# Michigan State Housing Development Authority

**(a component unit of the State of Michigan)**

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**Financial Report**

**with Supplemental Information**

**June 30, 2012**

# Michigan State Housing Development Authority

## Contents

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# Independent Auditor's Report

To the Board of Directors and
Mr. Thomas H. McTavish, CPA
Auditor General, State of Michigan
Michigan State Housing Development Authority
Lansing, Michigan

We have audited the accompanying basic financial statements and the discretely presented component unit of the Michigan State Housing Development Authority (MSHDA or, the "Authority"), a component unit of the State of Michigan, as of and for the years ended June 30, 2012 and 2011 as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial positions of the Michigan State Housing Development Authority and the discretely presented component unit as of June 30, 2012 and 2011 and the respective changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 1, the financial statements include a component unit, Michigan Homeowner Assistance Nonprofit Housing Corporation, which is considered a discretely presented component unit of the Michigan State Housing Development Authority.



Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

To the Board of Directors and
Mr. Thomas H. McTavish, CPA
Auditor General, State of Michigan
Michigan State Housing Development Authority

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, as identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2012 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Plante & Moran, PLLC

October 25, 2012

The Michigan State Housing Development Authority (the "Authority") provides financial and technical assistance through public and private partnerships to create and preserve decent, affordable housing for low- and moderate-income Michigan residents. The Authority was created under the terms of Act 346, Public Acts of Michigan, 1966, as amended. The Authority is authorized to issue its bonds and notes to the investing public in order to create a flow of private capital through the Authority into mortgage loans to qualified housing sponsors and to certain qualified individuals.

The Authority offers a variety of programs to provide affordable housing opportunities, such as single-family lending, low-interest property improvement lending, multi-family lending, mortgage credit certificates, and pass-through obligations.

The enclosed financial statements present the Authority's financial position, revenue, expenses, changes in net assets, and cash flows. The following is a condensed summary of financial information as of and for the years ended, June 30, 2012, 2011, and 2010:

**Condensed Financial Information**
(in thousands of dollars)

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| **Assets** | | | |
| Investments | $ 1,029,170 | $ 876,901 | $ 798,296 |
| Loans receivable - Net | 2,330,406 | 2,405,218 | 2,459,520 |
| Other assets | 575,091 | 614,896 | 697,828 |
| Total assets | 3,934,668 | 3,897,015 | 3,955,644 |
| **Liabilities** | | | |
| Bonds payable | 2,547,686 | 2,592,572 | 2,669,673 |
| Other liabilities | 662,633 | 604,724 | 592,328 |
| Total liabilities | 3,210,319 | 3,197,296 | 3,262,001 |
| **Net Assets** | | | |
| Restricted | 448,789 | 423,830 | 405,744 |
| Unrestricted | 275,559 | 275,889 | 287,899 |
| Total net assets | **$ 724,348** | **$ 699,719** | **$ 693,643** |

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| **Revenue** | | | |
| Net investment income | $ 67,423 | $ 61,382 | $ 66,036 |
| Federal assistance programs revenue | 751,649 | 733,849 | 536,464 |
| Section 8 program administrative fees | 16,012 | 16,970 | 16,084 |
| Contract administration fees | 8,957 | 8,148 | 8,826 |
| Other income | 36,811 | 24,020 | 18,911 |
| Total revenue | 880,852 | 844,369 | 646,321 |
| **Expenses** | | | |
| Federal assistance programs expenses | 752,013 | 733,645 | 536,464 |
| Salaries and benefits | 33,273 | 31,740 | 29,686 |
| Other general operating expenses | 29,126 | 33,614 | 33,594 |
| Other expenses | 28,222 | 22,327 | 15,995 |
| Total expenses | 842,634 | 821,326 | 615,739 |
| **Grants and Subsidies** | 13,589 | 16,967 | 21,405 |
| **Change in Net Assets** | **$ 24,629** | **$ 6,076** | **$ 9,177** |

### Financial Analysis

Total assets increased from $3.90 billion at June 30, 2011 to $3.93 billion at June 30, 2012. This was an increase of approximately $37.7 million, or 0.9 percent. Total assets decreased from $3.96 billion at June 30, 2010 to $3.90 billion at June 30, 2011. This was a decrease of approximately $58.6 million, or 1.5 percent.

Net loans receivable decreased from $2.40 billion at June 30, 2011 to $2.33 billion at June 30, 2012. Loans receivable fell due to the Authority's offered single-family mortgage rates being higher than conventional mortgage interest rates (net decrease of $53.2 million) and a reduction in the closing of multi-family mortgages (net decrease of $26.9 million). Net loans receivable decreased from $2.46 billion at June 30, 2010 to $2.40 billion at June 30, 2011. Loans receivable fell due to a net reduction in both single-family mortgages (decrease of $30.6 million) and multi-family mortgages (decrease of $33.9 million).

Bonds payable decreased from $2.59 billion at June 30, 2011 to $2.55 billion at June 30, 2012, a net decrease of approximately $44.9 million. Bonds payable decreased from $2.67 billion at June 30, 2010 to $2.59 billion at June 30, 2011, a net decrease of approximately $77.1 million. This decrease was due primarily to the early redemption of $261.7 million of various bonds and scheduled debt service, $130.2 million in bonds payable, partially offset by the issuance of $88.1 million of Rental Housing Revenue Bonds, $17.0 million of Single-Family Mortgage Revenue Bonds and $159.1 million of Single-Family Home Ownership Revenue Bonds.

Escrow funds, which are recorded in other liabilities, increased by $37.4 million from a year earlier to $565.0 million at June 30, 2012 due to an increase in mortgage reserve balances. Escrow funds increased by $28.9 million from a year earlier to $527.6 million at June 30, 2011 due to an increase in mortgage reserve balances.

The Authority's net assets totaled $724.3 million at June 30, 2012, equal to 18.4 percent of total assets and 22.6 percent of total liabilities. A significant portion of net assets is restricted. At June 30, 2012, $448.8 million of net assets was pledged for payment against the various bond indentures. In addition, $240.3 million is designated by board resolution, represented by the Community Development Fund. The Authority's net assets totaled $699.7 million at June 30, 2011, equal to 18.0 percent of total assets and 21.9 percent of total liabilities. A significant portion of net assets is restricted. At June 30, 2011, $423.8 million of net assets was pledged for payment against the various bond indentures. In addition, $224.9 million is designated by board resolution, represented by the Community Development Fund.

### Operating Results

Operations for the year ended June 30, 2012 resulted in excess of revenue over expenses of $24.6 million compared to prior year results of $6.1 million. Under Governmental Accounting Standards Board (GASB) Statement No. 31, the Authority is required to present investments at fair market value and reflect this adjustment in the statement of revenue, expenses, and changes in net assets. This presentation increased revenue over expenses by approximately $6.1 million. Results for the year ended June 30, 2011 were negatively impacted by a decrease of approximately $3.0 million. Currently, GASB Statement No. 31 has had a cumulative positive effect of $15.7 million on the Authority's net assets; however, the Authority generally intends to hold these securities to maturity. Operations for the year ended June 30, 2011 resulted in excess of revenue over expenses of $6.1 million, compared to prior year results of $9.2 million.

Net investment income increased from $61.4 million in 2011 to $67.4 million in 2012, an increase of $6.0 million. Mortgage loan interest income is down $5.8 million in 2012 compared to 2011. This is due to lower loan balances. Investment interest income increased $2.2 million from June 30, 2011 to June 30, 2012. Interest expense is lower than the prior year by $1.0 million due to low rates on the Authority's variable rate debt. Net interest income decreased from $66.0 million in 2010 to $61.4 million in 2011, a decrease of $4.6 million. Mortgage loan interest income is down $7.1 million in 2011 compared to 2010.

Total revenue increased from $844.4 million for the year ended June 30, 2011 to $880.9 million for the year ended June 30, 2012, a net increase of $36.5 million. Total revenue increased due primarily to the increase of federal assistance program revenue of $17.8 million. Total revenue increased from $646.3 million for the year ended June 30, 2010 to $844.4 million for the year ended June 30, 2011, a net increase of $198.1 million. Total revenue increased due primarily to the increase of federal assistance program revenue of $197.4 million.

Total operating expenses increased from $821.3 million for the year ended June 30, 2011 to $842.6 million for the year ended June 30, 2012, a net increase of $21.3 million. Total operating expenses increased due primarily to an increase in the federal assistance programs of $18.4 million. Total operating expenses increased from $615.7 million for the year ended June 30, 2010 to $821.3 million for the year ended June 30, 2011, a net increase of $205.6 million. Total operating expenses increased due primarily to an increase in the federal assistance programs of $197.2 million.

## Statement of Net Assets
### (in thousands of dollars)

| | June 30 2012 | June 30 2011 |
|---|---|---|
| **Assets** | | |
| **Cash and Cash Equivalents** (Note 3) | $ 256,729 | $ 350,782 |
| **Investments** (Note 3) | 1,029,170 | 876,901 |
| **Loans Receivable** | | |
| Multi-family mortgage loans | 1,419,782 | 1,446,168 |
| Single-family mortgage loans | 929,966 | 983,604 |
| Home improvement and moderate rehabilitation loans | 9,488 | 10,777 |
| Total (Note 4) | 2,359,236 | 2,440,549 |
| Accrued loan interest receivable | 43,496 | 40,353 |
| Allowance on loans receivable (Note 4) | (60,041) | (63,860) |
| Loan origination fees | (12,285) | (11,824) |
| Net loans receivable | 2,330,406 | 2,405,218 |
| **Other Assets** | | |
| Unamortized bond financing costs | 6,832 | 6,969 |
| Real estate owned (Note 4) | 41,786 | 91,551 |
| Other (Note 14) | 269,744 | 165,594 |
| Total other assets | 318,362 | 264,114 |
| Total assets | **$ 3,934,667** | **$ 3,897,015** |
| **Liabilities and Net Assets** | | |
| **Liabilities** | | |
| Bonds payable (Notes 5, 6, and 14) | $ 2,547,686 | $ 2,592,572 |
| Accrued interest payable | 13,593 | 13,737 |
| Escrow funds | 565,026 | 527,552 |
| Deferred mortgage interest income (Note 7) | 37,930 | 41,095 |
| Other liabilities | 46,084 | 22,340 |
| Total liabilities | 3,210,319 | 3,197,296 |
| **Net Assets** | | |
| Restricted (Note 11) | 448,789 | 423,830 |
| Unrestricted | 275,559 | 275,889 |
| Total net assets | 724,348 | 699,719 |
| Total liabilities and net assets | **$ 3,934,667** | **$ 3,897,015** |

The Notes to Financial Statements are an Integral Part of this Statement.

# Michigan State Housing Development Authority

## Statement of Revenue, Expenses, and Changes in Net Assets
**(in thousands of dollars)**

| | Year Ended June 30 2012 | Year Ended June 30 2011 |
|---|---|---|
| **Operating Revenue** | | |
| Investment income: | | |
| Loan interest income | $ 139,901 | $ 145,698 |
| Investment interest income | 24,793 | 22,574 |
| Increase in fair value of investments - Including change in unrealized gains (losses) of $6,095 in 2012 and ($3,001) in 2011 | 6,290 | (3,001) |
| Total investment income | 170,984 | 165,271 |
| Less interest expense and debt financing costs | 102,863 | 103,889 |
| Fair market value adjustment to interest rate swap contracts recognized as investments | 698 | - |
| Net investment income | 67,423 | 61,382 |
| Other revenue: | | |
| Federal assistance programs | 751,649 | 733,849 |
| Section 8 program administrative fees | 16,012 | 16,970 |
| Contract administration fees | 8,957 | 8,148 |
| Other income | 36,811 | 24,020 |
| Total other revenue | 813,429 | 782,987 |
| Total operating revenue | 880,852 | 844,369 |
| **Operating Expenses** | | |
| Federal assistance programs | 752,013 | 733,645 |
| Salaries and benefits | 33,273 | 31,740 |
| Other general operating expenses | 29,126 | 33,614 |
| Loan servicing and insurance costs | 3,156 | 3,033 |
| Provision for possible losses on loans | 25,066 | 19,294 |
| Total operating expenses | 842,634 | 821,326 |
| **Operating Income Before Nonoperating Expenses** | 38,218 | 23,043 |
| **Nonoperating Expenses** - Grants and subsidies | (13,589) | (16,967) |
| **Change in Net Assets** | 24,629 | 6,076 |
| **Net Assets** - Beginning of year | 699,719 | 693,643 |
| **Net Assets** - End of year | **$ 724,348** | **$ 699,719** |

The Notes to Financial Statements are an Integral Part of this Statement.

## Statement of Cash Flows
### (in thousands of dollars)

| | Year Ended June 30 | |
|---|---|---|
| | 2012 | 2011 |
| **Cash Flows from Operating Activities** | | |
| Loan receipts | $ 354,986 | $ 370,144 |
| Other receipts | 902,035 | 904,043 |
| Loan disbursements | (185,686) | (223,907) |
| Payments to vendors | (72,632) | (73,261) |
| Payments to employees | (20,023) | (19,690) |
| Other disbursements | (730,096) | (800,047) |
| Net cash provided by operating activities | 248,584 | 157,282 |
| **Cash Flows from Investing Activities** | | |
| Purchase of investments | (1,015,080) | (1,026,830) |
| Proceeds from sale and maturities of investments | 872,966 | 930,266 |
| Interest received on investments | 20,889 | 18,128 |
| Net cash used in investing activities | (121,225) | (78,436) |
| **Cash Flows from Noncapital Financing Activities** | | |
| Proceeds from issuance of bonds, less discounts | 259,428 | 309,379 |
| Principal repayments on bonds | (391,951) | (364,664) |
| Interest paid | (88,889) | (89,194) |
| Net cash used in noncapital financing activities | (221,412) | (144,479) |
| **Net Decrease in Cash and Cash Equivalents** | (94,053) | (65,633) |
| **Cash and Cash Equivalents** - Beginning of year | 350,782 | 416,415 |
| **Cash and Cash Equivalents** - End of year | **$ 256,729** | **$ 350,782** |

The Notes to Financial Statements are an Integral Part of this Statement.

(In thousands of dollars)

| | Year Ended June 30 | |
|---|---|---|
| | 2012 | 2011 |
| **Reconciliation of Operating Income to Net Cash from Operating Activities** | | |
| Operating income | $ 38,218 | $ 23,043 |
| Adjustments to reconcile operating income to net cash from operating activities: | | |
| Amortization of deferred items - Net | 1,526 | 2,060 |
| Arbitrage rebate expense | (3,994) | 1,658 |
| Investment interest income | (31,083) | (19,574) |
| (Decrease) increase in realized and unrealized gain on market value of investments | (45,329) | 2,222 |
| Interest expense on bonds | 102,911 | 103,393 |
| Provision for possible losses on loans | 25,067 | 19,294 |
| Grants and subsidies | (13,589) | (16,967) |
| Changes in assets and liabilities: | | |
| Accrued loan interest receivable | (3,143) | 4,687 |
| Loans receivable | 83,313 | 65,881 |
| Other assets | 33,469 | (39,557) |
| Escrow funds | 37,474 | 28,864 |
| Other liabilities | 23,744 | (17,722) |
| Net cash provided by operating activities | **$ 248,584** | **$ 157,282** |

**Noncash Financing and Investing Activities** - During the years ended June 30, 2012 and 2011, the Authority foreclosed on various properties with mortgage values of approximately $48.9 million and $76.5 million, respectively. Additionally, the adjustments for GASB Statement No. 53 resulted in an increase in bonds payable and deferred charges at June 30, 2012 of $86,217 and a decrease in bonds payable and deferred charges at June 30, 2011 of $25,084.

## Statement of Net Assets - Michigan Homeowner Assistance Nonprofit Housing Corporation (a component unit of the Michigan State Housing Development Authority)
**(in thousands of dollars)**

| | Year Ended June 30 | |
|---|---|---|
| **Assets** | 2012 | 2011 |
| **Cash and Cash Equivalents** | $ 16,241 | $ 23,699 |
| **Other Assets** - Prepaid and other | 1,733 | 1,077 |
| Total assets | **$ 17,974** | **$ 24,776** |
| **Liabilities and Net Assets** | | |
| **Liabilities** - Accounts payable | $ 243 | $ 160 |
| **Net Assets** - Restricted for Hardest Hit Program | 17,731 | 24,616 |
| Total liabilities and net assets | **$ 17,974** | **$ 24,776** |

## Statement of Revenue, Expenses, and Changes in Net Assets - Michigan Homeowner Assistance Nonprofit Housing Corporation (a component unit of the Michigan State Housing Development Authority)

**(in thousands of dollars)**

| | Year Ended June 30 | |
|---|---|---|
| | 2012 | 2011 |
| **Operating Revenue** - Hardest hit program | $ 17,153 | $ 30,166 |
| **Operating Expenses** | | |
| Program | 19,727 | 2,886 |
| Marketing | 823 | 646 |
| Contracted services | 2,146 | 1,794 |
| Other operating expenses | 1,342 | 224 |
| Total operating expenses | 24,038 | 5,550 |
| **Change in Net Assets** | (6,885) | 24,616 |
| **Net Assets** - Beginning of year | 24,616 | - |
| **Net Assets** - End of year | **$ 17,731** | **$ 24,616** |

The Notes to Financial Statements are an Integral Part of this Statement.

# Michigan State Housing Development Authority

## Statement of Cash Flows - Michigan Homeowner Assistance Nonprofit Housing Corporation (a component unit of the Michigan State Housing Development Authority)

**(in thousands of dollars)**

| | Year Ended June 30 | |
|---|---|---|
| | 2012 | 2011 |
| **Cash Flows from Operating Activities** | | |
| Receipts of federal funds | $ 17,153 | $ 30,166 |
| Payments to grantees | (19,727) | (2,886) |
| Payments to suppliers | (2,738) | (1,787) |
| Payments to contractors | (2,146) | (1,794) |
| **Net (Decrease) Increase in Cash and Cash Equivalents** | (7,458) | 23,699 |
| **Cash and Cash Equivalents** - Beginning of year | 23,699 | - |
| **Cash and Cash Equivalents** - End of year | **$ 16,241** | **$ 23,699** |
| **Reconciliation of Operating Income to Net Cash from Operating Activities** | | |
| Operating (loss) income | $ (6,885) | $ 24,616 |
| Adjustments to reconcile operating (loss) income to net cash from operating activities - Changes in assets and liabilities: | | |
| Accounts payable | 83 | 160 |
| Prepaid expenses and other | (656) | (1,077) |
| Net cash (used in) provided by operating activities | **$ (7,458)** | **$ 23,699** |

The Notes to Financial Statements are an Integral Part of this Statement.

## Note 1 - Authorizing Legislation

The Michigan State Housing Development Authority (MSHDA or the "Authority") was created by the Michigan Legislature under the provisions of the State Housing Development Authority Act of 1966, as amended (the "Act"). The Authority, as a special purpose entity, is a component unit of the State of Michigan and is reported as an Enterprise Fund in the State's Comprehensive Annual Financial Report. The Act empowers the Authority, among other things, to issue notes and bonds to finance housing for sale or rental to families with low and moderate income and to finance home improvements. The enabling legislation, along with the various bond and note resolutions adopted by the Authority, contain specific provisions pertaining to (a) the use of the proceeds from the sale of the notes and bonds, (b) the application of the revenue from mortgages, and (c) the creation of certain funds along with the accounting policies for such funds. The Authority is authorized by statute to have notes and bonds outstanding up to a total of $4.2 billion.

**Component Unit** - The Authority formed a nonprofit entity to operate the federal Hardest Hit Program. The entity, Michigan Homeowner Assistance Nonprofit Housing Corporation (the "Nonprofit"), was created on April 7, 2010 pursuant to the provisions of Act 162, Public Acts of 1982 and was formed as a 501(c)(3) of the Internal Revenue Code. The entity provides loans and grants, facilitates community development and revitalization in the state, and provides counseling, financial-literacy education, and other services to prevent, reduce, and mitigate foreclosures, and does not provide services to the Authority. The Authority is responsible for appointing, removing, and replacing the five members that make up the board of directors and can do so at will for any cause or without cause. The Authority's board of directors is not substantially the same as the Nonprofit's. The Nonprofit is considered a discretely presented component unit of the Michigan State Housing Development Authority and separately issue its own financial statements.

## Note 2 - Summary of Significant Accounting Policies

**Basis of Presentation** - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The Authority follows the business-type activities reporting requirements of GASB Statement No. 34, which provides a comprehensive one-line look at the Authority's financial activities.

## Note 2 - Summary of Significant Accounting Policies (Continued)

**Basis of Accounting** - The Authority's financial statements have been prepared on the basis of the governmental proprietary fund concept which pertains to financial activities that operate in a manner similar to private business enterprises and are financed through fees and charges assessed primarily to the users of the services. The Authority applies all applicable GASB pronouncements, as well as all Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. After November 30, 1989, the Authority only applies applicable GASB pronouncements.

**Cash and Cash Equivalents** - The Authority considers all highly liquid investments with an original maturity of three months or less to be cash and cash equivalents. The Authority also considers the U.S. government money market funds to be cash and cash equivalents.

**Investments** - The Authority reports investments at fair value based on quoted market prices. The collateralized and uncollateralized investment agreements are not transferable and are considered nonparticipating contracts. As such, both types of investment agreements are carried at contract value. The net increase (decrease) in the fair value of investments includes both realized and unrealized gains and losses.

**Multi-family Mortgage Loans Receivable** - Multi-family mortgage loans receivable consist of the remaining principal due from mortgagors of each completed development and construction advances for each development under construction under the multi-family program. Housing developments securing multi-family loans are subject to regulatory agreements under which the Authority has certain powers relating to rents, cash distributions, occupancy, management, and operations. Monies representing escrow funds for reserves for the payment of property taxes, insurance, property repairs and replacements, and income in excess of allowable cash distributions are required to be deposited with the Authority. Investment income earned on the deposited funds is credited to the respective mortgagor's escrow accounts.

**Allowance on Loans Receivable** - It is the Authority's policy to provide for future losses on mortgage loans based on an evaluation of the loan portfolio, current economic conditions, and such other factors, which, in the Authority's judgment, require consideration in estimating future mortgage loan losses. The allowance is maintained at a level considered by management to be adequate to provide for probable mortgage loan losses inherent in the portfolio.

## Note 2 - Summary of Significant Accounting Policies (Continued)

**Loan Origination Fees** - The Authority charges the mortgagor of each multi-family development a loan origination fee equal to 2 percent of the mortgage loan. These fees are amortized over the term of the loan receivable using the interest method.

**Unamortized Bond Financing Costs** - The costs of issuing bonds, other than bond discount, have been deferred and are amortized using the interest method over the term of the related debt.

**Real Estate Owned** - The Authority acquires real estate through foreclosure proceeding and holds that property until which time it can be sold at a fair price.

**Compensated Absences** - Authority employees accrue vacation and sick leave in varying amounts for each biweekly period worked. Employees may accumulate, subject to certain limitations, vacation and sick leave and, upon retirement, termination, or death, may be compensated for certain accumulated amounts at their then current rates of pay. The Authority records an expense for all accumulated vacation and sick leave that the Authority would be required to pay if all employees terminated their employment. The compensated absences included in other liabilities at June 30, 2012 and 2011 totaled $3,697,271 and $3,424,850, respectively.

**Arbitrage Rebate** - Federal income tax rules limit the investment and loan yields which the Authority may retain for its own use from investing the proceeds from certain of its tax-exempt bond issues. The excess yields are payable to the U.S. Treasury and are recorded in other liabilities.

**Restricted Assets** - Substantially all of the assets of the Authority are pledged for payment against the various bond indentures. All of the net assets of the component unit are restricted for eligible federal program expenditures.

**Federal Assistance Programs** - The Authority administers various federal programs and initiatives in its efforts to create decent affordable housing for low- to moderate-income families.

- Section 8 Program - The Authority receives federal financial assistance through various housing and rental programs to provide rental subsidies and tenant vouchers.
- Stimulus Funds - The Authority is administering various federal funds in an effort to create jobs, eliminate blight, and provide equity to housing developments that would otherwise not be feasible.
- Hardest Hit Program - The component unit of the Authority, Michigan Homeowner Assistance Nonprofit Housing Corporation, administers funds under this program to prevent, reduce, and mitigate foreclosures.

## Note 2 - Summary of Significant Accounting Policies (Continued)

**Operating Revenue and Expenses** - The Authority was created with the authority to issue bonds to the investing public in order to create a flow of private capital through the Authority into mortgage loans to qualified housing sponsors and to certain qualified individuals. The Authority's primary operation is to borrow funds in the bond market and use those funds to make single-family and multi-family loans. Its primary operating revenue is derived from the investment income from proceeds of bond funds. The primary cost of the program is interest expense on bonds outstanding. Net investment income is an important measure of performance under the Authority's primary operation. Investment income, interest expense, and net investment income are shown as operating revenue in the statement of revenue, expenses, and changes in net assets.

**Nonoperating Expenses** - The nonoperating expenses are made up of nonfederal nonrepayable grants and subsidies that the Authority awards on a discretionary basis. The awards are based on the amount of available Authority funds, and are not related to the operating activities of the Authority.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassification** - Certain immaterial amounts were reclassified in the prior year column to conform with current year presentation. Reclassifications were to move the single family real estate owned valuation allowance from the loans receivable allowance to net against the total real estate owned asset on the balance sheet.

## Note 3 - Deposits and Investments

Cash, cash equivalents, and investments held by the Authority at June 30, 2012 and 2011 were as follows (in thousands of dollars):

| | MSHDA | | | Component Unit |
|---|---|---|---|---|
| | Cash and Cash Equivalents | Investments | Total | Cash and Cash Equivalents |
| **2012** | | | | |
| Deposits | $ 1,678 | $ 1,010 | $ 2,688 | $ 2,908 |
| Investments | 255,051 | 1,028,160 | 1,283,211 | 13,333 |
| Total | $ 256,729 | $ 1,029,170 | $ 1,285,899 | $ 16,241 |
| **2011** | | | | |
| Deposits | $ - | $ 1,005 | $ 1,005 | $ 401 |
| Investments | 350,782 | 875,896 | 1,226,678 | 23,298 |
| Total | $ 350,782 | $ 876,901 | $ 1,227,683 | $ 23,699 |

The Authority has designated seven banks for the deposit of its funds. The investment policy adopted by the board in accordance with state statutes has authorized investment of funds held in reserve or sinking funds, or monies not required for immediate use or disbursement in obligations of the State of Michigan or the United States government, in obligations of which the principal and interest are guaranteed by the State of Michigan or the United States government, in other obligations as may be approved by the State treasurer, bank accounts, and CDs. The Authority's deposits and investment policies are in accordance with State statutes and any exceptions have had special approval from the State treasurer.

## Note 3 - Deposits and Investments (Continued)

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At June 30, 2012, the Authority had approximately $5,555,000 of bank deposits (certificates of deposit, checking, and savings accounts) all of which were insured. The component unit does not have a deposit policy for custodial credit risk. At June 30, 2012, the component unit had approximately $4,791,000 of bank deposits (checking accounts) and of that balance approximately $4,541,000 was uninsured and uncollateralized. At June 30, 2011, the Authority had approximately $1,505,000 of bank deposits (certificates of deposit, checking, and savings accounts) and of that balance approximately $5,000 was uninsured and uncollateralized. The component unit does not have a deposit policy for custodial credit risk. At June 30, 2011, the component unit had approximately $401,000 of bank deposits (checking accounts) and of that balance approximately $149,137 was uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of the FDIC insurance, it is impractical to insure all deposits. There are no deposits held as of June 30, 2012 and $35,000 for the year ended June 30, 2011 which are collateralized with securities held by the Federal Reserve Bank or held in safekeeping for the Authority at a financial institution's trust department but not in the Authority's name. To also limit its risk, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

## Note 3 - Deposits and Investments (Continued)

**Custodial Credit Risk of Investments** - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty's trust department or agent but not in the Authority's name:

| | Carrying Value (in thousands of dollars) | | |
|---|---|---|---|
| Type of Investment | 2012 | 2011 | How Held |
| **MSHDA** | | | |
| Investment agreements | $ 7,545 | $ 11,373 | Counterparty's trust dept. |
| U.S. government securities | 359,459 | 310,589 | Counterparty's trust dept. |
| Mortgage-backed securities | 644,916 | 536,475 | Counterparty's trust dept. |
| U.S. government agency securities | 12,187 | 12,225 | Counterparty's trust dept. |
| U.S. government money market funds | 254,369 | 348,572 | Counterparty's trust dept. |
| **Component Unit** | | | |
| U.S. government money market funds | 13,333 | 23,298 | Counterparty's trust dept. |

## Note 3 - Deposits and Investments (Continued)

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy does not restrict investment maturities. At year end, the average maturities of investments are as follows (in thousands of dollars):

| Type of Investment | Fair Value | Less than 1 Year | 1-5 Years | 6-10 Years | More Than 10 Years |
|---|---|---|---|---|---|
| **2012** | | | | | |
| **MSHDA** | | | | | |
| Investment agreements | $ 7,545 | $ 682 | $ - | $ - | $ 6,863 |
| U.S. government securities | 359,459 | 187,837 | 74,249 | 72,186 | 25,187 |
| Mortgage-backed securities | 644,916 | 6 | 328 | 466 | 644,116 |
| U.S. government agency securities | 12,187 | - | 2,237 | - | 9,950 |
| U.S. government money market funds | 254,369 | 254,369 | - | - | - |
| **Component Unit** | | | | | |
| U.S. government money market funds | 13,333 | 13,333 | - | - | - |

| Type of Investment | Fair Value | Less than One Year | 1-5 Years | 6-10 Years | More Than 10 Years |
|---|---|---|---|---|---|
| **2011** | | | | | |
| **MSHDA** | | | | | |
| Investment agreements | $ 11,373 | $ 4,509 | $ - | $ - | $ 6,864 |
| U.S. government securities | 310,589 | 185,104 | 76,058 | 34,465 | 14,962 |
| Mortgage-backed securities | 536,475 | 128 | 259 | 1,408 | 534,680 |
| U.S. government agency securities | 12,225 | - | 2,218 | - | 10,007 |
| U.S. government money market funds | 348,572 | 348,572 | - | - | - |
| **Component Unit** | | | | | |
| U.S. government money market funds | 23,298 | 23,298 | - | - | - |

### Note 3 - Deposits and Investments (Continued)

**Credit Risk** - The Authority has no investment policy that would limit its investment choices, except as noted in the state statute. As of year end, the credit quality ratings of debt and equity securities are as follows (in thousands of dollars):

| Investment | Fair Value | Rating | Rating Organization |
|---|---|---|---|
| **2012** | | | |
| **MSHDA** | | | |
| Investment agreements | $ 7,545 | A | S&P |
| U.S. government securities | 359,459 | AA+ | S&P |
| Mortgage-backed securities | 644,916 | AA+ | S&P |
| Mortgage-backed securities | 285 | Not rated | - |
| U.S. government agency securities | 12,187 | AA+ | S&P |
| U.S. government money market funds | 254,369 | Not rated | - |
| **Component Unit** | | | |
| U.S. government money market funds | 13,333 | Not rated | - |

| Investment | Fair Value | Rating | Rating Organization |
|---|---|---|---|
| **2011** | | | |
| **MSHDA** | | | |
| Investment agreements | $ 10,573 | A+ | S&P |
| Investment agreements | 800 | A | S&P |
| U.S. government securities | 310,589 | AA+ | S&P |
| Mortgage-backed securities | 536,202 | AA+ | S&P |
| Mortgage-backed securities | 273 | Not rated | - |
| U.S. government agency securities | 12,225 | AA+ | S&P |
| U.S. government money market funds | 348,572 | Not rated | - |
| **Component Unit** | | | |
| U.S. government money market funds | 23,298 | Not rated | - |

## Note 3 - Deposits and Investments (Continued)

### Concentration of Credit Risk

The Authority has 19 and 7 percent of its investment portfolio invested in the securities of government-sponsored enterprises as of June 30, 2012 and 2011, respectively. These include securities issued by the Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Corporation. Excluding U.S. government securities, no other issuer represents over 5 percent of the Authority's investment portfolio.

**Escrow Funds** - Included in investments are funds held in trust for mortgagors with a carrying value of $648,830,000 and $573,678,000 at June 30, 2012 and 2011, respectively.

## Note 4 - Loans Receivable

All loans receivable are collateralized by first liens on the real property developed or purchased with the proceeds of the loans, except for certain home improvement and moderate rehabilitation loans. Substantially all single-family loans are insured by the Federal Housing Administration (FHA) or private mortgage insurance companies, or are guaranteed by the Veterans Administration (VA) or the United States Department of Agriculture. Substantially all multi-family loans are uninsured.

A summary of loans receivable is as follows (in thousands of dollars):

| | 2012 | 2011 |
|---|---|---|
| Loans receivable: | | |
| FHA insured, VA, or U.S. Department of Agriculture guaranteed | $ 614,085 | $ 630,635 |
| Insured by private mortgage insurance companies | 229,175 | 277,468 |
| Uninsured | 1,515,976 | 1,532,446 |
| Total loans receivable | $ 2,359,236 | $ 2,440,549 |

### Note 4 - Loans Receivable (Continued)

The allowance for possible losses includes loans and real estate owned. A summary of the allowance for possible loan losses is as follows:

| | 2012 | 2011 |
|---|---|---|
| Beginning balance | $ 63,860 | $ 70,939 |
| Provision for possible losses | 25,067 | 19,294 |
| Write-offs of uncollectible losses - Net of recoveries | (28,886) | (26,373) |
| Ending balance | $ 60,041 | $ 63,860 |

### Note 5 - Bonds Payable

The Authority issues revenue bonds to fund loans to finance multi-family housing developments and single-family housing units for persons of low and moderate income within the state of Michigan. Such bonds constitute a direct obligation of the Authority and are not a debt of the State of Michigan. Each bond issue is secured by the pledge of all repayments to the Authority of loans issued with the proceeds of the bond issue and all income earned by the Authority relating to those bonds. Interest on all bonds except capital appreciation bonds is payable semiannually. Capital appreciation bonds are bonds that are issued at a deep discount and for which all interest is accrued and paid at retirement. The Authority amortizes the discount using the interest method over the terms of the bonds. Capital appreciation bonds in the following tables are shown net of unamortized discount. All bonds are subject to a variety of redemption provisions as set forth in the official statements for each of the issues. One such redemption provision is that each of the bond resolutions contains cross-default provisions which permit the acceleration of the maturity of all such bonds, as well as certain other remedies, in the event of a default by the Authority in the payment of principal or interest on any bond of the Authority.

## Note 5 - Bonds Payable (Continued)

Changes in bonds are as follows (in thousands of dollars):

As of June 30, 2012

| | Beginning Balance | Additions | Payments | Ending Balance |
|---|---|---|---|---|
| Revenue bonds: | | | | |
| Section 8 assisted mortgage | $ 8,930 | $ 890 | $ 3,961 | $ 5,859 |
| Single-family home ownership | 424,505 | 159,100 | 134,510 | 449,095 |
| Single-family mortgage | 811,780 | 17,000 | 98,140 | 730,640 |
| Multi-family housing | 22,400 | - | 7,805 | 14,595 |
| Rental housing | 1,191,485 | 83,085 | 146,780 | 1,127,790 |
| Multi-family | 28,240 | - | 755 | 27,485 |
| Total revenue bonds | $ 2,487,340 | $ 260,075 | $ 391,951 | $ 2,355,464 |
| Due within one year | | | | $ 89,337 |

As of June 30, 2011

| | Beginning Balance | Additions | Payments | Ending Balance |
|---|---|---|---|---|
| Revenue bonds: | | | | |
| Section 8 assisted mortgage | $ 11,692 | $ 1,198 | $ 3,960 | $ 8,930 |
| Single-family home ownership | 350,000 | 134,725 | 60,220 | 424,505 |
| Single-family mortgage | 921,745 | - | 109,965 | 811,780 |
| Multi-family housing | 29,700 | - | 7,300 | 22,400 |
| Rental housing | 1,166,860 | 176,010 | 151,385 | 1,191,485 |
| Insured rental housing | 31,135 | - | 31,135 | - |
| Multi-family | 28,940 | - | 700 | 28,240 |
| Total revenue bonds | $ 2,540,072 | $ 311,933 | $ 364,665 | $ 2,487,340 |
| Due within one year | | | | $ 129,160 |

### Note 5 - Bonds Payable (Continued)

Bonds payable at June 30 are as follows (in thousands of dollars):

| | 2012 | 2011 |
|---|---|---|
| Section 8 Assisted Mortgage Revenue Bonds - | | |
| 1983 Series I, 2013 to 2014, 10.875% * | $ 5,859 | $ 8,930 |
| Single-Family Homeownership Revenue Bonds - | | |
| 2009 Series A, 2041, variable rate | 166,540 | 290,000 |
| 2009 Series A-1/2010 Series A, B, and C, 2012 to 2041, 1.50% to 5.50% | 128,175 | 134,505 |
| 2009 Series A-2 & A-3/2011 Series A, 2012 to 2041, 0.80% to 5.00% | 84,380 | - |
| 2009 Series A-4 (2012), 2013 to 2041, 2.67% | 70,000 | - |
| Total single-family homeownership revenue bonds | 449,095 | 424,505 |
| Single-Family Mortgage Revenue bonds: | | |
| 1998 Series B and C, 2026 to 2030, 5.20% | - | 11,305 |
| 2003 Series B, 2012 to 2014, 3.80% to 4.30% | - | 2,160 |
| 2003 Series C, 2029 to 2030, variable rate (Note 6) | - | 19,100 |
| 2005 Series A, 2012 to 2014, 3.95% to 4.15% | 3,785 | 5,060 |
| 2006 Series A, 2012 to 2030, 4.35% to 5.00% | 18,190 | 27,275 |
| 2006 Series C, 2035, variable rate (Note 6) | 51,050 | 59,190 |
| 2007 Series B and C, 2038 to 2039, variable rate (Note 6) | 197,945 | 217,035 |
| 2007 Series D, E, F, and G, 2038, variable rate (Note 6) | 262,000 | 273,000 |
| 2009 Series A, B, and C, 2012 to 2022, 3.60% to 5.35% | 76,250 | 93,235 |
| 2009 Series D, 2030, variable rate (Note 6) | 104,420 | 104,420 |
| 2012 Series A, 2014, variable rate | 17,000 | - |
| Total single-family mortgage revenue bonds | 730,640 | 811,780 |

## Note 5 - Bonds Payable (Continued)

| | 2012 | 2011 |
|---|---|---|
| Multi-Family Housing Revenue Bonds - | | |
| 1988 Series A, 2012 to 2017, 1.45% to 3.875% | $ 14,595 | $ 22,400 |
| Rental Housing Revenue Bonds: | | |
| 1997 Series A, 2012 to 2033, 5.70% to 6.10% | - | 17,695 |
| 1999 Series A, B, and C, 2020 to 2037, 5.15% to 5.30% | 21,220 | 24,050 |
| 1999 Series D, 2014, variable rate | 25 | 25 |
| 2000 Series A, 2035, variable rate (Note 6) | 38,950 | 39,665 |
| 2001 Series A and B, 2013 to 2023, 4.25% to 6.00% | 4,615 | 21,405 |
| 2002 Series A and B 2019 to 2037, variable rate (Note 6) | 64,210 | 68,890 |
| 2003 Series A, 2023, variable rate | 46,630 | 51,930 |
| 2003 Series C, 2018 to 2037, 6.25% | 10,725 | 11,300 |
| 2004 Series B, 2012 to 2016, 3.55% to 4.00% | 9,125 | 13,730 |
| 2005 Series A, 2040, variable rate (Note 6) | 66,670 | 67,905 |
| 2005 Series B, 2012 to 2015, 3.60% to 3.95% | 12,160 | 15,350 |
| 2006 Series A, 2040, variable rate (Note 6) | 67,890 | 69,235 |
| 2006 Series B, 2012 to 2015, 3.75% to 4.05% | 3,645 | 7,480 |
| 2006 Series C, 2041, variable rate (Note 6) | 60,360 | 61,630 |
| 2006 Series D, 2012 to 2042, 4.50% to 5.20% | 49,625 | 51,560 |
| 2007 Series A, 2042, variable rate (Note 6) | 38,575 | 39,170 |
| 2007 Series B, 2012 to 2044, 4.00% to 4.95% | 25,940 | 26,300 |
| 2007 Series C, 2042, variable rate (Note 6) | 90,665 | 91,920 |
| 2007 Series D, 2012 to 2033, 3.875% to 5.40% | 25,455 | 35,100 |
| 2008 Series A, C and D, 2023 to 2039, variable rate (Note 6) | 181,560 | 186,615 |
| 2008 Series B and E, 2012 to 2033, 3.50% to 5.625% | 30,015 | 37,915 |
| 2009 Series A, B-1 and B-2, 2012 to 2045, 3.00% to 6.00% | 68,080 | 85,300 |
| 2010 Series A and B, 2012 to 2046, 1.50% to 5.25% | 82,200 | 110,145 |
| 2011 Series A, B and C, 2012 to 2041, 1.40% to 6.05% | 46,365 | 57,170 |
| 2012 Series A, B and C, 2012 to 2046, 0.882% to 5.622% | 83,085 | - |
| Total rental housing revenue bonds | 1,127,790 | 1,191,485 |
| Multi-family revenue bond - | | |
| 1995 Series A, 2011 to 2030, 8.30% to 8.55% | 27,485 | 28,240 |
| Total revenue bonds | 2,355,464 | 2,487,340 |
| Off-market borrowings (Note 14) | 19,175 | 20,731 |
| Interest rate swaps - Effective (Note 14) | 203,862 | 118,344 |
| Interest rate swaps - Ineffective (Note 14) | 698 | - |
| Deferred charges - Swap reassignment | (19,175) | (20,731) |
| Deferred charges - Bond discounts | (12,338) | (13,112) |
| Total | $ 2,547,686 | $ 2,592,572 |

A portion of the bonds indicated with an asterisk (*) above is capital appreciation bonds (CAB). A CAB is a debt instrument that is satisfied with a single payment when retired, representing both the initial principal amount and the total investment return.

## Note 5 - Bonds Payable (Continued)

The annual requirements to service debt outstanding, including both principal and interest (in thousands of dollars), are as follows:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2013 | $ 89,337 | $ 87,718 | $ 177,055 |
| 2014 | 88,112 | 86,063 | 174,175 |
| 2015 | 98,200 | 82,987 | 181,187 |
| 2016 | 81,885 | 79,804 | 161,689 |
| 2017 | 74,175 | 76,692 | 150,867 |
| 2018-2022 | 322,635 | 343,296 | 665,931 |
| 2023-2027 | 332,455 | 275,672 | 608,127 |
| 2028-2032 | 398,540 | 196,369 | 594,909 |
| 2033-2037 | 408,485 | 113,737 | 522,222 |
| 2038-2042 | 423,495 | 37,911 | 461,406 |
| 2043-2047 | 38,145 | 3,016 | 41,161 |
| Total | $ 2,355,464 | $ 1,383,265 | $ 3,738,729 |

**Early Retirement of Debt** - Under provisions of the Authority's bond issues, the Authority is able to retire bonds, without the payment of call premiums, prior to their maturity dates from the proceeds of loan prepayments and foreclosures and, for certain bonds, from excess program revenue. Bonds retired pursuant to such provisions total $261,745,000 and $271,465,000 during the years ended June 30, 2012 and 2011, respectively. Such bond retirements, in the aggregate, resulted in a net loss of $48,000 and a net gain of $496,000 for the years ended June 30, 2012 and 2011, respectively.

## Note 6 - Demand Bonds

The following table summarizes the demand bonds outstanding at June 30, 2012, which are included in the bonds payable disclosed in Note 5:

| Debt Associated | Bonds Outstanding | Remarketing Agent | Liquidity or Irrevocable Letter of Credit Provider | Remarketing Fee (1) | Liquidity/ LOC Fee | | Expiration Date of Agreement |
|---|---|---|---|---|---|---|---|
| **Single-family Mortgage Revenue Bonds** | | | | | | | |
| 2006 Series C | $51,050 | Barclays Capital Inc. | Barclays Bank PLC | 0.07% | 0.900% | (8) | 06/21/13 |
| 2007 Series B | $187,500 | Barclays Capital Inc. | GSEs | 0.07% | 1.000% | (6) | 12/31/15 |
| 2007 Series C | $10,445 | Barclays Capital Inc. | GSEs | 0.07% | 1.000% | (6) | 12/31/15 |
| 2007 Series D | $35,000 | Barclays Capital Inc. | Barclays Bank PLC | 0.07% | 0.900% | (8) | 08/30/13 |
| 2007 Series E | $125,000 | Morgan Stanley | Bank of Tokyo | 0.10% | 0.850% | (2) | 07/01/15 |
| 2007 Series F | $85,000 | Barclays Capital Inc. | Bank of Nova Scotia | 0.07% | 0.195% | (4) | 12/10/12 |
| 2007 Series G | $17,000 | Barclays Capital Inc. | Bank of Nova Scotia | 0.07% | 0.195% | (4) | 12/10/12 |
| 2009 Series D | $104,420 | Barclays Capital Inc. | GSEs | 0.07% | 1.000% | (6) | 12/31/15 |
| **Rental Housing Revenue Bonds** | | | | | | | |
| 2000 Series A | $38,950 | Goldman Sachs &Co. | JPMorgan Chase Bank, N.A. | 0.10% | 0.925% | (3) | 09/28/12 |
| 2002 Series A | $52,435 | Goldman Sachs &Co. | Bank of America, N.A. | 0.10% | 0.950% | (7) | 04/17/13 |
| 2002 Series B | $11,775 | Morgan Stanley | Bank of Tokyo | 0.10% | 0.850% | (2) | 08/22/14 |
| 2005 Series A | $66,670 | Merrill Lynch & Co. | Bank of Tokyo | 0.07% | 0.850% | (2) | 11/14/14 |
| 2006 Series A | $67,890 | Merrill Lynch & Co. | BNP Paribas | 0.09% | 0.110% | (5) | 03/15/13 |
| 2006 Series C | $60,360 | Merrill Lynch & Co. | BNP Paribas | 0.09% | 0.110% | (5) | 07/25/13 |
| 2007 Series A | $38,575 | Merrill Lynch & Co. | BNP Paribas | 0.09% | 0.110% | (5) | 04/26/17 |
| 2007 Series C | $90,665 | Merrill Lynch & Co. | Bank of Nova Scotia | 0.07% | 0.200% | (4) | 12/17/12 |
| 2008 Series A | $94,640 | JPMorgan | JPMorgan Chase Bank, N.A. | 0.10% | 0.925% | (3) | 09/28/12 |
| 2008 Series C | $25,510 | Morgan Stanley | Bank of Tokyo | 0.10% | 0.850% | (2) | 08/22/14 |
| 2008 Series D | $61,410 | Morgan Stanley | Bank of Tokyo | 0.10% | 0.850% | (2) | 08/22/14 |

(1) Fee is per annum based on the outstanding principal amount of the bonds

(2) While the Bank of Tokyo-Mitsubishi UFJ, LTD (Bank of Tokyo) is holding the bonds, they will bear interest at the higher of the Bank of Tokyo's prime rate plus 3.00 percent, the federal funds rate plus 5.00 percent, or 8.00 percent per annum. Once the Bank of Tokyo becomes the owner of the bonds, the bonds will be subject to a mandatory redemption that begins 91 days after the Bank of Tokyo becomes the holder of the bonds and will amortize in 16 equal quarterly installments. The Authority is required to pay the Bank of Tokyo an annual liquidity fee per annum on the amount of bonds outstanding plus interest for 34 days at a rate of 14 percent. Standard & Poor's rating on the Bank of Tokyo-Mitsubishi UFJ, LTD is "A+/A-1" at June 30, 2012.

(3) While JPMorgan is holding the bonds, they will bear interest at the higher of the bank's prime rate plus 1.0 percent, the federal funds rate plus 0.50, or 8.50 percent per annum. Once the bank becomes the owner of the bonds, the bonds will be subject to a mandatory redemption 91 days after the bank becomes the holder of the bonds and will amortize in six equal semiannual installments. The Authority is required to pay the bank an annual liquidity fee per annum on the amount of bonds outstanding plus interest for 34 days at a rate of 14 percent. Standard & Poor's rating on JPMorgan is "A+/A-1+" at June 30, 2012. Subsequent to year end, JPMorgan agreed to extend their liquidity facilities under different terms.

### Note 6 - Demand Bonds (Continued)

(4) While The Bank of Nova Scotia (Scotia) is holding the bonds, they will bear interest at the higher of the rate Scotia announces as a rate equivalent to a United States dollar-denominated loan or the federal funds rate plus 0.50 percent per annum. Once Scotia becomes the owner of the bonds and has held such bonds for 181 days, the bonds become subject to mandatory redemption over a three-year period with principal payable in 12 equal quarterly installments. The Authority shall pay Scotia a liquidity fee per annum on outstanding bonds plus 184 days interest at 12 percent, based on a 365-day year. Standard & Poor's rating on the Bank of Nova Scotia is "AA-/A-1+" at June 30, 2012. Scotia has notified the Authority that they will no longer offer liquidity facilities to state agencies; as such, subsequent to year end, the Authority redeemed the 2007 G Bonds, and negotiated replacement liquidity facilities with JPMorgan (Rental Housing Revenue Bonds, 2007 Series C) and PNC Bank (Single-Family Mortgage Revenue Bonds, 2007 Series F).

(5) While BNP Paribas Bank is holding the bonds, they will bear interest at the greater of BNP Paribas Bank's prime rate or the federal funds rate plus 0.50 percent per annum. The Authority agrees to cause the mandatory redemption of bonds outstanding, in 10 equal installments each April and October commencing on the first such date to occur following the 91st day after BNP Paribas Bank becomes the bond holder. The Authority is required to pay BNP Paribas Bank an annual liquidity fee per annum on bonds outstanding plus 184 days of interest at 12 percent, based on a 365-day year. Standard & Poor's rating on BNP Paribas Bank is "AA-/A-1+" at June 30, 2012.

(6) While the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation (GSEs) are holding the bonds, they will bear interest at JPMorgan's base or prime rate plus 1 percent per annum. The Authority is in the process of extending these liquidity facilities through December 31, 2015 whereby the Authority shall pay GSEs a liquidity fee per annum of 1.00 percent for calendar years 2012, 2013, and 2014 and then increasing to 1.05 percent for 2015.

(7) While Bank of America, N.A. (Bank of America) is holding the bonds, they will bear interest at the higher of the prime rate plus 1.50 percent, the federal funds rate plus 3.00 percent, or 7.50 percent per annum. Once Bank of America becomes the owner of the bonds and has held such bonds for 61 days, the bonds become subject to mandatory redemption over a three-year period with principal payable in six equal semiannual installments. The Authority shall pay Bank of America a liquidity fee per annum on outstanding bonds plus 184 days of interest at 12 percent, based on a 365-day year. Standard & Poor's rating on Bank of America, N.A. is "A+/A-1" at June 30, 2012.

(8) While Barclays Bank PLC (Barclays) is holding the bonds, they will bear interest at the higher of the prime rate plus 5.00 percent, the federal funds rate plus 5.00 percent, or LIBOR plus 5.00 percent per annum. Once Barclays becomes the owner of the bonds and has held such bonds for 90 days, the bonds become subject to mandatory redemption in full on the third-year anniversary of the first purchase date. The Authority shall pay Barclays a liquidity fee per annum on outstanding bonds plus 186 days of interest at 12 percent, based on a 365-day year. Standard & Poor's rating on Barclays Bank PLC is "A+/A-1" at June 30, 2012.

## Note 7 - Deferred Mortgage Interest Income

Since 1990, the Authority has refunded a substantial amount of high-yielding multi-family bond issues with lower yielding bonds. In conjunction with the sale of certain refunding bonds, the Authority has sold additional bonds to provide funds for new multi-family mortgage loans, generally with interest rates below the interest rates on the bonds. The Authority is deferring the interest income on mortgage loans funded by the new bonds to the extent that the total exceeds the total interest income that would have been earned if the average interest rate on such loans was equal to the average interest rate paid on the new bonds plus approximately 1.5 percent. This deferred interest income is and will continue to be amortized to income in the future as the average rate on the outstanding mortgage loans drops to a rate that is less than 1.5 percent above the average rate on the new bonds. The average rate will decline primarily because the higher yielding mortgage loans have average remaining lives substantially shorter than the lower yielding mortgage loans.

## Note 8 - Limited Obligation Bonds

The Act, as amended, authorizes the Authority to issue limited obligation bonds to finance multi-family housing. Such bonds are not general obligations of the Authority and the Authority has no liability for this debt. Such bonds are secured solely by revenue and property derived from or obtained in connection with the housing projects. Thus, with the exception of limited obligation bond financing fees, transactions related to these bonds are not reflected in the Authority's financial statements. At June 30, 2012, limited obligation bonds had been issued totaling approximately $801,562,000, of which 38 issues totaling $407,448,000 have been retired.

## Note 9 - Other Employee Benefits

**Plan Description** - The Authority participates in the State of Michigan's defined benefit and defined contribution plans system that covers most state employees, as well as related component units such as the Michigan State Housing Development Authority. The defined benefit plan provides retirement, disability, and death benefits and annual cost-of-living adjustments to plan members. The system issues a publicly available financial report that includes financial statements and required supplemental information for the system. The report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

## Note 9 - Other Employee Benefits (Continued)

**Funding Policy** - Plan members are not required to make contributions. The Authority is required to contribute an actuarially determined rate for the defined benefit plan that ranged from 41.10 to 53.10 percent of payroll for the year. The defined benefit contributions to the plan were equal to the required contributions for each year. The Authority is required to contribute to the defined contribution plan 4.0 percent of payroll with an additional match of up to 3.0 percent. The contribution requirements of plan members and the Authority are established and may be amended by the State legislature. The State legislature establishes the extent to which employer and employees are required to make contributions and establishes the benefit provisions for the plan. The Authority's contributions to the plans, including postemployment benefits as described below, were $6,042,000, $5,058,000, and $4,577,000 for the years ended June 30, 2012, 2011, and 2010, respectively, and are recorded in salaries and benefits expense.

**Postemployment Benefits** - In addition, the Authority participates in the State of Michigan's cost-sharing multi-employer postemployment benefit plan. The cost of retiree healthcare benefits is an allocation calculated by the State of Michigan and funded on a pay-as-you-go basis. The contributions paid to this plan for the year ended June 30, 2012 ranged from 13.4 percent to 13.7 percent of payroll. Employees hired on or before March 30, 1997, who participate in either the defined benefit plan or the defined contribution plan and meet certain vesting and other requirements, will receive the full amount of healthcare benefits from the State of Michigan. For employees who were hired after March 30, 1997, the State will pay up to 90 percent of healthcare benefits for employees who meet certain vesting and other requirements.

## Note 10 - Operating Lease

The Authority leases its office building in Lansing, Michigan under an agreement that expires February 28, 2021. The lease is subject to an annual adjustment equal to 60 percent of the increase or decrease in the U.S. Department of Labor's Bureau of Labor Statistics Consumer Price Index. Expense incurred related to the operating lease was approximately $3,015,000 and $3,123,000 for the years ended June 30, 2012 and 2011, respectively. The estimated minimum annual payments under this lease are as follows:

## Note 10 - Operating Lease (Continued)

| | | |
|---|---|---|
| 2013 | $ | 3,153,569 |
| 2014 | | 3,292,568 |
| 2015 | | 3,431,566 |
| 2016 | | 3,570,565 |
| 2017 | | 3,709,563 |
| 2018-2021 | | 16,228,238 |
| Total | $ | 33,386,069 |

## Note 11 - Restricted Net Assets

The components of restricted net assets are as follows (in thousands of dollars):

| | 2012 | 2011 |
|---|---|---|
| Pledged for payment of: | | |
| All bond issues (capital reserve account) | $ 89,646 | $ 79,857 |
| Section 8 assisted mortgage revenue bonds | 5,637 | 5,979 |
| Single-family mortgage revenue bonds | 153,570 | 160,024 |
| Single-family home ownership revenue bonds | 1,122 | 1,057 |
| Multi-family 1988 housing revenue bonds | 3,266 | 2,779 |
| Rental housing revenue bonds | 194,241 | 172,759 |
| Multi-family revenue bonds | 1,307 | 1,375 |
| Total | $ 448,789 | $ 423,830 |

## Note 12 - Contingencies

The Authority is involved in various legal proceedings, claims, and disputes arising in the ordinary course of its financing activities with real estate developers and others. Management does not expect the amount of the ultimate liability, with respect to the disposition of these matters, will have any material adverse impact on the financial condition or results of operations of the Authority.

## Note 12 - Contingencies (Continued)

The Authority is currently involved in a counterclaim which was filed in conjunction with adversary proceedings filed by the Authority against Lehman Brothers Holdings Inc., surrounding the termination of interest rate swap agreements. If the case were to be resolved in an unfavorable manner, the Authority could lose approximately $37,891,000 (such amount reflecting the $23,054,593 counterclaim plus interest accrued from November 5, 2008 to June 30, 2012 of approximately $14,836,407) plus any additional interest that accrues until the date of the final settlement. The Authority is self-insured for any potential loss amounts. There have been no case deadlines set, and the outcome cannot be predicted at this time.

## Note 13 - Commitments

As of June 30, 2012 and 2011, the Authority has commitments to issue multi-family mortgage loans in the amounts of $77,682,000 and $49,203,750, respectively, and single-family mortgage loans in the amounts of $8,850,000 and $9,690,000, respectively.

The Authority has committed up to approximately $1,055,000 per year for up to 30 years from the date of completion of the respective developments (subject to three years' advance notice of termination) from its accumulated reserves and future income to subsidize operations or rents for certain tenants occupying units in certain developments funded under the Authority's multi-family program. Such developments receive funds either for the purpose of subsidizing rents so that some units can be afforded by families with incomes at 50 percent or less of median income or to subsidize operations in general. Subsidy disbursements began in 1985 and totaled approximately $577,000 and $649,000 for the years ended June 30, 2012 and 2011, respectively.

In addition, the Authority makes available up to approximately $1,000,000 per year for up to 30 years to subsidize rents in a similar fashion for 20 percent of the units in certain other developments financed or to be financed under its multi-family mortgage lending program. Under this program, the Authority is entitled to receive a portion of any excess cash flow generated by the developments as well as a share of the profits from the sale of the developments and is able to reduce the rent subsidies if the interest rates being charged by the Authority on the related mortgage loans are below certain preset levels. Subsidy repayment did not exceed subsidy disbursements for the years ended June 30, 2012 and 2011.

## Note 13 - Commitments (Continued)

In conjunction with a multi-family taxable bond lending program, the Authority is making available annually to certain developments financed under the program an amount equal to 400 times the number of units in such developments (subject to a one-year advance notice of termination) for the purpose of subsidizing rents so that some of the units in such developments can be made available to very low-income tenants. Under certain circumstances, after 15 years or more, the owners of the developments will be required to repay without interest up to 100 percent of the subsidies provided by the Authority. The Authority has not established a maximum amount that it will make available under this program. Net subsidy disbursements under this program totaled $615,000 and $144,000 for the years ended June 30, 2012 and 2011, respectively.

The Authority also makes available interest-free loans of up to $25,000 annually to developments that incur increased operating costs because of their small size (less than 100 rental units) and up to $25,000 annually for developments that incur increased security costs due to their location. The loans are repayable from excess development revenue and are also repayable upon repayment of the first mortgage loan. Disbursements, net of reimbursements, under this program totaled $358,000 and ($81,000) for the years ended June 30, 2012 and 2011, respectively.

Finally, the Authority is giving housing subsidy payments from Authority funds to participants in the Housing Choice Voucher Program. These payments are used to assist tenants paying their rents. Disbursements under this program were $220,000 and $2,000 for the years ended June 30, 2012 and 2011, respectively.

### Grants and Subsidies

Disbursements under these programs are included in grants and subsidies along with grants made to nonprofit organizations pursuant to various programs that have as their purpose increasing the supply of affordable housing for low- and medium-income families in Michigan and the provision of temporary shelter for homeless individuals and families.

## Note 14 - Interest Rate Swaps

In connection with the issuance of various debt, the Authority has entered into interest rate swap contracts. To date, the interest rate swap contracts have all been the type whereby the Authority pays a fixed rate and receives a variable rate. No amount of compensation was paid or received at the time the contracts were executed. Interest rate swap agreements are important tools that the Authority utilizes to accomplish its goals. The Authority entered into the agreements in connection with the issuance of certain variable rate debt, with the intent of creating a synthetic fixed rate debt, at an interest rate that is lower than if fixed rate debt were to have been issued directly. These contracts have reduced the Authority's cost of borrowing and reduced exposure to variable interest rate risk. This has allowed the Authority to finance developments, reduce single-family mortgage rates, and fund programs that otherwise would not have been feasible.

The Authority is issuing the June 30, 2012 and 2011 financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 53. This standard is used to determine whether a derivative instrument will result in an effective hedge. Changes in the market value of effective hedges are recognized in the year to which they relate. Effective hedge changes do not affect investment income, but are reported as deferrals in the statement of net assets. Derivatives that are not deemed effective would be reported at fair market value and recognized as investments.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

During the year, two swaps relating to the 2007 series G Single Family mortgage revenue bonds was determined to be ineffective. A loss is included as a component of investment interest income of approximately $698,000 for the year ended June 30, 2012.

## Note 14 - Interest Rate Swaps (Continued)

The following summarizes the interest rate swap contracts at June 30, 2012:

| Associated Debt/Swap Agreement | Effective Date | Notional Amount as of June 30, 2012 | Termination Date | Rate | Fixed Rate | Optional Termination Date/Without Payment (9) | Market (Payment)/ to Terminate Swap | GASB No. 53 Presentation in Statement of Net Assets | Type of Risk Associated With Swap Contract (4)(8) |
|---|---|---|---|---|---|---|---|---|---|
| Rental housing revenue bonds (effective hedges): | | | | | | | | | |
| 2000 Series A (1) | 09/25/00 | $ 38,950,000 | 10/01/20 | 70% of 1 M LIBOR | 4.960% | N.A. | $ (11,282,262) | $ (11,282,262) | (5)(6)(7) |
| 2002 Series A (1) | 07/03/02 | 52,435,000 | 04/01/37 | 70% of 1 M LIBOR | 4.560% | N.A. | (20,421,867) | (20,421,867) | (5)(6) |
| 2002 Series B (1) | 07/03/02 | 11,775,000 | 04/01/19 | 70% of 1 M LIBOR | 3.535% | N.A. | (956,201) | (956,201) | (5)(6) |
| 2005 Series A (3) | 09/22/05 | 66,670,000 | 04/01/40 | 65% of 1 M LIBOR+0.23% | 3.514% | 10/01/25 | (12,989,941) | (12,989,941) | (5)(6) |
| 2006 Series A (3) | 03/16/06 | 67,890,000 | 10/01/40 | 65% of 3 M LIBOR+0.16% | 3.514% | 04/01/26 | (13,447,917) | (13,447,917) | (5)(6) |
| 2006 Series C (3) | 07/25/06 | 60,360,000 | 04/01/41 | 61% of 1 M LIBOR+0.40% | 3.996% | 10/01/26 | (14,998,824) | (14,998,824) | (5)(6) |
| 2007 Series A (3) | 07/02/07 | 28,920,000 | 04/01/42 | 65% of 3 M LIBOR+0.16% | 3.378% | 04/01/27 | (5,567,835) | (5,567,835) | (5)(6) |
| 2007 Series C (3) | 01/23/08 | 78,440,000 | 10/01/42 | 61% of 1 M LIBOR+0.40% | 3.564% | 10/01/22 | (15,729,900) | (15,729,900) | (5)(6) |
| 2008 Series A (1)(10) | 04/01/01 | 30,635,000 | 04/01/23 | SIFMA + 0.10% | 5.350% | N.A. | (7,778,787) | (4,010,681) | |
| 2008 Series A (1)(10) | 08/28/03 | 53,615,000 | 10/01/37 | 70% of 1 M LIBOR | 4.197% | 10/01/17 | (8,281,811) | (5,419,682) | (5)(6) |
| 2008 Series D (3)(10) | 11/18/04 | 23,035,000 | 10/01/39 | 65% of 1 M LIBOR+0.23% | 3.705% | 10/01/24 | (4,696,566) | (3,681,650) | (5)(6) |
| 2008 Series D (3)(10) | 11/18/04 | 38,375,000 | 10/01/39 | 65% of 3 M LIBOR+0.16% | 3.597% | 10/01/24 | (7,408,375) | (6,099,146) | (5)(6) |
| 2008 Series C (1)(10) | 04/01/01 | 19,040,000 | 04/01/23 | SIFMA | 4.770% | N.A. | (3,773,938) | (1,681,391) | |
| Subtotal | | 570,140,000 | | | | | (127,334,224) | (116,287,297) | |
| Single-family mortgage revenue bonds (effective hedges): | | | | | | | | | |
| 2006 Series C (2) | 12/01/06 | 50,645,000 | 06/01/33 | Floating rate | 4.417% | 12/01/19 | (11,476,398) | (11,476,398) | (5)(6)(7) |
| 2007 Series B (2) | 09/04/07 | 65,000,000 | 06/01/38 | Floating rate | 4.156% | 06/01/17 | (10,891,339) | (10,891,339) | (5)(6) |
| 2007 Series C (2) | 09/04/07 | 9,200,000 | 12/01/16 | Floating rate | 5.165% | N.A. | (991,179) | (991,179) | (5)(7) |
| 2007 Series B (2) | 01/01/08 | 35,000,000 | 06/01/38 | Floating rate | 4.252% | 06/01/17 | (6,082,057) | (6,082,057) | (5)(6) |
| 2007 Series B (2) | 01/02/08 | 35,000,000 | 06/01/38 | Floating rate | 4.444% | 06/01/17 | (6,507,887) | (6,507,887) | (5)(6) |
| 2007 Series B (2) | 01/02/08 | 26,250,000 | 06/01/38 | Floating rate | 4.503% | 12/01/12 | (1,923,814) | (1,923,814) | (5)(6) |
| 2007 Series B (2) | 01/02/08 | 26,250,000 | 06/01/38 | Floating rate | 4.358% | 12/01/12 | (1,846,663) | (1,846,663) | (5)(6) |
| 2007 Series D (2) | 12/01/08 | 35,000,000 | 12/01/38 | Floating rate | 4.116% | 12/01/14 | (5,059,899) | (5,059,899) | (5)(6) |
| 2007 Series E (2) | 06/02/08 | 35,000,000 | 12/01/38 | Floating rate | 4.019% | 12/01/17 | (5,845,221) | (5,845,221) | (5)(6) |
| 2007 Series E (2) | 06/02/08 | 35,000,000 | 12/01/38 | Floating rate | 3.927% | 12/01/17 | (5,610,779) | (5,610,779) | (5)(6) |
| 2007 Series E (2) | 06/02/08 | 55,000,000 | 12/01/38 | Floating rate | 3.846% | 12/01/17 | (8,166,480) | (8,166,480) | (5)(6) |
| 2007 Series F (2) | 12/01/08 | 50,000,000 | 12/01/38 | Floating rate | 4.165% | 12/01/14 | (7,389,746) | (7,389,746) | (5)(6) |
| 2007 Series F (2) | 12/01/08 | 35,000,000 | 12/01/38 | Floating rate | 4.340% | 12/01/14 | (8,270,790) | (8,270,790) | (5)(6) |
| 2009 Series D (2)(10) | 10/05/05 | 6,815,000 | 12/01/25 | Floating rate | 4.165% | 12/01/13 | (386,308) | (286,045) | (5)(6) |
| 2009 Series D (2)(10) | 10/05/05 | 20,870,000 | 06/01/30 | Floating rate | 4.064% | 12/01/14 | (3,084,765) | (2,144,189) | (5)(6) |
| 2009 Series D (2)(10) | 04/01/07 | 69,915,000 | 06/01/30 | Floating rate | 4.574% | 12/01/12 | (9,168,168) | (5,082,257) | (5)(6) |
| Subtotal | | 589,945,000 | | | | | (92,701,493) | (87,574,743) | |
| Total effective interest rate swaps | | 1,160,085,000 | | | | | (220,035,717) | (203,862,040) | |
| Single-family mortgage revenue bonds (ineffective hedges): | | | | | | | | | |
| 2007 Series G (3) | 11/19/03 | 5,035,000 | 12/01/20 | 65% of 1 M LIBOR+0.23% | 3.512% | 12/01/13 | (195,747) | (195,747) | (5)(6)(7)(12) |
| 2007 Series G (3) | 11/19/03 | 9,907,000 | 06/01/30 | 65% of 1 M LIBOR+0.23% | 4.347% | 12/01/12 | (502,456) | (502,456) | (5)(6)(12) |
| Total ineffective interest rate swaps | | 14,942,000 | | | | | (698,203) | (698,203) | |
| Total effective and ineffective interest rate swaps | | $ 1,175,027,000 | | | | | | $ (204,560,243) | |
| | | | | | Unamortized off-market borrowings | | | $ (19,174,671) | (11) |
| Total swaps | | | | | | | | $ (223,734,914) | |

(1) Counterparty risk is the risk that the swap counterparty will not fulfill its obligations set forth under the terms and conditions of the swap contract. The counterparty associated with these bonds is Goldman Sachs Mitsui Marine Derivative Products, L.P. (GSMMDP). GSMMDP is currently rated AAA negative outlook by S&P and Aa1 by Moody's as of June 30, 2012.

(2) Counterparty risk is the risk that the swap counterparty will not fulfill its obligations set forth under the terms and conditions of the swap contract. The counterparty associated with these bonds is Barclays Bank PLC (Barclays). Barclays is currently rated AA- negative outlook by S&P and Aa3 by Moody's as of June 30, 2012.

## Note 14 - Interest Rate Swaps (Continued)

(3) Counterparty risk is the risk that the swap counterparty will not fulfill its obligations set forth under the terms and conditions of the swap contract. The counterparty associated with these bonds is Merrill Lynch Capital Services, Inc. (MLCS) or Merrill Lynch Derivative Products (MLDP). MLDP is rated AAA by S&P and Aa3 by Moody's as of June 30, 2012. MLCS is not rated by Moody's or S&P. MLCS's obligations under each agreement are guaranteed by Merrill Lynch & Co., Inc. (MLCO), which has a rating of A by S&P and A2 by Moody's with one negative outlook.

(4) Termination risk is the risk that the swap could be terminated by the counterparty due to any of several events, which may include an Authority or counterparty ratings downgrade, covenant violation by either party, bankruptcy of either party, swap payment default by either party, and default events as defined in the Authority's bond indentures. All contracts have this risk.

(5) Basis risk refers to a mismatch between the interest rate received from the swap contract and the interest actually paid on the Authority's debt. All contracts have this risk.

(6) Tax event risk is the risk that a change in the marginal income tax rates or a change in the tax code impacts the trading value of tax-exempt bonds.

(7) Rollover risk is the risk that the swap contract is not coterminous with the related debt.

(8) Amortization risk is the risk that there is a mismatch or potential mismatch between the Authority's bonds and the notional amount of the swap outstanding. This mismatch could expose the Authority to variable interest rates if the swap amortizes quicker than the bonds or subject the Authority to a payment to the counterparty to terminate a portion of the swap contract early if the bonds are redeemed more quickly than anticipated. All contracts have this risk.

(9) The Authority has the option to terminate the contract in whole or in part without payment after the stated date.

(10) These interest rate swap agreements have been reassigned from their original bond issue as part of an economic refunding. GASB Statement No. 53 has termed these "reassigned swaps" to be "in-substance hybrids." Essentially, the swaps that are reassigned have two components as follows:

a. On-market component - This is the component of the swap that requires a calculation on the effectiveness and to be valued at the market on an annual basis. In the case of the Authority, these eight swaps, "on-market" component have been determined to be effective based on the calculation and are included in interest rate swaps in the table.

b. Off-market component - This is the component of the swap that at the time of the reassignment, is determined to be "off-market" and takes on the characteristics of a "fixed contract." Therefore, at the time of reassignment, this component needs to be valued based on the rate differential which compares the market rates to the original swap rates. This component is then considered a fixed contract and should be amortized over the life of the new debt and added to the deferred cost of issuance. See table below summarizing this component.

(11) Table of off-market borrowings:

| | Off-market Borrowing Rate | On-market Borrowing rate | Unamortized Off-market Borrowing Balance |
|---|---|---|---|
| Rental housing revenue bonds: | | | |
| 2008 Series A | 1.9200% | 3.4330% | $ (3,308,548) |
| 2008 Series A | 0.9410% | 3.2560% | (3,622,407) |
| 2008 Series D | 0.4040% | 3.3010% | (922,828) |
| 2008 Series D | 0.3310% | 3.2660% | (1,189,920) |
| 2008 Series C | 1.9820% | 2.7880% | (1,936,443) |
| Single-family mortgage revenue bonds: | | | |
| 2009 Series D | 0.7490% | 3.4160% | (491,538) |
| 2009 Series D | 0.6490% | 3.4150% | (1,212,528) |
| 2009 Series D | 1.3200% | 3.2540% | (6,490,459) |
| Total | | | $ (19,174,671) |

(12) Unrealized decrease in the fair market value of interest rate swap contracts that must be recognized as investments as these swaps were deemed ineffective during the year ended June 30, 2012.

### Note 14 - Interest Rate Swaps (Continued)

A comparative summary of the changes resulting from GASB Statement No. 53 is as follows:

| | Changes in Fair Value | | Fair Value at June 30, 2012 | | |
|---|---|---|---|---|---|
| | Classification | Amount | Classification | Amount | Notional |
| Cash flow hedges: | | | | | |
| Pay-fixed interest rate swaps (receive-variable) | Deferred charge | $ (86,216,721) | Bonds payable | $ (204,560,243) | $ - |
| Off-market borrowings | Interest expense | - | Off-market borrowings | (19,174,671) | - |

| | Changes in Fair Value | | Fair Value at June 30, 2011 | | |
|---|---|---|---|---|---|
| | Classification | Amount | Classification | Amount | Notional |
| Cash flow hedges: | | | | | |
| Pay-fixed interest rate swaps (receive-variable) | Deferred charge | $ 25,083,600 | Bonds payable | $ (118,343,522) | $ 1,205,345,000 |
| Off-market borrowings | Interest expense | - | Off-market borrowings | (20,730,764) | - |

### Note 15 - Upcoming Accounting Pronouncements

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement will be effective for the Nonprofit's fiscal year ending June 30, 2013. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented for the Authority as of June 30, 2014.

## Note 15 - Upcoming Accounting Pronouncements (Continued)

In June 2012, GASB Statement No. 67, *Financial Reporting for Pension Plans*, was issued by the Governmental Accounting Standards Board. This new standard, which replaces the requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and No. 50, *Pension Disclosures*, establishes standards for financial reporting that outline the basic framework for separately issued pension plan financial reports and specifies the required approach to measuring the liability of employer(s) and certain nonemployer contributing entities, about which information is required to be disclosed. GASB Statement No. 67 is required to be adopted for years beginning after June 15, 2013. For the Authority, this standard will be adopted for the year ending June 30, 2014.

In June 2012, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, was issued by the Governmental Accounting Standards Board. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information.

## Note 16 - Subsequent Events

Subsequent to year end, on August 1, 2012, the proceeds from the sale of the Single-Family Mortgage Revenue Bonds, 2012 Series A (2012A) were utilized to fully refund the Single-Family Mortgage Revenue Bonds, 2007 Series G (2007G). The interest rate swap agreements associated with the 2007G Bonds were transferred to the 2012A Bonds.

On October 17, 2012, a Standby Bond Purchase Agreement (SBPA), with the Bank of Nova Scotia, for the Single-Family Mortgage Revenue Bonds, 2007 Series F was replaced by a new SBPA provide by PNC Bank.

# Other Supplemental Information

# Michigan State Housing Development Authority

## Statement of Net Assets Information
## June 30, 2012
## (in thousands of dollars)

| | Activities | | | | |
|---|---|---|---|---|---|
| | Section 8 Assisted Mortgage Revenue Bonds | Single-family Mortgage Revenue Bonds | Single-family Homeownership Revenue Bonds | Multi-family Housing Revenue Bonds | Rental Housing Revenue Bonds |
| **Assets** | | | | | |
| **Cash and Investments** | | | | | |
| Cash and cash equivalents | $ 769 | $ 22,701 | $ 180,632 | $ 126 | $ 19,581 |
| Investments | 9,883 | 81,114 | 75,402 | 3,397 | 117,476 |
| Total cash and investments | 10,652 | 103,815 | 256,034 | 3,523 | 137,057 |
| **Loans Receivable** | | | | | |
| Multi-family mortgage loans: | | | | | |
| Construction in progress | - | - | - | - | 57,690 |
| Completed construction | 4,514 | - | - | 15,443 | 1,131,056 |
| Housing development loans | - | - | - | - | - |
| Single-family mortgage loans | - | 706,046 | 208,748 | - | - |
| Home improvement and moderate rehabilitation loans | - | - | - | - | - |
| Total | 4,514 | 706,046 | 208,748 | 15,443 | 1,188,746 |
| Accrued loan interest receivable | 33 | 4,522 | 995 | 109 | 20,269 |
| Allowance on loans receivable | - | (8,707) | (5,596) | (154) | (31,152) |
| Loan origination fees | (32) | (120) | - | - | (223) |
| Net loans receivable | 4,515 | 701,741 | 204,147 | 15,398 | 1,177,640 |
| **Other Assets** | | | | | |
| Unamortized bond financing costs | - | 2,164 | 1,586 | 9 | 3,025 |
| Real estate owned | - | 12,769 | 1,500 | 5 | 26,473 |
| Other | - | 98,151 | 1,332 | - | 116,287 |
| Interfund accounts | (3,637) | 52,846 | (12,130) | (1,145) | 17,524 |
| Total other assets | (3,637) | 165,930 | (7,712) | (1,131) | 163,309 |
| Total assets | **$ 11,530** | **$ 971,486** | **$ 452,469** | **$ 17,790** | **$ 1,478,006** |
| **Liabilities and Net Assets** | | | | | |
| **Liabilities** | | | | | |
| Bonds payable | $ 5,893 | $ 815,315 | $ 448,346 | $ 14,446 | $ 1,236,146 |
| Accrued interest payable | - | 2,601 | 1,212 | 67 | 9,323 |
| Escrow funds | - | - | - | - | 309 |
| Deferred mortgage interest income | - | - | - | - | 37,930 |
| Other liabilities | - | - | 1,789 | 11 | 57 |
| Total liabilities | 5,893 | 817,916 | 451,347 | 14,524 | 1,283,765 |
| **Net Assets** | 5,637 | 153,570 | 1,122 | 3,266 | 194,241 |
| Total liabilities and net assets | **$ 11,530** | **$ 971,486** | **$ 452,469** | **$ 17,790** | **$ 1,478,006** |

## Statement of Net Assets Information (Continued)
## June 30, 2012
## (in thousands of dollars)

| | Multi-family Revenue Bonds | General Operating | Capital Reserve | Mortgage Escrow and Reserve | Other | Combined |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| **Cash and Investments** | | | | | | |
| Cash and cash equivalents | $ 3,168 | $ (635) | $ 3 | $ 18,364 | $ 12,020 | $ 256,729 |
| Investments | 3,336 | 14,270 | 89,643 | 633,113 | 1,536 | 1,029,170 |
| Total cash and investments | 6,504 | 13,635 | 89,646 | 651,477 | 13,556 | 1,285,899 |
| **Loans Receivable** | | | | | | |
| Multi-family mortgage loans: | | | | | | |
| Construction in progress | - | 32,912 | - | - | - | 90,602 |
| Completed construction | 25,230 | 70,732 | - | - | 76,418 | 1,323,393 |
| Housing development loans | - | - | - | - | 5,787 | 5,787 |
| Single-family mortgage loans | - | 15,172 | - | - | - | 929,966 |
| Home improvement and moderate rehabilitation loans | - | 9,488 | - | - | - | 9,488 |
| Total | 25,230 | 128,304 | - | - | 82,205 | 2,359,236 |
| Accrued loan interest receivable | 2,611 | 5,069 | - | - | 9,888 | 43,496 |
| Allowance on loans receivable | (1,696) | (12,547) | - | - | (189) | (60,041) |
| Loan origination fees | - | (11,910) | - | - | - | (12,285) |
| Net loans receivable | 26,145 | 108,916 | - | - | 91,904 | 2,330,406 |
| **Other Assets** | | | | | | |
| Unamortized bond financing costs | 48 | - | - | - | - | 6,832 |
| Real estate owned | 686 | 353 | - | - | - | 41,786 |
| Other | - | 24,147 | - | - | 29,827 | 269,744 |
| Interfund accounts | (4,146) | (101,640) | - | 66,311 | (13,983) | - |
| Total other assets | (3,412) | (77,140) | - | 66,311 | 15,844 | 318,362 |
| Total assets | **$ 29,237** | **$ 45,411** | **$ 89,646** | **$ 717,788** | **$ 121,304** | **$ 3,934,667** |
| **Liabilities and Net Assets** | | | | | | |
| **Liabilities** | | | | | | |
| Bonds payable | $ 27,540 | $ - | $ - | $ - | $ - | $ 2,547,686 |
| Accrued interest payable | 390 | - | - | - | - | 13,593 |
| Escrow funds | - | 1,327 | - | 717,788 | (154,398) | 565,026 |
| Deferred mortgage interest income | - | - | - | - | - | 37,930 |
| Other liabilities | - | 22,353 | - | - | 21,874 | 46,084 |
| Total liabilities | 27,930 | 23,680 | - | 717,788 | (132,524) | 3,210,319 |
| **Net Assets** | 1,307 | 21,731 | 89,646 | - | 253,828 | 724,348 |
| Total liabilities and net assets | **$ 29,237** | **$ 45,411** | **$ 89,646** | **$ 717,788** | **$ 121,304** | **$ 3,934,667** |

# Michigan State Housing Development Authority

## Statement of Revenue, Expenses, and Changes in Net Assets Information
## Year Ended June 30, 2012
## (in thousands of dollars)

| | Activities | | | | |
|---|---|---|---|---|---|
| | Section 8 Assisted Mortgage Revenue Bonds | Single-family Mortgage Revenue Bonds | Single-family Homeownership Revenue Bonds | Multi-family Housing Revenue Bonds | Rental Housing Revenue Bonds |
| **Operating Revenue** | | | | | |
| Investment income: | | | | | |
| Loan interest income | $ 417 | $ 44,296 | $ 8,483 | $ 868 | $ 74,017 |
| Investment interest income | 130 | 873 | 1,515 | 1 | 3,655 |
| (Decrease) increase in fair value of investments - Including change in unrealized (losses) gains | (38) | 308 | (2) | - | 1,888 |
| Total investment income | 509 | 45,477 | 9,996 | 869 | 79,560 |
| Less interest expense and debt financing costs | 851 | 38,177 | 8,261 | 552 | 52,277 |
| Fair market value adjustment to swaps recognized as investments | - | 698 | - | - | - |
| Net investment income | (342) | 6,602 | 1,735 | 317 | 27,283 |
| Other revenue: | | | | | |
| Federal assistance programs | - | - | - | - | - |
| Section 8 program administrative fees | - | - | - | - | - |
| Contract administration fees | - | - | - | - | - |
| Other income | - | - | - | 108 | 201 |
| Total operating revenue | (342) | 6,602 | 1,735 | 425 | 27,484 |
| **Operating Expenses** | | | | | |
| Federal assistance programs | - | - | - | - | - |
| Salaries and benefits | - | - | - | - | - |
| Other general operating expenses | - | - | - | - | - |
| Loan servicing and insurance costs | - | 743 | 590 | - | - |
| Provision for possible losses on loans | - | 19,242 | 5,987 | (62) | (3,293) |
| Total operating expenses | - | 19,985 | 6,577 | (62) | (3,293) |
| **Operating (Loss) Income Before Nonoperating Expenses** | (342) | (13,383) | (4,842) | 487 | 30,777 |
| **Nonoperating Expenses** - Grants and subsidies | - | - | - | - | - |
| **Change in Net Assets** | (342) | (13,383) | (4,842) | 487 | 30,777 |
| **Net Assets** - Beginning of year | 5,979 | 160,024 | 1,057 | 2,779 | 172,759 |
| **Transfers to Other Funds for Payment of Operating Fund Expenses** | - | - | - | - | (10,000) |
| **Funding to Provide Additional Cash Flow and Payment of Bond Issuance Costs** | - | 6,929 | 4,907 | - | 705 |
| **Net Assets** - End of year | **$ 5,637** | **$ 153,570** | **$ 1,122** | **$ 3,266** | **$ 194,241** |

# Michigan State Housing Development Authority

## Statement of Revenue, Expenses, and Changes in Net Assets Information (Continued)
## Year Ended June 30, 2012
## (in thousands of dollars)

| | Activities | | | | | |
|---|---|---|---|---|---|---|
| | Multi-family Revenue Bonds | General Operating | Capital Reserve | Mortgage Escrow and Reserve | Other | Combined |
| **Operating Revenue** | | | | | | |
| Investment income: | | | | | | |
| Loan interest income | $ 2,242 | $ 7,396 | $ - | $ - | $ 2,182 | $ 139,901 |
| Investment interest income | 46 | 562 | 4,959 | - | 13,052 | 24,793 |
| (Decrease) increase in fair value of investments - Including change in unrealized (losses) gains | (25) | (671) | 4,830 | - | - | 6,290 |
| Total investment income | 2,263 | 7,287 | 9,789 | - | 15,234 | 170,984 |
| Less interest expense and debt financing costs | 2,440 | 305 | - | - | - | 102,863 |
| Fair market value adjustment to swaps recognized as investments | - | - | - | - | - | 698 |
| Net investment income | (177) | 6,982 | 9,789 | - | 15,234 | 67,423 |
| Other revenue: | | | | | | |
| Federal assistance programs | - | - | - | - | 751,649 | 751,649 |
| Section 8 program administrative fees | - | 16,012 | - | - | - | 16,012 |
| Contract administration fees | - | 8,957 | - | - | - | 8,957 |
| Other income | 1 | 10,434 | - | - | 26,067 | 36,811 |
| Total operating revenue | (176) | 42,385 | 9,789 | - | 792,950 | 880,852 |
| **Operating Expenses** | | | | | | |
| Federal assistance programs | - | - | - | - | 752,013 | 752,013 |
| Salaries and benefits | - | 33,273 | - | - | - | 33,273 |
| Other general operating expenses | - | 29,126 | - | - | - | 29,126 |
| Loan servicing and insurance costs | - | 1,823 | - | - | - | 3,156 |
| Provision for possible losses on loans | (108) | 3,300 | - | - | - | 25,066 |
| Total operating expenses | (108) | 67,522 | - | - | 752,013 | 842,634 |
| **Operating (Loss) Income Before Nonoperating Expenses** | (68) | (25,137) | 9,789 | - | 40,937 | 38,218 |
| **Nonoperating Expenses** - Grants and subsidies | - | (2,179) | - | - | (11,410) | (13,589) |
| **Change in Net Assets** | (68) | (27,316) | 9,789 | - | 29,527 | 24,629 |
| **Net Assets** - Beginning of year | 1,375 | 50,910 | 79,857 | - | 224,979 | 699,719 |
| **Transfers from Other Funds for Payment of Operating Fund Expenses** | - | 10,000 | - | - | - | - |
| **Funding to Provide Additional Cash Flow and Payment of Bond Issuance Costs** | - | (11,863) | - | - | (678) | - |
| **Net Assets** - End of year | **$ 1,307** | **$ 21,731** | **$ 89,646** | **$ -** | **$ 253,828** | **$ 724,348** |

# Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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# Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors and
Mr. Thomas H. McTavish, CPA
Auditor General, State of Michigan
Michigan State Housing Development Authority
Lansing, Michigan

We have audited the basic financial statements of the Michigan State Housing Development Authority (the "Authority"), a component unit of the State of Michigan, as of and for the years ended June 30, 2012 and 2011 and have issued our reports thereon dated October 25, 2012 and October 26, 2011, respectively. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audits in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.



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To the Board of Directors and
Mr. Thomas H. McTavish, CPA
Auditor General, State of Michigan
Michigan State Housing Development Authority
Lansing, Michigan

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency (item number 2012-1).

**Compliance and Other Matters**

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

We also noted certain matters that we have reported to management of the Authority in a separate letter dated October 25, 2012.

The Michigan State Housing Development Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Michigan State Housing Development Authority's response and, accordingly, we express no opinion on it.

This report is intended for the information of the Michigan State Housing Development Authority and the Auditor General of the State of Michigan and is not intended to be, and should not be, used by anyone other than these specified parties.

Plante & Moran, PLLC

October 25, 2012

| Reference Number | Findings |
|---|---|
| 2012-1 | **Finding Description** - Audit preparedness |

**Finding Type** - Significant deficiency

**Criteria** - Good business practices require the general ledger to be complete and free of misstatements before financial statement audits begin.

**Condition** - Since the audit and the year-end close were performed simultaneously, the audit team identified adjustments and the Authority provided the audit team with several client prepared journal entries.

**Context** - We understand the Authority had a significant amount of activity related to the operations, especially near year end and that the Authority created a new internal fund to separately track the federal revenues and expenses. Consequently, the Authority was performing its year-end close process during the start of the audit fieldwork.

**Cause** - There is a high level of operational activity performed at year end with limited staff.

**Effect** - There were several adjustments made by the Authority after fieldwork began, many were identified by the Authority's staff; however, there were several immaterial adjustments identified by the auditors.

**Recommendation** - We recommend delaying the audit until after the year-end close process. Due to the strict deadline on issuing the audit, it is important that the trial balance and supporting schedules are ready to audit at the beginning of fieldwork.

**Views of Responsible Officials and Planned Corrective Actions** - The Authority agrees that the audit fieldwork should not begin until after the year-end closing process. A number of general ledger changes related to federal reporting requirements were being contemplated during the year-end closing process. When the Authority has the ability to control the timing of the federal reporting requirements, it will address them prior to the year-end closing process.

## Summary Schedule of Prior Audit Findings
## Year Ended June 30, 2012

| Prior Year Reference Number | Findings |
|---|---|
| 2011-1 | **Original Finding Description** - Understatement of component unit revenue and net assets<br><br>**Status** - The component unit made the correction to properly apply GASB No. 33 during the current year |
| 2011-2 | **Original Finding Description** - Lack of timeliness of reconciliation preparation<br><br>**Status** - The Authority was diligent in performing reconciliations during the year to ensure that they were performed timely. |