuant to the Tax Certificate); and (iv) any other amounts received by the Trustee which are subject to the lien and pledge of the Indenture, including the Pledged Receipts, and are not otherwise specifically directed to be deposited into other funds created by the Indenture.

On or before each Interest Payment Date (or any Redemption Date), the Trustee must apply all amounts on deposit in the Bond Fund, (1) first, to transfer to the Rebate Fund any amount required to make a rebate payment in accordance with the Tax Certificate and the most recent calculation of the Rebate Analyst; (2) second, to pay or provide for the payment of Debt Service—on the Offered Bonds becoming due and payable, whether at maturity or by prior redemption, on such date; and (3) third, to transfer to the Expense Fund all amounts necessary to pay the fees and expenses which may then be payable pursuant to the Indenture.

If the amounts held in the Bond Fund are insufficient to pay the principal of or interest on the Offered Bonds when due, the Trustee must charge the following Funds in the following order to cover such deficiency: (i) the Expense Fund and (ii) the Project Fund.

### **Limited Obligations**

The Offered Bonds, together with interest thereon, and redemption premium, if any, are special, limited obligations of the Authority and have a claim for payment solely from the Trust Estate established under the Indenture, are and will always be payable solely from the revenues and income derived from the Trust Estate (except to the extent paid out of moneys attributable to proceeds of the Offered Bonds and the income from the temporary investment thereof), and are and will always be a valid claim of the Owners thereof only against the revenues and income derived from the Trust Estate, which revenues and income may be used for no other purpose than to pay the principal installments of, redemption premium, if any, and interest on the Offered Bonds, except as may be expressly authorized otherwise in the Indenture and in the Loan Agreement.

**The Offered Bonds are not general obligations of the Authority, and neither the State nor any political subdivision of the State shall be liable on the Offered Bonds and the full faith and credit of the State or any political subdivision of the State is not pledged to the payment of the principal of or the interest on the Offered Bonds. The Authority has determined by resolution that Section 26.1 of the Act, which requires the Governor to submit to the General Assembly the amount certified by the Authority as being required to pay debt service on its bonds because of insufficient moneys available for such payments, shall not apply to the Offered Bonds.**

### **Limited Liability of the Borrower**

The liability of the Borrower under the Loan Agreement and the other documents executed and delivered by the Borrower in connection with the issuance of the Offered Bonds is, with certain limited exceptions, non-recourse and is limited to the interest of the Borrower in the Development and to the security given by the Borrower for its obligations thereunder, and no damages, equitable remedies or other personal judgments may be rendered against the Borrower or its assigns in any proceeding arising out of the foregoing documents.

## **AMBAC**

### **Ambac Assurance Corporation**

Ambac Assurance Corporation (“Ambac Assurance”) is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately \$6,115,000,000 (unaudited) and statutory capital of approximately \$3,703,000,000 (unaudited) as of December 31, 2002. Statutory capital consists of Ambac Assurance’s policyholders’



surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance makes no representation regarding the Offered Bonds or the advisability of investing in the Offered Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "AMBAC".

### **Available Information**

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

### **Incorporation of Certain Documents by Reference**

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

- 1) The Company's Current Report on Form 8-K dated January 23, 2003 and filed on January 24, 2003;
- 2) The Company's Current Report on Form 8-K dated February 25, 2003 and filed on February 28, 2003;
- 3) The Company's Current Report on Form 8-K dated February 25, 2003 and filed on March 4, 2003;
- 4) The Company's Current Report on Form 8-K dated March 18, 2003 and filed on March 20, 2003;

- 5) The Company's Current Report on Form 8-K dated March 19, 2003 and filed on March 26, 2003;
- 6) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 and filed on March 28, 2003; and;
- 7) The Company's Current Report on Form 8-K dated March 25, 2003 and filed on March 31, 2003.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "**Available Information**".

### **PLAN OF FINANCE**

The Authority will use proceeds of the Offered Bonds to make the Mortgage Loan to the Borrower pursuant to the Loan Agreement. The Mortgage Loan will be made pursuant to the Ambac Program. The Borrower is a newly created limited partnership whose limited partners are the purchasers of federal low income housing tax credits allocated to the Development. See "THE BORROWER AND THE DEVELOPMENT" for further information regarding the Borrower and the Development.

The Mortgage Loan will be evidenced by the Note and secured by the Mortgage on the Development. Upon closing of the Mortgage Loan, the Authority will sell to the Trustee (and the Trustee will use proceeds of the Offered Bonds to purchase) a 100 percent beneficial ownership interest in the Mortgage Loan, which will be evidenced by the Participation Certificate. The Authority will remain the legal owner, mortgagee of record and servicer of the Mortgage Loan.

The Mortgage Loan will be in a principal amount not to exceed \$6,000,000. It was underwritten with a debt service coverage ratio of at least 1.15 to 1, and 40-year amortization (after an interest only construction/rehabilitation period of approximately 19 months). The Mortgage Loan is non-recourse to the Borrower. The Borrower may not voluntarily prepay the Mortgage Loan until the date that is ten years after the Mortgage Loan commences amortization. That prepayment lockout date is anticipated to be April 30, 2015.

The amortization of the Offered Bonds will be structured based on the assumed receipt of moneys paid to the Authority on account of the Mortgage Loan (and paid by the Authority to the Trustee under the Participation Certificate), together with certain investment income from the investment of certain Funds and Accounts held under the Indenture. Assumptions as to the receipt of principal and interest payments on the Mortgage Loan will be based, in part, on projections of net operating income for the Development, which the Authority believes to be reasonable but which may or may not be realized. To the extent that actual experience differs from those assumptions, the moneys available for the payment of the principal of and interest on Offered Bonds may be affected.

## Other Funding Sources

Other sources of funding for the Development include the following:

*HOME Loan.* The Authority is also making a second mortgage loan to the Borrower in the principal amount of approximately \$3,100,000 under the Authority's HOME Program (the "*HOME Loan*"). The HOME Loan is a non-recourse obligation of the Borrower and is secured by a second mortgage on and security interest in the Development that is subordinate to the Mortgage Loan. A default under the HOME Loan is not a default under the Mortgage Loan.

*FAF Loan.* The Authority is also making a loan to the Borrower in the principal amount of approximately \$1,375,000 under the Authority's FAF Savings Program (the "*FAF Loan*"). The FAF Loan is also a non-recourse obligation of the Borrower and is secured by a third mortgage on and security interest in the Development that is subordinate to the Mortgage Loan and the HOME Loan. A default under the FAF Loan is not a default under the Mortgage Loan.

*Low-Income Housing Tax Credits.* Low-income housing tax credits ("*Tax Credits*") are available for all of the residential units in the Development. Through the syndication of the Tax Credits, approximately \$3,078,000 will be derived by the Borrower for costs of the Development as an equity contribution.

*Multifamily Bonds.* Simultaneously with the issuance of the Offered Bonds, the Authority will issue its Multifamily Bonds, Series 2003B (Turnberry Village II Apartments) (the "*Series 2003B Bonds*"), in an aggregate principal amount not to exceed \$2,000,000. Proceeds of the Series 2003B Bonds will be loaned to the Borrower for use in connection with the Development. The Series 2003B Bonds will be secured by a collateral assignment of certain equity payments to be made to the Borrower by the limited partners of the Borrower. ***The Series 2003B Bonds are not secured by and have no claim for payment from the Trust Estate securing the Offered Bonds, nor are they secured by a mortgage on the Development.***

For additional information concerning estimated sources and uses of funds relating to Offered Bonds, see "ESTIMATED SOURCES AND USES OF FUNDS."

The availability of the Development funding sources described above is conditioned upon the issuance of the Offered Bonds and the simultaneous availability of other funding sources.

## ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the issuance of the Offered Bonds are as follows:

### Sources

Offered Bond Proceeds	\$ 5,320,000
Other Sources <sup>1</sup>	<u>415,405</u>
Total Sources	\$ <u>5,735,405</u>

### Uses

Participation Certificate/ Mortgage Loan	\$ 5,320,000
Costs of Issuance	26,006
Underwriter's Fee	87,999
Capitalized Interest	<u>301,400</u>
Total Uses	\$ <u>5,735,405</u>

1. Includes Borrower's contribution.

## THE OFFERED BONDS

### General

The Offered Bonds will be dated their date of delivery, and will bear interest from their date payable semiannually on each March 1 and September 1, with the first Interest Payment Date being September 1, 2003, at the rates per annum, and will mature on the dates and in the amounts, set forth on the cover page of this Official Statement. The Offered Bonds will be issued only in registered form in denominations of \$5,000 or any integral multiple thereof.

The Offered Bonds will be issued only as fully registered bonds initially registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), which will act as securities depository for the Offered Bonds. For a description of the method of payment of the principal, premium, if any, and interest on the Offered Bonds, and matters pertaining to transfers and exchanges while the Offered Bonds are in book-entry system, see "DTC BOOK-ENTRY ONLY SYSTEM."

If the Offered Bonds are not in the book-entry system, the principal and Redemption Price of all Offered Bonds shall be payable only to the Owner or the Owner's legal representative at the designated corporate trust office of the Trustee (or Master Paying Agent, if one is appointed and serving), and payment of the interest on each Offered Bond shall be made by the Trustee (or Master Paying Agent, if one is appointed and serving) to the Owner by check mailed to the Owner at the Owner's address as it appears on the registration books or, if to the Owner's

designee, to the address of such designee. Interest payable on the Offered Bonds on each Interest Payment Date will be paid to the Owner appearing on the registration books of the Authority or to the designee of such Owner on such date, by check mailed to the Owner at the Owner's address as it appears on such registration books or, if to the Owner's designee, to the address of such designee.

## **Redemption**

The material under this caption describes the provisions of the Indenture and the Offered Bonds pertaining to redemption of the Offered Bonds prior to maturity. Certain capitalized terms used but not defined below have the meanings ascribed to them in Appendix C – "DEFINITIONS AND SUMMARY OF PRINCIPAL DOCUMENTS – DEFINITIONS."

*Extraordinary Mandatory Redemption.* The Offered Bonds are subject to extraordinary mandatory redemption on any date, as a whole or in part in Authorized Denominations, on the earliest practicable date, at a Redemption Price equal to the principal amount of the Offered Bonds to be redeemed, plus accrued interest to the date fixed for redemption:

(1) as a whole or in part, in principal amount equal to payments received by the Trustee on the Participation Certificate exceeding regularly scheduled payments of principal and interest thereon (other than optional prepayments of the Mortgage Loan), including (but not limited to) payments representing casualty insurance proceeds or condemnation awards applied to the prepayment of the Mortgage Loan following a partial or total destruction or condemnation of the Development;

(2) in principal amount equal to payments received by the Trustee on the Participation Certificate representing prepayment on the Mortgage Loan made by the Owner without prepayment penalty while under the supervision of a Bankruptcy court; and

(3) in whole at the written direction of the Authority upon an event of default under the Mortgage Loan.

Any amount available for redemption but which cannot be used therefor because it is an amount less than an Authorized Denomination shall be retained in the Bond Fund.

*Optional Redemption.* The Offered Bonds will be subject to redemption prior to maturity on or after September 1, 2012, at the option of the Authority, in whole or in part, by lot within a maturity, as directed by the Authority, at any time at a Redemption Price equal to 100 percent of the principal amount of each such Offered Bond or portion of such Offered Bonds to be redeemed, plus accrued interest to the date of redemption.

*Mandatory Sinking Fund Redemption.* The Offered Bonds maturing on September 1, 2024, are subject to mandatory redemption in part by lot, on March 1 and September 1 at the times and in the amounts shown below, at a Redemption Price equal to the principal amount of such Offered Bonds so redeemed plus accrued interest to the date of redemption, without premium:

<u>Mandatory Redemption Date</u>	<u>Mandatory Sinking Fund Requirement</u>	<u>Mandatory Redemption Date</u>	<u>Mandatory Sinking Fund Requirement</u>
September 1, 2005	\$ 20,000	September 1, 2015	\$ 35,000
March 1, 2006	25,000	March 1, 2016	40,000
September 1, 2006	25,000	September 1, 2016	40,000
March 1, 2007	25,000	March 1, 2017	40,000
September 1, 2007	30,000	September 1, 2017	40,000
March 1, 2008	25,000	March 1, 2018	40,000
September 1, 2008	25,000	September 1, 2018	45,000
March 1, 2009	30,000	March 1, 2019	45,000
September 1, 2009	30,000	September 1, 2019	45,000
March 1, 2010	30,000	March 1, 2020	45,000
September 1, 2010	30,000	September 1, 2020	45,000
March 1, 2011	30,000	March 1, 2021	50,000
September 1, 2011	30,000	September 1, 2021	45,000
March 1, 2012	30,000	March 1, 2022	50,000
September 1, 2012	35,000	September 1, 2022	55,000
March 1, 2013	35,000	March 1, 2023	50,000
September 1, 2013	30,000	September 1, 2023	55,000
March 1, 2014	35,000	March 1, 2024	55,000
September 1, 2014	40,000	September 1, 2024 †	55,000
March 1, 2015	35,000		

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† Final maturity

The Offered Bonds maturing on September 1, 2034, are subject to mandatory redemption in part by lot, on March 1 and September 1 at the times and in the amounts shown below, at a Redemption Price equal to the principal amount of such Offered Bonds so redeemed plus accrued interest to the date of redemption, without premium:

<u>Mandatory Redemption Date</u>	<u>Mandatory Sinking Fund Requirement</u>	<u>Mandatory Redemption Date</u>	<u>Mandatory Sinking Fund Requirement</u>
March 1, 2025	\$ 55,000	March 1, 2030	\$ 70,000
September 1, 2025	60,000	September 1, 2030	75,000
March 1, 2026	60,000	March 1, 2031	75,000
September 1, 2026	60,000	September 1, 2031	75,000
March 1, 2027	65,000	March 1, 2032	80,000
September 1, 2027	60,000	September 1, 2032	80,000
March 1, 2028	65,000	March 1, 2033	80,000
September 1, 2028	70,000	September 1, 2033	85,000
March 1, 2029	65,000	March 1, 2034	85,000
September 1, 2029	75,000	September 1, 2034 †	90,000

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† Final maturity

The Offered Bonds maturing on March 1, 2045, are subject to mandatory redemption in part by lot, on March 1 and September 1 at the times and in the amounts shown below, at a Redemption Price equal to the principal amount of such Offered Bonds so redeemed plus accrued interest to the date of redemption, without premium:

<u>Mandatory Redemption Date</u>	<u>Mandatory Sinking Fund Requirement</u>	<u>Mandatory Redemption Date</u>	<u>Mandatory Sinking Fund Requirement</u>
March 1, 2035	\$ 90,000	September 1, 2040	\$ 115,000
September 1, 2035	90,000	March 1, 2041	120,000
March 1, 2036	95,000	September 1, 2041	120,000
September 1, 2036	100,000	March 1, 2042	125,000
March 1, 2037	95,000	September 1, 2042	130,000
September 1, 2037	105,000	March 1, 2043	130,000
March 1, 2038	100,000	September 1, 2043	135,000
September 1, 2038	110,000	March 1, 2044	135,000
March 1, 2039	105,000	September 1, 2044	145,000
September 1, 2039	115,000	March 1, 2045 †	145,000
March 1, 2040	115,000		

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† Final maturity

If less than all of the Offered Bonds then Outstanding are called for redemption as described under the captions “THE OFFERED BONDS – Redemption – *Extraordinary Mandatory Redemption*” and “– *Optional Redemption*” (and as a result of such redemption the payments under the Mortgage Note are adjusted over the remaining term of the Mortgage Note),

the Trustee will adjust the Mandatory Sinking Fund Requirements in the same manner as described under the caption “THE OFFERED BONDS – Redemption – Selection of Offered Bonds for Redemption”.

*Selection of Offered Bonds for Redemption.* Except as provided with respect to Offered Bonds that are subject to Mandatory Sinking Fund Requirements, if fewer than all of the Outstanding Offered Bonds are called for redemption, the Trustee will redeem an amount of Offered Bonds (and adjust the Mandatory Sinking Fund Requirements pursuant to the Indenture) so that the resulting decrease in the debt service during each 12-month period ending on a Principal Payment Date is proportional, as nearly as practicable, to the decrease in the payments on each Participation Certificate in each such 12-month period. In the case of a partial redemption of Offered Bonds by lot when Offered Bonds of denominations greater than \$5,000 are then outstanding, each \$5,000 unit of principal will be treated as though it were a separate Offered Bond of the denomination of \$5,000. The Trustee may employ such experts as it may deem necessary to advise it as to the manner of carrying out such redemption and is entitled to rely on such advice; any expense so incurred by the Trustee will immediately upon demand of such Offered Bond, be reimbursed to the Trustee by the Borrower.

If it is determined that one or more, but not all, of the \$5,000 units of principal amount represented by a Offered Bond are to be called for redemption, upon notice of redemption of a \$5,000 unit of such Offered Bond, the Holder of that Offered Bond must surrender the Offered Bond to the Trustee (i) for payment of the redemption price of the \$5,000 unit called for redemption (including without limitation, premium, if any, and interest accrued to the date fixed for redemption); and (ii) for issuance, without charge to the Holder of such Offered Bond, of a new Offered Bond or Offered Bonds of the same Series, of any authorized denomination or denominations in an aggregate principal amount equal to the unmatured and unredeemed principal of, and bearing interest at the same rate and maturing on the same date or dates as, the Offered Bond surrendered.

*Notice of Redemption.* Unless waived by any Holder of Offered Bonds to be redeemed, and except as provided below, official notice of redemption will be given by the Trustee not less than 30 nor more than 45 days prior to the date fixed for redemption by first class mail postage prepaid to the Holder of each Offered Bond to be redeemed, at the address of such Holder shown on the Register; and a second notice of redemption will be sent by certified mail, return receipt requested, at such address to the Holder of any Offered Bond who has not submitted his Offered Bond to the Trustee for payment on or before the date 60 days following the date fixed for redemption of such Offered Bond, in each case stating: (i) the complete official caption, including Offered Bond Series, of the Offered Bond issue of which the Offered Bonds being redeemed are a part; (ii) the date fixed for redemption; (iii) the redemption price or prices; (iv) the numbers of the Offered Bonds to be redeemed, by giving the individual certificate number of each Offered Bond to be redeemed (or stating that all Offered Bonds between two stated certificate numbers, both inclusive, are to be redeemed or that all of the Offered Bonds of one or more maturities have been called for redemption); (v) the CUSIP numbers of all Offered Bonds being redeemed; (vi) in the case of a partial redemption of Offered Bonds, the principal amount of each Offered Bond being redeemed; (vii) the date of issue of the Offered Bonds as originally issued; (viii) the rate or rates of interest borne by each Offered Bond being redeemed;



(ix) the maturity date of each Offered Bond being redeemed; (x) the place or places where amounts due upon such redemption will be payable; (xi) the name, address, telephone number and contact person at the office of the Trustee with respect to such redemption; and (xii) any conditions to the effectiveness of such redemption. The notice will require that such Offered Bonds be surrendered at the principal corporate trust office of the Trustee for redemption at the redemption price and will state that further interest on such Offered Bonds will not accrue from and after the redemption date. CUSIP number identification with appropriate dollar amounts for each CUSIP number also will accompany all redemption payments.

Notwithstanding the foregoing, in the event of mandatory redemptions described under the caption “THE OFFERED BONDS – Redemptions – *Extraordinary Mandatory Redemption*” above, the Trustee will give notice of such redemption not less than seven nor more than ten calendar days prior to the date fixed for such redemption, provided that the Trustee will not give notice of such redemption until the Trustee has received the funds required to pay the redemption price, premium, if any, and interest on the Offered Bonds.

Notice of redemption also will be sent by certified mail, return receipt requested, overnight delivery service or other secure means, postage prepaid, to any Holder of \$1 million or more in aggregate principal amount of Offered Bonds to be redeemed, to certain municipal registered Securities Depositories (described in the Indenture) which are known to the Trustee to be holding Offered Bonds and to at least two of the national Information Services (described in the Indenture) that disseminate securities redemption notices, when possible, at least five days prior to the mailing of notices required by the second preceding paragraph but in any event at least 30 days, but not more than 60 days, prior to the redemption date; provided that *neither failure to send or receive notice of redemption nor any defect in any notice so mailed will affect the validity or sufficiency of the proceedings for the redemption of such Offered Bonds.*

### **Master Paying Agent and Trustee**

The Authority has consolidated all paying agent, registration, transfer and exchange functions for all of its outstanding bonds (including the Offered Bonds) in a master paying agent (the “Master Paying Agent”) appointed from time to time by the Authority. Currently, the Master Paying Agent for the Offered Bonds is Bank One, National Association, Chicago, Illinois. The Authority reserves the right to remove and appoint successor Master Paying Agents upon the same terms and in the same manner as it may remove, and appoint, successor Trustees. All paying agent, registration, transfer and exchange functions with respect to the Offered Bonds will be performed by the Master Paying Agent.

LaSalle Bank National Association, Chicago, Illinois, serves as the Trustee under the Indenture.

The Indenture provides for the Trustee to perform certain duties with respect to the Offered Bonds. The Trustee will perform certain fiduciary duties for the Bondowners, such as maintaining the Funds and Accounts established under the Indenture. The foregoing notwithstanding, the duties of the Trustee to the Bondowners of the Offered Bonds will run

solely to DTC or its nominee as the registered owner of the Offered Bonds, except in connection with certain notices of default and redemption.

### **DTC BOOK-ENTRY ONLY SYSTEM**

**The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources the Authority and the Underwriter believe to be reliable, but neither the Authority nor the Underwriter takes any responsibility for the accuracy or completeness thereof.**

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Offered Bonds. The Offered Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate for the Offered Bonds will be issued for each maturity, of the Offered Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Offered Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Offered Bonds on DTC's records. The ownership

interest of each actual purchaser of each Offered Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Offered Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Offered Bonds, except in the event that use of the book-entry system for the Offered Bonds is discontinued.

To facilitate subsequent transfers, all Offered Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Offered Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Offered Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Offered Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

While the Offered Bonds are in the book-entry only system, redemption notices shall be sent to DTC. If less than all of the Offered Bonds are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Offered Bonds unless authorized by a Direct Participant in accordance with DTC’s Procedures. Under its usual procedures, DTC will mail an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the Offered Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Offered Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the Trustee or the Authority, on payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any

statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee or the Authority, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Offered Bonds at any time by giving reasonable notice to Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, certificates for the Offered Bonds will be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates for the Offered Bonds will be printed and delivered.

**THE TRUSTEE, ANY PAYING AGENT AND THE AUTHORITY WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY PARTICIPANT, ANY PERSON CLAIMING A BENEFICIAL OWNERSHIP INTEREST IN ANY OFFERED BOND UNDER OR THROUGH DTC OR ANY PARTICIPANT, OR ANY OTHER PERSON WHICH IS NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING A BONDOWNER, WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT, THE PAYMENT BY DTC OR ANY PARTICIPANT OF ANY AMOUNT IN RESPECT OF PRINCIPAL OF OR PREMIUM, IF ANY, OR INTEREST ON ANY OFFERED BOND, ANY NOTICE WHICH IS REQUIRED TO BE GIVEN TO BONDOWNERS UNDER THE INDENTURE (EXCEPT IN CONNECTION WITH CERTAIN NOTICES OF DEFAULT AND REDEMPTION), THE SELECTION BY DTC OR ANY PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE OFFERED BONDS, OR ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF THE OFFERED BONDS.**

## **THE BORROWER AND THE DEVELOPMENT**

*The following information concerning the Development and the Borrower has been provided by representatives of the Borrower and has not been independently confirmed or verified by the Underwriter, the Authority or Ambac. No representation is made as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date of this Official Statement.*

### **The Borrower**

The Borrower and the owner of the Development is TVA II, L.P., an Illinois limited partnership. The Borrower's general partner is Freeman Development Corp. an Indiana corporation (the "General Partner"), doing business as FDCI. The General Partner will serve as the property manager (the "Property Manager").

The General Partner currently owns and manages nine other mixed income multifamily rental developments. These developments total 822 units, and are located in Illinois and Indiana.

### **The Development**

The Development will consist of 108 units in five two-story, garden style apartment buildings. The unit make-up is anticipated to be as follows: 32 one-bedroom/one-bathroom 860 square foot units, 52 two-bedroom/two-bathroom 1,088 square foot units, and 24 three-bedroom/two-bathroom 1,288 square foot units. All units will have washer and dryer hook-ups.

The Development common areas will include 234 parking spaces, a clubhouse with a kitchen, a laundry room, a computer room, a fitness center and a playground.

The Development is located in McLean County, in the rapidly growing southwest quadrant of Bloomington, Illinois.

*Management Agreement.* The Property Manager will enter into a management agreement (the "Management Agreement") with TVA II, L.P. and the Authority to manage the Development. The Authority will monitor the Property Manager's compliance with the Regulatory Agreement (as defined below). The initial term of the Management Agreement will be for two years. During the term of the rent up period, the Property Manager will receive an annual management fee equal to 6% of gross collections as compensation for managing the property.

*Replacement Reserve.* At final closing of the Mortgage Loan, \$27,000 (\$250 per unit) will be drawn from the Development Budget and placed in a Replacement Reserve Account to be administered by the Authority. On the first day of the first full month after the final closing, the owner will be required to make monthly deposits of \$2,700 (\$300 per unit per year) into the established Replacement Reserve Account from project operating income.

## **Rental and Occupancy Restrictions**

*The Offered Bonds.* The Borrower, the Trustee and the Authority will enter into a Regulatory Agreement and Declaration of Restrictive Covenants (the “Regulatory Agreement”). In order to preserve the exemption of interest on the Offered Bonds from gross income for federal income tax purposes, the Regulatory Agreement requires that for the Qualified Project Period (as defined therein) which include, among other requirements, (a) that not less than 30 percent of the units in the Development must be occupied by households whose incomes do not exceed 50 percent of the area median income as adjusted for family size and determined in accordance with Section 142(d) of the Code and (b) that at least 70 percent of the units in the Development be set aside for rental to persons or families having incomes at or below 60 percent of area median gross income, adjusted for family size and determined in accordance with Section 142(d) of the Code. As of February 20, 2003, 50 percent of the area median income in McLean County for a family of four is \$34,650 per year and for a family of one is \$24,250 per year. See Appendix C – “DEFINITIONS AND SUMMARY OF PRINCIPAL DOCUMENTS – THE REGULATORY AGREEMENT” for a description of the requirements affecting the operation of the Development in order to assure compliance with the Code and state law.

*Tax Credit Restrictions.* In connection with the use of Tax Credits, the Authority and the Borrower will enter into a extended use agreement that restricts the Borrower’s rental of the units to individuals who meet certain income qualifications. The Borrower will be required to (i) rent all of the units at the Development to individuals whose income does not exceed 60 percent of the area median income (adjusted for family size) (see above for 2002 levels), and (ii) establish and charge maximum rents of not more than 30 percent of 60 percent of the area median income (adjusted for family size) with respect to at least 100 percent of the units.

*HOME Regulatory Agreement.* In connection with the HOME Loan, the Borrower and the Authority will enter into a Regulatory and Land Use Restriction Agreement (“*HOME Regulatory Agreement*”). Under the terms of the HOME Regulatory Agreement, the Borrower is required to rent at least 30 percent of the units to individuals whose income does not exceed 50 percent of the area median income (adjusted for family size).

*FAF Regulatory Agreement.* In connection with the FAF Loan, the Borrower and the Authority will enter into a Regulatory and Land Use Restriction Agreement (“*FAF Regulatory Agreement*”). Under the terms of the FAF Regulatory Agreement, the Borrower is required to rent at least 32 of the units to individuals whose income does not exceed 50 percent of the area median income (adjusted for family size).

## **BONDHOLDERS’ RISKS**

As described herein under the caption, “SECURITY AND SOURCES OF PAYMENT FOR THE OFFERED BONDS,” the Offered Bonds are special limited obligations of the Authority, and have a claim for payment solely from the Trust Estate established under the Indenture, which includes the Participation Certificate, and all payments with respect thereto. No representation or assurance is given or can be made that revenues will be realized by the

Borrower from operation of the Development in amounts sufficient to pay debt service on the Mortgage Loan. Prospective purchasers of the Offered Bonds should consider carefully risk factors that may affect the revenues of the Development. If the Development does not generate revenues sufficient to pay debt service on the Mortgage Loan, the Borrower could default under its Mortgage Loan. If a default on the Mortgage Loan occurs, Ambac has agreed to guaranty repayment of principal and interest due on a timely or accelerated basis under the Mortgage Loan. There are several factors related to the Development that could cause its revenues to be significantly less than anticipated. Some of these risk factors are described below. *This discussion of risk factors is not, and is not intended to be, comprehensive or exhaustive.*

## **Ambac**

Pursuant to the Ambac Surety Bond, Ambac will unconditionally and irrevocably guaranty the full and complete payment of all scheduled payments of principal of and interest on the Participation Certificate. There can be no assurance that Ambac will have sufficient revenues to enable it to make timely payments under the Ambac Surety Bond.

In the event that Ambac is unable to make payments under the Ambac Surety Bond as such payments become due, the Offered Bonds will be payable solely from moneys generated by the Development and paid by the Borrower to the Authority under the Mortgage Loan and in turn by the Authority to the Trustee under the Participation Certificate. See “AMBAC” herein for further information concerning Ambac.

The ratings on the Offered Bonds are dependent on the ratings of Ambac. Ambac’s current ratings are predicated upon, among other things, a level of reserves in excess of the levels required by the various state agencies regulating insurance companies. The level of reserves maintained by Ambac could change over time and this could result in a downgrading of the ratings on the Offered Bonds. Ambac is not contractually bound to maintain its present level of reserves in the future.

## **The Development**

*General.* Prospective purchasers of the Offered Bonds should consider carefully risk factors that may affect the revenues of the Development. There are several factors related to the Development that could cause its revenues to be significantly less than anticipated. Some of these risk factors are described below. *This discussion of risk factors is not, and is not intended to be, comprehensive or exhaustive.*

*Absence of Financial Feasibility Studies.* No independent financial feasibility studies have been conducted to evaluate the ability of the Borrower to meet contemplated operating expenses, working capital needs, and other financial requirements. No assurance can be given that the Borrower will realize future revenues sufficient to meet its operating expenses, working capital needs or other financial requirements.

*Construction.* Delays that extend the construction, equipping and lease up period of the Development beyond those estimated and taken into consideration in the underwriting of the Mortgage Loan could affect the ability of the Borrower to meet its obligations under the Mortgage Loan.

*Casualty and Natural Disasters.* The occurrence of a casualty or natural disaster, including fire, floods, earthquakes and tornadoes, may damage all or a portion of the Development, interrupt utility service, or otherwise impair the operations of the Development or the generation of revenues. The Development consists of multiple buildings. A casualty could affect one building and not the others.

### **Enforceability of Remedies**

The remedies available to the Trustee and the owners of the Offered Bonds upon an event of default under the Loan Agreement, the Regulatory Agreements, the Continuing Disclosure Agreement or the Indenture are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing law and judicial decisions, the remedies provided for under the Loan Agreement, the Regulatory Agreements, the Continuing Disclosure Agreement or the Indenture may not be readily available or may provide that the obligations of the Borrower contained in such agreements will be limited obligations payable solely from the revenues of the Development, and that no trustee, director, officer, member, agent or employee of the Borrower will have any personal liability for the satisfaction of any obligation of the Borrower under such agreements or of any claim against the Borrower arising out of such agreements or the Indenture.

The various legal opinions to be delivered concurrently with the delivery of the Offered Bonds will be qualified to the extent that the enforceability of certain legal rights related to the Offered Bonds and the documents described above is subject to limitations imposed by such things as the exercise of judicial discretion in accordance with general principles of equity (whether applied by a court of law or a court of equity), including judicial limitations on rights to specific performance and bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect affecting creditors' rights, to the extent constitutionally applicable.

### **Certain Factors Affecting the Mortgage Loan**

Generally, the only source of payment for the Mortgage Loan will be the Development and such Mortgage Loan is not the personal obligation of the Borrower. The ability to pay the principal and interest due under the Participation Certificate, which will in turn be used by the Trustee to pay the principal of and interest on the Offered Bonds, is depends on the revenues derived from the Mortgage Loan, including the timely receipt of Mortgage Loan payments and investment earnings on funds held under the Indenture. The ability to make timely Mortgage Loan payments is dependent upon a variety of factors, including the achievement and maintenance of sufficient levels of occupancy, sound management of the Development, the ability to increase rents to cover increases in operating expenses, including taxes, utility charges and maintenance costs, and changes in laws and governmental regulations which affect the cost



of operating the Development. There may be a default on the Mortgage Loan when there are substantial increases in operating costs and market conditions do not permit corresponding increases in rental levels on a timely basis.

## **THE AUTHORITY**

### **Powers and Duties**

The Authority is a body politic and corporate of the State created by the Act for the purposes of assisting in the financing of decent, safe and sanitary housing for persons and families of low and moderate income in the State and assisting in the financing of residential mortgages in the State. To accomplish its purposes, the Authority is authorized by the Act to make mortgage or other loans to nonprofit corporations and limited-profit entities for the acquisition, construction or rehabilitation of dwelling accommodations, to make loans for housing related commercial facilities, to issue or provide for the issuance of obligations secured by or representing an ownership interest in residential mortgages, to acquire, and to contract and enter into advance commitments to acquire residential mortgage loans from lending institutions, and to develop and own rental housing developments. The Act also authorizes the Authority to issue its bonds and notes to fulfill its corporate purposes, including the financing of mortgage and construction loans, the acquisition of residential mortgage loans, the making of loans for housing related commercial facilities and the refunding of bonds and notes previously issued to finance mortgage and construction loans. The Authority has issued various bonds and notes to finance mortgage loans and construction loans, to purchase residential mortgage loans from lending institutions and to make loans to private lending institutions for making new residential mortgage loans.

The Authority has the power under the Act to have up to \$3,600,000,000 of bonds and notes outstanding, excluding those issued to refund its outstanding bonds and notes. As of May 31, 2003, the Authority has debt outstanding in the amount of \$2,075,772,125, which consists of general obligation debt, special limited obligation debt and conduit debt. The conduit debt, which is special limited obligation debt, accounts for \$262,345,000 of that total.

### **Multi-Family Housing Experience**

The Authority has significant experience in the underwriting and servicing of multi-family mortgage loans. In its more than 30 years of operation, the Authority has financed over 200 multi-family developments throughout the State under several separate multi-family bond programs, excluding single project financings. Total loans and other assets outstanding under these programs as of June 30, 2002, were approximately \$1 billion.

The Authority is an FHA-Approved Mortgagee and is also an approved Seller/Servicer under the Fannie Mae Prior Approval Program. The Authority also serves as the State's administering agency for the Low Income Housing Tax Credit. As of January 31, 2003, the Authority's Multi-Family Programs and Technical Services Departments employed 32 people with a variety of skills in multi-family loan underwriting, market research, construction

management, and subsidy contract administration, and its Asset Management Services Department employed 27 people in areas of asset management and other aspects of loan servicing.

## **Membership**

The Authority consists of nine Members appointed by the Governor of the State (the “Governor”) with the advice and consent of the State Senate. The Act provides that not more than three Members shall be from any one county in the State, not more than five shall be of any one political party, and at least one shall be a person of age 60 or older. Members hold office from the second Monday in January of the year of their respective appointments for a term of four years and until their successors are appointed and qualified. The concurrence of five Members is required for action by the Authority. The Governor designates a Chairman from among the Members, and the Chairman is considered to be a Member for purposes of concurrence. The Chairman is the Authority’s chief executive officer. The Members of the Authority serve without compensation. The Authority has determined by resolution to indemnify its Members and officers for any actions taken or omitted to be taken in performing their duties, except actions or omissions which constitute gross negligence or malfeasance. The Members of the Authority are:

TERRY NEWMAN, Chairman – Partner, Katten Muchin Zavis & Rosenman

GERALD SINCLAIR, Vice Chairman – Owner, Sinclair Investment Co.

ROBERT BARKER, Treasurer – President, Barker Brothers, Inc.

VELMA BUTLER, Secretary – Managing Partner, Velma Butler & Company, LTD.

JUDITH ANN DEANGELO, Member – President, JADE Carpentry Contractors, Inc.

RONALD J. GROTOVSKY, Member – Director, Will County Land Use Department

A. GEORGE HOVANEK, Member – Administrator, Medicaid Programs,  
Illinois Department of Public Aid

RICHARD KORDESH, Member – President, The Nucleus Community Institute

A.D. VAN METER, JR., Member – Chairman Emeritus, National City Bank-  
Michigan/Illinois

## **Management**

The Authority employs a staff of approximately 200 persons, including persons who have experience and responsibilities in the areas of finance, accounting, law, mortgage loan underwriting, loan servicing, housing development, market analysis, construction, housing marketing and housing management. Certain members of the senior staff of the Authority are listed below.

KELLY KING DIBBLE, Executive Director, has extensive public and private real estate experience. As a deputy commissioner for the Chicago Department of Planning and Development, Ms. Dibble created initiatives to stimulate the residential and commercial development on the city's near west and south sides. In the private sector, Ms. Dibble was a director of Chicago's Hyatt Development Corp. from 1995 to 2000, providing analysis and project leadership. For the next two years, she was vice president of business development for Rezmar Corp. of Chicago, specializing in hotel and commercial project development. Before graduating in 1985 from Harvard Law School, Ms. Dibble launched her long-standing interest in affordable housing and community development as president of the Harvard Real Estate and Urban Development Forum. Earlier, she earned a B.A. in economics from Wellesley College in 1982.

PETER K. LENNON, Assistant Executive Director, re-joined the Authority on January 31, 2000. From 1992 to 2000 he was Housing Consultant to the Illinois Council on Developmental Disabilities. He originally joined the Authority's staff as Government Affairs Manager in 1983 and served as Assistant Director from 1988 to 1990 when he became Deputy Director, a post he held until 1992. Prior to that time, Mr. Lennon served as Chief of the Office of Housing and Community Development of the Illinois Department of Commerce and Community Affairs and Administrator of its Chicago office. He holds both a Bachelor degree and a Master of Arts degree from the University of Illinois-Springfield.

ROBERT W. KUGEL, Chief Financial Officer, Assistant Treasurer and Assistant Executive Director, has served as Chief Financial Officer of the Authority since 1983. He has been with the Authority since 1975. Previously, he served as finance manager of Telco Marketing Services Inc. for three years and of a division of The Greyhound Corporation for four years. Mr. Kugel holds a Juris Doctor degree from John Marshall Law School, a Master of Business Administration degree from Loyola University of Chicago and a Bachelor of Science degree from Northern Illinois University.

MARY R. KENNEY, General Counsel, returned to the Authority in August 2000. She previously served as an administrator of the Authority's Portfolio Administration Department from 1988 through 1991 and earned her law degree from Loyola University of Chicago. After law school, she joined the Chicago law firm of Johnson & Bell in 1994 where she specialized in commercial litigation. Ms. Kenney has argued before various appellate courts and has participated in all phases of litigation at the trial court level. She also holds a Bachelor of Science degree in finance from DePaul University, where she concentrated in real estate and graduated with honors.

MICHAEL A. JUOZAITIS, Assistant to the Executive Director for Multifamily Programs, joined the Authority in 1976. He has served in various management capacities at the Authority, including Assistant Finance Director since 1984 and until he was appointed on March 1, 2000 to his current post. Prior to that, Mr. Juozaitis also held mortgage credit and single family management positions. Before coming to the Authority, he was employed by Wermer, Rogers & Maher, certified public accountants. Mr. Juozaitis holds a Master of Business Administration degree in Finance from Loyola University in Chicago and a Bachelor of Arts degree in Business Administration and Management from Lewis University.

MICHAEL TODD, Director – Multi-Family Programs, was appointed Manager Multifamily Programs in 1996. Mr. Todd joined the Authority in 1992 and served as the Assistant Manager of Multifamily Programs for one year and as a Housing Development Officer for three years. Previously, he served as the Vice President for The Equity Group for two years and as a Vice President for the Balcor Company for four years. Mr. Todd also served as Vice President for General American Equities for four years and as a Portfolio Manager for Inland Steel Urban Development Corporation for eight years.

LINDA THURMOND, Director – Asset Management Services, joined the Authority from her position as Assistant Vice President and Servicing Manager for Community Investment Corporation (CIC) in Chicago in January 1999. She has a Masters in Management degree from the Kellogg School of Northwestern University. Previously, she worked in investment banking and loan securitization with AM&G Financial Services, Bankers Trust, and Oppenheimer & Company.

WILLIAM W. SMYTHE, Director of Preservation, joined the Authority in 1995 with 25 years of real estate development and management experience. He had previously been Director of Real Estate Operations and Asset Management for the Inland Steel Urban Development Corporation (ISUDC) and Senior Vice President of CRW, the entity resulting from the leveraged buy-out of ISUDC. He holds a Bachelor’s degree from Knox College and a Masters of Business Administration degree from the University of Iowa.

JAMES J. KREGOR, Controller, joined the Authority in December 1985. Prior to that time he served as International Financial Manager of Baker & McKenzie for three years and in various management positions with Northwest Industries, Inc. for eight years. A Certified Public Accountant, Mr. Kregor holds a Master of Business Administration degree from Northern Illinois University and a Bachelor of Business degree from Western Illinois University.

The offices of the Authority are located at 401 North Michigan Avenue, Suite 900, Chicago, Illinois 60611. The telephone number of the Authority is (312) 836-5200.

## **TAX MATTERS**

### **Summary of Co-Bond Counsel Opinions**

In the opinion of Ungaretti & Harris and Hawkins, Delafield & Wood, Co-Bond Counsel, under existing statutes and court decisions, interest on the Offered Bonds is not included in gross income for Federal income tax purposes pursuant to Section 103 of the Code, except that no opinion is expressed as to the exclusion of interest on any Offered Bond for any period during which such Offered Bond is held by a person who, within the meaning of Section 147(a) of the Code, is a (a) a “substantial user” of the facilities financed with the proceeds of the Offered Bonds or (b) a “related person.” The interest on the Offered Bonds is treated as a preference item in calculating alternative minimum taxable income imposed under the Code with respect to individuals and corporations. In rendering such opinion, Co-Bond Counsel have assumed that the Borrower will agree to (and comply with its agreement to) at all times do and perform all acts

and things permitted by law necessary or desirable in order to assure that interest paid on the Offered Bonds shall be excluded from gross income for Federal income tax purposes.

Co-Bond Counsel is also of the opinion that, under the Act, interest on the Offered Bonds is exempt from Illinois income tax.

### **Summary of Certain Federal Tax Requirements**

Under applicable provisions of the Code, the exclusion from gross income of interest on the Offered Bonds for purposes of Federal income taxation requires that (i) at least 40 percent of the units in the Development financed by the Offered Bonds be occupied during the “Qualified Project Period” (as defined below) by individuals whose incomes, determined in a manner consistent with Section 8 of the United States Housing Act of 1937, as amended, do not exceed 60 percent of the median income for the area, and (ii) all of the units of the Development be rented or available for rental on a continuous basis during the Qualified Project Period. “Qualified Project Period” for a Development means a period commencing upon the later of (a) occupancy of ten percent of the units in the Development, or (b) the date of issue of the Offered Bonds and running until the later of (i) the date which is 15 years after occupancy of 50 percent of the units in the Development, or (ii) the first date on which no tax-exempt private activity bonds issued with respect to that Development are outstanding.

In the event of noncompliance with the above requirements arising from events occurring after the issuance of the Offered Bonds, the Treasury Regulations provide that the exclusion of interest on the Offered Bonds from gross income for Federal income tax purposes will not be impaired if the Borrower takes appropriate corrective action within a reasonable period of time after such noncompliance is first discovered or should have been discovered by such Mortgagee.

The Code establishes certain additional requirements which must be met subsequent to the issuance and delivery of the Offered Bonds in order that interest on the Offered Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of the proceeds of the Offered Bonds, yield and other limits regarding investment of the proceeds of the Offered Bonds and other funds, and rebate of certain investment earnings on such amounts on a periodic basis to the United States.

The Borrower must agree to at all times do and perform all acts and things permitted by law necessary or desirable in order to assure that interest paid on the Offered Bonds shall be excluded from gross income for Federal income tax purposes. In furtherance thereof, the Borrower will enter into a regulatory agreement with the Authority to assure compliance with the Code. However, no assurance can be given that in the event of a breach of any such covenants, or noncompliance with the procedures or certifications set forth therein, the remedies available to the Borrower and/or Offered Bond owners can be judicially enforced in such manner as to assure compliance with the above-described requirements and therefore to prevent the loss of the exclusion of interest from gross income for Federal income tax purposes. Any loss of such exclusion of interest from gross income may be retroactive to the date from which interest on the Offered Bonds is payable.

## **Certain Federal Tax Consequences**

The following is a brief discussion of certain Federal income tax matters with respect to the Offered Bonds under existing statutes. It does not purport to deal with all aspects of Federal taxation that may be relevant to a particular owner of a Offered Bonds. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Offered Bonds.

As noted above, interest on the Offered Bonds is a preference item in determining the tax liability of individuals and corporations subject to the Federal alternative minimum tax imposed by Section 55 of the Code. In addition, interest on the Offered Bonds must be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Owners of Offered Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S Corporations and certain foreign corporations), financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits and individuals otherwise eligible for the earned income credit, and to taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for Federal income tax purposes.

Legislation affecting municipal bonds is frequently considered by the United States Congress. There can be no assurance that legislation enacted or proposed after the date of issuance of the Offered Bonds will not have an adverse effect on the tax-exempt status of the Offered Bonds or the market price of the Offered Bonds.

## **LEGAL MATTERS**

The approving opinion of Ungaretti & Harris, Chicago, Illinois, and Hawkins, Delafield & Wood, New York, New York, Co-Bond Counsel, will be delivered with the Offered Bonds. The proposed form of that opinion is included in this Official Statement as Appendix D. Certain legal matters will be passed upon for the Authority by its General Counsel, Mary R. Kenney, Esq., and by its counsel, Mayer, Brown, Rowe & Maw, Chicago, Illinois, and for the Underwriter by its counsel, Bell, Boyd & Lloyd LLC, Chicago, Illinois.

## **LITIGATION**

### **The Authority**

At the time of the issuance and delivery of the Offered Bonds, the Authority will deliver a certificate to the effect that there is not pending or, to its knowledge, threatened, any litigation restraining or enjoining the issuance or delivery of the Offered Bonds or questioning or affecting the validity of the Offered Bonds or the proceedings or authority under which they are to be issued, that neither the creation, organization or existence of the Authority nor the title of any of

the present members or other officials of the Authority to their respective offices is being contested and that there is no litigation pending or, to the Authority' knowledge, threatened which in any manner questions the right of the Authority to enter into the Indenture, the Loan Agreement or any other security documents executed by the Authority or to secure the Offered Bonds in the manner provided in the Indenture and the Act.

### **The Borrower**

At the time of the issuance and delivery of the Offered Bonds, the Borrower will deliver a certificate to the effect that no litigation, proceedings or investigations are pending or, to their knowledge, threatened against it which would have a material adverse effect on the operations or condition, financial or otherwise, of the Borrower or the Development or which in any manner questions the right of the Borrower to enter into the transactions described herein.

### **LEGALITY FOR INVESTMENT**

Under the Act, the Offered Bonds, in the State, are securities in which all public officers and bodies of the State and all its municipalities and municipal subdivisions, all insurance companies and associations, and other persons carrying on an insurance business, all banks, trust companies, savings banks and savings associations, savings and loan associations, investment companies, all administrators, guardians, executors, trustees and other fiduciaries, and all other persons authorized to invest in bonds or other obligations of the State, may properly and legally invest funds, including capital, in their control or belonging to them. State laws governing specific types of investors may, however, impose restrictions on such investors with respect to the legality of purchases of the Offered Bonds and may also contain limitations which permit purchases of the Offered Bonds only with specified percentages of their assets.

### **RATINGS**

The Offered Bonds have received a rating of "AAA" from Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and a rating of "Aaa" from Moody's Investors Service, Inc. Ratings assigned to the Offered Bonds reflect only the views of the respective rating agencies and an explanation of the significance of such ratings may be obtained only from the respective rating agencies. There is no assurance that the ratings which have been assigned to the Offered Bonds will continue for any given period of time or that they will not be revised or withdrawn entirely by such rating agencies if, in the judgment of the rating agencies, circumstances so warrant. A downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Offered Bonds.

### **UNDERWRITING**

The Offered Bonds are being purchased by the Underwriter listed on the cover page of this Official Statement. The Underwriter has agreed to purchase the Offered Bonds at a purchase

price (expressed as a percentage of the aggregate initial principal amount of those Offered Bonds) of 100 percent, pursuant to the terms of a purchase contract. The obligation to make such purchase is subject to certain terms and conditions and the approval of certain legal matters by counsel. The Underwriter will receive a fee of \$87,999 in connection with the sale of the Offered Bonds, to be paid by the Authority. The Underwriter may offer and sell the Offered Bonds offered to the public to certain dealers (including dealers depositing the Offered Bonds into unit investment trusts, certain of which may be sponsored or managed by the Underwriter) and others at prices lower than the public offering prices stated on the cover page hereof.

The Borrower has agreed to indemnify the Authority and the Underwriter against certain civil liabilities, including liabilities under the Federal securities laws.

### **CONTINUING DISCLOSURE**

In order to assist the Underwriter in complying with certain amendments to Rule 15c2-12 of the Securities and Exchange Commission, the Authority has agreed to provide to certain parties certain annual financial information and operating data and notices of certain material events. A summary of the Authority's continuing disclosure undertaking is included as Appendix E to this Official Statement. This undertaking may be enforced by any beneficial owner of the Offered Bonds, but the Authority's failure to comply with this undertaking will not be a default under the Indenture.

The Borrower is an Obligated Person (as defined in Rule 15c2-12). Accordingly, the Borrower has agreed, pursuant to a continuing disclosure undertaking, to provide to certain parties certain annual financial information and operating data and notices of certain material events. A summary of the Borrower's continuing disclosure undertaking is included as Appendix F to this Official Statement. This undertaking may be enforced by any beneficial or registered owner of Offered Bonds, but the Borrower's failure to comply with this undertaking will not be a default under the Indenture.

### **FINANCIAL STATEMENTS**

The financial statements of the Authority as of and for the year ended June 30, 2002, have been audited by KPMG LLP, independent auditors, to the extent and for the period indicated in their report, which is also included in Appendix A.

The interim financial statements of the Authority at, and for the six-month period ended, December 31, 2002, are included in Appendix B. These financial statements are unaudited.

### **INVESTMENT POLICY**

The Authority's management of funds under its control is governed by the Act and the Authority's Investment and Cash Management Policy, as amended from time to time. The Act permits the Authority to invest its funds in any investments as may be lawful for fiduciaries in



the State of Illinois, for Illinois or nationally chartered banks and savings banks and fiduciaries subject to the Employment Retirement Income Security Act of 1974.

The Authority's Investment and Cash Management Policy (the "Investment Policy"), contains the following stated objectives:

- Safety of principal. Each investment transaction shall seek to ensure that capital losses within the investment portfolio are avoided, whether they be from securities defaults or erosion of market value.
- Liquidity. The investment portfolio shall remain sufficiently flexible to enable the Authority to meet all operating requirements which may be reasonably anticipated in any fund.
- Maximum rate of return. The investment portfolio shall be designed with the purpose of regularly exceeding the average return of United States Treasury obligations of comparable maturities. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein and prudent investment principles.

In addition, the Investment Policy contains the following provision with respect to instruments commonly known as derivative securities:

- Leveraging agreements such as reverse repurchase agreements and derivative investments such as interest only strips and principal only strips of mortgage backed securities, inverse floaters, future contracts and options on future contracts, interest rate caps, floors, and swaps ("Derivatives") shall be purchased and used only in conjunction with interest rate risk management. Such leveraging agreement or Derivatives shall be matched with an underlying existing asset in the portfolio or employed in conjunction with a specific bond or note financing program and shall be used to offset or hedge a specific quantifiable risk to that underlying asset or bond or note financing program. These securities underlying such arrangement or agreement shall be Permitted Investments.

The preponderance of the Authority's investments are demand repurchase agreements concerning obligations of the United States or its agencies or direct investments in such obligations.

For additional information regarding the Authority's investments as of June 30, 2002, see "AUTHORITY ANNUAL FINANCIAL STATEMENTS – Note C – Cash and Investments" attached as Appendix A.

## MISCELLANEOUS

The foregoing summaries and explanations do not purport to be comprehensive, and are expressly made subject to the exact provisions of the documents referred to in this Official Statement. Copies of the Indenture, the Loan Agreement, the Tax Certificate, the Regulatory Agreements, the Mortgage Note, the Mortgage, the Continuing Disclosure Agreement and certain other documents referred to herein may be obtained from the Trustee. Any statements in this Official Statement involving matters of opinion or forecasts, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement among the Authority, the Borrower, or the Underwriter and the purchasers or holders of any Offered Bonds.

The execution and delivery of this Official Statement have been duly authorized by the Authority.

Dated: June 6, 2003.

## ILLINOIS HOUSING DEVELOPMENT AUTHORITY

/s/ Kelly King Dibble

Executive Director

**APPENDIX A**  
**AUTHORITY ANNUAL FINANCIAL STATEMENTS**

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

**Financial Statements As of and For the Year Ended June 30, 2002**

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303 East Wacker Drive  
Chicago, IL 60601

## Independent Auditors' Report

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

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Illinois Housing Development Authority (the Authority), a component unit of the State of Illinois, as of and for the year ended June 30, 2002, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority, as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**KPMG LLP**

October 18, 2002



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ILLINOIS HOUSING DEVELOPMENT AUTHORITY  
(A Component Unit of the State of Illinois)  
MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Illinois Housing Development Authority's (Authority) annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal year that ended on June 30, 2002. Please read it in conjunction with the Authority's financial statements, which follow this section.

**Financial Highlights**

- Net assets of the Authority increased \$52.7 million, to \$563.3 million as of June 30, 2002, from increases in both the Authority's proprietary (\$9.0 million) and governmental (\$43.7 million) funds.
- Operating income of the Authority's proprietary funds declined \$9.6 million from the prior year results as decreases in interest on program loans (\$13.5 million) and investment income (\$4.9 million) were only partially offset by lower interest expense (\$9.2 million).
- The Authority's debt outstanding of \$1,888.2 million as of June 30, 2002 decreased \$121.4 million from the amount outstanding as of June 30, 2001. Debt issuances for the year totaled \$188.5 million.
- Loan originations for the year totaled \$138.7 million and \$57.9 million in the Authority's proprietary and governmental funds, respectively.

**Overview of the Financial Statements**

The financial statements consist of three parts – management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the Authority:

- The first two statements are Authority-wide financial statements that provide information about the Authority's overall financial position and results. These statements, which are presented on an accrual basis, consist of the Statement of Net Assets and the Statement of Activities.
- The remaining statements are fund financial statements of the Authority's two governmental funds, for which activities are funded primarily from State appropriations and for which the Authority follows a modified accrual basis of accounting, and of the Authority's major and non-major proprietary funds, which operate similar to business activities and for which the Authority follows an accrual basis of accounting.
- The basic financial statements also include a "Notes to Financial Statements" section, that explains some of the information in the Authority-wide and fund financial statements and provides more detailed data.
- The Notes to Financial Statements are followed by a "Supplementary Information" section, which presents the financial statements of the Authority's non-major proprietary funds.

The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of these statements. The prior year results referred to throughout this section for comparison purposes are as previously reported. All percentage variances shown are calculated based on un-rounded amounts.

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

### **Fund Financial Statements**

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

- Governmental funds – The Authority has two governmental (special revenue) funds. The Authority is the administrator of these funds, the revenues of which are appropriated to the Illinois Department of Revenue for the purpose of making housing grants and loans. These fund statements focus on how cash and other financial assets flowing into the funds have been used. Revenues converted to long-term loans comprise a substantial portion of the funds' net assets.
- Proprietary funds – The Authority's primary activities are in its proprietary funds, which activities are accounted for in a manner similar to businesses operating in the public sector. Funding has primarily arisen through the issuances of bonds, both tax-exempt and taxable, the proceeds of which are primarily used to make various types of loans to finance low and moderate-income housing. The net assets of these funds represent accumulated earnings since their inception and are generally restricted for program purposes.

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

**Net Assets.** The combined net assets of the Authority increased by \$52.7 million, or 10.3%, from the June 30, 2001 amount. The following table shows a summary of changes from prior year amounts by fund type.

Illinois Housing Development Authority's Net Assets  
(In millions of dollars)

	Governmental Activities		Business-type Activities		Total		Inc. / (Dec.)	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>Amt</u>	<u>%</u>
<i>Assets:</i>								
Cash & investments	\$68.8	\$77.7	\$144.3	\$162.2	\$213.1	\$239.9	\$(26.8)	(11.2)
Program loans receivable	5.7	4.3	38.1	52.2	43.8	56.5	(12.7)	(22.4)
Other current assets	<u>(1.2)</u>	<u>(1.4)</u>	<u>18.1</u>	<u>20.9</u>	<u>16.9</u>	<u>19.5</u>	<u>(2.6)</u>	(13.7)
Total current assets	73.3	80.6	200.5	235.3	273.8	315.9	(42.1)	(13.3)
Investments – Restricted	-	-	616.4	638.7	616.4	638.7	(22.3)	(3.5)
Net program loans								
Receivable	210.7	159.8	1,518.7	1,590.0	1,729.4	1,749.8	(20.4)	(1.2)
Other assets	<u>.5</u>	<u>.4</u>	<u>68.6</u>	<u>68.4</u>	<u>69.1</u>	<u>68.8</u>	<u>.3</u>	.3
Total assets	284.5	240.8	2,404.2	2,532.4	2,688.7	2,773.2	(84.5)	(3.0)
<i>Liabilities:</i>								
Bonds and notes payable	-	-	49.5	63.9	49.5	63.9	(14.4)	(22.5)
Deposits held in escrow	-	-	142.0	139.6	142.0	139.6	2.4	1.7
Other current liabilities	<u>-</u>	<u>-</u>	<u>95.2</u>	<u>113.4</u>	<u>95.2</u>	<u>113.4</u>	<u>(18.2)</u>	(16.0)
Total current liabilities	-	-	286.7	316.9	286.7	316.9	(30.2)	(9.5)
Bonds & notes payable	<u>-</u>	<u>-</u>	<u>1,838.7</u>	<u>1,945.7</u>	<u>1,838.7</u>	<u>1,945.7</u>	<u>(107.0)</u>	(5.5)
Total liabilities	-	-	2,125.4	2,262.6	2,125.4	2,262.6	(137.2)	(6.1)
<i>Net assets:</i>								
Invested in capital								
assets, net	-	-	.7	.9	.7	.9	(2)	(31.2)
Restricted	-	-	188.3	180.6	188.3	180.6	7.7	4.3
Unrestricted	<u>284.5</u>	<u>240.8</u>	<u>89.8</u>	<u>88.3</u>	<u>374.3</u>	<u>329.1</u>	<u>45.2</u>	13.7
Total net assets	<u>\$284.5</u>	<u>\$240.8</u>	<u>\$278.8</u>	<u>\$269.8</u>	<u>\$563.3</u>	<u>\$510.6</u>	<u>\$52.7</u>	10.3

Net assets of the Authority's governmental funds increased \$43.7 million, or 18.2% to \$284.5 million. Total program loans receivable (current and non-current), which are funded by a portion of the State Real Estate Transfer Tax and federal funds and for which there is no repayment liability, increased by \$52.3 million, or 31.9% to \$216.4 million. Cash and investments decreased by \$8.9 million, or 11.5% as loan and grant payouts, plus administrative expenses exceeded revenues and repayments of loans. Net assets of the funds are classified as restricted as the uses of funds are directed by State statute, which restricts the use of the Affordable Housing Trust Fund and the HOME programs to program activities.

Net assets of the Authority's proprietary funds increased \$9.0 million, or 3.3% to \$278.8 million. The increase primarily resulted from earnings of the Authority's various multi-family lending and other programs, partially offset by losses in the Authority's single-family program. The increase in net assets was \$9.6 million, or 51.4%, below the increase of the prior year due primarily to the above mentioned losses. Cash and investments (current and non-current) decreased \$40.2 million, or 5.0% to \$760.7 million, as funds were used for loan originations and debt retirements. Program loans receivable (current and non-current) decreased \$85.4 million, or 5.2% to \$1,556.8 million due mainly to decreases (\$70.9 million) in the Authority's Single Family Mortgage Program Funds as loan prepayments exceeded loan originations. Total bonds and notes payable (current and non-current) decreased \$121.4 million, or 6.0%, due primarily to retirement of debt, both from scheduled and special redemptions, within the Authority's Mortgage Loan Program Funds.

Restricted net assets of the Authority's proprietary funds increased \$7.7 million, or 4.3%. The increases in net assets within the Authority's various bond funds were \$5.3 million, all of which are classified as restricted. The remaining restricted increases in net assets were from the FAF program, earnings of which are recorded in the Authority's Administrative Funds.

**Statement of Activities.** The Statement of Activities shows the sources of the Authority's changes in net assets as they arise through its various programs and functions. Two programs, the Illinois Affordable Housing Trust Fund and the HOME program, are shown as governmental activities, and seven programs are shown as business-type activities. The business-type activities include three housing lending programs, the results of which are primarily recorded within the funds comprising the three bond fund programs noted (the Multi-Family Mortgage Loan Programs, Single-Family Mortgage Loan Programs, and the Affordable Housing Program Trust Fund Bonds), federal assistance activities, which involve the allocation of various federal subsidy funds directly to certain of the Authority's borrowers, and the tax credit authorization and monitoring, preservation, and FAF lending programs, all of which activities are recorded in the Authority's Administrative Funds.

A condensed Statement of Activities for the fiscal year ended June 30, 2002 is shown in the table below.

Illinois Housing Development Authority's Changes in Net Assets  
(In millions of dollars)

	<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Total</b>
Revenues:			
Program revenues:			
Charges for services	\$3.3	\$142.1	\$145.4
Grant/federal revenues	26.9	156.5	183.4
General revenues:			
Taxes	32.6	-	32.6
Investment income	<u>-</u>	<u>4.3</u>	<u>4.3</u>
Total revenues	62.8	302.9	365.7
Expenses:			
Direct	13.8	286.1	299.9
Administrative	<u>-</u>	<u>13.1</u>	<u>13.1</u>
Total expenses	13.8	299.2	313.0
Excess before transfers	49.0	3.7	52.7
Transfers	<u>(5.3)</u>	<u>5.3</u>	<u>-</u>
Increase in net assets	<u>\$43.7</u>	<u>\$9.0</u>	<u>\$52.7</u>

Revenues of the Authority's governmental activities (\$62.8 million) were generated primarily from tax and federal program funds (\$59.5 million). Direct expenses consisted of grants (\$8.8 million), allocations of expenses incurred (\$3.5 million) to administer the programs and provisions for estimated losses on program loans receivable (\$1.5 million). The transfer (\$5.3 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 Affordable Housing Program Trust Fund Bond Funds.

Revenues of the Authority's business-type activities were primarily from charges for services (\$118.1 million), program investment income (\$24.0 million) and the pass-through of federal assistance programs' funds (\$156.5 million). Charges for services consist primarily of interest income on loans for the three housing lending programs, but also servicing fee and application fee income. Program investment income is that income earned within the Authority's bond funds, the investments and the income of which is restricted to those funds.

Direct expenses of the Authority's business-type activities consist primarily of interest expense (\$124.3 million) on Authority debt incurred to fund its various lending programs and the pass-through of federal assistance programs' funds (\$156.5 million). The direct expenses also include Administrative Funds allocations of expenses of Authority departments directly involved in the production or monitoring activities associated with the programs, as well as certain costs, both internally and externally incurred, associated with these programs. Administrative expenses (\$13.1 million), which were incurred within the Authority's Administrative Funds, include all other administrative and supportive functions and all overhead expenses.

Within the Authority's business-type activities, its charges for services and program investment income (\$142.1 million) exceeded direct (excluding federal assistance programs' funds) expenses (\$129.6 million) by \$12.5 million. By design, charges for services, primarily interest income on loans, is not intended to fully offset bond interest expense and other direct expenses since a portion of bond proceeds are set aside to provide reserves, which are invested and produce income. This income, plus interest on loans, is an amount adequate to pay Authority obligations.

The Authority's business-type activities also generated \$4.3 million of unrestricted investment income, which was used primarily to partially offset its administrative costs. Program revenues of the Multi-Family Mortgage Loan Programs exceeded direct expenses by \$17.6 million (See the Statement of Activities) and thus provided most of the Authority's increases in net assets. The Affordable Housing Program Trust Fund Bond Program incurred net expenses of \$4.1 million, which is offset by a \$5.3 million transfer from the Illinois Affordable Housing Trust Fund. Program direct expenses of the Single-Family Mortgage Loan Programs exceeded program revenues by \$4.7 million, as the Programs were adversely affected by a high level of prepayments of higher coupon mortgage loans, which were then reinvested, prior to the redemption of underlying bonds, at rates lower than the underlying bond interest rates.

### **Proprietary Fund Results**

Net assets of the Authority's proprietary funds increased from the June 30, 2001 amount by \$9.0 million, or 3.3% to \$278.8 million. The following table summarizes the changes in net assets of the Authority's proprietary funds for the fiscal years ended June 30, 2002 and June 30, 2001.

Changes in Net Assets/Business-type Activities  
(In millions of dollars)

	<u>2002</u>	<u>2001</u>	<u>Inc. / (Dec)</u>	
			<u>Amt</u>	<u>%</u>
Operating revenues:				
Interest earned on program loans	\$101.2	\$114.7	\$(13.5)	(11.8)
Investment income	28.2	33.1	(4.9)	(14.7)
Federal assistance programs	156.5	164.3	(7.8)	(4.8)
Service fees	8.4	7.5	.9	11.1
Development fees	.1	.3	(.2)	(72.9)
HUD savings	2.5	1.5	1.0	70.2
Other	<u>6.0</u>	<u>6.2</u>	<u>(.2)</u>	(2.5)
Total operating revenues	302.9	327.6	(24.7)	(7.5)
Operating expenses:				
Interest expense	124.3	133.5	(9.2)	(6.9)
Federal assistance programs	156.5	164.3	(7.8)	(4.8)
Salaries and benefits	9.9	8.7	1.2	12.9
Professional fees	1.7	2.2	(.5)	(22.0)
Other general and administrative	4.7	4.3	.4	10.3
Financing costs	2.1	1.3	.8	61.2
Provision for losses on program loans receivable	<u>-</u>	<u>-</u>	<u>-</u>	-
Total operating expenses	299.2	314.3	(15.1)	(4.8)
Operating income	3.7	13.3	(9.6)	(71.1)
Operating transfers in	<u>5.3</u>	<u>5.3</u>	<u>-</u>	-
Change in net assets	9.0	18.6	(9.6)	(51.4)
Net assets at beginning of year	<u>269.8</u>	<u>251.2</u>	<u>18.6</u>	7.4
Net assets at end of year	<u>\$278.8</u>	<u>\$269.8</u>	<u>\$9.0</u>	3.3

Interest earned on program loans decreased by \$13.5 million, or 11.8% due primarily to decreases of \$10.2 million within the Authority's Single Family Mortgage Revenue Program Funds, due to lower loan amounts outstanding resulting from prepayments of higher yielding mortgage loans. Interest earned on program loans of the Authority's Multi-Family Mortgage Revenue Funds also declined as the interest portion of debt service decreased, due to the scheduled amortizations of these loans.

Investment income decreased \$4.9 million, or 14.7% and reflected both lower investment yields and balances. The primary decreases in investment income were within the Multi-Family Housing Bond Funds (\$2.6 million, as funds previously held were used to redeem bonds early in the fiscal year), the Administrative Funds, which declined \$2.0 million due mainly from lower investment yields, and the Housing Development Bond Funds (\$.9 million, as funds were used to redeem bonds). Investment income of the Single Family Mortgage Revenue Mortgage Program funds increased \$1.1 million and reflected increased investments held due to loan prepayments.

Investment income includes a \$1.2 million increase to adjust investments to fair value compared to a \$2.0 million similar adjustment for the prior year.

Interest expense decreased \$9.2 million, or 6.9% due to decreased debt outstanding from all funds, with the exception of the Homeowner's Mortgage Revenue Bond Funds. All other funds' interest expenses were lower due to lower debt from both regular and scheduled redemptions.

The following table shows the net assets by fund of the Authority's proprietary funds for the fiscal years 2002 and 2001.

Net Assets/Business-type Activities  
(In millions of dollars)

<b>Fund</b>	<b>Fiscal Year Ended June 30</b>		
	<b>2002</b>	<b>2001</b>	<b>Inc / (Dec)</b>
Administrative	\$3.7	\$4.9	\$(1.2)
Multi-Family Housing	3.5	3.4	.1
Multi-Family Program	1.3	1.4	(.1)
Homeowner Mort. Rev.	(6.6)	2.9	(9.5)
Housing Development	3.0	3.3	(.3)
Fixed Rate	.4	1.1	(.7)
Housing Bonds	.2	(.5)	.7
Housing Finance	-	-	-
Multi-Family Variable Rate			
Demand	.1	.2	(.1)
Multi-Family Housing Revenue	1.7	3.2	(1.5)
Residential Mortgage Revenue	.9	(2.3)	3.2
Affordable Housing Program			
Trust Fund Bonds	.8	1.0	(.2)
Total	<u>\$9.0</u>	<u>\$18.6</u>	<u>\$(9.6)</u>

The fiscal year 2002 net assets of the Administrative Funds decreased due primarily to decreased investment income, increased financings costs due to absorption of excess cost of issuance expenses, and higher general and administrative expenses, partially offset by increased service fee and FAF income.

Net assets of the Homeowner Mortgage Revenue Bond Funds decreased \$6.6 million, compared to the \$2.9 million increase of the prior year. Results were adversely affected by a high rate of prepayments of higher coupon loans, and their reinvestment at rates below their underlying debt until the debt could be extinguished.

Net assets of the Residential Mortgage Revenue Bond Funds increased \$.9 million, compared to a decrease in net assets of \$2.3 million the prior year. The prior year results were adversely affected by operating transfers of mortgage loans and excess reserves to the Homeowner Mortgage Revenue Bond Funds.

## **Authority Debt**

The Authority has the power under the Illinois Housing Development Act to have up to \$3,600,000,000 of general and special limited obligation bonds and notes outstanding, excluding those issued to refund outstanding bonds and notes. At June 30, 2002, amounts outstanding against this limitation were approximately \$2,153,000,000.

Authority debt issuances during fiscal year 2002 totaled \$188.5 million, with activity arising from the Homeowner Mortgage Revenue Bond Funds (\$173.2 million), Multi-Family Housing Bond Funds (\$11.0 million) and Housing Bond Funds (\$4.3 million). Total bonds and notes payable decreased \$121.4 million due primarily to retirement of debt within the Authority's Mortgage Loan Program, as the Authority has been using methods other than the issuance of debt to finance additional multi-family housing. Total bonds and notes payable of the Single Family Mortgage Program Funds declined, primarily from special redemptions necessitated by a high level of mortgage prepayments, but this was partially offset by the issuance of bonds for new financings within the Homeowner Mortgage Revenue Bond Funds. For additional information, see Note E, Bonds and Notes Payable in the Notes to Financial Statements.

During fiscal year 2002, the Authority's Standard & Poor's Ratings Services Issuer Credit Rating remained at A+.



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

**STATEMENT OF NET ASSETS**  
**As of June 30, 2002**

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current Assets:			
Cash and cash equivalents .....	\$ 4,278,380	49,347,776	53,626,156
Funds held by State Treasurer .....	25,301,112		25,301,112
Investments - Unrestricted .....	39,236,791	94,890,151	134,126,942
Investment income receivable .....		8,919,521	8,919,521
Program loans receivable .....	5,712,000	38,155,000	43,867,000
Interest receivable on program loans .....	144,394	7,745,020	7,889,414
Interfund accounts receivable (payable) .....	(1,416,073)	1,416,073	
Total current assets .....	<u>73,256,604</u>	<u>200,473,541</u>	<u>273,730,145</u>
Noncurrent assets:			
Investments - Restricted .....		616,461,356	616,461,356
Program loans receivable, net of current portion .....	220,726,092	1,540,273,024	1,760,999,116
Less allowance for estimated losses .....	(10,000,000)	(21,565,000)	(31,565,000)
Net program loans receivable .....	210,726,092	1,518,708,024	1,729,434,116
Unamortized bond issuance costs .....		28,949,160	28,949,160
Real estate held for sale (net) .....		30,997,099	30,997,099
Capital assets (net) .....		640,264	640,264
Other .....	558,742	7,971,789	8,530,531
Total noncurrent assets .....	<u>211,284,834</u>	<u>2,203,727,692</u>	<u>2,415,012,526</u>
Total assets .....	<u>\$ 284,541,438</u>	<u>2,404,201,233</u>	<u>2,688,742,671</u>
<u>LIABILITIES</u>			
Current liabilities:			
Bonds and notes payable .....	\$	49,545,000	49,545,000
Accrued interest payable .....		43,444,725	43,444,725
Deposits held in escrow .....		141,958,802	141,958,802
Accrued liabilities and other .....		49,769,309	49,769,309
Amounts due brokers for securities purchased .....		2,000,000	2,000,000
Total current liabilities .....		<u>286,717,836</u>	<u>286,717,836</u>
Noncurrent liabilities:			
Bonds and notes payable, net of current portion .....		1,838,733,800	1,838,733,800
Total liabilities .....	\$	<u>2,125,451,636</u>	<u>2,125,451,636</u>
<u>NET ASSETS</u>			
Invested in capital assets (net) .....	\$	640,264	640,264
Restricted by bond resolutions .....		168,021,843	168,021,843
Restricted by contractual agreement .....		20,297,357	20,297,357
Unrestricted .....	284,541,438	89,790,133	374,331,571
Total net assets .....	<u>\$ 284,541,438</u>	<u>278,749,597</u>	<u>563,291,035</u>

The accompanying notes are an integral part of these financial statements.

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

**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2002**

<u><b>FUNCTIONS / PROGRAMS</b></u>	<u><b>Program Revenues</b></u>			<u><b>Net (Expenses) / Revenues and Changes in Net Assets</b></u>		
	<u><b>Expenses</b></u>	<u><b>Charges for Services</b></u>	<u><b>Grant/Federal Revenues</b></u>	<u><b>Governmental Activities</b></u>	<u><b>Business-type Activities</b></u>	<u><b>Total</b></u>
Governmental activities:						
Illinois Affordable Housing Trust Fund .....	\$ 7,138,121	2,604,270	500,000	(4,033,851)		(4,033,851)
HOME Program .....	6,664,784	708,496	26,459,592	20,503,304		20,503,304
Total governmental activities .....	<u>13,802,905</u>	<u>3,312,766</u>	<u>26,959,592</u>	<u>16,469,453</u>		<u>16,469,453</u>
 <u><b>BUSINESS-TYPE ACTIVITIES</b></u>						
Administrative .....	13,101,240	38,501			(13,062,739)	(13,062,739)
Multi-Family Mortgage Loan Programs .....	56,271,131	73,889,035			17,617,904	17,617,904
Multi-Family Federal Assistance Programs .....	156,499,825		156,499,825			
Single-Family Mortgage Loan Programs .....	64,294,570	59,638,737			(4,655,833)	(4,655,833)
Affordable Housing Program Trust Fund Bonds .....	8,244,615	4,116,315			(4,128,300)	(4,128,300)
Tax Credit Authorization and Monitoring .....	557,389	1,707,051			1,149,662	1,149,662
Preservation .....	194,443	236,993			42,550	42,550
FAF Lending Program .....	20,544	2,454,811			2,434,267	2,434,267
Total business-type activities .....	<u>299,183,757</u>	<u>142,081,443</u>	<u>156,499,825</u>		<u>(602,489)</u>	<u>(602,489)</u>
Total Authority .....	<u>\$ 312,986,662</u>	<u>145,394,209</u>	<u>183,459,417</u>	<u>16,469,453</u>	<u>(602,489)</u>	<u>15,866,964</u>
				Real Estate Transfer Taxes .....		32,599,376
				Unrestricted investment income .....		32,599,376
				Transfers .....	4,251,049	4,251,049
				Total general revenues and transfers .....	(5,350,000)	5,350,000
				Change in net assets .....	27,249,376	9,601,049
				Net assets at beginning of year .....	43,718,829	8,998,560
				Net assets at ending of year .....	240,822,609	269,751,037
				<u>\$ 284,541,438</u>	<u>278,749,597</u>	<u>563,291,035</u>

The accompanying notes are an integral part of these financial statements.

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

**GOVERNMENTAL FUNDS BALANCE SHEET**  
**As of June 30, 2002**

<u>ASSETS</u>	<u>Illinois Affordable Housing Trust Fund</u>	<u>HOME Program</u>	<u>Total</u>
Current assets:			
Cash .....	\$ 4,278,380		4,278,380
Funds held by State Treasurer .....	24,986,360	314,752	25,301,112
Investments .....	39,236,791		39,236,791
Program loans receivable .....	5,166,000	546,000	5,712,000
Interest receivable on program loans .....	69,301	75,093	144,394
Interfund accounts receivable (payable) .....	(857,331)	(558,742)	(1,416,073)
Total current assets .....	72,879,501	377,103	73,256,604
Noncurrent assets:			
Program loans receivable, net of current portion .....	129,877,318	90,848,774	220,726,092
Less allowance for estimated losses .....	(6,500,000)	(3,500,000)	(10,000,000)
Net program loans receivable .....	123,377,318	87,348,774	210,726,092
Other .....		558,742	558,742
Total noncurrent assets .....	123,377,318	87,907,516	211,284,834
Total assets .....	\$ 196,256,819	88,284,619	284,541,438
<b><u>LIABILITIES AND FUND BALANCE</u></b>			
Liabilities:			
Deferred revenue .....	\$ 69,301	75,093	144,394
Fund balance:			
Reserved for loans receivable .....	123,377,318	87,348,774	210,726,092
Unreserved .....	72,810,200	860,752	73,670,952
Total fund balance .....	196,187,518	88,209,526	284,397,044
Total liabilities and fund balance .....	\$ 196,256,819	88,284,619	
Amounts reported for governmental activities in the statement of net assets are different due to interest receivable on program loans			144,394
Net assets of governmental activities			\$ 284,541,438

The accompanying notes are an integral part of these financial statements.

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

**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**For the Year Ended June 30, 2002**

	<b>Illinois Affordable Housing Trust Fund</b>	<b>HOME Program</b>	<b>Total</b>
Revenues:			
Real estate transfer taxes .....	\$ 32,599,376		32,599,376
Federal HOME funds .....		26,459,592	26,459,592
Interest and investment income .....	2,574,416	686,598	3,261,014
Private donation .....	500,000		500,000
Application fees .....	48,600		48,600
Total revenues .....	35,722,392	27,146,190	62,868,582
Expenditures:			
Grants .....	4,745,215	4,092,736	8,837,951
General and administrative .....	1,892,906	1,572,048	3,464,954
Provision for estimated losses on program loans receivable .....	500,000	1,000,000	1,500,000
Total expenditures .....	7,138,121	6,664,784	13,802,905
Excess of revenues over expenditures .....	28,584,271	20,481,406	49,065,677
Other financing sources:			
Operating transfer out .....	(5,350,000)		(5,350,000)
Net change in fund balance .....	23,234,271	20,481,406	43,715,677
Fund balance at beginning of year .....	172,953,247	67,728,120	
Fund balance at end of year .....	\$ 196,187,518	88,209,526	
Amounts reported for governmental activities in the statement of activities are different due to interest on program loans receivable			3,152
Change in net assets of governmental activities			\$ 43,718,829

The accompanying notes are an integral part of these financial statements.

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

**PROPRIETARY FUNDS**  
**STATEMENT OF NET ASSETS**  
**As of June 30, 2002**

<u>ASSETS</u>	<u>Administrative and Other Funds</u>	<u>Multi-Family Housing Bond Funds</u>	<u>Multi-Family Program Bond Funds</u>	<u>Homeowner Mortgage Revenue Bond Funds</u>	<u>Other Non-major Bond Funds</u>	<u>Total</u>
Current assets:						
Cash and cash equivalents .....	\$ 29,006,386	79,367	6,441	15,984,254	4,271,328	49,347,776
Investments - Unrestricted .....	94,890,151					94,890,151
Investment income receivable .....	725,357	1,499,458	1,020,239	4,095,774	1,578,693	8,919,521
Program loans receivable .....	298,000	7,043,000	8,806,000	12,667,000	9,341,000	38,155,000
Interest receivable on program loans .....	332,373	381,813	176,793	3,985,169	2,868,872	7,745,020
Interfund accounts receivable (payable) .....	(17,826,740)	(2,012,297)	6,882,252	(1,035,505)	15,408,363	1,416,073
Total current assets .....	<u>107,425,527</u>	<u>6,991,341</u>	<u>16,891,725</u>	<u>35,696,692</u>	<u>33,468,256</u>	<u>200,473,541</u>
Noncurrent assets:						
Investments - Restricted .....	147,163,161	91,305,387	49,678,397	220,378,385	107,936,026	616,461,356
Program loans receivable, net of current portion .....	38,400,207	225,983,974	252,141,365	761,398,760	262,348,718	1,540,273,024
Less allowance for estimated losses .....	(8,815,000)	(3,500,000)			(9,250,000)	(21,565,000)
Net program loans receivable .....	29,585,207	222,483,974	252,141,365	761,398,760	253,098,718	1,518,708,024
Unamortized bond issuance costs .....		6,717,411		17,060,422	5,171,327	28,949,160
Real estate held for sale (net) .....				657,349	30,339,750	30,997,099
Capital assets (net) .....	640,264					640,264
Other .....	6,467,920	15,875	27,226		1,460,768	7,971,789
Total noncurrent assets .....	<u>183,856,552</u>	<u>320,522,647</u>	<u>301,846,988</u>	<u>999,494,916</u>	<u>398,006,589</u>	<u>2,203,727,692</u>
Total assets .....	<u>\$ 291,282,079</u>	<u>327,513,988</u>	<u>318,738,713</u>	<u>1,035,191,608</u>	<u>431,474,845</u>	<u>2,404,201,233</u>
 <u>LIABILITIES</u>						
Current liabilities:						
Bonds and notes payable .....	\$	7,590,000	9,380,000	18,215,000	14,360,000	49,545,000
Accrued interest payable .....		8,833,204	6,788,476	22,740,340	5,082,705	43,444,725
Deposits held in escrow .....	141,958,802					141,958,802
Accrued liabilities and other .....	36,595,523	6,072,455	2,003,600	4,136,798	960,933	49,769,309
Amounts due brokers for securities purchased .....	2,000,000					2,000,000
Total current liabilities .....	<u>180,554,325</u>	<u>22,495,659</u>	<u>18,172,076</u>	<u>45,092,138</u>	<u>20,403,638</u>	<u>286,717,836</u>
Noncurrent liabilities:						
Bonds and notes payable, net of current portion .....		255,001,794	290,590,000	981,196,495	311,945,511	1,838,733,800
Total liabilities .....	<u>\$ 180,554,325</u>	<u>277,497,453</u>	<u>308,762,076</u>	<u>1,026,288,633</u>	<u>332,349,149</u>	<u>2,125,451,636</u>
 <u>NET ASSETS</u>						
Invested in capital assets (net) .....	\$ 640,264					640,264
Restricted by bond resolutions .....		50,016,535	9,976,637	8,902,975	99,125,696	168,021,843
Restricted by contractual agreement .....	20,297,357					20,297,357
Unrestricted .....	89,790,133					89,790,133
Total net assets .....	<u>\$ 110,727,754</u>	<u>50,016,535</u>	<u>9,976,637</u>	<u>8,902,975</u>	<u>99,125,696</u>	<u>278,749,597</u>

The accompanying notes are an integral part of these financial statements.

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

**PROPRIETARY FUNDS**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
For the Year Ended June 30, 2002

	<b>Administrative and Other Funds</b>	<b>Multi-Family Housing Bond Funds</b>	<b>Multi-Family Program Bond Funds</b>	<b>Homeowner Mortgage Revenue Bond Funds</b>	<b>Other Non-major Bond Funds</b>	<b>Total</b>
Operating revenues:						
Interest and other investment income .....	\$ 3,651,498	4,865,644	3,068,013	9,337,502	6,087,798	27,010,455
Net increase in fair value of investments.....	599,551	288,586	88,795	74,389	172,977	1,224,298
Total investment income .....	4,251,049	5,154,230	3,156,808	9,411,891	6,260,775	28,234,753
Interest earned on program loans .....	1,298,870	20,127,279	19,057,157	44,799,622	15,917,530	101,200,458
Federal assistance programs .....	150,697,581	128,336			5,673,908	156,499,825
Service fees .....	8,337,965					8,337,965
Development fees .....	82,778					82,778
HUD savings .....	2,454,811					2,454,811
Other .....	1,958,533				4,063,194	6,021,727
Total operating revenues .....	169,081,587	25,409,845	22,213,965	54,211,513	31,915,407	302,832,317
Operating expenses:						
Interest expense .....		21,737,375	20,914,376	58,234,058	23,380,614	124,266,423
Federal assistance programs .....	150,697,581	128,336			5,673,908	156,499,825
Salaries and benefits .....	7,525,312			2,345,796	14,009	9,885,117
Professional fees .....	1,607,244			43,500	33,000	1,683,744
Other general and administrative .....	4,552,978			178,179	27,674	4,758,831
Financing costs .....	984,636	32,789	30,800	464,965	576,627	2,089,817
Total operating expenses .....	165,367,751	21,898,500	20,945,176	61,266,498	29,705,832	299,183,757
Operating income (loss) .....	3,713,836	3,511,345	1,268,789	(7,054,985)	2,209,575	3,648,560
Operating transfers in (out) .....	(1,638)			498,685	4,852,953	5,350,000
Change in net assets .....	3,712,198	3,511,345	1,268,789	(6,556,300)	7,062,528	8,998,560
Net assets at beginning of year .....	107,015,556	46,505,190	8,707,848	15,459,275	92,063,168	269,751,037
Net assets at end of year .....	<u>\$ 110,727,754</u>	<u>50,016,535</u>	<u>9,976,637</u>	<u>8,902,975</u>	<u>99,125,696</u>	<u>278,749,597</u>

The accompanying notes are an integral part of these financial statements.

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

**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2002**

	Administrative and Other Funds	Multi-Family Housing Bond Funds	Multi-Family Program Bond Funds	Homeowner Mortgage Revenue Bond Funds	Other Non-major Bond Funds	Total
Cash flows from operating activities:						
Cash received from interest, service fees, and principal on program loans .....	\$ 6,889,108	28,470,649	42,054,506	214,311,773	39,737,596	331,463,632
Cash payments for loaned amounts .....	(13,153,320)	(5,998,765)		(114,434,065)	(5,082,079)	(138,668,229)
Cash received from federal assistance programs .....	134,471,239				4,255,470	138,726,709
Cash payments for federal assistance programs .....	(144,169,429)				(4,255,470)	(148,424,899)
Cash payments for operating expenses .....	(21,190,189)			(3,226,567)	(205,823)	(24,622,579)
Other .....	7,788,495	(1,123,933)	3,506	(342,911)	4,136,346	10,461,503
Net cash provided by (used in) operating activities .....	<u>(29,364,096)</u>	<u>21,347,951</u>	<u>42,058,012</u>	<u>96,308,230</u>	<u>38,586,040</u>	<u>168,936,137</u>
Cash flows from noncapital financing activities:						
Proceeds from sale of revenue bonds and notes .....		10,990,000		173,205,000	4,305,000	188,500,000
Principal paid on revenue bonds and notes .....		(61,141,309)	(24,375,000)	(131,490,000)	(94,690,000)	(311,696,309)
Interest paid on revenue bonds and notes .....		(20,880,753)	(21,515,499)	(57,655,258)	(23,411,147)	(123,462,657)
Operating transfers in (out) .....	(1,638)			(23,289,808)	28,641,446	5,350,000
Other .....		(664,973)		(2,687,769)	(1,051,905)	(4,404,647)
Net cash used in noncapital financing activities .....	<u>(1,638)</u>	<u>(71,697,035)</u>	<u>(45,890,499)</u>	<u>(41,917,835)</u>	<u>(86,206,606)</u>	<u>(245,713,613)</u>
Cash flows from investing activities:						
Purchase of investment securities .....	(744,414,282)	(186,475,104)	(49,635,531)	(534,267,209)	(214,349,772)	(1,729,141,898)
Proceeds from sales and maturities of investment securities .....	762,549,147	231,364,355	50,375,366	462,569,651	252,896,961	1,759,755,480
Interest on investments .....	5,026,101	5,520,661	3,060,389	9,202,921	7,356,791	30,166,863
Developer escrow and other interest .....	5,697,649					5,697,649
Net cash provided by (used in) investing activities .....	<u>28,858,615</u>	<u>50,409,912</u>	<u>3,800,224</u>	<u>(62,494,637)</u>	<u>45,903,980</u>	<u>66,478,094</u>
Net increase (decrease) in cash and cash equivalents .....	(507,119)	60,828	(32,263)	(8,104,242)	(1,716,586)	(10,299,382)
Cash and cash equivalents at beginning of year .....	29,513,505	18,539	38,704	24,088,496	5,987,914	59,647,158
Cash and cash equivalents at end of year .....	<u>\$ 29,006,386</u>	<u>79,367</u>	<u>6,441</u>	<u>15,984,254</u>	<u>4,271,328</u>	<u>49,347,776</u>
Reconciliation of operating income to net cash provided by (used in)						
operating activities:						
Operating income (loss) .....	\$ 3,713,836	3,511,345	1,268,789	(7,054,985)	2,209,575	3,648,560
Adjustments to reconcile operating income to net cash:						
Investment Income .....	(4,251,049)	(5,154,230)	(3,156,808)	(9,411,891)	(6,260,775)	(28,234,753)
Interest expense .....		21,737,375	20,914,376	58,234,058	23,380,614	124,266,423
Depreciation and amortization .....	407,888				800,000	1,207,888
Changes in assets and liabilities:						
Decrease (increase) in program loan and interest receivable .....	(11,294,144)	1,306,432	22,158,160	31,289,593	42,493,832	85,953,873
Change in interfund accounts .....	(753,037)	4,934	900,721	(194,126)	199,206	157,698
(Decrease) increase in other liabilities .....	(10,959,341)	92,940		(109,414)	(167,522)	(11,143,337)
Decrease (increase) in other assets .....	(122,712)	(15,875)	(27,226)	279,212	443,350	556,749
Non cash operating transfer .....				23,788,493	(23,788,493)	
Other .....	(6,105,537)	(134,970)		(512,710)	(723,747)	(7,476,964)
Total adjustments .....	<u>(33,077,932)</u>	<u>17,836,606</u>	<u>40,789,223</u>	<u>103,363,215</u>	<u>36,376,465</u>	<u>165,287,577</u>
Net cash provided by (used in) operating activities .....	<u>\$ (29,364,096)</u>	<u>21,347,951</u>	<u>42,058,012</u>	<u>96,308,230</u>	<u>38,586,040</u>	<u>168,936,137</u>

The accompanying notes are an integral part of these financial statements.



**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**  
**(A Component Unit of the State of Illinois)**  
**NOTES TO FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2002**

**NOTE A—AUTHORIZING LEGISLATION**

The Illinois Housing Development Authority (the “Authority”) is a body politic and corporate of the State of Illinois (the “State”) created by the Illinois Housing Development Act, as amended (the “Act”), for the purposes of assisting in the financing of decent, safe and sanitary housing for persons and families of low and moderate income in the State and assisting in the financing of residential mortgages in the State. To accomplish its purposes, the Authority is authorized by the Act to make mortgage or other loans to nonprofit corporations and limited-profit entities for the acquisition, construction or rehabilitation of dwelling accommodations and to acquire, and to contract and enter into advance commitments to acquire, residential mortgage loans from lending institutions. The Act also authorizes the Authority to issue its bonds and notes to fulfill corporate purposes, including the financing of mortgage and construction loans, the acquisition of residential mortgage loans and the making of loans for housing related commercial facilities. The Authority has issued various bonds and notes to finance mortgage loans and construction loans, to purchase residential mortgage loans from lending institutions and to make loans to private lending institutions for making new residential mortgage loans.

The bonds and notes outstanding as of June 30, 2002, as shown on the Authority’s financial statements consist of both general and special limited obligations of the Authority (see Note E). The full faith and credit of the Authority are pledged for payment of general obligation bonds and notes. The Authority has the power under the Act to have up to \$3,600,000,000 of general and special limited obligation bonds and notes outstanding, excluding those issued to refund outstanding bonds and notes. At June 30, 2002, amounts outstanding against this limitation were approximately \$2,153,000,000.

**NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following summarizes the significant accounting policies of the Authority:

**Reporting Entity**

As defined by accounting principles generally accepted in the United States established by the Governmental Accounting Standards Board (“GASB”), the financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- (1) Appointment of a voting majority of the component unit’s board, and either a) the ability of the primary government to impose its will, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- (2) Fiscal dependency on the primary government.

For financial reporting purposes, the Authority is a component unit of the State of Illinois. The Authority has no component units. Except for a portion of the funds of the Affordable Housing Trust Fund and HOME Program, all funds are held outside of the State Treasury in various banks and financial institutions.

**Fund Structure**

The Authority reports the following major governmental funds:

*Illinois Affordable Housing Trust Fund*

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

NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2002

*HOME Investment Partnerships Program*

The Authority is designated program administrator for the HOME Investment Partnerships Program (“HOME Program”) for the State, the funds of which are appropriated to the Department of Revenue by the General Assembly. Under this program, the Authority seeks applicants and approves funding commitments for federal affordable housing funds made available under the HOME Program provisions of the 1990 National Affordable Housing Act.

The Authority reports the following major proprietary funds:

*Administrative and Other Funds*

Development fee and financing fee income related to multi-family mortgage loans, income from service fees and operating expenses of the Authority are accounted for in the Administrative Funds. In addition, the Administrative Funds have provided for supplemental financing of certain developments through residual income loans and below market financing for various developments through the Authority’s Housing Partnership Program (see Note D), and its lending program in conjunction with a debt service savings sharing agreement (“the FAF Savings Program”) with the United States Department of Housing and Urban Development (“HUD”) (see Note J).

The designations of the Authority’s Administrative Funds’ unrestricted net assets as of June 30, 2002 are as follows:

Housing Partnership Program.....	\$10,000,000
To pay expenses for programs under commitment or contract.....	3,000,000
Multi-Family development taxable financing program.....	6,000,000
To pay possible losses arising in the Multi-Family Bond Fund	
Program attributable, but not limited to, delinquencies or defaults	
on uninsured or unsubsidized loans.....	24,000,000
Provide reserves to support the Authority’s Multi-Family Housing	
Risk Sharing Program.....	10,000,000
Provide funds and reserves to purchase single family mortgage loans	
to be acquired under the Single Family Program from the proceeds	
of future issuances of IHDA bonds.....	15,000,000
Provide funds and reserves to support the Mortgage Participation	
Certificate Program.....	<u>20,000,000</u>
	<u>\$88,000,000</u>

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

The Administrative Funds’ net assets that are classified as restricted by contractual agreement consist of the FAF Savings Program and income from insurance proceeds that was required to be disbursed as a loan to Lake Grove Village (ML-248).

Other Funds account for advances (generally non-interest bearing) made to qualified non-profit entities to defray pre-construction costs of proposed developments.

*Multi-Family Housing Bond Funds*

This fund accounts for the financing of low and moderate income housing developments from the proceeds of Multi-Family Housing Bonds.

*Multi-Family Program Bond Funds*

This fund accounts for the financing of low and moderate income housing developments from the proceeds of Multi-Family Program Bonds.

## NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2002

### *Homeowner Mortgage Revenue Bond Funds*

This fund accounts for the proceeds of Homeowner Mortgage Revenue Bonds issued to provide funds for the purchase from lending institutions of mortgage loans on owner-occupied, one to four unit dwellings acquired by eligible buyers.

The use of tax exempt financing to provide eligible borrowers with below market-rate mortgage loans involves federal restrictions on expenses chargeable to the program. Any expenses incurred in the program in excess of such maximum amounts are absorbed by the Administrative Funds.

The following types of programs of the Authority are accounted for in both major and non-major proprietary funds:

### *Mortgage Loan Programs*

Mortgage Loan Programs account for the financing of low and moderate income housing developments from the proceeds of Housing Development Bonds, Multi-Family Housing Bonds, Fixed Rate Housing Bonds, Multi-Family Program Bonds, Multi-Family Variable Rate Demand Bonds, Multi-Family Housing Revenue Bonds, Housing Bonds and Housing Finance Bonds, and for the retirement of such obligations. The Authority holds first mortgage liens on such developments.

### *Single Family Mortgage Revenue Programs*

Single Family Mortgage Programs account for the proceeds of Residential and Homeowner Mortgage Revenue Bonds issued to provide funds for the purchase from lending institutions of mortgage loans on owner-occupied, one to four unit dwellings acquired by eligible buyers.

The use of tax exempt financing to provide eligible borrowers with below market-rate mortgage loans involves federal restrictions on expenses chargeable to the program. Any expenses incurred in the program in excess of such maximum amounts are absorbed by the Administrative Funds.

### *Affordable Housing Program Trust Fund Bond Funds*

The Affordable Housing Program Trust Fund Bond Funds account for the financing of multi-family construction or rehabilitation from the proceeds of Affordable Housing Trust Fund Bonds, together with certain other available moneys, including a transfer of funds from the Affordable Housing Trust Fund. First Mortgage liens are held by the Authority on such developments.

## **Restrictions of Assets and Fund Equity**

The use of assets of each of the program funds is restricted by the related bond and note resolutions of the Authority. Certain amounts in the above program funds are considered subject to the restriction that they be applied to the financing of housing for the respective program purposes or to the retirement of obligations issued for such purposes; these amounts may include certain investment earnings attributable to the respective fund net assets. State statute restricts the use of the Illinois Affordable Housing Trust Fund and the HOME Program as noted above. Accordingly, fund balances of these governmental funds are reserved for loans not due within one year. All net assets of the governmental activities column of the Authority-wide financial statements are restricted with respect to the use of cash investments and loan amounts that are to be repaid to the Authority. (See Note D for schedules of aging for the loans made under these programs. In addition, see the governmental funds – balance sheet, fund balance).

## **Basis of Accounting**

The financial statements are prepared in accordance with GASB Statement No. 34, “Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments”, No. 37 “Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments: Omnibus” and No. 38, “Certain Financial Statement Note Disclosures”.

## NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2002

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Authority receives value without directly giving equal value in exchange, include revenues from federal assistance programs. Revenue from these sources is recognized in the fiscal year in which all eligibility requirements have been met.

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

Separate fund financial statements are provided for governmental and proprietary funds. No primary revenue sources of the governmental funds have been treated as susceptible to accrual. Major individual governmental funds and proprietary funds are reported as separate columns in the fund financial statements. All non-major proprietary funds are reported as Supplementary Information.

The Authority applies all GASB pronouncements for the Authority's proprietary funds, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to use estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

### *Investments*

Investments of the Authority, which are generally held to maturity, are carried at fair value, with the exceptions of nonparticipating investment contracts ("demand repurchase agreements"), which are reported at cost, and money market investments that have a remaining maturity at time of purchase of one year or less, which are reported at amortized cost.

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

### *Program Loans Receivable*

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

### *Capital Assets*

Capital assets of the Authority consist of investments in furniture, fixtures and equipment, computer hardware and computer software. For such investments made beginning and after July 1, 2002, capital assets are defined by the Authority as assets with an initial, individual cost of \$5,000 or more and are depreciated or amortized on a straight-

**NOTES TO FINANCIAL STATEMENTS—(CONTINUED)**

**For the Year Ended June 30, 2002**

line basis over a period of five to ten years, depending upon the nature of the asset. The limitation amount in prior fiscal years was \$1,000. Depreciation and amortization expenses for fiscal year 2002 were approximately \$408,000.

*Real Estate Held for Sale*

Real estate held for sale arises from foreclosures or other mortgage default-related actions on properties pledged as collateral on mortgage loans. Real estate held for sale in connection with the Single Family Mortgage Revenue Program Funds is recorded at the unpaid principal balance of the loans. Since substantially all such loans are covered by pool insurance, based on the Authority's past experience, it is anticipated that the Authority will recover substantially all of the unpaid principal balances of the loans through proceeds arising from the sale of such property and certain insurance proceeds.

Real estate held for sale of the Mortgage Loan Program Funds represents the Authority's net carrying value of Lakeshore Plaza ("ML-181"), which the Authority acquired by deed in lieu of foreclosure on April 27, 1990.

The Authority records depreciation against ML-181 on a straight-line basis over forty years, as past market conditions did not allow for a sale of the property. At June 30, 2002, the net carrying value of ML-181 was \$30,205,682 and accumulated depreciation was \$7,011,000.

The real estate held for sale is carried at the lower of cost or fair market value. The determination of fair market value is based upon periodic valuations that consider changes in market condition, development and disposition costs, and estimated holding period. Operating income of ML-181 is recorded as other income and is applied primarily toward the Authority's debt service obligations of the bonds issued to refinance the development. The net carrying value and the operating income of the above real estate held for sale are recorded in the Multi-Family Housing Revenue Bond Funds.

It is the intent of the Authority to continue to own and operate ML-181 until the Authority determines that a sale or other disposition of the development would be in the best interests of the Authority. The Authority cannot now predict at this time as to the dates on which, or the circumstances pursuant to which, such determinations might be made.

*Interfund Balances*

The Authority reports interfund balances among its funds. These balances generally consist of accruals for various revenues or expenses due to a fund, but received or paid to another, and subsidy transfers between funds. These amounts are paid or received within the subsequent fiscal year.

Interfund accounts receivable (payable) balances at June 30, 2002 consisted of the following:

<b>Due To</b>	<b>Due From</b>							<b>Total</b>
	<b>Administrative and Other</b>	<b>Multi-Family Housing Bond</b>	<b>Multi-Family Program Bond</b>	<b>Homeowner Mortgage Revenue Bond</b>	<b>Illinois Affordable Housing Trust</b>	<b>HOME</b>	<b>All Others</b>	
Administrative and Other .....	\$ -	\$2,012,297	\$434,563	\$1,035,505	\$857,331	\$558,742	\$2,320,715	\$ 7,219,153
Multi-Family Program Bond ...	7,316,815	-	-	-	-	-	-	7,316,815
All Others .....	<u>17,729,078</u>	-	-	-	-	-	-	<u>17,729,078</u>
	<u>\$25,045,893</u>	<u>\$2,012,297</u>	<u>\$434,563</u>	<u>\$1,035,505</u>	<u>\$857,331</u>	<u>\$558,742</u>	<u>\$2,320,715</u>	<u>\$32,265,046</u>

Interfund accounts receivable (payable) in the non-major funds primarily consists of a fiscal year 2000 operating transfer of \$10.4 million to the Multi-Family Housing Revenue Bond Funds made from the Administrative Funds in conjunction with the issuance of the Multi-Family Housing Revenue Bonds, Series 2000A (Lakeshore Plaza Development) and the corresponding transfer of the carrying value of real estate held for sale, ML-181, to these Funds. This interfund receivable is expected to be reduced over a period of successive fiscal years.

## NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2002

### *Bond Discount*

Discount on bonds is deferred and amortized using a method approximating the interest method.

### *Operations*

Development fee and financing fee income are deferred and amortized over the contractual life of the loan as a yield adjustment using the interest method. Such amortized fees are recognized as interest income. Fees earned on loans, which the Authority does not originate, are recognized as income in the Administrative Funds generally at the time of initial closing.

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

Operating expenses include general and administrative expenses of the Authority; salaries and benefits; costs and expenses incurred in connection with the amortization, issuance and sale of certain bonds and notes; fees and expenses of trustees and depository and paying agents; and costs related to analyses, surveys, appraisals and other matters pertaining to maintenance and evaluation of program loans receivable. Operating costs and expenses are charged to expense as incurred, except those directly related to loan or program originations, which are deferred, netted against fee income for loans originated, and amortized over the contractual life of the related loan or program. A portion of the Authority's operating expenses of administering the Affordable Housing Trust Fund and the HOME Program is absorbed by these programs. Similarly, related resolutions of bonds issued in various Program Funds allow for the funds to absorb a certain level of operating expenses. Expenses of the funds in excess of the allowable ceilings set forth in the resolutions are charged to the Administrative Funds.

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

The Authority grants vacation and sick leave to all employees and accrues for unused compensated absences. Vacations are allotted on a calendar year basis and are intended to be taken during that year. Unused sick leave allowance is carried forward and accumulated. In the event of termination, employees are paid for all earned but unused vacation time and, within a maximum time limit, for one half of accumulated sick leave earned. At June 30, 2002, unused compensated absences, which are included in Other Liabilities, were \$394,433. The Authority has no other post-employment benefits.

Debt issuance costs are deferred in the corresponding program funds and amortized over the life of the related bonds using a method approximating the interest method. When these costs exceed the designated amounts per the bond agreements, the excess bond issuance costs are expensed to the Administrative Funds.

### *Provision for Estimated Losses on Program Loans*

The Authority provides for estimated losses on program loans in its proprietary and governmental funds based upon the periodic review and evaluation of the loan portfolio and provides additional amounts, if it deems necessary, for estimated losses for individual loans in the funds. In making such review and evaluation, the Authority considers current economic conditions, occupancy and rental level projections, financial statement analyses, on-site inspections, independent appraisals of certain developments, insurance coverages and such other factors as it deems necessary.

### *Fund Transfers*

The Authority records operating transfers between program funds for various purposes including fund closings, earnings transfers, program subsidies, and equity contributions for the initial financing of the Authority's programs.

NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2002

Operating transfers for the year ended June 30, 2002 consisted of the following:

<u>Transfer To</u>	<u>Transfer From</u>			<u>Total</u>
	<u>Administrative and Other</u>	<u>Illinois Affordable Housing Trust</u>	<u>All Others</u>	
Homeowner Mortgage Revenue Bond.....	\$ -	\$ -	\$498,685	\$ 498,685
All Others.....	<u>1,638</u>	<u>5,350,000</u>	<u>-</u>	<u>5,351,638</u>
	<u>\$1,638</u>	<u>\$5,350,000</u>	<u>\$498,685</u>	<u>\$5,850,323</u>

Pursuant to the Illinois Affordable Housing Act, amounts up to \$10,000,000 in any fiscal year may be transferred, following an annual Authority certification to the Illinois Department of Revenue of the amounts required to be withdrawn, from the Illinois Affordable Housing Trust Fund to the Affordable Housing Program Trust Fund Bond Funds. Such transfers are recorded as operating transfers. The amounts transferred during the year ended June 30, 2002 totaled \$5,350,000.

Under the General Resolution governing the Homeowner Mortgage Revenue Bond Funds, the Authority covenants that, to the extent specified in Series Resolutions, it will take all necessary actions to withdraw amounts from available amounts in the Surplus Account under the General Resolution governing the Residential Mortgage Revenue Bond Funds and deposit these amounts (“Transfer Amounts”) in the Revenue Fund of the Homeowner Mortgage Revenue Bond Funds. In fiscal year 2002, such Transfer Amounts totaled \$1,860,000.

During fiscal year 2002, the Authority used a portion (\$26,224,200) of the proceeds of the issuance of various Homeowner Mortgage Revenue Bonds to redeem and pay premium on various bonds outstanding in the Residential Mortgage Revenue Bond Funds. Upon the redemption of these bonds, certain mortgage loans originally purchased with the proceeds of the refunded bonds, along with certain excess reserves, together of which totaled \$24,862,885, were transferred to the Homeowner Mortgage Revenue Bond Funds and resulted in a net operating transfer of \$1,361,315 to the Residential Mortgage Revenue Bond Funds. The transfers to and from the Homeowner Mortgage Revenue Bond Funds result in a net transfer of \$498,685.

*Cash and Cash Equivalents*

For purposes of the statement of cash flows, the Authority considers all cash, certificates of deposits, time deposits and short-term repurchase agreements to be cash equivalents.

**NOTE C—CASH AND INVESTMENTS**

Statutes of the State and resolutions of the Authority authorize the Authority to invest in obligations of the United States Government, agencies and instrumentalities of the United States Government, demand repurchase agreements and other banking arrangements. The Authority may also invest its funds in such investments as may be lawful for fiduciaries in the State.

The Authority’s cash deposits are categorized into three levels to provide an indication of custodial credit risk assumed. These categories are as follows:

*Category 1* – includes deposits that are insured or collateralized for which the securities are held by the Authority or its agents in the Authority’s name.

*Category 2* – includes deposits that are collateralized with securities, which are held by the financial institution’s trust department or agent in the Authority’s name.

*Category 3*- includes deposits that are uncollateralized or collateralized, but for which the securities are held by the financial institution, or by its trust department or agent but not in the Authority’s name.

**NOTES TO FINANCIAL STATEMENTS—(CONTINUED)**

**For the Year Ended June 30, 2002**

<u>Type</u>	<u>Category</u>			<u>Bank Balance</u>	<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Cash and Cash Equivalents.....	<u>\$31,088,290</u>	<u>\$-</u>	<u>\$24,429,559</u>	\$55,517,849	\$53,626,156
Funds Held by State Treasurer.....				<u>23,786,463</u>	<u>25,301,112</u>
				<u>\$79,304,312</u>	<u>\$78,927,268</u>

The Authority's investments are categorized into three levels to provide an indication of custodial credit risk assumed. These categories are as follows:

*Category 1* – includes investments that are insured, registered, or collateralized, or for which the securities are held by the Authority or its agent in the Authority's name.

*Category 2* – includes investments that are uninsured, unregistered, or uncollateralized for which the securities are held by the broker's or dealer's trust department or agent in the Authority's name.

*Category 3* – includes investments that are uninsured, unregistered, or uncollateralized for which the securities are held by the broker or dealer, or by its trust department or agent but not in the Authority's name.

<u>Type</u>	<u>Category</u>			<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Demand Repurchase Agreements.....	\$342,030,704	\$660,931	-	\$342,691,635
Federal National Mortgage Association.....	115,582,963	-	-	115,582,963
Federal Home Loan Mortgage Association..	88,259,266	-	-	88,259,266
U.S. Government Obligations.....	86,463,835	-	-	86,463,835
Federal Home Loan Bank.....	69,281,462	-	-	69,281,462
Acquired Bonds.....	33,271,179	-	-	33,271,179
Municipal Obligations and Other.....	6,953,738	-	-	6,953,738
Federal Farm Credit Bank.....	6,697,238	-	-	6,697,238
Student Loan Marketing Association.....	<u>1,386,982</u>	-	-	<u>1,386,982</u>
	<u>\$749,927,367</u>	<u>\$660,931</u>	<u>\$-</u>	<u>\$750,588,298</u>

Demand repurchase agreements are collateralized by obligations of the United States Government or its agencies, or direct investments of such obligations and have one-day demand of funds provisions exercisable at the Authority's option. The market value of securities subject to such agreements must be maintained at least equal to 100 percent of the principal of and accrued interest on the invested funds by marking to market at least weekly and using an immediate under value cure provision. The Authority invests in demand repurchase agreements for both short-term (generally program funds) and long-term (generally reserve) investments. On June 30, 2002, approximately \$74 million was invested in such short-term agreements having various maturity dates out to February 1, 2003, primarily at rates ranging from 1.75% to 6.45% and approximately \$269 million was invested in such long-term agreements having maturity dates ranging from January 31, 2015, to August 1, 2032, primarily at rates ranging from 4.20% to 10.21%.

The counterparties to the demand repurchase agreements are institutions whose unsecured debt securities are rated at least equal to the ratings on the Authority's debt, or in the case of short-term program fund investments, the highest short-term rating category.

During a prior fiscal year, the Authority issued its Housing Bonds, 1999 Series A, to refinance, directly or indirectly, all or a portion of 11 multi-family developments. A portion of the proceeds were used to purchase 1999 Series A Bonds ("Acquired Bonds") issued from the Authority's Housing Development and Multi-Family Housing Bond Funds, the proceeds of which in turn were used to redeem previously issued bonds within these funds. These Acquired Bonds are accounted for as an investment within the Housing Bond Funds and as bonds outstanding within the Housing Development and Multi-Family Housing Bond Funds.

**NOTE D—PROGRAM LOANS RECEIVABLE**

The Authority has loans throughout the State, of which approximately two-thirds are in the Chicago metropolitan area. Loans receivable in the Mortgage Loan Program Funds and the Affordable Housing Program Trust Fund Bond



**NOTES TO FINANCIAL STATEMENTS—(CONTINUED)**

**For the Year Ended June 30, 2002**

Funds are secured by first mortgage liens on the related developments. Each development is subject to a regulatory agreement under which the Authority has certain powers relating to rents, profits, occupancy, management and operations. Monies are required to be deposited in reserve accounts monthly by all mortgagors for real estate tax reserves and by substantially all mortgagors for insurance and replacement reserves. See Note F regarding these reserves and other deposits held in escrow.

The ability of the mortgagors to make required payments on the mortgage loans receivable depends principally upon the related developments achieving and sustaining sufficient occupancy and rental levels to support such payments. With respect to most developments financed from proceeds of Multi-Family Housing Bonds and Multi-Family Program Bonds, the Authority, HUD and the owners of the developments have entered into agreements whereby HUD will make, under its Section 8 Program, housing assistance payments for the developments. With respect to Housing Development Bonds, Fixed Rate Housing Bonds and Housing Bonds, the Authority has made loans to finance developments entitled to interest reduction payments by HUD under Section 236 of the National Housing Act for all or a portion of the dwelling units in the developments. Such federal subsidies, together with the rents to be paid by the tenants, are estimated by the Authority, prior to its issuing an initial mortgage loan commitment, to provide sufficient funds to pay the costs of operation, maintenance, administration, mortgage payments, and Authority fees with respect to each of the developments.

During the year ended June 30, 2002, HUD subsidy payments were received and disbursed as follows:

<u>Program</u>	<u>Received</u>	<u>Disbursed</u>
Section 8 .....	\$150,697,581	\$148,362,069
Section 236 .....	5,673,908	5,673,908

The Authority records HUD Section 8 housing assistance transactions in its Administrative and Other Funds. HUD Section 236 transactions are recorded in the Housing Development, Fixed Rate Housing and Housing Bond Funds.

At June 30, 2002, for loans financed under the Mortgage Loan Program Funds, there were no amounts in arrears equal to more than two months debt service payments or required deposits to tax and insurance and/or replacement reserves. At June 30, 2002, for loans financed under the Affordable Housing Program Trust Bond Funds, amounts in arrears equal to more than two months debt service payments and required deposits to tax and insurance and/or replacement reserves were \$210,017 and \$58,468, respectively.

For certain past delinquencies, the related developments have not been able to generate net rental income sufficient to pay scheduled debt service and reserve deposits in full. In the opinion of the Authority, these deficiencies of net rental income have arisen for various reasons including (i) the existence of physical defects in the development which have caused operational problems, (ii) higher than anticipated operating expenses of the development and (iii) depressed rental market conditions in the development's local area.

In certain cases, cash deficiencies of developments, including certain developments as to which the related mortgage loans are not delinquent as to scheduled debt service payments or required reserve deposits, have been funded in part by advances from the owners of the respective developments. However, there generally can be no assurance that the owners will make additional advances for this purpose. For certain mortgage loans, the Authority holds reserve deposits and letters of credit that may be applied toward delinquencies.

The Authority has pursued actions available under the mortgage and regulatory agreements to cure certain delinquencies. With respect to some developments, the need for capital improvements, repairs, marketing campaigns and other expenditures may be indicated. Where necessary and appropriate, the Authority has committed and/or advanced residual income loans from the Administrative Funds or mortgage loan increases from the related program funds to finance these expenditures. In certain instances the Authority has initiated actions to effect necessary changes in the management of the developments. In addition, the Authority has, in some cases, filed suit against the applicable general contractors and/or bonding companies seeking corrections of the development's physical defects and has instituted foreclosure proceedings for certain developments.

The Authority has a second mortgage agreement relating to a \$6.9 million first mortgage for Innsbruck Apartments, ML-19. Under this agreement, upon the development's payment of a debt service amount as set forth in the agreement, the Authority, from its Administrative Funds, was obligated to subsidize debt service payments

NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2002

related to the first mortgage up to a maximum of \$6.2 million. The subsidy payments were applied to receivables of the Housing Development Bond Funds and the Fixed Rate Housing Bond Funds. The maximum subsidy amount was reached in May 1999, after which the development became fully obligated for debt service of the receivables of the above bond funds. The development is obligated to reimburse the Administrative Funds debt service subsidy payments from a portion of residual receipts generated from the development.

The accrual of interest and service fee income has been suspended on approximately \$16.1 million of mortgage loans at June 30, 2002, for which allowances for estimated losses have been provided, and such income is being recognized only as received. Interest and service fee income due but not accrued was \$39,993 at June 30, 2002. In addition, the Authority does not accrue interest income on \$17.6 million of loans recorded in its Administrative Funds and Other Funds. Payments made on such loans, which generally are payable from residual receipts, if any, of the affected development Funds, are recognized only as received. The annual amount of interest on these loans is approximately \$804,000.

The Authority, through its Housing Partnership Program, provides loans to not-for-profit organizations, community groups and cities to finance the rehabilitation of existing housing and for the construction of new housing for low and moderate income persons and families. The program's activities are recorded in the Administrative Funds and Other Funds of the Authority. At June 30, 2002, loans receivable under this program were approximately \$8,373,000.

In June 1994, the Authority entered into a Risk Sharing Agreement ("Agreement") with HUD that permits the Authority to participate in HUD's Pilot Risk Sharing Program. Under this program, HUD will insure certain mortgage loans on multi-family housing developments ("Risk Sharing Loans"). HUD has authorized the Authority to make Risk Sharing Loans for such developments with, in the aggregate, up to 4,484 units. Under the Agreement, the Authority will underwrite Risk Sharing Loans following its underwriting guidelines. HUD will insure the Risk Sharing Loans and will bear 10 to 50 percent of the loss, as elected by the Authority, in the event of a foreclosure. The Authority will bear the remainder of the risk.

The Authority, as of June 30, 2002, has entered into twenty-two Risk Sharing Loans totaling \$103,699,353 and elected that HUD assume 10 to 50 percent of the loss with respect to those loans. Except for three loans totaling \$16,591,000 which were financed through the issuance of the Authority's Housing Finance Bonds and two loans totaling 10,993,148 which were financed through the issuance of the Authority's Multi-Family Housing Bonds, these loans are not included in the Authority's financial statements as the Authority sold 100 percent participation interests in the loans to outside parties. The program's service and insurance fee incomes are recorded in the Administrative and Other Funds of the Authority.

In December 2000, the Authority received a commitment from Ambac Assurance Corporation ("Ambac") under which Ambac will insure mortgage loans ("Ambac Loans") on multi-family housing developments under the Authority's Mortgage Participation Certificate Program. Ambac has guaranteed repayment of principal and interest due on a timely or accelerated basis in accordance with the agreement between the Authority and Ambac. Once Ambac Loans are issued and minimum threshold requirements are met, Ambac and the Authority will enter into a sharing agreement on the remaining principal balance on each mortgage loan. As of June 30, 2002, the Authority has entered into three Ambac Loans totaling \$11,653,000.

At June 30, 2002, for loans financed under the Risk Sharing and Mortgage Participation Certificate Programs, there were no amounts in arrears equal to more than two months debt service payments or required deposits to tax and insurance and/or replacement reserves.

With respect to the Residential Mortgage Revenue Bond Funds, substantially all delinquent mortgage loans receivable at June 30, 2002, were covered by pool insurance, which provides for loss coverage to an aggregate limit equal to at least ten percent of the aggregate original principal amount of the mortgage loans so covered. With respect to the Homeowner Mortgage Revenue Bond Funds, substantially all delinquent mortgage loans receivable at June 30, 2002, were covered by pool insurance, which provides for an aggregate limit equal to 3.5% of the aggregate original principal amount of mortgage loans so covered, less a deductible ranging from zero to 1.0% of the aggregate of the original amount of all mortgage loans covered.

Loans made through the Illinois Affordable Housing Program are to acquire, construct, rehabilitate, develop, operate, insure and retain affordable single family and multi-family housing for low and very low-income

**NOTES TO FINANCIAL STATEMENTS—(CONTINUED)**

**For the Year Ended June 30, 2002**

households. Interest rates on these loans are set at below market rates and have ranged from 0% to 7.5%, with most rates set at 2.0% or below. Loans have maturities of up to 40 years, with some loans carrying deferred payment terms. The approximate aging of these receivables as of June 30, 2002, is as follows:

<b>Interest Rate - %</b>	<b>Principal Due By June 30 (In thousands of dollars)</b>				
	<b>2003</b>	<b>2008</b>	<b>2018</b>	<b>After 2018</b>	<b>Total</b>
0 - .99.....	\$3,903	\$7,355	\$9,646	\$37,836	\$58,740
1 - 1.99.....	589	5,729	16,113	40,899	63,330
2 - 3.99.....	660	1,174	2,809	6,920	11,563
4 - 7.50.....	<u>14</u>	<u>151</u>	<u>412</u>	<u>833</u>	<u>1,410</u>
	<u>\$5,166</u>	<u>\$14,409</u>	<u>\$28,980</u>	<u>\$86,488</u>	<u>\$135,043</u>

The approximate aging of the receivables of the HOME program as of June 30, 2002, is as follows:

<b>Interest Rate - %</b>	<b>Principal Due By June 30 (In thousands of dollars)</b>				
	<b>2003</b>	<b>2008</b>	<b>2018</b>	<b>After 2018</b>	<b>Total</b>
0 - .99.....	\$65	\$374	\$3,938	\$27,299	\$31,676
1 - 1.99.....	431	2,741	13,392	41,952	58,516
2 - 3.00.....	<u>50</u>	<u>726</u>	<u>427</u>	<u>-</u>	<u>1,203</u>
	<u>\$546</u>	<u>\$3,841</u>	<u>\$17,757</u>	<u>\$69,251</u>	<u>\$91,395</u>

The Authority has reviewed each program loan receivable, including those for developments in the construction or rent-up phases, for the purpose of determining ultimate collectibility. The Authority believes that the allowances for estimated losses at June 30, 2002 in the accompanying financial statements are adequate to cover estimated losses of the various funds.

Scheduled receipts of principal on proprietary fund program loans receivable in the five years subsequent to June 30, 2002 and thereafter are as follows:

2003.....	\$38,155,000
2004.....	41,865,000
2005.....	45,646,000
2006.....	49,846,000
2007.....	55,872,000
After 2007.....	<u>1,347,044,000</u>
	<u>\$1,578,428,000</u>

**NOTE E—BONDS AND NOTES PAYABLE**

Bonds and notes outstanding are general obligations (G.O.) of the Authority with the exception of Homeowner Mortgage Revenue Bonds, Affordable Housing Program Trust Fund Bonds, Multi-Family Variable Rate Demand Bonds, Housing Finance Bonds, Multi-Family Housing Bonds, 1995 Series A, Multi-Family Program Bonds, Series 7 and 8, and Multi-Family Housing Revenue Bonds, 2000 Series A, which are special limited obligations (S.L.O.) of the Authority, payable from pledged property as defined in their respective general resolutions. The Authority has also pledged its general obligation to the payment of the Affordable Housing Program Trust Fund Bonds to a limited extent and amounts.

Bonds and notes outstanding at June 30, 2002 are as follows:

**Mortgage Loan Program Funds**

Bonds outstanding of the Mortgage Loan Program Funds are as follows:

NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2002

	Maturity Dates	Interest Rate Range-%	Debt Class	Amount	
				June 30, 2001	June 30, 2002
Housing Development Bonds:					
1993 Series A	2002-2018	5.10 – 6.00	G.O.	\$69,660,000	\$58,700,000
1999 Series A	2002-2015	3.94 – 5.19	G.O.	<u>24,990,000</u>	<u>23,600,000</u>
				94,650,000	82,300,000
Less unamortized discount thereon.....				<u>191,253</u>	<u>134,363</u>
				<u>\$94,458,747</u>	<u>\$82,165,637</u>
Multi-Family Housing Bonds:					
1976 Series A	2002-2018	7.40	G.O.	\$8,895,000	\$ -
1976 Series B	2002-2012	7.00	G.O.	3,570,000	-
1978 Series A	2002-2016	6.00-6.75	G.O.	8,245,000	-
1979 Series B	2019-2023	6.00	G.O.	275,000	275,000
1982 Series B	2011-2017	7.00	G.O.	18,840,000	18,840,000
1982 Series C	2015-2025	5.00	G.O.	29,705,000	29,705,000
1983 Series A (1)	2006-2025	10.75	G.O.	18,173,649	12,177,479
1991 Series A	2002-2016	8.00-8.25	G.O.	66,870,000	64,685,000
1991 Series C	2002-2023	6.75-7.35	G.O.	20,905,000	8,665,000
1992 Series A	2002-2026	6.45-7.10	G.O.	41,625,000	39,845,000
1993 Series A	2004-2025	6.05-6.13	G.O.	42,935,000	42,935,000
1993 Series B (Taxable)	2002-2003	6.85	G.O.	2,485,000	1,715,000
1993 Series C	2003-2028	5.80-6.10	G.O.	12,010,000	12,010,000
1993 Series D (Taxable)	2002-2003	6.80	G.O.	510,000	325,000
1994 Series A and B	2002-2020	6.40-6.80	G.O.	19,440,000	4,620,000
1995 Series A	2002-2021	4.80-5.95	S.L.O.	22,910,000	22,230,000
1999 Series A	2002-2028	3.94-5.31	G.O.	9,965,000	9,790,000
2001 Series B	2002-2043	4.60-5.50	S.L.O.	-	10,990,000
				327,358,649	278,807,479
Less unamortized discount thereon.....				<u>16,510,853</u>	<u>16,215,685</u>
				<u>\$310,847,796</u>	<u>\$262,591,794</u>
(1) Capital appreciation term bonds which were originally issued in the amount of \$1,750,000 and which are scheduled for redemption in part, on a semi-annual basis from July 1, 2009 through July 1, 2025, at accreted values aggregating \$45,941,387.					
Fixed Rate Housing Bonds:					
1984 Series A	2002-2021	7.25	G.O.	\$8,990,000	\$8,795,000
1984 Series D	2002-2015	7.25	G.O.	<u>2,100,000</u>	<u>2,020,000</u>
				<u>\$11,090,000</u>	<u>\$10,815,000</u>
Multi-Family Program Bonds:					
Series 1	2005-2021	6.63-6.75	G.O.	\$45,715,000	\$45,715,000
Series 2 (Taxable)	2002-2005	7.85	G.O.	10,065,000	7,830,000
Series 3	2009-2023	6.05-6.20	G.O.	98,135,000	98,135,000
Series 4 (Taxable)	2002-2008	7.20-7.80	G.O.	33,375,000	29,910,000
Series 5	2007-2023	6.65-6.75	G.O.	74,725,000	74,725,000
Series 6 (Taxable)	2002-2006	8.02-8.28	G.O.	18,015,000	15,295,000
Series 7	2019-2029	6.25	S.L.O.	18,415,000	11,350,000
Series 8 (Taxable)	2002-2031	7.19-8.52	S.L.O.	<u>25,900,000</u>	<u>17,010,000</u>
				<u>\$324,345,000</u>	<u>\$299,970,000</u>

**NOTES TO FINANCIAL STATEMENTS—(CONTINUED)**

**For the Year Ended June 30, 2002**

	<b>Maturity Dates</b>	<b>Interest Rate Range-%</b>	<b>Debt Class</b>	<b>Amount</b>	
				<b>June 30, 2001</b>	<b>June 30, 2002</b>
Housing Bonds:					
1999 Series A	2002-2031	3.88-5.25	G.O.	\$44,505,000	\$42,770,000
1999 Series B (1)			G.O.	21,740,000	4,305,000
1999 Series C	2002-2003	6.05	G.O.	410,000	255,000
				<u>\$66,655,000</u>	<u>\$47,330,000</u>

- (1) These bonds were issued at interest rates of 4.28% to 4.33% subject to periodic adjustments. The bond proceeds were deposited into an escrow subject to mandatory tender for purchase in connection with a conversion to a fixed rate from February 14, 2001 through December 20, 2001. The final maturity date for these bonds will not extend beyond July 1, 2034. On December 5, 2001, a portion of these bonds were remarketed at an interest rate of 2.20% subject to mandatory tender for purchase in connection with a conversion to a fixed rate from February 5, 2002 through December 17, 2002. The remaining portion of these bonds was redeemed.

	<b>Maturity Dates</b>	<b>Interest Rate Range-%</b>	<b>Debt Class</b>	<b>Amount</b>	
				<b>June 30, 2001</b>	<b>June 30, 2002</b>
Housing Finance Bonds:					
1999 Series B	2002-2030	4.80-6.30	S.L.O.	\$6,420,000	\$5,575,000
2000 Series A	2002-2032	5.75-6.30	S.L.O.	9,495,000	9,450,000
				<u>\$15,915,000</u>	<u>\$15,025,000</u>
Multi-Family Variable Rate Demand Bonds:					
Series 1996A (Taxable) (1)	2026	6.28(2)	S.L.O.	<u>\$8,135,000</u>	<u>\$8,135,000</u>
Multi-Family Housing Revenue Bonds:					
Series 1997(1)		5.75(3)	G.O.	\$14,170,000	\$14,170,000
Series 2000 A (1)		5.50(4)	S.L.O.	43,685,000	43,185,000
				<u>\$57,855,000</u>	<u>\$57,355,000</u>

- (1) Interest rates on the bonds are determined weekly at a rate established by the Remarketing Agents on each Rate Determination Date. The Authority has agreements with liquidity providers to purchase any bonds tendered for purchase in accordance with the indentures with respect to which the Trustee does not, on the date any such tendered bonds are required to be purchased, have sufficient funds to make such purchase. Payment of the principal and interest on the bonds when due is insured by a financial guarantee insurance policy. The Authority has a general obligation to reimburse the insurer for any such payments made.
- (2) The Authority has entered into two interest rate swap agreements totaling \$8,135,000 in connection with these bonds. The swap agreements, which are in an amount equal to the real estate mortgages securing the Bond Funds, have maturities in the years 2001 and 2003. The weighted fixed rate of the swap agreements is 6.28%. None of the interest rate swaps entered into by the Authority represent hedge transactions. In return, the counterparty pays interest based on a variable rate index. Only the net difference in interest payments is actually exchanged with the counterparty. No bond principal is exchanged. The Authority continues to pay interest to the bondholders at the variable rate of the bonds. However, during the term of the swap agreements, the Authority effectively pays a fixed rate on the debt, as do the holder's of the underlying mortgages. The Authority will be exposed to variable rates if a counterparty to the swap defaults or if the swap is terminated.
- (3) With respect to these bonds, the Authority has entered into an interest rate cap agreement with a rate cap provider. The agreement effectively limits the Authority's cost of borrowing to 5.75% but does not affect the rates paid to bondholders.
- (4) The Authority has entered into an interest rate swap agreement, which is at a fixed rate of 5.5% and matures in 2027, in conjunction with these bonds. The swap counterparty is to pay the rate equal to the variable rate of interest on the

**NOTES TO FINANCIAL STATEMENTS—(CONTINUED)**

**For the Year Ended June 30, 2002**

bonds. The Authority will be exposed to variable rates if the counterparty to the swap defaults or the swap is terminated.

**Single Family Mortgage Revenue Program Funds**

Bonds outstanding of the Single Family Mortgage Funds are as follows:

	<u>Maturity Dates</u>	<u>Interest Rate Range-%</u>	<u>Debt Class</u>	<u>Amount</u>	
				<u>June 30, 2001</u>	<u>June 30, 2002</u>
Residential Mortgage Revenue Bonds:					
1983 Series A	2015	10.872	G.O.	\$1,187	\$1,319
1983 Series B	2015	10.746	G.O.	1,206	1,339
1984 Series B	2016	11.257	G.O.	1,012	1,130
1985 Series A	2017	10.75	G.O.	978	1,086
1987 Series A	2004-2007	6.90	G.O.	4,545,000	1,395,000
1987 Series B	2014	8.13	G.O.	100,000	100,000
1987 Series C	2014	7.50	G.O.	100,000	100,000
1987 Series D	2017	8.65	G.O.	100,000	100,000
1988 Series A and B	2002	7.50-7.70	G.O.	10,000	10,000
1988 Series C	2003	7.70	G.O.	5,000	5,000
1991 Series A and B	2002-2017	6.90-7.25	G.O.	19,265,000	-
1991 Series C and D	2002-2018	6.10-6.88	G.O.	26,705,000	-
1992 Series A	2025	5.95	G.O.	680,000	-
1993 Series A and B	2002-2024	4.80-5.90	G.O.	<u>25,855,000</u>	<u>20,680,000</u>
				<u>\$77,369,383</u>	<u>\$22,394,874</u>

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

<u>Series</u>	<u>Redemption Basis and Period</u>	<u>Original Issue Amount (1)</u>	<u>Accreted Value</u>		<u>Aggregate Value to be Redeemed</u>
			<u>June 30, 2001</u>	<u>June 30, 2002</u>	
1983 Series A	Maturity 2/1/15	\$180	\$1,187	\$1,319	\$5,000
1983 Series B	Maturity 2/1/15	193	1,206	1,339	5,000
1984 Series B	Maturity 2/1/16	166	1,012	1,130	5,000
1985 Series A	Maturity 2/1/17	190	978	1,086	5,000

(1) Amounts reflect original issue amounts of capital appreciation bonds outstanding as of June 30, 2002.

NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2002

	Maturity Dates	Interest Rate Range-%	Debt Class	Amount	
				June 30, 2001	June 30, 2002
Homeowner Mortgage Revenue Bonds:					
1994 Series A	2002-2025	5.50-6.45	S.L.O.	\$ 32,070,000	\$25,535,000
1994 Series B	2002-2025	6.10-7.05	S.L.O.	11,685,000	8,775,000
1994 Series C	2026	6.63	S.L.O.	1,700,000	1,420,000
1995 Series A	2002-2022	5.80-6.85	S.L.O.	17,100,000	12,710,000
1995 Series B	2002-2026	5.40- 6.63	S.L.O.	29,330,000	22,825,000
1995 Series C	2002-2018	4.75-6.20	S.L.O.	13,665,000	10,670,000
1995 Series D	2002-2027	5.20-6.63	S.L.O.	33,815,000	27,385,000
1995 Series E	2023-2028	6.17	S.L.O.	7,900,000	7,860,000
1996 Series A	2002-2027	4.90-6.15	S.L.O.	31,565,000	24,955,000
1996 Series B	2006-2028	6.30-6.45	S.L.O.	25,020,000	20,945,000
1996 Series C	2019-2028	5.63-6.30	S.L.O.	18,350,000	15,585,000
1996 Series E	2002-2027	4.80-6.13	S.L.O.	21,435,000	18,645,000
1996 Series E-3 (Taxable)	2019-2027	7.43	S.L.O.	3,530,000	45,000
1996 Series F	2002-2028	4.35-5.65	S.L.O.	27,820,000	24,760,000
1997 Series A	2002-2028	4.80-6.15	S.L.O.	33,665,000	28,025,000
1997 Series B (remarketed 4/30/98)	2002-2028	4.20-5.50	S.L.O.	27,275,000	25,405,000
1997 Series B (remarketed 6/29/98)	2002-2028	4.20-5.40	S.L.O.	29,185,000	26,560,000
1997 Series C	2002-2028	4.40-6.00	S.L.O.	37,570,000	32,265,000
1997 Series C-5 (Taxable)	2002-2029	6.72-7.74	S.L.O.	19,965,000	17,060,000
1997 Series D	2002-2028	4.35-5.65	S.L.O.	18,195,000	16,425,000
1997 Series D-3 (Taxable)	2006-2028	6.60	S.L.O.	3,725,000	2,980,000
1998 Series A (Taxable)	2002-2028	6.45-7.16	S.L.O.	18,735,000	17,735,000
1998 Series C (Taxable)	2002-2029	6.28-7.00	S.L.O.	16,225,000	16,025,000
1998 Series D (remarketed 10/7/98)	2002-2029	3.95-5.20	S.L.O.	31,150,000	27,275,000
1998 Series D (remarketed 12/17/98)	2002-2029	4.00-5.25	S.L.O.	17,540,000	15,975,000
1998 Series D (remarketed 4/29/99)	2002-2029	3.90-5.30	S.L.O.	45,505,000	41,365,000
1998 Series E (Taxable)	2002-2029	5.66-6.31	S.L.O.	18,870,000	17,680,000
1998 Series G	2002-2029	4.00-5.25	S.L.O.	30,195,000	27,210,000
1999 Series A	2002-2028	4.90-6.40	S.L.O.	25,350,000	22,580,000
1999 Series B	2002-2028	4.90-6.40	S.L.O.	16,920,000	13,715,000
1999 Series C (Taxable)	2002-2029	7.16	S.L.O.	4,925,000	4,870,000
1999 Series D	2002-2030	4.50-5.70	S.L.O.	38,535,000	35,180,000
1999 Series D-3 (Taxable)	2002-2030	6.70-7.76	S.L.O.	15,125,000	9,385,000
1999 Series E	2002-2028	5.20-6.64	S.L.O.	24,300,000	20,870,000
1999 Series F (Taxable)	2002-2030	8.25	S.L.O.	10,770,000	10,670,000
1999 Series G	2002-2031	4.70-6.05	S.L.O.	19,055,000	16,840,000
2000 Series A (Taxable)	2022-2030	7.80	S.L.O.	4,925,000	-
2000 Series B	2002-2032	4.65-5.95	S.L.O.	15,890,000	15,345,000
2000 Series C	2002-2031	5.00-6.38	S.L.O.	22,605,000	18,580,000
2000 Series C-4 (Taxable)	2002-2031	8.19	S.L.O.	6,000,000	5,395,000
2000 Series D	2002-2031	4.60-6.05	S.L.O.	47,130,000	42,290,000
2000 Series E	2002-2031	4.45-5.95	S.L.O.	31,155,000	28,465,000
2000 Series F (Taxable)	2002-2031	7.71	S.L.O.	5,000,000	4,935,000

**NOTES TO FINANCIAL STATEMENTS—(CONTINUED)**

**For the Year Ended June 30, 2002**

	<b>Maturity Dates</b>	<b>Interest Rate Range-%</b>	<b>Debt Class</b>	<b>Amount</b>	
				<b>June 30, 2001</b>	<b>June 30, 2002</b>
Homeowner Mortgage Revenue Bonds (continued):					
2001 Series A	2002-2032	3.50-5.50	S.L.O.	\$42,120,000	\$40,630,000
2001 Series B (Taxable)	2002-2032	6.36	S.L.O.	5,000,000	4,970,000
2001 Series C	2002-2032	3.10-5.55	S.L.O.	-	46,940,000
2001 Series D (Taxable)	2003-2032	Variable	S.L.O.	-	8,000,000
2001 Series E	2002-2033	2.88-5.60	S.L.O.	-	55,545,000
2001 Series F (Taxable)	2002-2023	Variable	S.L.O.	-	10,000,000
2002 Series A	2004-2033	3.10-5.63	S.L.O.	-	40,000,000
2002 Series B (Taxable)	2004-2023	Variable	S.L.O.	-	10,000,000
				<u>957,590,000</u>	<u>999,305,000</u>
Plus unamortized premium thereon.....				<u>179,260</u>	<u>106,495</u>
				<u>\$957,769,260</u>	<u>\$999,411,495</u>

**Affordable Housing Program Trust Fund Bond Funds**

Bonds outstanding of the Affordable Housing Program Trust Fund Bond Funds are as follows:

Series 1994 A	2002-2021	8.13-8.64	S.L.O.	\$45,045,000	\$43,925,000
Series 1995 A	2002-2022	6.74-7.82	S.L.O.	40,110,000	39,160,000
				<u>\$85,155,000</u>	<u>\$83,085,000</u>

The following summarizes the debt activity for the Authority's proprietary funds for fiscal year 2002:

<b>Fund</b>	<b>6/30/01</b>	<b>Issuance</b>	<b>Accretion</b>	<b>Retirement</b>	<b>06/30/02</b>
Housing Development Bond.....	\$ 94,650,000	-	-	(\$12,350,000)	\$82,300,000
Multi-Family Housing Bond.....	327,358,649	10,990,000	1,600,139	(61,141,309)	278,807,479
Fixed Rate Housing Bond.....	11,090,000	-	-	(275,000)	10,815,000
Multi-Family Program Bond.....	324,345,000	-	-	(24,375,000)	299,970,000
Housing Bond.....	66,655,000	4,305,000	-	(23,630,000)	47,330,000
Housing Finance Bond.....	15,915,000	-	-	(890,000)	15,025,000
Multi-Family Variable Rate Demand Bond.....	8,135,000	-	-	-	8,135,000
Multi-Family Housing Revenue Bond.....	57,855,000	-	-	(500,000)	57,355,000
Residential Mortgage Revenue Bond.....	77,369,382	-	492	(54,975,000)	22,394,874
Homeowner Mortgage Revenue Bond.....	957,590,000	173,205,000	-	(131,490,000)	999,305,000
Affordable Housing Program Trust Fund Bond	<u>85,155,000</u>	-	-	<u>(2,070,000)</u>	<u>83,085,000</u>
	<u>\$2,026,118,031</u>	<u>\$188,500,000</u>	<u>\$1,600,631</u>	<u>(\$311,696,309)</u>	<u>\$1,904,522,353</u>

**Other Financings**

From time to time the Authority has issued special limited obligations with a claim for repayment solely from payments received with respect to the mortgage loans. The bonds are not general obligations of the Authority, and they are not a debt of the State of Illinois; neither is liable to pay interest and principal on the bonds. Accordingly, the bonds are not included in the Authority's financial statements. The bonds do, however, apply toward the Authority's authorized debt limitation.

As of June 30, 2002, there were twenty series of such bonds or notes outstanding, with an aggregate principal amount payable of \$248,775,000.

**Assets Restricted for Capital and Debt Service Reserves**

Pursuant to the Act and various resolutions of the Authority, certain assets (principally investments) are maintained in capital and debt service reserve funds and may be used only for the payment of principal and interest on certain bonds. The reserve funds must be maintained at an amount at least equal to the following:



**NOTES TO FINANCIAL STATEMENTS—(CONTINUED)**

**For the Year Ended June 30, 2002**

<u><b>Fund</b></u>	<u><b>Requirement</b></u>
Housing Development Bonds	Maximum amount of principal and interest due in any succeeding year
Fixed Rate Housing Bonds	7.5% to 13.45%, as defined for each series, of the principal amounts of bonds outstanding provided that the debt service reserve funds for the 1978 Series B Bonds (none of which are outstanding) and subsequent series of bonds cannot be less than a specified percentage (100% except for the 1979 Series A and 1979 Series B Bonds, for which the percentage is 120%) of the maximum annual debt service on such bonds for the current or any succeeding year until July 1 of the year preceding the final maturity of the bonds of such series
Affordable Housing Program Trust Fund Bonds	
Multi-Family Housing Bonds	
Multi-Family Program Bonds	Maximum amounts of principal, sinking fund installments and interest due in the then current or any future bond year for all bonds then outstanding
Multi-Family Variable Rate Demand Bonds	Three months of adjusted debt service requirements
Multi-Family Housing Revenue Bonds	
Housing Bonds	25% of the maximum annual principal and interest
Housing Finance Bonds	50% of the maximum annual principal and interest
Homeowner Mortgage Revenue Bonds	The sum of all amounts established by each series resolution, but such amount cannot be less than 2% for the Homeowner Mortgage Revenue Bonds, and 4% for the Residential Mortgage Revenue Bonds, of the sum of (i) the outstanding principal balance or related mortgage loans and (ii) the amounts on deposit to the credit of series program accounts on the program fund
Residential Mortgage Revenue Bonds	

The amounts of such reserves, for measurement purposes against the various bond resolution reserve requirements, are valued at book value or par, or, if purchased at less than par, at their cost to the Authority. At June 30, 2002, these amounts, which were not less than the amounts required, are as follows:

Housing Development Bond Funds.....	\$8,660,515
Multi-Family Housing Bond Funds.....	47,230,855
Fixed Rate Housing Bond Funds.....	1,173,223
Multi-Family Program Bond Funds.....	30,339,224
Housing Bond Funds.....	211,815
Housing Finance Bond Funds.....	519,000
Multi-Family Variable Rate Demand Bond Funds.....	359,511
Multi-Family Housing Revenue Bond Funds.....	806,347
Residential Mortgage Revenue Bond Fund.....	5,457,145
Homeowner Mortgage Revenue Bond Funds.....	<u>32,594,116</u>
	<u>\$127,351,751</u>

In addition to the above, the debt service reserve requirement of the Affordable Housing Program Trust Fund Bond Funds (\$8,909,310) at June 30, 2002, is satisfied through the Authority's holding of a surety bond.

NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2002

**Other Maturity Information**

Bonds maturing on or after the following dates are redeemable at the option of the Authority at prescribed redemption prices greater than 100%, decreasing periodically, expressed as a percentage of the principal amount, as follows:

<u>Issue</u>	<u>Maturity On or after</u>	<u>Redemption Price</u>		
Housing Development Bonds:				
1993 Series A.....	July 1, 2004	102	to	100%
1999 Series A.....	Mar. 1, 2009	101	to	100
Multi-Family Housing Bonds:				
1991 Series A and C.....	July 1, 2002	101	to	100
1992 Series A.....	July 1, 2002	102	to	100
1993 Series A and C.....	July 1, 2003	102	to	100
1994 Series A and B.....	Jan. 1, 2005	102	to	100
1995 Series A.....	July 1, 2005	102	to	100
1999 Series A.....	Mar. 1, 2009	101	to	100
Fixed Rate Housing Bonds, 1984 Series A and D.....	July 1, 2002	100.5	to	100
Multi-Family Program Bonds:				
Series 1.....	Mar. 1, 2003	102	to	100
Series 3.....	Sept. 1, 2003	102	to	100
Series 5.....	Sept. 1, 2004	102	to	100
Series 7.....	Mar. 1, 2006	102	to	100
Housing Bonds, 1999 A.....	Mar. 1, 2009	101	to	100
Residential Mortgage Revenue Bonds, 1993 Series A and B	Feb. 1, 2004	102	to	100
Homeowner Mortgage Revenue Bonds:				
1994 Series A.....	Aug. 1, 2004	102	to	100
1994 Series B and 1995 Series A.....	Feb. 1, 2005	102	to	100
1994 Series C.....	Aug. 1, 2005	102	to	100
1995 Series B.....	May 1, 2005	102	to	100
1995 Series C.....	Oct. 1, 2006	102	to	100
1995 Series D.....	Aug. 1, 2005	102	to	100
1995 Series E.....	Aug. 1, 2005	102	to	100
1995 Series E.....	Jan. 1, 2007	102	to	100
1996 Series A and B.....	Feb. 1, 2006	102	to	100
1996 Series C and E.....	Aug. 1, 2006	102	to	100
1997 Series A.....	Feb. 1, 2007	102	to	100
1997 Series B remarketed April 30, 1998.....	May 1, 2008	102	to	100
1997 Series B remarketed June 29, 1998.....	July 1, 2008	102	to	100
1997 Series C.....	Aug. 1, 2007	102	to	100
1997 Series D and 1996 Series F.....	Jan. 1, 2008	102	to	100
1998 Series A.....	April 1, 2008	101	to	100
1998 Series C.....	June 1, 2008	101	to	100
1998 Series D remarketed October 7, 1998 and				
1998 Series E.....	Oct. 1, 2008	101.5	to	100
1998 Series D remarketed December 17, 1998.....	Dec. 1, 2008	101.5	to	100
1998 Series D remarketed April 29, 1999.....	April 1, 2009	101.5	to	100
1998 G.....	Aug. 1, 2008	101	to	100
1999 Series A and B remarketed January 26, 2001.....	Jan. 1, 2010	101	to	100
Affordable Housing Program Trust Fund Bonds, Series 1994 A	Aug. 1, 2004	102	to	100

NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2002

Debt service requirements through 2007 and in five-year increments thereafter to maturity for the Authority's proprietary funds are as follows:

Year Ending <u>June 30</u>	<u>Multi-Family Housing</u>		<u>Multi-Family Program</u>		<u>Homeowner Mortgage</u>	
	<u>Bond Funds</u>		<u>Bond Funds</u>		<u>Revenue Bond Funds</u>	
	<u>Principal*</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2003	\$7.6	\$18.9	\$9.4	\$20.2	\$18.2	\$57.6
2004	8.6	18.4	10.1	19.5	20.5	56.6
2005	9.5	17.8	10.9	18.7	22.1	55.6
2006	10.2	17.1	11.1	17.8	23.9	54.4
2007	10.9	16.4	11.9	16.9	25.1	53.2

**Five Years  
Ending  
June 30**

2008-2012	71.9	70.0	71.7	70.7	146.1	243.4
2013-2017	90.4	46.0	79.6	46.5	192.3	196.3
2018-2022	59.9	26.8	60.8	21.3	153.4	144.1
2023-2027	57.8	8.9	27.8	5.6	233.8	91.5
2028-2032	4.4	1.4	6.7	1.6	154.7	21.7
2033-2037	1.2	0.8			9.2	.4
2038-2042	1.8	.4				
2043-2044	.4	.1				

Year Ending <u>June 30</u>	<u>All Other non-major funds</u>		<u>Total</u>	
	<u>Principal*</u>	<u>Interest</u>	<u>Principal*</u>	<u>Interest</u>
2003	\$14.4	\$18.7	\$49.6	\$115.4
2004	10.5	18.1	49.7	112.6
2005	10.7	17.5	53.2	109.6
2006	11.5	16.9	56.7	106.2
2007	13.7	16.2	61.6	102.7

**Five Years  
Ending  
June 30**

2008-2012	72.1	68.9	361.8	453.0
2013-2017	75.6	44.6	437.9	333.4
2018-2022	59.9	21.7	334.0	213.9
2023-2027	26.2	7.0	345.6	113.0
2028-2032	9.6	1.0	175.4	25.7
2033-2037			10.4	1.2
2038-2042			1.8	.4
2043-2044			.4	.1

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

**NOTE F—DEPOSITS HELD IN ESCROW**

Deposits from developers, which are held in escrow in the Administrative Funds, may be used when necessary to pay principal and interest payments and fund construction cost overruns, change orders, tax and insurance payments and capital improvements (see Note D). In addition, on certain developments, letters of credit and assignments of syndication proceeds are held by the Authority for similar purposes and to fund potential operating deficits of the related developments. Investment income earned on deposited funds is credited to the respective developer's escrow accounts.

**NOTES TO FINANCIAL STATEMENTS—(CONTINUED)**

**For the Year Ended June 30, 2002**

**NOTE G—LEASES**

The Authority leases office facilities under a lease which extends through July 31, 2006, and which provides the Authority an option to extend the lease five years beyond that date and, during certain time periods, to lease additional office facilities.

The office lease provides for annual base rent of approximately \$757,000 for the fiscal year 2002 and escalates by approximately \$27,000 annually throughout the lease period, plus estimated payments totaling \$812,216 in fiscal year 2002 for the Authority's 7.488% share of ownership taxes and operating expenses, which also are subject to adjustment, based on the actual costs incurred by the lessor.

During fiscal year 2001, the Authority was assigned an interest in a sublease, which terminates on October 31, 2003, for additional office space. The cost of this space approximates \$62,500 annually.

For fiscal year 2002, total rent expense of the Authority was \$1,634,672.

**NOTE H—OTHER LIABILITIES**

Included in Other Liabilities at June 30, 2002 is \$18,828,849 in undisbursed Risk Sharing Loan proceeds and \$10,028,072 in undisbursed Ambac Loan proceeds.

The bonds issued by the Authority after 1980 are subject to a variety of Internal Revenue Service ("IRS") regulations which limit the amount of income which may be earned with non-mortgage investments to an amount not greater than the amount which would have been earned had the funds been invested at the yield on the bonds as defined by the IRS. Excess earnings must be rebated annually, or every five years, depending on the date and type of bond issue. Included in Other Liabilities at June 30, 2002, is an estimated rebate liability of \$5,643,983.

The Authority is a defendant in various legal actions arising from normal business activities. Management believes, after consultation with legal counsel, that the ultimate liability, if any, resulting from these legal actions will not materially affect the Authority's financial position or results of operations.

The Authority carries commercial insurance for director's and officer's liability, general liability, workers' compensation, and automobile ownership and usage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE I—RETIREMENT PLAN**

The Authority provides a defined contribution retirement plan for the benefit of its employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Full time employees are eligible to participate in and are fully vested in the plan from the date of employment. All plan assets and investments are administered by a trustee, which maintains an individual account for each participant. The Authority contributes 6% of its employees' salaries and employees, at their option, may contribute up to 19% (within a maximum dollar limit) of their salaries to the plan. In addition, the Authority, under the provisions of the Economic Growth and Tax Relief Act of 2001, permits additional contributions each calendar year for those employees who attain age 50 (or higher) during the calendar year. The plan may be amended or terminated by the Authority at any time and for any reason in the future, but no such action can deprive employees of their vested interests.

The Authority's total payroll in fiscal year 2002 was \$10,064,012. The Authority's contributions were calculated using the base salary amount of \$9,978,800. The Authority contributed \$598,728 or 6% of the base salary amount, in fiscal year 2002. Employee contributions amounted to \$668,501 in fiscal year 2002, or 6.7 % of the base salary amount.

NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2002

**NOTE J—COMMITMENTS**

At June 30, 2002 unexpended bond proceeds held by the Authority in the form of cash and investments amounting to \$73,625,108 in the Homeowner Mortgage Revenue Bond Funds were identified for the purpose of purchasing various mortgage loans.

At June 30, 2002, the Members of the Authority had authorized commitments for loans and grants totaling \$37,664,651, and \$8,528,337, respectively, of the Illinois Affordable Housing Trust Fund.

Under the HOME Program, \$202.3 million and \$26.6 million for federal fiscal years 1992 through 2001 and 2002, respectively, have been allocated to the State, to be administered by the Authority, under the HOME Program provisions of the 1990 National Affordable Housing Act. In fiscal year 1994, the Authority was allocated \$10.2 million of additional HOME funds to be used for flood disaster relief. At June 30, 2002, the Members of the Authority had authorized commitments for loans and grants of \$6,328,600 and \$20,135,246, respectively for the HOME Program.

In accordance with an agreement entered into by the Authority and HUD at the time of delivery of the Authority's Multi-Family Housing Bonds, 1982 Series A, 1982 Series B and 1983 Series A, annual Section 8 contributions payable to HUD with respect to the developments financed by these bonds would be reduced to the extent of the debt service savings resulting from the early redemptions of these Bonds. These redemptions were accomplished through the issuance of the Authority's Multi-Family Housing Bonds, 1991 Series A and B, 1992 Series A and B and 1993 Series A and B. Pursuant to federal legislation and a written agreement with the Authority, HUD has agreed to share a portion of such savings (the FAF Savings Program) with the Authority in order to create and maintain affordable housing opportunities for individuals of "very low income" (as such term is defined in the 1937 Housing Act) in the State. These savings, which are to be used solely for the purpose stated above, became available beginning in fiscal year 1992 for the 1991 Series A and B Bonds and in fiscal year 1994 for the 1993 Series A and B Bonds, and are recorded as other income of the Administrative and Other Funds. At June 30, 2002, loans receivable under this program were approximately \$8.7 million.

On May 8, 2002, the Authority entered into a forward swap transaction under the Affordable Housing Program Trust Fund Bonds. Aspects of this transaction would include the Authority's agreement to issue variable rate refunding bonds in the summer of 2004, proceeds of which would be used to redeem all or a portion of the Series 1994A Bonds issued under the program, as well as to enter into a variable to fixed rate swap agreement for those variable rate bonds.

**NOTE K—CONTINGENCIES**

HUD's Office of General Counsel (OGC) has expressed the opinion that certain language used in the form of Housing Assistance Payments (HAP) Contract in use prior to February 1980, for State Agency projects with mortgages that were not insured by FHA, has the effect of terminating those HAP Contracts upon refinancing of the related project mortgages. While only expressed in the form of an internal memorandum, this opinion has been communicated by HUD to the public. The position expressed in the opinion has not been promulgated in any official form, nor has HUD taken any action to impose consequences that might arise from the opinion on projects that were previously refinanced. The Authority has determined that approximately 57 of the Section 8 projects, which it has financed, have been refinanced in a fashion that might cause a termination of the related HAP Contracts under such OGC opinion.

Were HUD to stop HAP payments to affected projects and/or attempt to recover previously made payments, such action could adversely affect project income, the Authority's revenues from those projects and, as a consequence thereof, the Authority's financial position. However, in Congressional testimony and in public discussions with industry participants, HUD officials have expressed the desire to prevent such position from having an adverse impact upon the affected projects and State Agencies. Further, the Authority has been advised by counsel that, if litigated, while it is not possible to predict with certainty the outcome of any litigation, in a court of final jurisdiction the OGC opinion would not prevail.

**NOTES TO FINANCIAL STATEMENTS—(CONTINUED)**

**For the Year Ended June 30, 2002**

**NOTE L—SUBSEQUENT EVENTS**

On July 30, 2002, the Authority issued its Homeowner Mortgage Revenue Bonds, 2002 Series C, in the aggregate principal amount of \$50,000,000, maturing in 2004 through 2033, at initial interest rates of 2.25% to 5.40%. These bonds are special limited obligations of the Authority.

**NOTES TO FINANCIAL STATEMENTS—(CONTINUED)**

**For the Year Ended June 30, 2002**

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

**NON-MAJOR PROPRIETARY FUNDS  
COMBINING STATEMENT OF NET ASSETS  
As of June 30, 2002**

	Housing		Fixed Rate		Multi-Family		Multi-Family		Residential	Affordable	Total
	Development	Housing	Housing	Housing	Variable Rate	Revenue	Mortgage	Housing			
<u>ASSETS</u>	Bond Funds	Bond Funds	Bond Funds	Bond Funds	Demand	Bond Funds	Revenue	Bond Funds	Program	Bond Funds	
Current assets:											
Cash and cash equivalents .....	\$ 23,522	27,560	9,412	15,643	597,790	944,661	2,652,740				4,271,328
Investment income receivable .....	427,339	29,581	810,282	20,979	8,938	4,057	230,899		46,618		1,578,693
Program loans receivable .....	3,753,000	272,000	320,000	186,000			1,469,000		3,341,000		9,341,000
Interest receivable on program loans .....	1,279,803	628,754	95,944	77,591	32,564	16,406	252,624		485,186		2,868,872
Interfund accounts receivable (payable) .....	2,905,994	653,895	(23,161)	(16,524)	(748,205)	12,883,874	32,546		(280,056)		15,408,363
Total current assets .....	8,389,658	1,611,790	1,212,477	283,689	(108,913)	13,848,998	4,637,809		3,592,748		33,468,256
Noncurrent assets:											
Investments - Restricted .....	27,338,435	8,513,867	39,069,367	1,052,158	1,889,045	6,333,815	13,542,710		10,196,629		107,936,026
Program loans receivable, net of current portion .....	85,366,769	9,950,160	8,981,201	14,268,217	8,063,852	9,796,400	39,673,337		86,248,782		262,348,718
Less allowance for estimated losses .....	(3,900,000)	(250,000)	(1,000,000)		(100,000)				(4,000,000)		(9,250,000)
Net program loans receivable .....	81,466,769	9,700,160	7,981,201	14,268,217	7,963,852	9,796,400	39,673,337		82,248,782		253,098,718
Unamortized bond issuance costs .....	655,819	101,957	778,959		185,336	1,189,720	737,015		1,522,521		5,171,327
Real estate held for sale (net) .....							30,205,682		134,068		30,339,750
Other .....			278,794			991,569			190,405		1,460,768
Total noncurrent assets .....	109,461,023	18,315,984	48,108,321	15,320,375	10,038,233	48,517,186	54,087,130		94,158,337		398,006,589
Total assets .....	\$ 117,850,681	19,927,774	49,320,798	15,604,064	9,929,320	62,366,184	58,724,939		97,751,085		431,474,845
<u>LIABILITIES</u>											
Current liabilities:											
Bonds and notes payable .....	\$ 3,640,000	295,000	6,280,000	200,000		800,000	915,000		2,230,000		14,360,000
Accrued interest payable .....	2,273,025	261,362	1,078,481	309,787	12,114	58,538	529,007		560,391		5,082,705
Accrued liabilities and other .....			564,196	99,261		61,316	33,100		203,060		960,933
Total current liabilities .....	5,913,025	556,362	7,922,677	609,048	12,114	919,854	1,477,107		2,993,451		20,403,638
Noncurrent liabilities:											
Bonds and notes payable, net of current portion .....	78,525,637	10,520,000	41,050,000	14,825,000	8,135,000	56,555,000	21,479,874		80,855,000		311,945,511
Total liabilities .....	\$ 84,438,662	11,076,362	48,972,677	15,434,048	8,147,114	57,474,854	22,956,981		83,848,451		332,349,149
<u>NET ASSETS</u>											
Restricted by bond resolutions .....	\$ 33,412,019	8,851,412	348,121	170,016	1,782,206	4,891,330	35,767,958		13,902,634		99,125,696
Total net assets .....	\$ 33,412,019	8,851,412	348,121	170,016	1,782,206	4,891,330	35,767,958		13,902,634		99,125,696



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

**NON-MAJOR PROPRIETARY FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
For the Year Ended June 30, 2002

	Housing Development Bond Funds	Fixed Rate Housing Bond Funds	Housing Bond Funds	Housing Finance Bond Funds	Multi-Family Variable Rate Demand Bond Funds	Multi-Family Housing Revenue Bond Funds	Residential Mortgage Revenue Bond Funds	Affordable Housing Program Trust Fund Bond Funds	Total
Operating revenues:									
Interest and other investment income .....	\$ 1,286,862	300,378	2,313,555	69,315	85,638	205,630	1,206,444	619,976	6,087,798
Net increase in fair value of investments.....		74,386			10,294	15,786	72,511		172,977
Total investment income .....	1,286,862	374,764	2,313,555	69,315	95,932	221,416	1,278,955	619,976	6,260,775
Interest earned on program loans .....	5,770,550	813,133	549,322	915,725	624,679	249,980	3,965,271	3,028,870	15,917,530
Federal assistance programs .....	4,709,160	679,449	285,299						5,673,908
Other .....						4,063,194			4,063,194
Total operating revenues .....	11,766,572	1,867,346	3,148,176	985,040	720,611	4,534,590	5,244,226	3,648,846	31,915,407
Operating expenses:									
Interest expense .....	5,068,035	816,490	2,685,440	945,288	543,384	2,694,994	3,697,641	6,929,342	23,380,614
Federal assistance programs .....	4,709,160	679,449	285,299						5,673,908
Salaries and benefits .....							14,009		14,009
Professional fees .....	1,500		3,000	3,000		3,000	22,500		33,000
Other general and administrative .....							27,674		27,674
Financing costs .....	5,137		21,477	8,650	50,968	184,188	81,342	224,865	576,627
Provision for (reversal of) estimated losses on program loans receivable .....	(1,000,000)							1,000,000	
Total operating expenses .....	8,783,832	1,495,939	2,995,216	956,938	594,352	2,882,182	3,843,166	8,154,207	29,705,832
Operating income (loss) .....	2,982,740	371,407	152,960	28,102	126,259	1,652,408	1,401,060	(4,505,361)	2,209,575
Operating transfers in (out) .....	1,697						(498,744)	5,350,000	4,852,953
Change in net assets .....	2,984,437	371,407	152,960	28,102	126,259	1,652,408	902,316	844,639	7,062,528
Net assets at beginning of year .....	30,427,582	8,480,005	195,161	141,914	1,655,947	3,238,922	34,865,642	13,057,995	92,063,168
Net assets at end of year .....	\$ 33,412,019	8,851,412	348,121	170,016	1,782,206	4,891,330	35,767,958	13,902,634	99,125,696

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

**NON-MAJOR PROPRIETARY FUNDS**  
**COMBINING STATEMENT OF CASH FLOWS**  
For the Year Ended June 30, 2002

	Housing Development Bond Funds	Fixed Rate Housing Bond Funds	Housing Bond Funds	Housing Finance Bond Funds	Multi-Family Variable Rate Demand Bond Funds	Multi-Family Housing Revenue Bond Funds	Residential Mortgage Revenue Bond Funds	Affordable Housing Program Trust Fund Bond Funds	Total
Cash flows from operating activities:									
Cash received from interest, service fees, and principal on program loans .....	\$ 9,367,541	1,078,441	834,402	1,551,153	617,086	267,000	20,123,049	5,898,924	39,737,596
Cash payments for loaned amounts .....	(4,665,386)			(416,693)					(5,082,079)
Cash received from federal assistance programs .....	3,531,870	509,626	213,974						4,255,470
Cash payments for federal assistance programs .....	(3,531,870)	(509,626)	(213,974)						(4,255,470)
Cash payments for operating expenses .....							(205,823)		(205,823)
Other .....	(6,637)		(48,303)	(17,000)		4,455,488	(26,409)	(220,793)	4,136,346
Net cash provided by operating activities .....	<u>4,695,518</u>	<u>1,078,441</u>	<u>786,099</u>	<u>1,117,460</u>	<u>617,086</u>	<u>4,722,488</u>	<u>19,890,817</u>	<u>5,678,131</u>	<u>38,586,040</u>
Cash flows from noncapital financing activities:									
Proceeds from sale of revenue bonds and notes .....			4,305,000						4,305,000
Principal paid on revenue bonds and notes .....	(12,350,000)	(275,000)	(23,630,000)	(890,000)		(500,000)	(54,975,000)	(2,070,000)	(94,690,000)
Interest paid on revenue bonds and notes .....	(5,167,233)	(794,056)	(2,986,724)	(959,670)	(219,333)	(2,757,624)	(3,690,995)	(6,835,512)	(23,411,147)
Operating transfers in (out) .....	1,697						23,289,749	5,350,000	28,641,446
Other .....			(109,185)		(309,419)		(633,301)		(1,051,905)
Net cash used in noncapital financing activities .....	<u>(17,515,536)</u>	<u>(1,069,056)</u>	<u>(22,420,909)</u>	<u>(1,849,670)</u>	<u>(528,752)</u>	<u>(3,257,624)</u>	<u>(36,009,547)</u>	<u>(3,555,512)</u>	<u>(86,206,606)</u>
Cash flows from investing activities:									
Purchase of investment securities .....	(59,310,804)	(14,669,502)	(16,991,888)	(2,392,042)	(1,502,755)	(27,675,561)	(79,985,555)	(11,821,665)	(214,349,772)
Proceeds from sales and maturities of investment securities .....	70,516,185	14,332,816	35,653,467	3,042,180	1,081,115	25,996,033	93,231,320	9,043,845	252,896,961
Interest on investments .....	1,597,629	300,691	2,981,422	82,072	86,272	186,162	1,515,665	606,878	7,356,791
Net cash provided by (used in) investing activities .....	<u>12,803,010</u>	<u>(35,995)</u>	<u>21,643,001</u>	<u>732,210</u>	<u>(335,368)</u>	<u>(1,493,366)</u>	<u>14,761,430</u>	<u>(2,170,942)</u>	<u>45,903,980</u>
Net increase (decrease) in cash and cash equivalents .....	(17,008)	(26,610)	8,191		(247,034)	(28,502)	(1,357,300)	(48,323)	(1,716,586)
Cash and cash equivalents at beginning of year .....	40,530	54,170	1,221	15,643	844,824	973,163	4,010,040	48,323	5,987,914
Cash and cash equivalents at end of year .....	<u>\$ 23,522</u>	<u>27,560</u>	<u>9,412</u>	<u>15,643</u>	<u>597,790</u>	<u>944,661</u>	<u>2,652,740</u>		<u>4,271,328</u>
Reconciliation of operating income to net cash provided by (used in)									
operating activities:									
Operating income (loss) .....	\$ 2,982,740	371,407	152,960	28,102	126,259	1,652,408	1,401,060	(4,505,361)	2,209,575
Adjustments to reconcile operating income to net cash:									
Investment Income .....	(1,286,862)	(374,764)	(2,313,555)	(69,315)	(95,932)	(221,416)	(1,278,955)	(619,976)	(6,260,775)
Interest expense .....	5,068,035	816,490	2,685,440	945,288	543,384	2,694,994	3,697,641	6,929,342	23,380,614
Depreciation and amortization .....						800,000			800,000
Provision for (reversal of) estimated losses on program loans receivable.....	(1,000,000)							1,000,000	
Changes in assets and liabilities:									
Decrease (increase) in program loan and interest receivable .....	(1,074,714)	265,475	285,080	215,546	(22,593)	17,020	39,946,271	2,861,747	42,493,832
Change in interfund accounts .....	6,319	(167)	(1,394)	(2,161)	61,798	187,480	(60,298)	7,629	199,206
Decrease in other liabilities .....			(60,839)			(20,196)	(86,487)		(167,522)
Decrease (increase) in other assets .....			(22,432)		4,170	392,003	64,859	4,750	443,350
Non cash operating transfer .....							(23,788,493)		(23,788,493)
Other .....			60,839			(779,805)	(4,781)		(723,747)
Total adjustments .....	<u>1,712,778</u>	<u>707,034</u>	<u>633,139</u>	<u>1,089,358</u>	<u>490,827</u>	<u>3,070,080</u>	<u>18,489,757</u>	<u>10,183,492</u>	<u>36,376,465</u>
Net cash provided by operating activities .....	<u>\$ 4,695,518</u>	<u>1,078,441</u>	<u>786,099</u>	<u>1,117,460</u>	<u>617,086</u>	<u>4,722,488</u>	<u>19,890,817</u>	<u>5,678,131</u>	<u>38,586,040</u>

**APPENDIX B**

**AUTHORITY INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

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

**STATEMENT OF NET ASSETS**  
**As of December 31, 2002**  
**(Unaudited)**

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current Assets:			
Cash and cash equivalents .....	\$ 3,093,106	43,893,093	46,986,199
Funds held by State Treasurer .....	25,892,824		25,892,824
Investments - Unrestricted .....	28,664,688	103,071,246	131,735,934
Investment income receivable .....		10,241,408	10,241,408
Program loans receivable .....	5,785,000	37,128,000	42,913,000
Interest receivable on program loans .....	138,162	7,309,389	7,447,551
Interfund accounts receivable (payable) .....	(2,203,422)	2,203,422	
Total current assets .....	61,370,358	203,846,558	265,216,916
Noncurrent assets:			
Investments - Restricted .....		669,915,364	669,915,364
Program loans receivable, net of current portion .....	249,221,537	1,457,643,009	1,706,864,546
Less allowance for estimated losses .....	(10,000,000)	(21,565,000)	(31,565,000)
Net program loans receivable .....	239,221,537	1,436,078,009	1,675,299,546
Unamortized bond issuance costs .....		25,830,605	25,830,605
Real estate held for sale (net) .....		30,983,932	30,983,932
Capital assets (net) .....		572,912	572,912
Other .....	1,062,825	8,354,584	9,417,409
Total noncurrent assets .....	240,284,362	2,171,735,406	2,412,019,768
Total assets .....	\$ 301,654,720	2,375,581,964	2,677,236,684
<u>LIABILITIES</u>			
Current liabilities:			
Bonds and notes payable .....	\$	49,510,000	49,510,000
Accrued interest payable .....		43,402,539	43,402,539
Deposits held in escrow .....		146,027,537	146,027,537
Accrued liabilities and other .....		45,713,231	45,713,231
Total current liabilities .....		284,653,307	284,653,307
Noncurrent liabilities:			
Bonds and notes payable, net of current portion .....		1,803,039,533	1,803,039,533
Total liabilities .....	\$	2,087,692,840	2,087,692,840
<u>NET ASSETS</u>			
Invested in capital assets (net) .....	\$	572,912	572,912
Restricted by bond resolutions .....		176,517,081	176,517,081
Restricted by contractual agreement .....		21,025,327	21,025,327
Unrestricted .....	301,654,720	89,773,804	391,428,524
Total net assets .....	\$ 301,654,720	287,889,124	589,543,844

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

**STATEMENT OF ACTIVITIES**  
**For the Six Months Ended December 31, 2002**  
(Unaudited)

<u>FUNCTIONS / PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) / Revenues and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Grant/Federal Revenues</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental activities:						
Illinois Affordable Housing Trust Fund .....	\$ 4,174,284	951,377		(3,222,907)		(3,222,907)
HOME Program .....	3,230,932	409,876	9,794,519	6,973,463		6,973,463
Total governmental activities .....	<u>7,405,216</u>	<u>1,361,253</u>	<u>9,794,519</u>	<u>3,750,556</u>		<u>3,750,556</u>
 <u>BUSINESS-TYPE ACTIVITIES</u>						
Administrative .....	5,488,516	7,266			(5,481,250)	(5,481,250)
Multi-Family Mortgage Loan Programs .....	26,541,432	35,755,021			9,213,589	9,213,589
Multi-Family Federal Assistance Programs .....	77,054,834		77,054,834			
Single-Family Mortgage Loan Programs .....	33,741,042	32,534,360			(1,206,682)	(1,206,682)
Affordable Housing Program Trust Fund Bonds .....	3,574,556	2,098,072			(1,476,484)	(1,476,484)
Tax Credit Authorization and Monitoring .....	317,945	1,231,018			913,073	913,073
Preservation .....	92,642	15,198			(77,444)	(77,444)
FAF Lending Program .....	1,026	727,970			726,944	726,944
Total business-type activities .....	<u>146,811,993</u>	<u>72,368,905</u>	<u>77,054,834</u>		<u>2,611,746</u>	<u>2,611,746</u>
Total Authority .....	<u>\$ 154,217,209</u>	<u>73,730,158</u>	<u>86,849,353</u>	<u>3,750,556</u>	<u>2,611,746</u>	<u>6,362,302</u>
Real Estate Transfer Taxes .....				18,562,726		18,562,726
Unrestricted investment income .....					1,327,781	1,327,781
Transfers .....				(5,200,000)	5,200,000	
Total general revenues and transfers .....				<u>13,362,726</u>	<u>6,527,781</u>	<u>19,890,507</u>
Change in net assets .....				17,113,282	9,139,527	26,252,809
Net assets at beginning of period .....				284,541,438	278,749,597	563,291,035
Net assets at ending of period .....				<u>\$ 301,654,720</u>	<u>287,889,124</u>	<u>589,543,844</u>

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

**GOVERNMENTAL FUNDS BALANCE SHEET**

**As of December 31, 2002**

(Unaudited)

<u>ASSETS</u>	<u>Affordable Housing Trust Fund</u>	<u>HOME Program</u>	<u>Total</u>
Current assets:			
Cash .....	\$ 3,093,106		3,093,106
Funds held by State Treasurer .....	25,649,030	243,794	25,892,824
Investments .....	28,664,688		28,664,688
Program loans receivable .....	5,210,000	575,000	5,785,000
Interest receivable on program loans .....	76,666	61,496	138,162
Interfund accounts receivable (payable) .....	(1,140,597)	(1,062,825)	(2,203,422)
Total current assets .....	61,552,893	(182,535)	61,370,358
Noncurrent assets:			
Program loans receivable, net of current portion .....	151,343,745	97,877,792	249,221,537
Less allowance for estimated losses .....	(6,500,000)	(3,500,000)	(10,000,000)
Net program loans receivable .....	144,843,745	94,377,792	239,221,537
Other .....		1,062,825	1,062,825
Total noncurrent assets .....	144,843,745	95,440,617	240,284,362
Total assets .....	\$ 206,396,638	95,258,082	301,654,720
<b><u>LIABILITIES AND FUND BALANCE</u></b>			
Liabilities:			
Deferred revenue .....	\$ 76,666	61,496	138,162
Fund balance:			
Reserved for loans receivable .....	144,843,745	94,377,792	239,221,537
Unreserved .....	61,476,227	818,794	62,295,021
Total fund balance .....	206,319,972	95,196,586	301,516,558
Total liabilities and fund balance .....	\$ 206,396,638	95,258,082	
Amounts reported for governmental activities in the statement of net assets are different due to interest receivable on program loans			138,162
Net assets of governmental activities			\$ 301,654,720

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

**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**For the Six Months Ended December 31, 2002**  
**(Unaudited)**

	<b>Illinois Affordable Housing Trust Fund</b>	<b>HOME Program</b>	<b>Total</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Revenues:			
Real estate transfer taxes .....	\$ 18,562,726		18,562,726
Federal HOME funds .....		9,794,519	9,794,519
Interest and investment income .....	934,187	423,473	1,357,660
Application fees .....	9,825		9,825
Total revenues .....	<u>19,506,738</u>	<u>10,217,992</u>	<u>29,724,730</u>
Expenditures:			
Grants .....	3,036,687	2,508,279	5,544,966
General and administrative .....	<u>1,137,597</u>	<u>722,653</u>	<u>1,860,250</u>
Total expenditures .....	<u>4,174,284</u>	<u>3,230,932</u>	<u>7,405,216</u>
Excess of revenues over expenditures .....	15,332,454	6,987,060	22,319,514
Other financing sources:			
Operating transfer out .....	<u>(5,200,000)</u>		<u>(5,200,000)</u>
Net change in fund balance .....	10,132,454	6,987,060	17,119,514
Fund balance at beginning of period .....	<u>196,187,518</u>	<u>88,209,526</u>	
Fund balance at end of period .....	<u>\$ 206,319,972</u>	<u>95,196,586</u>	
			Amounts reported for governmental activities in the statement of activities are different due to interest on program loans receivable
			<u>(6,232)</u>
			Change in net assets of governmental activities
			<u>\$ 17,113,282</u>



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

**PROPRIETARY FUNDS**  
**STATEMENT OF NET ASSETS**  
**As of December 31, 2002**  
**(Unaudited)**

<u>ASSETS</u>	<u>Administrative and Other Funds</u>	<u>Multi-Family Housing Bond Funds</u>	<u>Multi-Family Program Bond Funds</u>	<u>Homeowner Mortgage Revenue Bond Funds</u>	<u>Other Non-major Bond Funds</u>	<u>Total</u>
Current assets:						
Cash and cash equivalents .....	\$ 29,549,427	27,801	3,896	10,733,282	3,578,687	43,893,093
Investments - Unrestricted .....	103,071,246					103,071,246
Investment income receivable .....	678,718	1,643,808	1,017,923	5,286,685	1,614,274	10,241,408
Program loans receivable .....	305,000	7,075,000	8,850,000	11,494,000	9,404,000	37,128,000
Interest receivable on program loans .....	567,426	378,817	175,896	3,584,087	2,603,163	7,309,389
Interfund accounts receivable (payable) .....	(16,985,143)	(1,337,059)	6,861,807	3,186,011	10,477,806	2,203,422
Total current assets .....	<u>117,186,674</u>	<u>7,788,367</u>	<u>16,909,522</u>	<u>34,284,065</u>	<u>27,677,930</u>	<u>203,846,558</u>
Noncurrent assets:						
Investments - Restricted .....	149,409,471	87,050,634	50,359,797	252,088,137	131,007,325	669,915,364
Program loans receivable, net of current portion .....	25,720,003	226,150,205	247,403,879	704,979,405	253,389,517	1,457,643,009
Less allowance for estimated losses .....	(8,815,000)	(3,500,000)			(9,250,000)	(21,565,000)
Net program loans receivable .....	<u>16,905,003</u>	<u>222,650,205</u>	<u>247,403,879</u>	<u>704,979,405</u>	<u>244,139,517</u>	<u>1,436,078,009</u>
Unamortized bond issuance costs .....		6,378,746		14,925,684	4,526,175	25,830,605
Real estate held for sale (net) .....				799,277	30,184,655	30,983,932
Equipment and leasehold improvements (net) .....	572,912					572,912
Other .....	6,854,823				1,499,761	8,354,584
Total noncurrent assets .....	<u>173,742,209</u>	<u>316,079,585</u>	<u>297,763,676</u>	<u>972,792,503</u>	<u>411,357,433</u>	<u>2,171,735,406</u>
Total assets .....	<u>\$ 290,928,883</u>	<u>323,867,952</u>	<u>314,673,198</u>	<u>1,007,076,568</u>	<u>439,035,363</u>	<u>2,375,581,964</u>
<u>LIABILITIES</u>						
Current liabilities:						
Bonds and notes payable .....	\$	7,620,000	9,430,000	17,865,000	14,595,000	49,510,000
Accrued interest payable .....		8,577,713	6,671,469	23,359,683	4,793,674	43,402,539
Deposits held in escrow .....	146,027,537					146,027,537
Accrued liabilities and other .....	33,529,303	6,035,227	2,003,600	3,199,811	945,290	45,713,231
Total current liabilities .....	<u>179,556,840</u>	<u>22,232,940</u>	<u>18,105,069</u>	<u>44,424,494</u>	<u>20,333,964</u>	<u>284,653,307</u>
Noncurrent liabilities:						
Bonds and notes payable, net of current portion .....		248,250,272	285,935,000	954,171,495	314,682,766	1,803,039,533
Total liabilities .....	<u>\$ 179,556,840</u>	<u>270,483,212</u>	<u>304,040,069</u>	<u>998,595,989</u>	<u>335,016,730</u>	<u>2,087,692,840</u>
<u>NET ASSETS</u>						
Invested in capital assets (net) .....	\$ 572,912					572,912
Restricted by bond resolutions .....		53,384,740	10,633,129	8,480,579	104,018,633	176,517,081
Restricted by contractual agreement .....	21,025,327					21,025,327
Unrestricted .....	89,773,804					89,773,804
Total net assets .....	<u>\$ 111,372,043</u>	<u>53,384,740</u>	<u>10,633,129</u>	<u>8,480,579</u>	<u>104,018,633</u>	<u>287,889,124</u>

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

**PROPRIETARY FUNDS**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**For the Six Months Ended December 31, 2002**  
**(Unaudited)**

	<b>Administrative and Other Funds</b>	<b>Multi-Family Housing Bond Funds</b>	<b>Multi-Family Program Bond Funds</b>	<b>Homeowner Mortgage Revenue Bond Funds</b>	<b>Other Non-major Bond Funds</b>	<b>Total</b>
Operating revenues:						
Interest and other investment income .....	\$ 1,333,025	1,928,539	1,454,130	5,095,175	2,358,168	12,169,037
Net increase (decrease) in fair value of investments .....	(5,244)	1,238,726	128,654	403,963	389,805	2,155,904
Total investment income .....	1,327,781	3,167,265	1,582,784	5,499,138	2,747,973	14,324,941
Interest earned on program loans .....	528,167	9,909,441	9,187,086	25,046,581	6,953,019	51,624,294
Federal assistance programs .....	74,141,364	76,939			2,836,531	77,054,834
Service fees .....	4,069,801					4,069,801
Development fees .....	187,350					187,350
HUD savings .....	727,970					727,970
Other .....	1,277,482				1,484,848	2,762,330
Total operating revenues .....	82,259,915	13,153,645	10,769,870	30,545,719	14,022,371	150,751,520
Operating expenses:						
Interest expense .....		9,692,626	10,065,707	31,526,503	10,251,711	61,536,547
Federal assistance programs .....	74,141,364	76,939			2,836,531	77,054,834
Salaries and benefits .....	4,987,658				5,270	4,992,928
Professional fees .....	560,806			48,000	24,000	632,806
Other general and administrative .....	1,712,811			102,996	30,941	1,846,748
Financing costs .....	213,169	15,875	47,671	224,325	247,090	748,130
Total operating expenses .....	81,615,808	9,785,440	10,113,378	31,901,824	13,395,543	146,811,993
Operating income (loss) .....	644,107	3,368,205	656,492	(1,356,105)	626,828	3,939,527
Operating transfers in (out) .....	182			933,709	4,266,109	5,200,000
Change in net assets .....	644,289	3,368,205	656,492	(422,396)	4,892,937	9,139,527
Net assets at beginning of period .....	110,727,754	50,016,535	9,976,637	8,902,975	99,125,696	278,749,597
Net assets at end of period .....	\$ 111,372,043	53,384,740	10,633,129	8,480,579	104,018,633	287,889,124

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

**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**  
**For the Six Months Ended December 31, 2002**  
**(Unaudited)**

	Administrative and Other Funds	Multi-Family Housing Bond Funds	Multi-Family Program Bond Funds	Homeowner Mortgage Revenue Bond Funds	Other Non-major Bond Funds	Total
Cash flows from operating activities:						
Cash received from interest, service fees, and principal on program loans .....	\$ 17,278,633	12,902,516	13,881,469	149,010,970	22,571,959	215,645,547
Cash payments for loaned amounts .....	(1,100,091)	(3,863,548)		(70,567,788)	(1,416,234)	(76,947,661)
Cash received from federal assistance programs .....	74,141,364	76,939			2,836,531	77,054,834
Cash payments for federal assistance programs .....	(73,941,532)	(76,939)			(2,836,531)	(76,855,002)
Cash payments for operating expenses .....	(8,064,959)				1,884,848	(6,180,111)
Other .....	(545,871)			(1,078,916)	(317,081)	(1,941,868)
Net cash provided by operating activities .....	<u>7,767,544</u>	<u>9,038,968</u>	<u>13,881,469</u>	<u>77,364,266</u>	<u>22,723,492</u>	<u>130,775,739</u>
Cash flows from noncapital financing activities:						
Proceeds from sale of revenue bonds and notes .....				64,860,000	19,055,000	83,915,000
Principal paid on revenue bonds and notes .....		(7,535,000)	(4,605,000)	(92,235,000)	(16,090,000)	(120,465,000)
Interest paid on revenue bonds and notes .....		(8,833,202)	(10,182,715)	(27,604,203)	(9,979,584)	(56,599,704)
Operating transfers in .....	182			933,709	4,266,109	5,200,000
Other .....				(1,168,219)	(308,750)	(1,476,969)
Net cash provided by (used in) noncapital financing activities .....	<u>182</u>	<u>(16,368,202)</u>	<u>(14,787,715)</u>	<u>(55,213,713)</u>	<u>(3,057,225)</u>	<u>(89,426,673)</u>
Cash flows from investing activities:						
Purchase of investment securities .....	(285,459,272)	(43,472,846)	(14,213,799)	(290,886,225)	(118,881,592)	(752,913,734)
Proceeds from sales and maturities of investment securities .....	275,199,770	49,265,369	13,660,752	259,580,300	96,195,759	693,901,950
Interest on investments .....	1,206,517	1,485,145	1,456,748	3,904,400	2,326,925	10,379,735
Developer escrow and other interest .....	1,828,300					1,828,300
Net cash provided by (used in) investing activities .....	<u>(7,224,685)</u>	<u>7,277,668</u>	<u>903,701</u>	<u>(27,401,525)</u>	<u>(20,358,908)</u>	<u>(46,803,749)</u>
Net increase (decrease) in cash and cash equivalents .....	543,041	(51,566)	(2,545)	(5,250,972)	(692,641)	(5,454,683)
Cash and cash equivalents at beginning of period .....	29,006,386	79,367	6,441	15,984,254	4,271,328	49,347,776
Cash and cash equivalents at end of period .....	<u>\$ 29,549,427</u>	<u>27,801</u>	<u>3,896</u>	<u>10,733,282</u>	<u>3,578,687</u>	<u>43,893,093</u>
Reconciliation of operating income to net cash provided by operating activities:						
Operating income (loss) .....	\$ 644,107	3,368,205	656,492	(1,356,105)	626,828	3,939,527
Adjustments to reconcile operating income to net cash:						
Investment Income .....	(1,327,781)	(3,167,265)	(1,582,784)	(5,499,138)	(2,747,973)	(14,324,941)
Interest expense .....		9,692,626	10,065,707	31,526,503	10,251,711	61,536,547
Depreciation and amortization .....	172,481				400,000	572,481
Changes in assets and liabilities:						
Decrease (increase) in program loan and interest receivable .....	12,438,151	(195,235)	4,694,383	57,993,437	9,161,910	84,092,646
Change in interfund accounts .....	(841,597)	(675,238)	20,445	(4,221,516)	4,930,557	(787,349)
Decrease in other liabilities .....	(997,485)	(37,228)		(936,987)	(15,643)	(1,987,343)
Decrease (increase) in other assets .....	(319,551)	15,875	27,226	(141,928)	116,102	(302,276)
Other .....	(2,000,781)	37,228				(1,963,553)
Total adjustments .....	<u>7,123,437</u>	<u>5,670,763</u>	<u>13,224,977</u>	<u>78,720,371</u>	<u>22,096,664</u>	<u>126,836,212</u>
Net cash provided by operating activities .....	<u>\$ 7,767,544</u>	<u>9,038,968</u>	<u>13,881,469</u>	<u>77,364,266</u>	<u>22,723,492</u>	<u>130,775,739</u>

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

**NON-MAJOR PROPRIETARY FUNDS  
COMBINING STATEMENT OF NET ASSETS  
As of December 31, 2002  
(Unaudited)**

	Housing		Fixed Rate		Multi-Family		Residential		Affordable	Total
	Development Bond Funds	Housing Bond Funds	Housing Bond Funds	Housing Finance Bond Funds	Variable Rate Demand Bond Funds	Multi-Family Revenue Bond Funds	Housing Mortgage Revenue Bond Funds	Housing Trust Fund Bond Funds	Housing Program Trust Fund Bond Funds	
<b>ASSETS</b>										
Current assets:										
Cash and cash equivalents .....	\$ 26,509	40,771	627,912	4,656	443,425	953,554	1,335,537	146,323		3,578,687
Investment income receivable .....	380,568	29,581	776,893	20,919	8,986	4,124	328,895	64,308		1,614,274
Program loans receivable .....	3,890,000	276,000	332,000	191,000			1,350,000	3,365,000		9,404,000
Interest receivable on program loans .....	1,004,590	579,325	95,053	77,313	51,465	13,111	202,308	579,998		2,603,163
Interfund accounts receivable (payable) .....	2,566,383	651,744	(24,161)	(31,947)	(775,435)	12,785,575	(4,631,251)	(63,102)		10,477,806
Total current assets .....	7,868,050	1,577,421	1,807,697	261,941	(271,559)	13,756,364	(1,414,511)	4,092,527		27,677,930
Noncurrent assets:										
Investments - Restricted .....	26,931,717	8,672,069	32,392,454	20,141,295	2,116,467	5,876,914	21,148,220	13,728,189		131,007,325
Program loans receivable, net of current portion .....	84,767,915	9,796,350	8,812,832	14,171,549	8,063,852	9,796,400	33,279,183	84,701,436		253,389,517
Less allowance for estimated losses .....	(3,900,000)	(250,000)	(1,000,000)		(100,000)			(4,000,000)		(9,250,000)
Net program loans receivable .....	80,867,915	9,546,350	7,812,832	14,171,549	7,963,852	9,796,400	33,279,183	80,701,436		244,139,517
Unamortized bond issuance costs .....	638,796	161,583	709,335		169,892	1,181,174	204,120	1,461,275		4,526,175
Real estate held for sale (net) .....						30,012,736	171,919			30,184,655
Other .....			278,794			1,125,766		95,201		1,499,761
Total noncurrent assets .....	108,438,428	18,380,002	41,193,415	34,312,844	10,250,211	47,992,990	54,803,442	95,986,101		411,357,433
Total assets .....	\$ 116,306,478	19,957,423	43,001,112	34,574,785	9,978,652	61,749,354	53,388,931	100,078,628		439,035,363
<b>LIABILITIES</b>										
Current liabilities:										
Bonds and notes payable .....	\$ 3,750,000	305,000	6,295,000	220,000		850,000	850,000	2,325,000		14,595,000
Accrued interest payable .....	2,216,800	254,233	981,503	313,290	9,807	59,116	406,098	552,827		4,793,674
Accrued liabilities and other .....			564,196	83,618		61,316	33,100	203,060		945,290
Total current liabilities .....	5,966,800	559,233	7,840,699	616,908	9,807	970,432	1,289,198	3,080,887		20,333,964
Noncurrent liabilities:										
Bonds and notes payable, net of current portion .....	75,887,626	10,215,000	34,840,000	33,760,000	8,135,000	55,705,000	16,590,140	79,550,000		314,682,766
Total liabilities .....	\$ 81,854,426	10,774,233	42,680,699	34,376,908	8,144,807	56,675,432	17,879,338	82,630,887		335,016,730
<b>NET ASSETS</b>										
Restricted by bond resolutions .....	\$ 34,452,052	9,183,190	320,413	197,877	1,833,845	5,073,922	35,509,593	17,447,741		104,018,633
Total net assets .....	\$ 34,452,052	9,183,190	320,413	197,877	1,833,845	5,073,922	35,509,593	17,447,741		104,018,633

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

**NON-MAJOR PROPRIETARY FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
For the Six Months Ended December 31, 2002  
(Unaudited)

	<b>Housing Development Bond Funds</b>	<b>Fixed Rate Housing Bond Funds</b>	<b>Housing Bond Funds</b>	<b>Housing Finance Bond Funds</b>	<b>Multi-Family Variable Rate Demand Bond Funds</b>	<b>Multi-Family Housing Revenue Bond Funds</b>	<b>Residential Mortgage Revenue Bond Funds</b>	<b>Affordable Housing Program Trust Fund Bond Funds</b>	<b>Total</b>
Operating revenues:									
Interest and other investment income .....	\$ 446,703	108,615	814,461	35,070	31,380	71,807	457,401	392,731	2,358,168
Net increase in fair value of investments.....		154,180			11,209	5,578	218,838		389,805
Total investment income .....	446,703	262,795	814,461	35,070	42,589	77,385	676,239	392,731	2,747,973
Interest earned on program loans .....	2,840,675	394,272	255,893	453,407	301,287	102,432	1,141,446	1,463,607	6,953,019
Federal assistance programs .....	2,354,580	339,301	142,650						2,836,531
Other .....						1,484,848			1,484,848
Total operating revenues .....	5,641,958	996,368	1,213,004	488,477	343,876	1,664,665	1,817,685	1,856,338	14,022,371
Operating expenses:									
Interest expense .....	2,240,811	325,289	1,095,062	452,541	272,507	1,374,274	1,075,198	3,416,029	10,251,711
Federal assistance programs .....	2,354,580	339,301	142,650						2,836,531
Salaries and benefits .....							5,270		5,270
Professional fees .....			3,000	3,000			18,000		24,000
Other general and administrative .....							30,941		30,941
Financing costs .....	6,534			5,075	19,730	107,799	12,750	95,202	247,090
Total operating expenses .....	4,601,925	664,590	1,240,712	460,616	292,237	1,482,073	1,142,159	3,511,231	13,395,543
Operating income (loss) .....	1,040,033	331,778	(27,708)	27,861	51,639	182,592	675,526	(1,654,893)	626,828
Operating transfers in (out) .....							(933,891)	5,200,000	4,266,109
Change in net assets .....	1,040,033	331,778	(27,708)	27,861	51,639	182,592	(258,365)	3,545,107	4,892,937
Net assets at beginning of period .....	33,412,019	8,851,412	348,121	170,016	1,782,206	4,891,330	35,767,958	13,902,634	99,125,696
Net assets at end of period .....	<u>\$ 34,452,052</u>	<u>9,183,190</u>	<u>320,413</u>	<u>197,877</u>	<u>1,833,845</u>	<u>5,073,922</u>	<u>35,509,593</u>	<u>17,447,741</u>	<u>104,018,633</u>

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

**NON-MAJOR PROPRIETARY FUNDS**  
**COMBINING STATEMENT OF CASH FLOWS**  
**For the Six Months Ended December 31, 2002**  
**(Unaudited)**

	Housing Development Bond Funds	Fixed Rate Housing Bond Funds	Housing Bond Funds	Housing Finance Bond Funds	Multi-Family Variable Rate Demand Bond Funds	Multi-Family Housing Revenue Bond Funds	Residential Mortgage Revenue Bond Funds	Affordable Housing Program Trust Fund Bond Funds	Total
Cash flows from operating activities:									
Cash received from interest, service fees, and principal on program loans .....	\$ 5,327,053	595,662	411,153	552,701	289,886	105,727	12,263,901	3,025,876	22,571,959
Cash payments for loaned amounts .....	(1,416,234)								(1,416,234)
Cash received from federal assistance programs .....	2,354,580	339,301	142,650						2,836,531
Cash payments for federal assistance programs .....	(2,354,580)	(339,301)	(142,650)						(2,836,531)
Cash payments for operating expenses .....						1,884,848			1,884,848
Other .....				(15,643)		49,249		(350,687)	(317,081)
Net cash provided by operating activities .....	<u>3,910,819</u>	<u>595,662</u>	<u>411,153</u>	<u>537,058</u>	<u>289,886</u>	<u>2,039,824</u>	<u>12,263,901</u>	<u>2,675,189</u>	<u>22,723,492</u>
Cash flows from noncapital financing activities:									
Proceeds from sale of revenue bonds and notes .....				19,055,000					19,055,000
Principal paid on revenue bonds and notes .....	(2,535,000)	(295,000)	(6,195,000)	(100,000)		(800,000)	(4,955,000)	(1,210,000)	(16,090,000)
Interest paid on revenue bonds and notes .....	(2,273,024)	(392,044)	(1,122,416)	(464,681)	(74,047)	(1,626,079)	(664,947)	(3,362,346)	(9,979,584)
Operating transfers in (out) .....							(933,891)	5,200,000	4,266,109
Other .....				15,644	(185,323)	(139,071)			(308,750)
Net cash provided by (used in) noncapital financing activities .....	<u>(4,808,024)</u>	<u>(687,044)</u>	<u>(7,317,416)</u>	<u>18,505,963</u>	<u>(259,370)</u>	<u>(2,565,150)</u>	<u>(6,553,838)</u>	<u>627,654</u>	<u>(3,057,225)</u>
Cash flows from investing activities:									
Purchase of investment securities .....	(29,399,777)	(14,108,784)	(15,540,660)	(19,648,298)	(1,709,079)	(11,534,659)	(18,710,660)	(8,229,675)	(118,881,592)
Proceeds from sales and maturities of investment securities .....	29,806,495	14,104,471	22,217,573	559,160	1,492,515	11,996,639	11,320,791	4,698,115	96,195,759
Interest on investments .....	493,474	108,906	847,850	35,130	31,683	72,239	362,603	375,040	2,326,925
Net cash provided by (used in) investing activities .....	<u>900,192</u>	<u>104,593</u>	<u>7,524,763</u>	<u>(19,054,008)</u>	<u>(184,881)</u>	<u>534,219</u>	<u>(7,027,266)</u>	<u>(3,156,520)</u>	<u>(20,358,908)</u>
Net increase (decrease) in cash and cash equivalents .....	2,987	13,211	618,500	(10,987)	(154,365)	8,893	(1,317,203)	146,323	(692,641)
Cash and cash equivalents at beginning of period .....	23,522	27,560	9,412	15,643	597,790	944,661	2,652,740	146,323	4,271,328
Cash and cash equivalents at end of period .....	<u>\$ 26,509</u>	<u>40,771</u>	<u>627,912</u>	<u>4,656</u>	<u>443,425</u>	<u>953,554</u>	<u>1,335,537</u>	<u>146,323</u>	<u>3,578,687</u>
Reconciliation of operating income to net cash provided by operating activities:									
Operating income (loss) .....	\$ 1,040,033	331,778	(27,708)	27,861	51,639	182,592	675,526	(1,654,893)	626,828
Adjustments to reconcile operating income to net cash:									
Investment Income .....	(446,703)	(262,795)	(814,461)	(35,070)	(42,589)	(77,385)	(676,239)	(392,731)	(2,747,973)
Interest expense .....	2,240,811	325,289	1,095,062	452,541	272,507	1,374,274	1,075,198	3,416,029	10,251,711
Depreciation and amortization .....						400,000			400,000
Provision for (reversal of) estimated losses on program loans receivable.....									
Changes in assets and liabilities:									
Decrease (increase) in program loan and interest receivable .....	737,067	199,239	157,260	91,946	(18,901)	3,295	6,563,470	1,428,534	9,161,910
Change in interfund accounts .....	339,611	2,151	1,000	15,423	27,230	98,299	4,663,797	(216,954)	4,930,557
Decrease in other liabilities .....				(15,643)					(15,643)
Decrease (increase) in other assets .....						58,749	(37,851)	95,204	116,102
Other .....									
Total adjustments .....	<u>2,870,786</u>	<u>263,884</u>	<u>438,861</u>	<u>509,197</u>	<u>238,247</u>	<u>1,857,232</u>	<u>11,588,375</u>	<u>4,330,082</u>	<u>22,096,664</u>
Net cash provided by operating activities .....	<u>\$ 3,910,819</u>	<u>595,662</u>	<u>411,153</u>	<u>537,058</u>	<u>289,886</u>	<u>2,039,824</u>	<u>12,263,901</u>	<u>2,675,189</u>	<u>22,723,492</u>

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

**DEBT ACTIVITY**  
**For the Six Months Ended December 31, 2002**  
**(Unaudited)**

The following summarizes the debt activity for the Authority's proprietary funds for the six months ended December 31, 2002:

<b>Fund</b>	<b><u>6/30/02</u></b>	<b><u>Issuance</u></b>	<b><u>Accretion</u></b>	<b><u>Retirement</u></b>	<b><u>12/31/02</u></b>
Housing Development Bond .....	\$ 82,300,000	-	-	\$ (2,535,000)	\$ 79,765,000
Multi-Family Housing Bond .....	278,807,479	-	654,538	(7,535,000)	271,927,017
Fixed Rate Housing Bond .....	10,815,000	-	-	(295,000)	10,520,000
Multi-Family Program Bond .....	299,970,000	-	-	(4,605,000)	295,365,000
Housing Bond .....	47,330,000	-	-	(6,195,000)	41,135,000
Housing Finance Bond .....	15,025,000	19,055,000	-	(100,000)	33,980,000
Multi-Family Variable Rate Demand Bond .....	8,135,000	-	-	-	8,135,000
Multi-Family Housing Revenue Bond .....	57,355,000	-	-	(800,000)	56,555,000
Residential Mortgage Revenue Bond .....	22,394,874	-	266	(4,955,000)	17,440,140
Homeowner Mortgage Revenue Bond .....	999,305,000	50,000,000	-	(92,235,000)	957,070,000
Owner Occupied Housing Revenue Bond .....	-	14,860,000	-	-	14,860,000
Affordable Housing Program Trust Fund Bond ..	<u>83,085,000</u>	<u>-</u>	<u>-</u>	<u>(1,210,000)</u>	<u>81,875,000</u>
	<u>\$ 1,904,522,353</u>	<u>\$ 83,915,000</u>	<u>\$ 654,804</u>	<u>\$ (120,465,000)</u>	<u>\$ 1,868,627,157</u>
Less unamortized discount thereon	16,243,553	-	(165,929)	-	16,077,624
Net Bonds Outstanding	<u>\$ 1,888,278,800</u>				<u>\$ 1,852,549,533</u>

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## APPENDIX C

### DEFINITIONS AND SUMMARY OF PRINCIPAL DOCUMENTS

The following summaries are of certain definitions and provisions of the principal documents relating to the Bonds. They are not full statements of any of the documents and may summarize many terms, definitions and provisions thereof. Reference should be made to the complete documents for all terms and provisions.

#### DEFINITIONS

*"Account"* means any Account under any Fund created or maintained in accordance with the provisions of the Indenture.

*"Act"* means the Illinois Housing Development Act, 20 ILCS 3805/1, et seq. as amended and supplemented.

*"Act of Bankruptcy"* means the filing by or against the Owner, or any assignee of the Owner, of a petition in bankruptcy under the United States Bankruptcy Code, as amended from time to time, or under any subsequently enacted legislation relating to insolvency and reorganization.

*"Authorized Denomination"* means \$5,000 or any integral multiple thereof.

*"Authorized Issuer Representative"* means the Chairman, Vice Chairman, Executive Director of the Issuer, Assistant Executive Director or Chief Financial Officer or such other person as may be designated to the Trustee by a certificate of the Issuer containing the specimen signature of such person, which certificate may designate an alternate or alternates.

*"Authorized Owner Representative"* means the person or persons designated from time to time as representative(s) of the Owner by written certificate furnished to the Issuer and the Trustee, containing the specimen signature of such persons.

*"Available Moneys"* means (a) money that (i) constitutes proceeds of any refunding obligations and (ii) has been paid directly to the Trustee and has never come into the possession or control of the Owner, (b) any payment of principal, interest or premium or prepayment penalty passed through to the Trustee under the Participation Certificate, (c) any moneys with respect to which the Trustee has received an opinion of qualified nationally recognized Bankruptcy counsel acceptable to the Trustee to the effect that the use by the Trustee of such moneys in accordance with the Indenture would not constitute an avoidable preference under the provisions of Section 547, and will not be recoverable under the provisions of Section 550 and will not be subject to the automatic stay provisions of Section 362(a), respectively, of the Federal Bankruptcy Code or similar laws of the United States of America or the State in the event a petition in Bankruptcy is filed by or against the entity depositing such moneys; (d) moneys held by the Trustee or (in the case of payments made under the Note) the Issuer for a continuous 123 day period, during which period no Act of Bankruptcy shall have occurred, which fact must be certified in writing to the Trustee by the Owner, and with respect to which moneys the Trustee has received an opinion of qualified nationally recognized Bankruptcy counsel acceptable to the

Trustee to the effect that the use of such moneys in accordance with the Indenture would not be subject to the automatic stay provisions of Section 547 of the Federal Bankruptcy Code or similar laws of the United States of America or the State in the event a petition in Bankruptcy is filed by or against the entity depositing such moneys, and (e) the earnings from the investment of money described in (a), (b), (c) and (d) above.

*"Bond Counsel"* means any attorney at law or firm of attorneys acceptable to the Issuer and of nationally recognized standing in matters pertaining to the Federal tax exemption of interest on bonds issued by states and political subdivisions, and duly admitted to practice law before the highest court of any state of the United States of America or the District of Columbia.

*"Bond Fund"* means the trust fund by that name established pursuant to the Indenture.

*"Bond Year"* means the period beginning on the Closing Date and ending on February 29, 2004, and each 12-month period thereafter until the date of final payment of the Bonds.

*"Book-Entry Form"* or *"Book-Entry System"* means a form or system under which the physical Bond certificates in fully registered form are issued only to a Depository or its nominee as registered owner, with the certificated Bonds held by and "immobilized" in the custody of the Depository, which is maintained by and is the responsibility of the Depository and not maintained by or the responsibility of the Issuer or the Trustee and is the record that identifies, and records the transfer of the interests of, the owner of beneficial (book-entry) interests in the Bonds.

*"Business Day"* means any day of the year other than (i) a Saturday, Sunday or legal holiday in the States of New York or Illinois, or (ii) a day on which the Trustee is closed or (iii) banking institutions located in New York or Illinois or chartered by United States of America are authorized to close.

*"Closing Date"* means the date the Bonds are issued and delivered to the purchasers thereof.

*"Code"* means the Internal Revenue Code of 1986, the applicable regulations (whether proposed, temporary or final) under that Code or the statutory predecessor of that Code, and any amendments of, or successor provisions to, the foregoing and any official rulings, announcements, notices and procedures regarding any of the foregoing. Unless otherwise indicated, reference to a Section means that Section of the Code, including such applicable regulations, rulings, announcements, notices and procedures.

*"Costs of Issuance"* means all costs incurred in connection with the borrowing, generally those treated as Costs of Issuance under present Treasury Department regulations and rulings, and including all costs incurred in connection with the authorization, sale and issuance of the Bonds and the transactions contemplated by the Participation Agreement and the Indenture, including, but not limited to (1) the underwriter's compensation; (2) counsel fees (including Bond Counsel, underwriter's counsel, Issuer's counsel, Owner's counsel, Trustee's counsel, as well as any other specialized counsel fees and expenses incurred in connection with the borrowing); (3) financial advisor and review advisor fees, if any, incurred in connection with the borrowing; (4) Rating Agency fees; (5) Trustee fees and expenses incurred in connection with

the borrowing; (6) paying agent and authenticating agent fees related to issuance of the Bonds; (7) accountant fees related to issuance of the Bonds; (8) printing costs (for the Bonds and for preliminary and final offering materials); (9) costs incurred in connection with any required public approval process (e.g., publication costs for public notices generally and costs of the public hearing and any other statutorily required hearings or approvals); and (10) costs of engineering and feasibility studies necessary to the issuance of the Bonds (as opposed to such studies related to acquisition, construction, improvement, equipment or furnishing of the Project, but not to the financing).

*"Debt Service"* means, individually and collectively, for any applicable time period or date, the principal required to be paid by the Issuer on the Bonds pursuant to the Resolution and the Indenture. In determining Debt Service accruing for any period or due and payable on any date, Mandatory Sinking Fund Requirements accruing for that period or due on that date shall be included.

*"Default"* has the meaning set forth in the Indenture.

*"Depository"* means any securities depository that is a clearing agency under Federal law operating and maintaining, with its participants or otherwise, a Book-Entry System to record ownership of book-entry interests in bonds, and to effect transfers of book-entry interests in bonds, and includes and means initially The Depository Trust Company, New York, New York.

*"Disclosure Agent"* means the Trustee.

*"Disclosure Agreement"* means each of the Continuing Disclosure Agreements dated as of May 1, 2003, between each of the Issuer and the Disclosure Agent, as each may be amended or supplemented in accordance with its terms.

*"Eligible Deposit"* means (a) Available Moneys, (b) proceeds of the Bonds, (c) a Letter of Credit or (d) cash or moneys received from a draw upon a Letter of Credit, in each case provided by or drawn at the order of a person other than the Owner. Either Available Moneys, a Letter of Credit or cash or moneys received from a draw upon a Letter of Credit, may be substituted for the Available Moneys, Letter of Credit or cash or moneys received from a draw upon a Letter of Credit then comprising an Eligible Deposit.

*"Event of Default"* means, with respect to any Event of Default under the Participation Agreement, any occurrence or event specified and defined in the Participation Agreement as an Event of Default and, with respect to any Event of Default under the Indenture, any occurrence or event specified and defined by the Indenture as an Event of Default.

*"Expense Fund"* means the trust fund by that name established pursuant to the Indenture.

*"Extraordinary Services"* and *"Extraordinary Expenses"* means and include, but not by way of limitation, services, actions and things carried out and all expenses incurred by the Trustee in respect of or to prevent default under the Indenture, the Participation Agreement or any of the Mortgage Loan Documents, including any attorneys' fees and other litigation costs, and other actions taken and carried out which are not expressly set forth in the Indenture, and costs associated with printing of replacement Bonds.

*"Extraordinary Trustee's Fees and Expenses"* means all those fees, expenses and disbursements payable to the Trustee under the Indenture for Extraordinary Services and Extraordinary Expenses.

*"Federal Tax Status"* means the status of the interest on the Bonds as excludible from gross income for Federal income tax purposes of the Holders of the Bonds.

*"FDIC"* means the Federal Deposit Insurance Corporation, or its successor.

*"Fund"* means any Fund created pursuant to the Indenture.

*"Government Obligations"* means direct general obligations of, or obligations the full and timely payment of the principal of, and interest on, which is unconditionally guaranteed by, the United States of America.

*"Holder"* or *"Bondholder"* or *"owner,"* when used with respect to any Bond, means the Person in whose name such Bond is registered in the Register.

*"Independent Counsel"* means any attorney, or firm of attorneys, duly admitted to practice law before the highest court of the State of Illinois and not a full-time employee of the Issuer, the Owner or the Trustee.

*"Interest Payment Date"* means each March 1 and September 1, commencing September 1, 2003.

*"Issuer"* means the Illinois Housing Development Authority, a body politic and corporate, organized and existing under the Act.

*"Issuer Administration Fee"* means the Issuer's one-time issuance fee.

*"Issuer Documents"* means the Resolution, the Participation Agreement, the Bonds, the Indenture, the Tax Certificate, the Tax Regulatory Agreement, the Loan Agreement, Escrow Agreement and the Purchase Agreement.

*"Issuer Indemnified Party"* or *"Issuer Indemnified Parties"* means the Issuer, its past, present and future directors, officers, counsel, advisors, employees and agents, individually and collectively.

*"Liabilities"* means any causes of action (whether in contract, tort or otherwise), claims, costs, damages, demands, judgments, liabilities, losses, suits and expenses (including without limitation, reasonable costs of investigation, attorneys' fees, and expenses) of every kind, character and nature whatsoever.

*"Mandatory Redemption Dates"* means March 1 and September 1 in each of the years set forth in the Indenture.

*"Mandatory Sinking Fund Requirements"* means the Mandatory Sinking Fund Requirements indicated in the Indenture for the Bonds.

*"Master Paying Agent"* means a master paying agent, designated from time to time by the Issuer pursuant to the Indenture and its successors. Initially, the Master Paying Agent must be Bank One, National Association, Chicago, Illinois.

*"Mortgage"* means the mortgage or deed of trust to be executed by the Owner to secure its Mortgage Loan.

*"Mortgage Loan"* means the nonrecourse mortgage loan to be made by the Issuer to the Owner pursuant to the Mortgage Loan Documents with respect to the Project.

*"Mortgage Loan Documents"* means the Note, the Mortgage, the Loan Agreement and any related documents between the Owner and the Issuer and all other documents to be entered into by the Owner in connection with the making of the Mortgage Loan by the Issuer.

*"Note"* means the mortgage or deed of trust notes to be made by the Owner to the Issuer, evidencing such Owner's obligation to the Issuer to repay its Mortgage Loan.

*"Notice by Mail"* or *"notice"* of any action or condition *"by Mail"* means a written notice meeting the requirements of the Indenture mailed by first class mail, postage prepaid, to the Holders of fully registered Bonds at the addresses shown in the Register.

*"Official Statement"* means the Official Statement prepared in connection with the offering and sale of the Bonds.

*"Opinion of Bond Counsel"* means an opinion of Bond Counsel addressed to the Issuer with respect to the Federal Tax Status of the Bonds or such other matters as required by the Indenture or the Participation Agreement.

*"Opinion of Counsel"* means an opinion in writing signed by legal counsel who may be an employee of or counsel to the Owner. Issuer and Trustee shall not be required to accept an Opinion of Counsel which has been signed by legal counsel which either or both parties deem unsatisfactory.

*"Ordinary Services"* and *"Ordinary Expenses"* means, in the case of the Trustee, the actions taken and carried out and those fees, costs and expenses incurred by the Trustee as expressly set forth in the Indenture, excluding Extraordinary Services and Extraordinary Expenses.

*"Ordinary Trustee's Fees and Expenses"* means the fees for the Ordinary Services and the Ordinary Expenses of the Trustee incurred in connection with its duties under the Indenture, the Participation Agreement and the Continuing Disclosure Agreement in an amount not to exceed \$3,500 in any calendar year.

*"Outstanding Bonds," "Bonds outstanding" or "outstanding"* as applied to Bonds means, as of the applicable time, all Bonds which have been authenticated and delivered, or which are being delivered, by the Trustee under the Indenture, except:

(a) Bonds canceled upon surrender, exchange or transfer, or canceled because of payment or redemption at or prior to that time;

(b) Bonds, or the portion thereof, for the payment, redemption or purchase for cancellation of which sufficient moneys have been deposited with the Trustee on or prior to that time for that purpose (whether upon or prior to the maturity or redemption date of those Bonds); provided, that if any of those Bonds are to be redeemed prior to their maturity, either notice of that redemption has been given, arrangements satisfactory to the Trustee have been made for giving notice of that redemption, or waiver by the affected Holders of that notice, satisfactory in form to the Trustee, have been filed with the Trustee;

(c) Bonds, or the portion thereof, which are deemed to have been paid and discharged or caused to have been paid and discharged pursuant to the provisions of the Indenture; and

(d) Bonds in lieu of which others have been authenticated under the Indenture, other than under the Indenture with respect to lost Bonds.

*"Owner Documents"* means the Tax Certificate, the Tax Regulatory Agreement, the Disclosure Agreement, the Purchase Agreement and the Mortgage Loan Documents and each of the other agreements, certificates, contracts or instruments to be executed by such Owner in connection with the issuance of the Bonds or the financing of the expenses associated with its Project.

*"Permitted Investments"* means, to the extent authorized by law at the time of such investment, each of which must have a rating by each Rating Agency at the time of purchase at least equal to that Rating Agency's existing Rating category on the Bonds:

(i) (a) Government Obligations, or (b) obligations with the highest long term rating by each Rating Agency at the time of purchase, of any state of the United States of America or any political subdivision of such a state, payment of which is secured by an irrevocable pledge of Government Obligations;

(ii) (a) notes, bonds, debentures, participation certificates or other obligations issued by Student Loan Marketing Association maturing prior to September 30, 2008 (excluding securities which do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date), Federal Home Loan Banks, Farm Credit System, Federal Home Loan Mortgage Corporation (which guarantees full and timely payment of principal and interest), the Resolution Trust Corporation and the Small Business Administration; or (b) bonds, debentures or other obligations issued by Federal National Mortgage Association; excluding mortgage securities which are valued greater than par on the portion of unpaid principal or mortgage securities which represent payments of principal only or interest only with respect to the underlying mortgage loans;

(iii) any other obligations of any agency controlled or supervised by and acting as an instrument of the United States pursuant to authority granted by the Congress of the United States, as set forth in the Indenture, with a rating by each Rating Agency at the time of purchase at least equal to that Rating Agency's then current Rating on the Bonds;

(iv) time deposits, certificates of deposit or any other deposit with a bank, trust company, national banking association, savings bank, federal mutual savings bank, savings and loan association, federal savings and loan association or any other institution chartered or licensed by any state or the United States, including the Trustee (as used in this (iv), "deposits" must mean obligations evidencing deposit liability which rank at least on a parity with the claims of general creditors in liquidation), which are fully insured by the Federal Deposit Insurance Corporation;

(v) certificates of deposit or time deposits of any bank, including the Trustee, trust company or savings and loan association, if all of the direct, unsecured debt obligations of such bank, trust company or savings and loan association at the time of purchase of such certificates of deposit or time deposits which have a rating by each Rating Agency at the time of purchase at least equal to that Rating Agency's then current Rating on the Bonds, or are rated in the highest rating category assigned by each such Rating Agency for short-term obligations if the investment is for a period not exceeding one year;

(vi) repurchase agreements backed by or related to obligations described in (i), (ii) or (iii) above, structured and secured in such a manner as set forth in the Indenture or by action of an Authorized Representative (a) with any institution which will not adversely affect the then current Rating on the Bonds or (b) with members of the Association of Primary Dealers in any United States Government Securities which do not qualify under (a), and as to whom a Rating Certificate is filed with the Trustee;

(vii) investment agreements, structured and secured in such a manner as set forth in the Indenture, secured or unsecured, as required by the Authority, (a) with any institution which will not adversely affect the then current Rating on the Bonds or (b) with members of the Association of Primary Dealers in any United States Government Securities which do not qualify under (a), and as to whom a Rating Certificate is filed with the Trustee;

(viii) direct and general obligations of or obligations guaranteed by any state, municipality or political subdivision or agency of a state or municipality, and certificates of participation in obligations of the State which obligation may be subject to annual appropriations rated as high as the then current rating on the Bonds;

(ix) bonds, debentures, or other obligations (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date) issued by any bank, trust company, national banking association, insurance company, corporation, government or governmental entity (foreign or domestic), provided that such bonds, debentures or other obligations are payable in any coin or currency of the United States of America which at the time of payment will be

legal tender for the payment of public and private debts rated as high as the then current rating on the Bonds;

(x) commercial paper (having original maturities of not more than 365 days) rated A-1+ by Standard & Poor's; and

(xi) money market and similar funds (including a common trust fund managed by the Trustee or one of its affiliates or subsidiaries) which invest their assets exclusively in obligations described in clauses (i) through (x) above and which have been rated by each Rating Agency in the highest rating category assigned by each such Rating Agency (without regard to any refinement or gradation of rating category by numerical modifier or otherwise), provided that with respect to Standard & Poor's such funds have ratings with the subscripts "m" or "m-G".

The definition of Permitted Investments may be amended and additional obligations included by a Supplemental Trust Indenture upon filing of a Rating Certificate with the Trustee.

For purposes of this definition, "institution" means an individual, partnership, corporation, trust or unincorporated organization, or a government or agency, instrumentality, program, account, fund, political subdivision or corporation of a government.

The obligations above must be limited to those instruments that have a predefined fixed dollar amount of principal due at maturity that cannot vary or change. If the obligation is rated, it should not have an "r" highlighter affixed to its rating. Interest should be tied to a single interest rate index plus a single fixed spread, if any, and move proportionately with that index.

"Person" means any natural person or groups of natural persons, associations, partnerships (including without limitation, general and limited partnerships), joint ventures, joint stock companies, unincorporated associations, societies, estates, trusts, corporations, syndicates, limited liability companies, registered limited liability partnerships, public and governmental bodies, or any agency or political subdivision thereof, and any other legal entities.

"Pledged Receipts" means (a) the scheduled or other payments required by the Participation Certificate and paid to or to be paid to the Issuer or the Trustee from any source, including both timely and delinquent payments, (b) all other moneys received under the Participation Agreement, except certain fees and expenses, reimbursement and indemnity payments which are, pursuant to the provisions of the Participation Agreement to be made by the Owner directly to the Issuer and the Trustee, (c) any moneys, Eligible Deposits and other securities on deposit in all of the Special Funds and accounts held under the Indenture and (d) the income and profit from the investment of any moneys while held in all of the Special Funds and accounts held under the Indenture; provided that Pledged Receipts does not include moneys held in the Rebate Fund.

"Principal Payment Dates" means March 1 and September 1 of each year, commencing March 1, 2005, in each of the years the principal of the Bonds will be retired as set forth in the Indenture.



*"Project "* means the acquisition and construction of a 108-unit multifamily development located in Bloomington, Illinois.

*"Project Fund"* means the trust fund by that name established pursuant to the Indenture.

*"Purchase Agreement"* means the Bond Purchase Agreement among the Underwriter, the Issuer and the Owner.

*"Purchase Price"* means the purchase price of the Participation Certificate which shall be equal to the principal amount of the Bonds.

*"Rating"* means a rating issued by the Rating Agencies as confirmed in writing (and a copy of which confirming letter has been delivered to the Trustee).

*"Rating Agencies"* means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies ("S&P") and Moody's Investors Service, Inc. ("Moody's") and their successors and assigns, and any other nationally recognized rating service or services providing a rating on the Bonds, and their successors and assigns. Unless notified in writing by Issuer or Owner to the contrary, Trustee may conclusively presume that S & P and Moody's are the agencies and the only agencies rating the Bonds.

*"Rating Certificate"* means, in connection with certain actions to be taken by the Issuer, a certificate of an Authorized Issuer Representative filed with the Trustee that the Issuer has been advised by each Rating Agency that the Rating of that Rating Agency will not be suspended, reduced or withdrawn as a result of the Issuer taking that action.

*"Rebate"* or *"Rebate Amount"* means the amount of arbitrage rebate computed annually for payment as of the last day of every fifth Bond Year pursuant to Treasury Regulatory Section 1.148.2 or any successor regulatory as may be applicable thereto.

*"Rebate Analyst"* means an accounting firm or a law firm or another Person or firm with knowledge of or experience in advising bond trustees with respect to the provisions of Code Section 148(f).

*"Rebate Analyst Fee"* means the fee paid to the Rebate Analyst during the term of the Indenture.

*"Rebate Fund"* means the trust fund by that name established pursuant to the Indenture.

*"Redemption Date"* means any date on which Bonds are redeemed in accordance with the Indenture.

*"Redemption Price"* means, unless otherwise provided, the principal amount of the Bonds to be redeemed, plus accrued interest to the date fixed for redemption.

*"Register"* means the books kept and maintained by the Trustee for registration and transfer of Bonds pursuant to the Indenture.

*"Regular Record Date"* means the close of business on the fifteenth day of the calendar month next preceding any Interest Payment Date (whether or not such day is a Business Day).

*"Resolution"* means the resolution adopted by the Issuer on January 17, 2003, providing for the issuance of the Bonds and the execution and delivery of the Issuer Documents, as the same may from time to time be lawfully amended, modified or supplemented.

*"Series"* means any series of Bonds issued pursuant to the Indenture.

*"Special Funds"* means collectively the Project Fund, the Bond Fund, the Rebate Fund and the Expense Fund, all created under the provisions of the Indenture.

*"Special Record Date"* means, with respect to any Bond, the date established by the Trustee in connection with the payment of overdue interest or principal on that Bond pursuant to the Indenture.

*"State"* means the State of Illinois.

*"Supplemental Indenture"* means any indenture supplemental to the Indenture into which the Issuer and the Trustee enter in accordance with the provisions of Article VIII of the Indenture.

*"Tax Certificate"* means the Tax Certificate, dated the Closing Date, among the Owner, the Trustee and the Issuer, as the same may be amended or supplemented in accordance with its terms.

*"Tax Regulatory Agreement"* means the Regulatory Agreement and Declaration of Restrictive Covenants among the Owner, the Issuer and the Trustee.

*"Treasury Regulations"* means the regulations promulgated by the United States Department of Treasury for the interpretation of the Code.

*"Trust Estate"* means the property rights, money, securities and other amounts pledged and assigned pursuant to the granting clauses of the Indenture.

*"Trustee"* means LaSalle Bank National Association, with its principal corporate office in Chicago, Illinois, and any successor Trustee as determined or designated under the Indenture or pursuant thereto.

*"Unassigned Rights"* means the rights of the Issuer to (a) inspect books and records, (b) give or receive notices, approvals, consents, requests and other communications, (c) receive payment or reimbursement for expenses, (d) receive payment of the Issuer's Administration Fee, (e) immunity from and limitation of liability, (f) indemnification from liability by the Owner and (g) security for the Owner's indemnification obligation.

*"Underwriter"* means Bear, Stearns & Co. Incorporated, New York, New York.

## INDENTURE

### Funds and Payments

#### *Project Fund*

No disbursements can be made from the Project Fund, until the Participation Certificate is delivered to the Trustee. The Trustee will pay to the Issuer the Purchase Price of the Participation Certificate so delivered plus accrued interest to the date of delivery. The Participation Certificate will be acquired by the Trustee for the account of the Issuer, but registered in the name or for the benefit of the Trustee.

Amounts in the Cost of Issuance Account will be used to pay Costs of Issuance. The Trustee will pay Costs of Issuance from amounts deposited by the Owner. Before each payment is made from the Cost of Issuance Account by the Trustee, there will be filed with the Trustee, a written requisition signed by an Authorized Issuer Representative, and stating with respect to each payment to be made: (i) the requisition number; (ii) the name and address of the person to whom payment is due (which may be the Issuer or the Owner as reimbursement for amounts previously paid); (iii) the purpose for which the payment is to be made; (iv) the amount to be paid; (v) that each obligation mentioned therein has been properly incurred and is a proper charge against the Cost of Issuance Account; and (vi) that none of the items for which payment is requested has been previously paid or reimbursed from the Cost of Issuance Account. Any amounts initially deposited by the Owner and remaining in the Cost of Issuance Account on the date 90 days after the Closing Date, and not expected by the Issuer to be required to pay other costs payable from such Account, together with any interest thereon, may, with the consent of the Issuer, be disbursed by the Trustee to the Owner.

Amounts in the Capitalized Interest Account will be used to pay interest on the Bonds on the September 1, 2003 Interest Payment Date.

The Trustee will cause to be kept and maintained adequate records pertaining to the Project Fund and all disbursements therefrom. If requested by the Issuer, from time to time, the Trustee will file with the Issuer copies of the records pertaining to the Project Fund and disbursements therefrom.

The Trustee may conclusively rely and shall be protected in acting or refraining from acting upon the requisition signed by the Issuer, which may be submitted by facsimile. The Trustee shall not be bound to make an investigation into the facts or matters stated in any requisition of the Issuer. The Trustee shall not be responsible for determining whether the funds on hand in the Project Funds are sufficient to complete the Project. The Trustee shall not be responsible to collect lien waivers.

#### *Bond Fund*

Except as provided in the Indenture, the Issuer and the Owner will have no interest in the Bond Fund or the moneys or Permitted Investments therein, which will always be maintained by

the Trustee completely separate and segregated from all other moneys held thereunder and from any other moneys of the Issuer and the Owner.

The Trustee will deposit into the Bond Fund (i) the amounts required by the Indenture; (ii) all amounts received from or in connection with the Participation Certificate; (iii) all earnings and gains from the investment of money held in the Project Fund, the Expense Fund and the Bond Fund (subject to certain rebate requirements as provided in the Indenture); and (iv) any other amounts received by the Trustee which are subject to the lien and pledge of the Indenture, including the Pledged Receipts, and are not otherwise specifically directed to be deposited into other funds created by the Indenture.

On or before each Interest Payment Date (or any Redemption Date), the Trustee shall apply all amounts on deposit in the Bond Fund, (1) first, to transfer to the Rebate Fund any amount required to make a rebate payment in accordance with the Tax Certificate and the most recent calculation of the Rebate Analyst; (2) second, to pay or provide for the payment of Debt Service on the Bonds becoming due and payable, whether at maturity or by prior redemption, on such date; and (3) third, to transfer to the Expense Fund all amounts necessary to pay the fees and expenses which may then be payable pursuant to the Indenture.

If the amounts held in the Bond Fund are insufficient to pay the principal of or interest on the Bonds when due, the Trustee shall charge the following Funds in the following order to cover such deficiency: (i) the Expense Fund and (ii) the Project Fund.

The Participation Certificate shall be held at all times for the benefit of the Bond Fund. If the Trustee does not receive a payment on the Participation Certificate by the 23rd day of any month, or if such date is not a Business Day, then on the next succeeding Business Day, the Trustee shall immediately notify the Issuer by telephone and demand payment from the Issuer in immediately available funds on that day. If the Trustee does not receive any such payment, the Trustee shall immediately file a Notice of Claim under the Surety Bond issued pursuant to the AMBAC Guaranty and demand payment from AMBAC. AMBAC shall make moneys available in immediately available funds on or before 2 Business Days following receipt of such notice. The Trustee's failure to give such notice shall not relieve the Issuer or AMBAC of its duty to make payments under the Participation Certificate.

#### *Expense Fund*

The Trustee shall apply money on deposit in the Expense Fund solely for the following purposes and in accordance with the following priorities: (i) to deposit to the Bond Fund on any Interest Payment Date or Redemption Date any amount necessary to pay Debt Service on the Bonds on such date to the extent moneys on deposit in the Bond Fund are not sufficient therefor; (ii) on each Interest Payment Date, to pay the Ordinary Trustee's Fees and Expenses; and (iii) on each date on which it is due and payable, to pay any Rebate Analyst Fee.

If at any time when the Trustee is required to retain or pay the Rebate Analyst there is an insufficient amount of money in the Expense Fund to retain or pay for the fees and expenses of the Rebate Analyst, then the Trustee shall deliver to the Owner a demand for payment of an amount sufficient to pay the Rebate Analyst.

### *Rebate Fund*

The Rebate Fund shall be separate from any other fund established and maintained under the Indenture or under any laws governing the creation and use of funds by the Issuer. There shall be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Owner's obligation under the Tax Certificate based on the calculations of the Rebate Analyst. Subject to the transfer provisions provided below, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust for payment to the United States of America, and neither the Issuer nor the Owner or any Holder of any Bonds shall have any rights in or claim to such money.

If at any time when the Trustee is required to withdraw money from the Rebate Fund to pay to the United States of America the amount so withdrawn as Rebate, the amount held by the Trustee to the credit of the Rebate Fund is insufficient to permit such withdrawal and payment, the Trustee, after delivering a demand for such deficiency to the Owner, shall withdraw, first, from the Project Fund, second, from the Bond Fund, third, from the Expense Fund and, fourth, from any other funds established under the Indenture, such amounts as may be needed to make the amount held for the credit of the Rebate Fund, after such transfers, equal to the amount required to be withdrawn and paid to the United States of America and transfer the amounts so withdrawn in each case to the Rebate Fund. This Section shall supersede all other Sections of the Indenture, to the end that the exclusion from gross income for the purposes of Federal income taxation of interest on the Bonds shall not be adversely affected as a result of the inadequacy at any time of the Rebate Fund, unless the total amount held by the Trustee under all funds established under the Indenture is insufficient, and no money for such purpose is provided by the Owner.

The Trustee shall have no obligations to rebate any amounts required to be rebated pursuant to this Section, other than from moneys held in the funds and accounts created under the Indenture or from other moneys provided to it by the Owner.

The Trustee shall invest all amounts held in the Rebate Fund in Permitted Investments.

The Trustee shall remit part or all of the balances in the Rebate Fund to the United States of America or as reimbursement to the Issuer upon written request of the Issuer certifying that such amount has been duly paid by the Issuer to the United States. Any funds remaining in the Rebate Fund after redemption and payment of all of the Bonds and payment and satisfaction of any Rebate Amount, or provision made therefor satisfactory to the Trustee, shall be withdrawn and remitted to the Issuer.

Notwithstanding any other provision of the Indenture, the obligation to remit the Rebate Amount to the United States of America and to comply with all other requirements of the Indenture and the provisions pertaining to rebate in the Tax Certificate shall survive the defeasance or payment in full of the Bonds.

Pursuant to the Tax Certificate, the Owner shall retain the Rebate Analyst to perform the rebate calculations on an annual basis. In performing its duties and obligations, the Trustee may employ such experts, accountants or legal counsel as the Trustee shall deem appropriate, and the

Owner shall pay the reasonable fees and expenses of the Trustee and such other persons. Within 60 days after the end of each Bond Year, the Trustee, in reliance upon a report of the Rebate Analyst, shall deliver to the Issuer a certificate stating that all necessary actions have been taken as required by the Indenture and the Tax Certificate, in order to ensure that all necessary actions have been taken, including, but not limited to, (a) the required annual arbitrage rebate calculations, (b) the transfer of funds to the Rebate Fund to reserve for the anticipated Rebate Amount, and (c) payment of the Rebate Amount, if any, in accordance with Section 148(f) of the Code. The Trustee may reasonably rely on the opinions given it by such experts, accountants and legal counsel in performing its duties and obligations, and shall not be required to confirm, audit, or verify any calculations and findings supplied by such experts, accountants or legal counsel.

### *Investment of Special Funds*

Except as otherwise set forth in the Indenture, all moneys held by the Trustee shall be fully secured for the benefit of the Issuer and the Holders of the Bonds and other beneficiaries by Permitted Investments as promptly as practicable on the first Business Day following receipt of such moneys of a market value equal at all times to the amount of the deposit so held by the Trustee; *provided, however*, that it shall not be necessary for the Trustee to give security for the deposit of any moneys with it held in trust for the payment of the principal or Redemption Price of or interest on Bonds, or such amount of moneys as is insured by Federal deposit insurance, or for the Trustee to give security for any moneys which shall be represented by obligations purchased under the provisions of this Indenture as an investment of such moneys except in accordance with the requirements of the Indenture.

Except as restricted otherwise under the Indenture, any moneys held by the Trustee as a part of any of the Special Funds or the Rebate Fund shall be invested or reinvested by the Trustee in Permitted Investments at the written request of the Issuer, or in the absence of such request, in Permitted Investments described in clause (xi) of the definition thereof. Subject to the provisions set forth below, the Trustee shall follow the directions of the Issuer with respect to the type, amount and maturity of those investments and whether those investments should be sold, surrendered or exchanged or another disposition should be made of them; provided that in any case, the maturities of the investments shall not extend beyond the respective dates as of which payments are required to be made from the respective funds from the proceeds of such investment. In the absence of written direction delivered to the Trustee by the Issuer, the Trustee shall invest funds in Permitted Investments as herein provided.

Investments of money in the Bond Fund shall mature or be redeemable at the option of the Trustee at the times and in the amounts necessary to provide money to pay Debt Service as they fall due at stated maturity or by redemption. Money received as payments on the Participation Certificate and any investment earnings on that money, must be invested on the first Business Day following receipt.

Any investment made by the Trustee may be purchased from or through the Trustee or any of its affiliates. Investments shall be held by or under the control of the Trustee and shall be deemed at all times to constitute a part of the fund or account from which they shall have been

made; provided that for purpose of investment moneys held in any of the funds (except for the Rebate Fund) may be commingled.

The Trustee shall sell and reduce to cash a sufficient portion of investments, whenever the cash balance in any fund or account is insufficient to pay the current requirements from that fund or account. The Trustee shall sell or redeem investments credited to the respective funds and accounts to produce moneys which are sufficient at the times required for the purposes of paying Debt Service, without the necessity for and without restriction by reason of any order. In computing the amount of each fund and account, the investments therein shall be valued annually at the current market value.

Subject to the necessary withdrawals and deposits of investment earnings from various Funds to the Rebate Fund pursuant to the Tax Certificate, all interest, profits or other income derived from the investment of any Fund or Account shall be maintained in such Fund or Account.

The Issuer has no discretion with regard to any amendment or modification of investments under the Indenture.

*Reliance upon Bond Counsel Opinion*

Notwithstanding anything in the Indenture, the Participation Agreement or the Tax Certificate to the contrary, the Trustee and the Issuer shall not be required to comply with any provision(s) of the Indenture, the Participation Agreement or the Tax Certificate if the Trustee shall have received an opinion of Bond Counsel, which:

(a) states that the provision(s) with which compliance is to be excused were originally intended to ensure compliance with the requirements of Federal tax law in order to maintain the Federal Tax Status of the Bonds;

(b) states that, because of a change in the Code or the Regulations, or any ruling or other determination by the Internal Revenue Service or the Department of the Treasury, or any other reason, compliance with such provision(s) is not necessary in order to, or will not, maintain the Federal Tax Status of the Bonds; and

(c) sets forth such additional requirements, if any, as are then necessary to maintain the Federal Tax Status of the Bonds.

If such opinion is provided to the Trustee, the failure to comply with the provisions described in the opinion will not constitute an Event of Default under the Indenture or the Participation Agreement, provided that the Issuer and the Trustee, as applicable, comply with any additional requirements set forth in the opinion of Bond Counsel.

## **The Trustee and Master Paying Agent**

### *Trustee's Acceptance and Responsibilities*

Prior to the occurrence of a Default or an Event of Default of which the Trustee has been notified, or of which the Trustee is deemed to have notice, and after the cure or waiver of all Defaults or Events of Default which may have occurred,

(a) the Trustee undertakes to perform only those duties which are described specifically in the Indenture, and no duties of the Trustee shall be implied;

(b) in the absence of bad faith on its part, the Trustee may reasonably rely, as to the truth of the statements and the accuracy of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and which conform to the requirements of the Indenture.

The Trustee is under a duty to examine any certificates or opinions, which are required specifically to be furnished to it, to determine whether they conform to the requirements of the Indenture.

In case a Default or an Event of Default has occurred and is continuing (of which the Trustee has been notified or is deemed to have notice), the Trustee shall exercise those rights, remedies and powers vested in it under the Indenture and shall use the same degree of care and skill in their exercise as a prudent corporate indenture trustee would exercise or use under similar circumstances.

No provision of the Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, its own willful misconduct or breach of trust, except that (i) this subparagraph shall not be construed to affect the limitation of the Trustee's duties and obligations provided in subparagraph (a) above or the Trustee's right to rely on the truth of statements and the accuracy of opinions as provided in subparagraph (b) above; (ii) the Trustee shall not be liable for any error of judgment made in good faith by any one of its officers, unless the Trustee was negligent in ascertaining the pertinent facts; (iii) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than a majority in principal amount of the Outstanding Bonds relating to the time, method and place of conduct of any proceeding available to the Trustee, or exercising any trust, right, remedy or power conferred upon the Trustee, under the Indenture, the Owner Documents or the Issuer Documents; and (iv) no provision of the Indenture shall require the Trustee to expend or risk its own moneys or to incur otherwise any financial risk or liability in the observance or performance of any of its covenants, agreements, obligations or duties thereunder or in the exercise of any of its rights, remedies or powers.

The Trustee's standard of care and performance under the Indenture shall, at a minimum, be equivalent to that required by Illinois law. Regardless of whether it is provided expressly therein, every provision of the Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee is subject to the provisions set forth above.



### *Compensation and Reimbursement*

The Trustee, the bond registrar and the Issuer are entitled to payment and reimbursement for reasonable fees for their respective services rendered under the Indenture and all advances, counsel fees and other expenses reasonably made or incurred by the Trustee, the bond registrar and the Issuer in connection with such services and in connection with entering into the Indenture, including any such fees and expenses incurred in connection with action taken thereunder.

### *Intervention by Trustee*

The Trustee shall intervene if requested to do so in writing by the Holders of at least 50% of the aggregate principal amount of Outstanding Bonds, in any judicial proceeding to which the Issuer or the Owner is a party and which in the opinion of the Trustee and its counsel has a substantial bearing on the interests of Holders of the Bonds. The rights, remedies, powers and duties of the Trustee are subject to the approval of that intervention by a court of competent jurisdiction. The Trustee may require that a satisfactory indemnity bond be provided to it before it takes any action.

### *Resignation; Appointment of Successor Trustee; Successor Trustee Upon Merger, Consolidation or Sale*

In case the Trustee (whether in its capacity as Trustee or bond registrar) gives notice of resignation or is removed, or is dissolved, or is in the course of dissolution or liquidation, or otherwise become incapable of acting, or in case it is taken under the control of any public officer or officers, or of a receiver appointed by a court, a successor may, with the prior written consent of the Issuer (to the extent that no "Event of Default" has occurred and is continuing under the Participation Agreement), be appointed by the Holders of a majority in aggregate principal amount of Bonds then Outstanding, by an instrument or concurrent instruments in writing signed by such owners, or by their duly authorized attorneys in fact, a copy of which will be delivered personally or sent by first class mail, postage prepaid, to the Issuer, the retiring Trustee, the successor Trustee and the bond registrar or successor bond registrar. Pending such appointment by the Bondowners, the Issuer may (to the extent that no "Event of Default" has occurred and is continuing under the Participation Agreement), appoint a temporary successor Trustee or bond registrar by an instrument in writing signed by an authorized officer of the Issuer, a copy of which will be delivered personally or sent by first class mail, postage prepaid, to the retiring Trustee, the successor Trustee, the bond registrar or successor bond registrar. If the registered owners and the Issuer fail to so appoint a successor Trustee or bond registrar within 45 days after the Trustee or bond registrar has given notice of its resignation, has been removed, has been dissolved, has otherwise become incapable of acting under the Indenture or has been taken under control by a public officer or receiver, the Trustee or bond registrar has the right to petition a court of competent jurisdiction to appoint a successor. Every such Trustee or bond registrar must be a trust company or bank organized and in good standing under the laws of the State or any state or the District of Columbia and have a combined capital and surplus of not less than \$50,000,000 as set forth in its most recent published annual report of condition.

Any company into which the Trustee may be merged or converted or with or into which it may be consolidated, or to which it may sell or transfer its corporate trust business and assets as a whole or substantially as a whole, or any company resulting from any merger, conversion, sale, consolidation or transfer to which it is a party, provided such company is eligible under the Indenture, will be and become successor Trustee thereunder and be vested with all the trusts, powers, rights, obligations, duties, remedies, immunities and privileges thereunder as was its predecessor, without the execution or filing of any instrument or any further act on the part of any of the parties hereto.

#### *Resignation by the Trustee*

The Trustee may resign at any time by giving not less than 60 days prior written notice of its resignation to the Issuer and by mailing notice of the resignation to the Holders, as their names and addresses appear on the Register on that 15th day prior to mailing. The resignation shall take effect upon the appointment of a successor Trustee, acceptance by the successor Trustee of such appointment and transfer of the Participation Certificate and the Participation Agreement in accordance with their respective terms.

#### *Removal of the Trustee*

The Trustee may be removed at any time, with or without cause, by the Issuer or by an instrument or document or concurrent instruments or documents delivered to the Trustee and signed by or on behalf of the Holders of not less than a majority in aggregate principal amount of the Outstanding Bonds.

Any removal of the Trustee shall take effect upon the appointment of a successor Trustee by the Issuer and acceptance by the successor Trustee of such appointment and the transfer of the Participation Certificate and the Participation Agreement to the successor trustee.

#### *Registrar and Master Paying Agent*

A Master Paying Agent may be appointed by the Executive Director or the Chief Financial Officer of the Authority. The Master Paying Agent and any successor Master Paying Agent shall be a bank or trust company organized under the laws of the State or a national banking association, doing business and having its principal office in the State, and having a capital and surplus aggregating at least Fifty Million Dollars (\$50,000,000) if there be such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Indenture. The Master Paying Agent, immediately upon such appointment, shall signify its acceptance of the duties and obligations imposed upon it by the Indenture by written instrument of acceptance deposited with the Authority.

The corporate trust office of the Trustee (or the Master Paying Agent, if one shall be appointed and serving) is designated as the agency of the Authority for the payment of interest and Sinking Fund Installments on and principal or Redemption Price of the Bonds.

Bank One, National Association, is appointed as the initial Master Paying Agent and shall serve as the paying agent and registrar under the Indenture. During such time as there shall be a Master Paying Agent:

(a) the Master Paying Agent shall perform all duties of the Trustee under the Indenture with respect to the authentication, registration, transfer, exchange, and delivery of Bonds, the disposition of Bonds upon payment and the payment to Bond owners of principal, and redemption price of and interest on Bonds; and

(b) all references in the Indenture and in each Supplemental Indenture to the Trustee with regard to any such duties shall refer instead to the Master Paying Agent and in that regard reference to an office of the Trustee shall refer instead to the comparable office of the Master Paying Agent.

The Master Paying Agent may at any time resign and be discharged of the duties and obligations created by the Indenture by giving at least one hundred twenty (120) days' written notice to the Authority and the Trustee. The Master Paying Agent may be removed at any time by an instrument filed with it and the Trustee and signed by an Authorized Representative of the Authority.

The Trustee and Master Paying Agent shall cooperate to carry out their respective duties under the Indenture and shall provide the other with copies of all notices, reports and information necessary to the other.

#### *Right of Trustee to Pay Charges*

The Trustee may, but shall not be obligated to advance funds to make payments and incur expenses in the event that the Owner fail to do so. The Trustee may make those advances without prejudice to any rights, remedies or powers of the Trustee or the Holders against the Owner for the failure of the Owner to do so.

Any moneys so advanced, together with interest thereon at the Interest Rate for Advances from the date of advancement, (i) shall be an additional obligation under the Indenture, and (ii) shall be paid from advances made by the Issuer as contemplated in the Participation Agreement. The Trustee shall make the advance, if it is requested to do so by the Holders of at least 25% of the aggregate principal amount of Outstanding Bonds and is provided with adequate moneys for the purpose thereof.

### **Default Provisions and Remedies of Trustee and Holders**

#### *Defaults; Events of Default*

The following events constitute events of default under the Indenture:

(a) the payment of any interest on any Bond is not made when and as that interest becomes due and payable;

(b) the payment of the principal of or any premium on any Bond is not made when and as that principal or premium becomes due and payable, whether at stated maturity, by redemption (including without limitation, redemption pursuant to the Mandatory Sinking Fund Requirements) or acceleration or otherwise;

(c) subject to provisions of the Indenture, the Issuer fails to observe or perform any other covenant, agreement or obligation on the part of the Issuer contained in the Act, the Indenture or in any Bonds; and

(d) if required by the final order of a Bankruptcy court, the approval by a court of competent jurisdiction of any petition for reorganization of the Issuer or rearrangement or readjustment of the obligations of the Issuer under the provisions of any Bankruptcy law.

The Trustee and the Issuer agree that notwithstanding the provisions the Indenture, no default under the terms of the Indenture shall be construed as resulting in a default (i) under the Participation Agreement or (ii) under the Mortgage Loan Documents unless such event independently constitutes a default thereunder.

The term "default" means default by the Issuer in the performance or observance of any of the covenants, agreements or conditions on its part contained in the Indenture or in the Bonds, exclusive of any period of grace or notice required to constitute a default or an Event of Default as provided above.

The declaration of an Event of Default and the exercise of rights, remedies and powers upon the declaration are subject to any applicable limitations of bankruptcy, insolvency or receivership laws affecting or precluding the declaration or exercise during the pendency of or immediately following any bankruptcy, liquidation or reorganization proceedings.

### *Remedies*

Upon the occurrence of an Event of Default, the Trustee shall have the power to proceed with any right or remedy granted by the laws of the State, as it may deem best, including any suit, action or special proceeding in equity or at law for the specific performance of any covenant or agreement contained herein or for the enforcement of any proper legal or equitable remedy as the Trustee shall deem most effectual to protect the rights aforesaid, insofar as such may be authorized by law, and the right to appointment, as a matter of right and without regard to the sufficiency of the security afforded by the Trust Estate, of a receiver for all or any part of the Trust Estate and the earnings, rents and income thereof. The venue of any action or proceeding brought by the Trustee under the provisions of the Indenture will be brought in Cook County, Illinois. The rights herein specified are to be cumulative to all other available rights, remedies or powers and shall not exclude any such right, remedies or powers.

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee or to the Holders is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Holders thereunder or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event

of Default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient. No waiver of any default or Event of Default thereunder, whether by the Trustee or by the Holders, shall extend to or shall affect any subsequent default or event of default or shall impair any rights or remedies consequent thereto.

#### *Acceleration*

If an Event of Default specified in (a) or (b) above shall occur and be continuing, the Trustee may, by notice in writing delivered to the Issuer and the Owner, declare the principal amount of Bonds then Outstanding and the interest accrued thereon immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable. This provision, however, is subject to the condition that if at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the money due shall have been obtained or entered as hereinafter provided, the Issuer or the Owner shall pay to or deposit with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all installments of interest, if any, upon all the Bonds, with interest at the rate borne by the Bonds on such overdue principal, premium, if any, and (to the extent legally enforceable) on such overdue installments of interest, and the reasonable and necessary expenses of the Trustee, and all other defaults under the Indenture (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured or adequate provisions shall have been made therefor, then in every case, the Holders of at least a majority of the aggregate principal amount of the Bonds Outstanding, by written notice to the Trustee, the Issuer and the Owner, may direct the Trustee on behalf of the Holders of all the Bonds to rescind and annul such declaration and its consequences, but no such rescission and annulment shall extend to or shall affect any subsequent default, nor shall it impair or exhaust any right or power consequent thereon.

The Trustee shall not accelerate the maturity of the Bonds based solely upon an Event of Default specified in (c) or (d) above.

Nothing in the Indenture (i) obligates the Issuer to make a payment or deposit from any revenues other than the revenues derived from the Trust Estate; or (ii) obligates the Issuer to accelerate the Note or to make a payment or deposit from any revenues other than as set forth in the Participation Certificate.

#### *Surrender of Possession of Trust Estate Property; Rights and Duties of Trustee in Possession; Other Remedies*

Upon the occurrence of an Event of Default, the Issuer, upon demand of the Trustee, shall forthwith surrender the possession of, and it shall be lawful for the Trustee, by such officer or agent as it may appoint, to take possession of, all or any part of the Trust Estate then held by the Issuer together with the books, papers and accounts of the Issuer pertaining thereto, which are not privileged.

### *Rights of Holders*

If any Event of Default shall have occurred and if requested so to do by the Holders of not less than 25% of the aggregate principal amount of the Outstanding Bonds with respect to which there is a default, and if indemnified as provided in the Indenture, the Trustee shall be obligated to proceed to protect its rights and the rights of the Bondholders under applicable law, the Participation Certificate, the Participation Agreement and the Indenture as the Trustee, being advised by counsel, shall deem most expedient in the interest of the Holders.

### *Rights of Holders to Direct Proceedings*

Subject to the provisions of the Indenture, the Holders of a majority of the aggregate principal amount of the Outstanding Bonds shall have the right at any time, by an instrument in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other proceedings thereunder, in accordance with the provisions of law and of the Indenture and the Participation Certificate.

### *Application of Moneys*

All moneys received by the Trustee or a receiver pursuant to any right given or action taken under the provisions of the Indenture and all moneys in the possession of the Trustee (except for moneys required to be deposited in the Rebate Fund) shall, subject to any provision made pursuant to the Indenture, after payment of the cost and expenses of any proceedings resulting in the collection of such moneys and any unpaid fees and expenses of the Trustee be deposited in the Bond Fund; and all moneys in the Bond Fund shall be applied, together with the other moneys held by the Trustee subject to compliance with the Indenture, as follows:

(i) Unless the principal of all the Bonds shall have become due and payable or shall have been declared due and payable, all such moneys shall be applied:

FIRST – to the payment to the persons entitled thereto of all installments of interest then due on the Bonds, in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or privilege except as to any difference in the respective rates of interest specified in the Bonds;

SECOND – to the payment to the persons entitled thereto of the unpaid principal of and premium, if any, on any of the Bonds which shall have become due (other than Bonds called for redemption for the payment of which money shall be held pursuant to the provisions of the Indenture) whether at maturity or by call for redemption, in the order of their due dates and beginning with the earliest such due date, with interest on such Bonds from the date upon which they become due and, if the amount available shall not be sufficient to pay in full principal of, premium, if any, and interest on the Bonds due on any particular date, together with such interest, then to the payment thereof ratably, according to the amount of the principal, interest, and premium, if any, due on such date, to the persons entitled thereto without any discrimination or privilege; and

THIRD – to the payment of any unpaid fees and expenses of the Issuer, the Rebate Analyst and the Disclosure Agent.

(ii) If the principal of all the Bonds shall have become due and payable or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal, premium, if any, and interest then due and unpaid upon the Bonds, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, and if the amount available shall not be sufficient to pay in full such principal, premium, if any, and interest, then to the payment ratably, according to the amounts due respectively for principal, premium, if any, and interest, to the persons entitled thereto without any discrimination or privilege except as to any difference in the respective rates of interest specified in the Bonds.

(iii) If the principal of all the Bonds shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of this Article, then, subject to the provisions of paragraph (ii) above in the event that the principal of all the Bonds shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of paragraph (i) above.

Such moneys shall be applied at such times, and from time to time as the Trustee shall determine, having due regard to the amount of such moneys available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the date (which shall be an Interest Payment Date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Holder of any Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

#### *Remedies Vested in Trustee*

All rights of action, including the right to file proof of claims, under the Indenture or under any of the Bonds may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or other proceedings relating thereto and any such suit or proceeding instituted by the Trustee shall be brought in its name as Trustee without the necessity of joining as plaintiffs or defendants any Holders of the Bonds, and any recovery of judgment shall be for the benefit as provided herein of the Holders of the Outstanding Bonds.

#### *Remedies of Holders*

No Holder of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Indenture or for the execution of any trust thereunder or for the appointment of a receiver or any other remedy thereunder, unless (a) a default shall have occurred of which the Trustee shall have been notified as provided in the Indenture; (b) such default shall have become an Event of Default; (c) the Holders of at least 25% of the aggregate principal amount of the Bonds outstanding shall have made written request to the Trustee and shall have offered reasonable opportunity either to proceed to exercise the powers

hereinbefore granted or to institute such action, suit or proceeding in its own name; (d) such Holders shall have offered to the Trustee indemnity as provided in the Indenture; and (e) the Trustee shall within 60 days thereafter fail or refuse to exercise the powers hereinbefore granted, or to institute such action, suit or proceeding; and such notification, request and offer of indemnity are hereby declared in every case at the option of the Trustee to be conditions precedent to the execution of the powers and trusts under the Indenture, and to any action or cause of action for the enforcement of the Indenture, or for any other remedy thereunder; it being understood and intended that no one or more Holders of the Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of the Indenture or the rights of any other Holders of Bonds or to obtain priority or preference over any other Holders or to enforce any right under the Indenture, except in the manner herein provided and for the equal and ratable benefit of all Holders of Bonds with respect to which there is a default. Nothing contained in the Indenture shall, however, affect or impair the right of any Holder to enforce the payment of the principal of, the premium, if any, and interest on any Bond at the maturity thereof or the obligation of the Issuer to pay the principal of, premium, if any, and interest on the Bonds to the respective Holders thereof, at the time, in the place, from the sources and in the manner expressed in said Bonds.

#### *Termination of Proceedings*

In case the Trustee shall have proceeded to enforce any right under the Indenture by the appointment of a receiver, by entry or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case the Issuer and the Trustee shall be restored to their former positions and rights thereunder with respect to the Trust Estate therein conveyed, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

#### *Waivers of Events of Default*

The Trustee shall waive any Event of Default and its consequences and rescind any declaration of maturity of principal of and interest on the Bonds upon the written request of the Holders of a majority of the aggregate principal amount of Bonds outstanding with respect to which there is a default; provided, however, that there shall not be waived (a) a default in the payment of the principal of any Bonds at the date of maturity specified therein, or upon proceedings for mandatory redemption, or (b) any default in the payment when due of the interest or premium on any such Bonds, unless prior to such waiver or rescission all arrears of interest, with interest (to the extent permitted by law) at the rate borne by the Bonds in respect of which such default shall have occurred on overdue installments of interest or all arrears of payments of principal or premium, if any, when due (whether at the stated maturity thereof or upon proceedings for mandatory redemption) as the case may be, and all fees, costs, and expenses of the Trustee, in connection with such default shall have been paid or provided for, and in case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such default shall have been discontinued or abandoned or determined adversely, then and in every such case the Issuer, the Trustee and the Bondholders shall be restored to their former positions and rights under the Indenture, respectively, but no such waiver or rescission shall extend to any subsequent or other default, or impair any right consequent thereto.



## Supplemental Indentures

### *Supplemental Indentures Not Requiring Consent of Holders*

Without the consent of or notice to the Holders, the Issuer and the Trustee may enter into indentures supplemental to the Indenture, which shall not be inconsistent with the terms and provisions hereof, for any one or more of the following purposes:

- (a) to cure any ambiguity, inconsistency or formal defect or omission in the Indenture;
- (b) to grant to or confer upon the Trustee for the benefit of the Holders any additional rights, remedies, powers or authority which lawfully may be granted to or conferred upon the Holders or the Trustee;
- (c) to pledge or assign additional revenues and/or property under the Indenture;
- (d) to accept additional security and instruments and documents of further assurance with respect to the Project;
- (e) to add to the covenants, agreements and obligations of the Issuer or the Owner under the Indenture, other covenants, agreements and obligations to be observed for the protection of the Holders, or to surrender or limit any right, remedy, power or authority reserved to or conferred upon the Issuer or the Owner under the Indenture, including the limitation of rights of redemption so that in certain instances Bonds of different Series will be redeemed in some prescribed relationship to one another;
- (f) to evidence any succession to the Issuer and the assumption by its successor of the covenants, agreements and obligations of the Issuer under the Issuer Documents and the Bonds;
- (g) to permit the use of, or modifications to, a Book-Entry System to identify the owner of an interest in an obligation issued by the Issuer under the Indenture, whether that obligation was formerly, or could be, evidenced by a physical security;
- (h) to permit the Trustee to comply with any duties imposed upon it by law;
- (i) to achieve compliance of the Indenture with any applicable Federal securities or tax law;
- (j) to make amendments to the provisions thereof relating to arbitrage matters under Section 148 of the Code, if, in the Opinion of Bond Counsel, those amendments would not adversely affect the Federal Tax Status of the Bonds, which amendments may, among other things, change the responsibility for making the relevant calculations;
- (k) to permit any amendments required by the Rating Agencies in order to obtain or maintain a rating on the Bonds;

(l) to change or modify any provision hereof so as to harmonize to the maximum extent practicable the provisions hereof with existing rules, regulations and procedures of AMBAC; and

(m) in connection with any other change herein which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the Holders of the Bonds (it being intended that so long as there is no adverse effect on the AMBAC Guaranty or reduction in the payments due under the Participation Certificate, the Holders of the Bonds will not be considered to be adversely affected unless the Trustee determines otherwise).

The provisions of subparagraphs (h), (i) and (j) shall not be deemed to constitute a waiver by the Trustee, the Registrar, the Issuer or any Holder of any right, remedy or power which it may have in the absence of those provisions to contest the application to the Indenture or the Bonds of any change in law. No Supplemental Indentures entered into for the purposes described in subparagraphs (k) and (m) shall be effective unless the Trustee has received written evidence from the Rating Agencies then rating the Bonds that such Supplemental Indenture will not cause a reduction or withdrawal of any rating assigned to the Bonds.

#### *Supplemental Indentures Requiring Consent of Holders*

With the consent of the Holders of not less than a majority in aggregate principal amount of the Outstanding Bonds, and with the prior written consent of AMBAC, if required, the Issuer and the Trustee may execute and deliver indentures supplemental to the Indenture adding any provisions to, changing in any manner, or eliminating any of the provisions of the Indenture or any Supplemental Indenture, or restricting in any manner the rights of the Holders.

If the Issuer shall request that the Trustee execute and deliver any Supplemental Indenture for any of the purposes of this Section, upon (i) being indemnified satisfactorily with respect to its expenses in connection therewith, and (ii) if required below, receipt of the consent of AMBAC to the proposed execution and delivery of the Supplemental Indenture, the Trustee shall cause notice of the proposed execution and delivery of the Supplemental Indenture to be mailed to each Holder at its address as it then appears on the Register.

Before the Issuer and the Trustee shall enter into any Supplemental Indenture, there shall have been delivered to the Trustee an Opinion of Bond Counsel to the effect that such Supplemental Indenture is permitted under the Indenture, that such Supplemental Indenture will, upon the execution and delivery thereof, be valid and binding upon the Issuer in accordance with its terms and will not adversely affect the Federal Tax Status of the Bonds.

#### *Consent of AMBAC*

Anything to the contrary notwithstanding, no Supplemental Indenture or amendment to the Indenture executed and delivered in accordance therewith which affects any rights, remedies or powers of AMBAC shall become effective, unless AMBAC shall have consented in writing to the execution and delivery of that Supplemental Indenture. Unless waived by AMBAC, the Trustee shall cause notice of the proposed execution and delivery of any Supplemental Indenture and a copy of the proposed Supplemental Indenture to be mailed to the Owner and AMBAC.

## **Defeasance**

### *Release of Indenture*

If (a) the Issuer shall pay all of the Outstanding Bonds, or shall cause them to be paid and discharged, or if there shall be paid otherwise to the Holders of the Outstanding Bonds, all Debt Service due or to become due thereon; and (b) the Trustee shall receive an amount sufficient to cause the Rebate Fund to contain an amount equal to the rebate liability under Section 148 of the Code calculated as of the date of release of the Indenture and provision shall be made for the payment to the United States of rebate liability accruing subsequent to the date of release of the Indenture; and (c) provision shall be made also for the payment of all other sums payable under the Indenture and under the Owner Documents; the Indenture shall cease, determine and become null and void (except for those provisions surviving under the provisions of the Indenture), and the covenants, agreements and obligations of the Issuer and the Owner thereunder shall be released, discharged and satisfied; provided that in addition to any other requirements, within 15 days after that payment or discharge, the Trustee shall cause a notice signed by the Trustee to be mailed to each Holder at the close of business on the date on which the payment and discharge shall have occurred at its address as it appears on the Register on that date of payment and discharge.

### *Payment and Discharge of Bonds.*

All or any part of the Bonds shall be deemed to have been paid and discharged within the meaning of the Indenture, if

(a) the Trustee shall have received, in trust for and committed irrevocably thereto, sufficient moneys, excluding any investments, except as described in subparagraph (b); or

(b) the Trustee shall have received, in trust for and committed irrevocably thereto, Government Obligations which are certified by an independent certified public accounting firm or other financial analyst that is acceptable to the Trustee, to be of those maturities or redemption dates, to have interest payment dates, and to bear interest at those rates, in each case which will be sufficient, together with any moneys to which reference is made in subparagraph (a) above, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom (which earnings are to be held likewise in trust and so committed, except as provided herein), for the payment of all Debt Service on those Bonds, at their maturity or redemption dates, as the case may be, or if a Default in payment shall have occurred on any maturity or redemption date, then for the payment of all Debt Service thereon to the date of the tender of payment; provided, that the Trustee shall have received an Opinion of Bond Counsel to the effect that (i) such deposit will not adversely affect the Federal Tax Status of the Bonds, if any, that remain Outstanding, and (ii) all conditions precedent to the release and discharge of the Indenture have been complied with. If any of those Bonds are to be redeemed on designated dates prior to the maturity thereof, notice of that redemption shall have been duly given or irrevocable provision satisfactory to the Trustee shall have been duly made for the giving of that notice, or notice that the Issuer has reserved the right to replace the designated redemption dates with earlier redemption dates shall be given as provided below.

Any moneys held by the Trustee in accordance with the provisions of this Section may be invested by the Trustee only in Government Obligations having maturity dates, or redemption dates, which, at the option of the Holder of those obligations, shall be not later than the date or dates at which moneys will be required for the purposes described above. To the extent that any income or interest earned by, or increment to, the investments held under this Section is determined from time to time by the Trustee to be in excess of the amount required to be held by the Trustee for the purposes of this Section, that income, interest or increment shall be transferred at the time of that determination in the manner provided herein for transfers of amounts remaining in the Special Funds; provided that there shall be no withdrawal of such income, interest or increment unless such withdrawal is contemplated by the report described in clause (b) above of an independent certified public accounting firm or other financial analyst or is subsequently determined in a similar report of such a firm to be in excess of the amount necessary for the payment of Debt Service.

If any Bonds are deemed to be paid and discharged pursuant to this Section, within 15 days after those Bonds are so deemed to be paid and discharged, the Trustee shall cause a written notice to be given to each Holder at the close of business on the date on which the Bonds are deemed to be paid and discharged at its address as it appears on the Register on that date on which the Bonds are deemed to be paid and discharged.

#### *Survival of Certain Provisions*

Notwithstanding the payment in full of the Bonds, the discharge of the Indenture, and the termination or expiration of the Note and the Participation Agreement, all provisions in the Indenture concerning (1) the Federal Tax Status of the Bonds (including, but not limited to, provisions concerning Rebate), (2) the interpretation of the Indenture, (3) the governing law, (4) the forum for resolving disputes, (5) the Issuer's right to rely on facts or certificates, (6) the indemnity of the Issuer's directors, officers, counsel, advisors, and agents from liability, and (7) the Issuer's lack of pecuniary liability, shall survive and remain in full force and effect.

#### **Miscellaneous**

##### *Rights of AMBAC*

Any notice that is required to be given to a Holder of any Bond, the Issuer, the Trustee or the Owner pursuant to the Indenture shall also be provided to AMBAC. Notwithstanding anything contained in the Indenture or the Bonds to the contrary, the existence of all rights given to AMBAC with respect to the giving of consents or approvals, the receipt of notices and the direction of proceedings or otherwise are expressly conditioned upon the timely and full performance of the obligations of AMBAC under the AMBAC Guaranty.

## **THE REGULATORY AGREEMENT**

### **General**

The Regulatory Agreement and Declaration of Restrictive Covenants (the "*Regulatory Agreement*") between the Owner and the Issuer restricts the operation and occupancy of the

Development. The covenants contained in the Regulatory Agreement are designed to obtain, among other things, compliance by the Owner and any subsequent owner of the Development with the requirements of Section 142(d) of the Code and Sections 1.103-8(b)(4) of the Regulations, which must be satisfied in order to maintain the exclusion of the interest on the Bonds from the gross income of their Holders for Federal income tax purposes. See "THE REGULATORY AGREEMENT—General Tax-Related Covenants."

### **Residential Property Restrictions**

Under the terms of the Regulatory Agreement, during the Qualified Project Period, the Owner is required to own, manage and operate the Development as a "residential rental project" within the meaning of Section 142(d) of the Code and Section 1.103-8(b)(4) of the Regulations. The Development is required to consist only of buildings which contain only residential units and functionally related and subordinate facilities.

The Qualified Project Period means the period beginning on the later of (a) the date when the first of the Bonds are issued or (b) the date on which ten percent of the units in the Development are first occupied and ending on the latest of the date (i) which is 15 years after the date on which at least 50 percent of the residential units in the Development are occupied, (ii) which is the first date on which no tax-exempt private activity bond issued with respect to the Development is outstanding or (iii) on which any assistance provided with respect to the Development under Section 8 of the United States Housing Act of 1937, as amended, terminates.

The Regulatory Agreement specifically requires the Owner to make the residential units in the Development available for lease to the general public without preference, other than to Low and Very Low Income Tenants (as defined below under "Low and Very Low Income Tenants"), and prohibits the Owner from, among other things, allowing any unit in the Development ever to be used as a hotel, motel, dormitory, fraternity house, sorority house, rooming house, hospital, nursing home, sanitarium, rest home or trailer park or court. At no time is the Owner to occupy a residential unit in the Development, except employees of the Owner hired to assist in the management of the Development who have no ownership interests.

### **Continuous Rental**

The Owner is required, at all times during the Qualified Project Period, to rent or make available for rental each unit in the Development to members of the general public on a continuous basis except for Low and Very Low Income Tenants as described above, and is not to grant any commercial leases or permit commercial uses except upon receipt by the Issuer of an opinion of Bond Counsel, which opinion is acceptable to the Issuer, that the lease or use will not adversely affect the exclusion of interest on any of the Bonds from gross income of their holders for Federal income tax purposes.

### **Low and Very Low Income Tenants**

Under the terms of the Regulatory Agreement, at all times during the Qualified Project Period, at least 40 percent of the completed residential units in the Development must be occupied by Low Income Tenants. "*Low and Very Low Income Tenants*" means and includes individuals or families with adjusted income, calculated in the manner prescribed in Regulations

Section 1.167(k)-3(b)(3) as in effect on the date when the first of the Bonds is issued, which does not exceed 50 percent (for Very Low Income Tenants) and 60 percent (for Low Income Tenants) of the median gross income for the area in which the Development is located, determined in a manner consistent with determinations of median gross income made under the leased housing program established under Section 8 of the United States Housing Act of 1937, as amended, or if that program is terminated, under that program as in effect immediately before termination. That determination is to include adjustments for family size. In no event, however, will the occupants of a unit of the Development be considered to be Low and Very Low Income Tenants if all the occupants are students, no one of whom is entitled to file a joint return for Federal income tax purposes. For purposes of satisfying that requirement, a residential unit will be treated as occupied by Low and Very Low Income Tenants if the individual or family occupying the unit are Low or Very Low Income Tenants at the commencement of occupancy, even if they cease to be Low or Very Low Income Tenants during their tenancy, except where any such resident's income as of the most recent determination exceeds 140 percent of the 60 or 50 percent income limitation amount, as applicable, and after such determination, but before the next determination, any residential unit of comparable or smaller size in the Development is occupied by a new resident whose income exceeds that 60 or 50 percent limitation, as applicable. A residential unit which is vacant will still be treated as occupied by a Low or Very Low Income Tenant if it was last occupied by a Low or Very Low Income Tenant and has not been reoccupied by another person for more than a temporary period (not to exceed 31 days).

The Regulatory Agreement requires the Owner to determine annually the current income of each tenant treated as a Low or Very Low Income Tenant. Furthermore, under the terms of the Regulatory Agreement, the Owner must periodically prepare and submit to the Issuer certification of continuing program compliance, in substantially the form set forth in the Regulatory Agreement.

### **Transfer Restrictions**

During the Qualified Project Period, the Owner is required not to do any of the following: sell, transfer, assign, convey, change title to or otherwise dispose of the Development any interest in it (a "*Transfer*"), in whole or in part, unless the Issuer has received an opinion of Bond Counsel, which opinion is acceptable to the Issuer, to the effect that such transfer will not adversely affect the exclusion from Federal gross income interest on any of the Bonds from gross income of their holders for purposes of Federal income taxation.

### **General Tax-Related Covenants**

The Issuer and the Owner each have agreed in the Regulatory Agreement that, to the best of its ability, (a) it will not take or permit, or omit to take or cause to be taken, any action that would adversely affect the exclusion of the interest on the Bonds from the gross income of their holders for Federal income tax purposes; (b) it will take all actions as may be necessary, in the written opinion of Bond Counsel, to comply fully with all rules, rulings, policies, procedures, Regulations, and other official statements promulgated, proposed, or made by the Department of Treasury or the Internal Revenue Service pertaining to obligations issued under Section 142(d) of the Code and Regulations under that Section; and (c) it will file or record such documents and take such other steps as are necessary, in the written opinion of Bond Counsel, in order to ensure

that the requirements and restrictions of the Regulatory Agreement will be binding upon all owners of the Development.

Under the terms of the Regulatory Agreement, the Owner must notify the Issuer as soon as reasonably possible, of the existence of any situation or the occurrence of any event of which the Owner has knowledge, if the existence of such situation or event would violate any of the provisions of the Regulatory Agreement or cause the interest on the Bonds to become includible in the gross income of their holders for Federal income tax purposes. The Owner must commence corrective action within a reasonable period of time, but in no event later than 30 days after such a situation or event is first discovered or should have been discovered by the exercise of reasonable diligence.

### **Term**

Unless the Issuer has received a written opinion of Bond Counsel addressed to it to the effect that early termination of the Regulatory Agreement will not adversely affect the exclusion of the interest on all of the Bonds from gross income of their holders for Federal income tax purposes, the Regulatory Agreement is to remain in full force and effect for a term equal to the Qualified Project Period. Notwithstanding the immediately preceding sentence, the Regulatory Agreement will terminate and be of no further force and effect in the event of (a) involuntary noncompliance with the provisions of the Regulatory Agreement caused by fire, seizure, requisition, foreclosure or delivery of a deed in lieu of foreclosure, change in a Federal law or an action of a Federal agency after the date of the Regulatory Agreement which prevents the Issuer from enforcing the requirements of the Regulatory Agreement, condemnation or other similar event and (b) the payment in full and retirement of the Bonds within a reasonable period after that event. However, the restrictions described above are to be automatically reinstated if, at any time subsequent to the foreclosure or the delivery of a deed in lieu of foreclosure or similar event, the Owner or any related person (within the meaning of the Regulations) obtains an ownership interest in the Development for Federal income tax purposes.

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## APPENDIX D

### FORM OF OPINIONS OF CO-BOND COUNSEL

\_\_\_\_\_, 2003

Illinois Housing Development Authority  
401 North Michigan Avenue  
Chicago, Illinois 60611

Ladies and Gentlemen:

We have acted as Co-Bond Counsel to the Illinois Housing Finance Authority (the "Authority") and in such capacity have examined a certified copy of the record of proceedings of the Authority, relating to the issuance today of \$\_\_\_\_\_ aggregate principal amount of its Multifamily Housing Revenue Bonds, Series 2003 (Turnberry Village II Apartments) (the "Bonds"). The Bonds are authorized to be issued pursuant to the provisions of (i) the Illinois Housing Development Act, 20 ILCS 3805/1 *et seq.* (the "Act"), (ii) the Trust Indenture dated as of May 1, 2003 (the "Indenture") between the Authority and LaSalle Bank National Association (the "Trustee") governing the issuance from time to time and security for the Authority's Multifamily Housing Revenue Bonds (Turnberry Village II Apartments), as supplemented and amended, and (iii) the resolution of the Authority adopted on January 17, 2003, as amended and supplemented by that certain Determination of the Chairman and Executive Director of the Authority dated \_\_\_\_\_, 2003 (together with said resolution, the "Resolutions").

The Bonds are dated, mature on the dates in the principal amounts, bear interest, are payable, and are subject to redemption prior to maturity, all as provided in the Indenture.

The Bonds are being issued for the purpose of providing funds for a mortgage loan to TVA II, L.P., an Illinois limited partnership (the "Borrower") pursuant to the terms of a Loan Agreement, dated as of \_\_\_\_\_, 2003 (the "Loan Agreement") for the financing of a portion of the cost of the acquisition and construction of a multifamily housing development located in Bloomington, Illinois.

Applicable Federal tax law establishes certain requirements that must be met subsequent to the delivery of the Bonds in order the interest on the Bonds not be included in gross income for Federal income tax purposes under the Internal Revenue Code of 1986, as amended (the "Code"). We have examined the Indenture, the Loan Agreement and the Tax Regulatory Certificate, which, in our opinion, establish

procedures under which, if followed, such requirements can be met. The Authority has covenanted in the Indenture and Tax Regulatory Certificate to at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the Authority on the Bonds shall not be included in gross income for Federal income tax purposes. In rendering this opinion, we have assumed compliance by the Authority and the Borrower with and enforcement by the Authority and the Borrower of the provisions of the Indenture, the Loan Agreement and the Tax Regulatory Certificate. Failure to comply with such requirements may cause the inclusion of interest on the Bonds in gross income for Federal income tax purposes retroactive to the date of issuance of the Bonds.

We have not examined nor are we passing upon matters relating to the real and personal property referred to in the Loan Agreement and related documents.

From such examination, we are of the opinion that:

The Authority is a legally existing body politic and corporate of the State of Illinois (the "State") with lawful authority, among other things, to adopt the Resolutions, to execute and deliver the Indenture and the Loan Agreement, to issue the Bonds, and to perform its obligations under the terms and conditions of the Indenture and the Loan Agreement.

The Resolutions have been duly and lawfully adopted by the Authority and are in full force and effect. Each of the Indenture and the Loan Agreement has been duly authorized, executed and delivered by the Authority and is valid and binding upon the Authority and enforceable in accordance with its terms.

The Bonds are valid and legally binding special obligations of the Authority.

The Indenture creates the valid pledge of the Trust Estate (as defined in the Indenture) for the benefit of the Bonds that it purports to create, subject to the provisions of the Indenture permitting the use and payment thereof for the purposes and on the terms and conditions set forth in the Indenture.

The Authority has no taxing power. The Bonds are not a debt of the State and the State is not liable on the Bonds. The Bonds are not subject to Section 26.1 of the Act.

Under existing statutes and court decisions, (i) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to the Code,

except that no opinion is expressed as to the exclusion of interest on any Bond for any period during which such Bond is held by a person who, within the meaning of Section 147(a) of the Code, is (A) a "substantial user" of the facilities financed with Bond proceeds, or (B) a "related person", and (ii) interest on the Bonds is treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. No opinion as to the exclusion from gross income of interest on any of the Bonds is expressed subsequent to any date on which action is taken pursuant to the Indenture for which action the Indenture requires a legal opinion to the effect that taking such action will not adversely affect such exclusion, should the undersigned not deliver an opinion as of such date to such effect.

Under existing law, interest on the Bonds is exempt from all taxation by the State of Illinois and its political subdivisions, except for estate, transfer and inheritance taxes.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the Bonds, the Indenture and the Loan Agreement may be limited by bankruptcy, moratorium, insolvency, or other laws affecting creditors' rights or remedies and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

The scope of this opinion is expressly limited to the matters set forth herein, and, except to the extent addressed herein, we express no opinion with respect to any other Federal income tax matters relating to the Bonds, Illinois tax matters or the laws of any other state.

Very truly yours,

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## **APPENDIX E**

### **SUMMARY OF CONTINUING DISCLOSURE UNDERTAKING OF THE AUTHORITY**

1. The Authority shall make all required filings and reports so that all requirements of Rule 15c2-12(b)(5) of the United States Securities and Exchange Commission, as amended from time to time, applicable to the Authority are met with respect to the Offered Bonds.

2. Each year the Authority shall provide annual financial information concerning the Offered Bonds to each nationally recognized municipal securities information repository and to any entity designated by the State of Illinois as a state information depository for purposes of Rule 15c2-12(b)(5). A copy of the annual financial information shall also be provided to the Trustee. The annual financial information shall be so provided within 180 days after the end of the Authority's fiscal year, beginning with the fiscal year ending June 30, 2003. Copies of the annual financial information shall also be made available to any beneficial or registered owner of Offered Bonds upon request. The annual financial information shall include the Authority's audited financial statements, prepared in accordance with generally accepted accounting principles as in effect from time to time.

The annual financial information may include any or all information by incorporating, by specific reference, other documents which have been provided to each of those national information repositories and the state information depository, if any. If the incorporated information is in an Official Statement, it must be available from the Municipal Securities Rulemaking Board. The annual financial information shall include a notice of any change in the Authority's fiscal year.

3. Upon the occurrence of any of the following events with respect to the Offered Bonds, if material, the Authority shall report the event in a timely manner to the state information depository, if any, and either to each of the national information repositories described above or to the Municipal Securities Rulemaking Board:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers or their failure to perform;
- (vi) adverse tax opinions or events affecting tax-exempt status;
- (vii) modifications to rights of Owners of the Offered Bonds;
- (viii) non-scheduled redemptions;

- (ix) defeasances;
  - (x) release, substitution, or sale of property securing repayment of the Offered Bonds;
- and
- (xi) rating changes.

The Authority will give a copy of each such report to the Trustee. The Authority will give notice in a timely manner to the Trustee, to the state information depository, if any, and either to each of the national information repositories or to the Municipal Securities Rulemaking Board of any failure timely to provide the annual financial information as provided in this Section.

4. The undertaking of the Authority described in this summary is a contract between the Authority and the beneficial and registered owners from time to time of the Offered Bonds. It may be enforced by any beneficial or registered owner of Offered Bonds. The sole remedy with respect to the Authority's compliance with its undertaking under this Section shall be to require compliance. This Section shall be solely for the benefit of the beneficial or registered owners of the Offered Bonds from time to time, and shall create no right in anyone else. The Trustee shall have no powers or duties under this Section. No violation by the Authority of any provision described in this summary shall constitute any Event of Default or a default under the Offered Bonds, the Indenture or under the Act. Articles XI (Amendments of Trust Indenture) and XII (Defaults and Remedies) of the Indenture do not apply to the continuing disclosure undertaking.

5. The obligation of the Authority described in this summary shall end upon the Offered Bonds being paid or treated as paid as provided in the Indenture, except for the obligations to give notice under 3(vi) and 3(viii) above.

6. The Authority may by resolution amend the undertakings described in this summary at any time to the extent and in the manner allowed by Rule 15c2-12(b)(5), as amended from time to time, if the Authority's undertaking described in this summary, as amended, shall continue to comply with the Rule, the amendment to be effective upon receipt by the Authority of an opinion of bond counsel, selected by it with significant federal securities law expertise, to that effect. Any such amendment shall be described in the next annual financial information.

## **APPENDIX F**

### **SUMMARY OF CONTINUING DISCLOSURE UNDERTAKING OF THE BORROWER**

1. The Borrower will undertake to make all required filings and reports so that all requirements of Rule 15c2-12(b)(5) of the United States Securities and Exchange Commission, as amended from time to time, are met with respect to the Offered Bonds.

2. Each year, the Borrower will provide annual financial information concerning the Development to each nationally recognized municipal securities information repository and to any entity designated by the State of Illinois as a state information depository for purposes of Rule 15c2-12(b)(5). A copy of the annual financial information shall also be provided to the Trustee. The annual financial information shall be so provided within 180 days after the end of the Borrower's fiscal year, beginning with the first fiscal year ending after January 1, 2003. Copies of the annual financial information shall also be made available to any beneficial or registered owner of Offered Bonds upon request. The annual financial information provided by the Borrower must include the Borrower's audited financial statements, prepared in accordance with generally accepted accounting principles as in effect from time to time. The annual financial information must also include financial and operating information relating to the Development, including information concerning (a) the identification and description of the Development, including whether it is subject to subsidies (and the expiration of subsidy contracts) or Federal Insurance or other credit enhancement, and the number of units (broken down by unit type and subsidy, if any), and (b) revenues, debt service, expenses, reserves and occupancy.

The annual financial information may include any or all information by incorporating, by specific reference, other documents which have been provided to each of those national information repositories and the state information depository, if any. If the incorporated information is in an Official Statement, it must be available from the Municipal Securities Rulemaking Board. The annual financial information shall include a notice of any change in the Borrower's fiscal year.

3. Upon the occurrence of any of the following events with respect to the Offered Bonds, if material, the Borrower is required to report the event in a timely manner to the state information depository, if any, and either to each of the national information repositories described above or to the Municipal Securities Rulemaking Board:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements (if any are provided) reflecting financial difficulties;

- (v) substitution of credit or liquidity providers (if any such enhancement is provided) or their failure to perform;
- (vi) adverse tax opinions or events affecting tax-exempt status;
- (vii) modifications to rights of owners of the Offered Bonds;
- (viii) non-scheduled redemptions;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Offered Bonds (other than in the ordinary course of operations as contemplated in the Official Statement); and
- (xi) rating changes.

The Borrower will give a copy of each such report to the Trustee. The Borrower will give notice in a timely manner to the Trustee, to the state information depository, if any, and either to each of the national information repositories or to the Municipal Securities Rulemaking Board of any failure timely to provide the annual financial information as provided in its continuing disclosure undertaking.

4. The agreement of the Borrower in its continuing disclosure undertaking is a contract between the Borrower and the beneficial and registered owners from time to time of the Offered Bonds. They may be enforced by any beneficial or registered owner of Offered Bonds. The sole remedy with respect to compliance by the Borrower with its continuing disclosure undertakings shall be to require compliance. The continuing disclosure undertakings are solely for the benefit of the beneficial or registered owners of the Offered Bonds from time to time, and create no rights in anyone else. The Borrower may appoint a dissemination agent to assist them in complying with the requirements of their continuing disclosure undertakings. The Trustee shall have no powers or duties under the continuing disclosure undertakings unless it undertakes to act as dissemination agent. No violation by the Borrower of any provision in the continuing disclosure undertaking shall constitute any Event of Default or a default under the Offered Bonds, the Indenture or under the Act. Articles XI (Amendments of Trust Indenture) and XII (Defaults and Remedies) of the Indenture do not apply to the continuing disclosure undertaking.

5. The obligations of the Borrower under the continuing disclosure undertaking shall end upon the Offered Bonds being paid or treated as paid as provided in the Indenture, except for the obligations to give notice under 3(vi) and 3(viii) above.

6. The Borrower may amend its continuing disclosure undertaking at any time to the extent and in the manner allowed by Rule 15c2-12(b)(5), as amended from time to time, if its agreements under the continuing disclosure undertakings, as amended, shall continue to comply with the Rule, the amendment to be effective upon receipt by the Authority and the Trustee of an opinion of counsel with significant federal securities law expertise, to that effect. Any such amendment shall be described in the next annual financial information.



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