



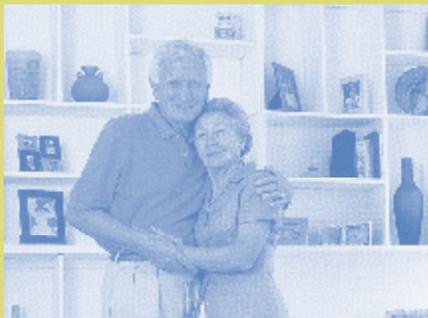
michigan state housing  
development authority

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# annual report

july 1, 2001 - june 30, 2002



your affordable housing partner

## MSHDA'S MISSION

The Michigan State Housing Development 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.

## MSHDA'S VISION

We will address changing housing needs thereby empowering individuals and communities to be self-sufficient. We will provide excellent service within a quality work environment where trust, open communication, inclusive decision making, and respect for one another are highly valued.

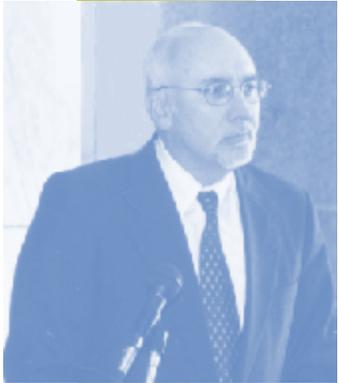


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# a word from mshda's executive director . . .



*James L. Logue III*

One of MSHDA's most unique features is the intense involvement of its employees in the work they do in the affordable housing arena in Michigan. This year was no exception. Though an early retirement offered by the state of Michigan will reduce our staff by more than 25 percent during the next fiscal year, the tradition left by these dedicated employees is exceptional. The 2002 fiscal year is a tribute to their efforts, and all of MSHDA's, for the outstanding performance.

In our mission to help low- and moderate-income families and individuals in the state of Michigan to fulfill their needs for safe, clean, affordable housing, the Authority financed nearly \$3.5 million in rental developments, providing over 5,000 units of affordable housing. And another \$23.9 million in Low Income Housing Tax Credits produced over 4,200 affordable housing rental units. In addition, the Authority's Single Family division financed almost 1,400 single family homes, representing a total investment of nearly \$95 million. Almost 1,500 single family units were purchased with the help of \$106 million in Michigan Mortgage Credit Certificates. These impressive production figures created almost 1,600 jobs and paid approximately \$21.2 million in taxes.

Partnerships played an important role during the past year in the revitalization of many Michigan downtowns. Joining with the Michigan Economic Development Commission (MEDC), MSHDA helped 10 downtown areas throughout the state receive a much-needed injection of new life into economically challenged business districts with a \$3 million investment.

From families in MSHDA-financed rental developments, to low-interest rate mortgages, to rebuilding entire communities, MSHDA will make every effort to continue improving the housing conditions of Michigan's citizens.

# building communities . . . *one at a time!*



MSHDA's Neighborhood Preservation Program (NPP) helps neighborhood groups become more effective in redeveloping their neighborhoods through a comprehensive evaluation of all their housing needs. The group then creates partnerships with the private sector, lenders and local and state government to address those needs.



A noteworthy example of a successful NPP began its final phase of revitalization during the last fiscal year and its incredible success deserves special mention to reflect the kind of community recovery and rebuilding projects MSHDA supports. The \$5.5 million project that the Eastern Neighbors and Oak Park Neighborhood groups in Lansing undertook over two years ago brings 55 new families to the neighborhood and will positively impact many others. In addition to MSHDA's help, other partners include the city of Lansing, Ferris Development, and the Michigan Capital Fund. To have such a transformation take place, you need plenty of great partners to get the job done. You also need a little luck. The neighborhood's good fortune was an unanticipated collaboration with the Group Work Camps organization. Nearly 400 student youth volunteers from across the country paid for the privilege of working on 25 of the homes in these NPP neighborhoods where they painted and performed fix-up projects for homeowners. It is estimated that the cash value of their contribution was nearly \$100,000.



Although the actual hard costs of such a project can be calculated, it is impossible to calculate the aesthetic changes throughout the area. Property values are rising, and residents are making additional improvements on their own. It is indeed a transition that demonstrates the success that results when people are empowered and motivated to keep their communities revitalized and flourishing.



**Group Work  
Camp Volunteers**

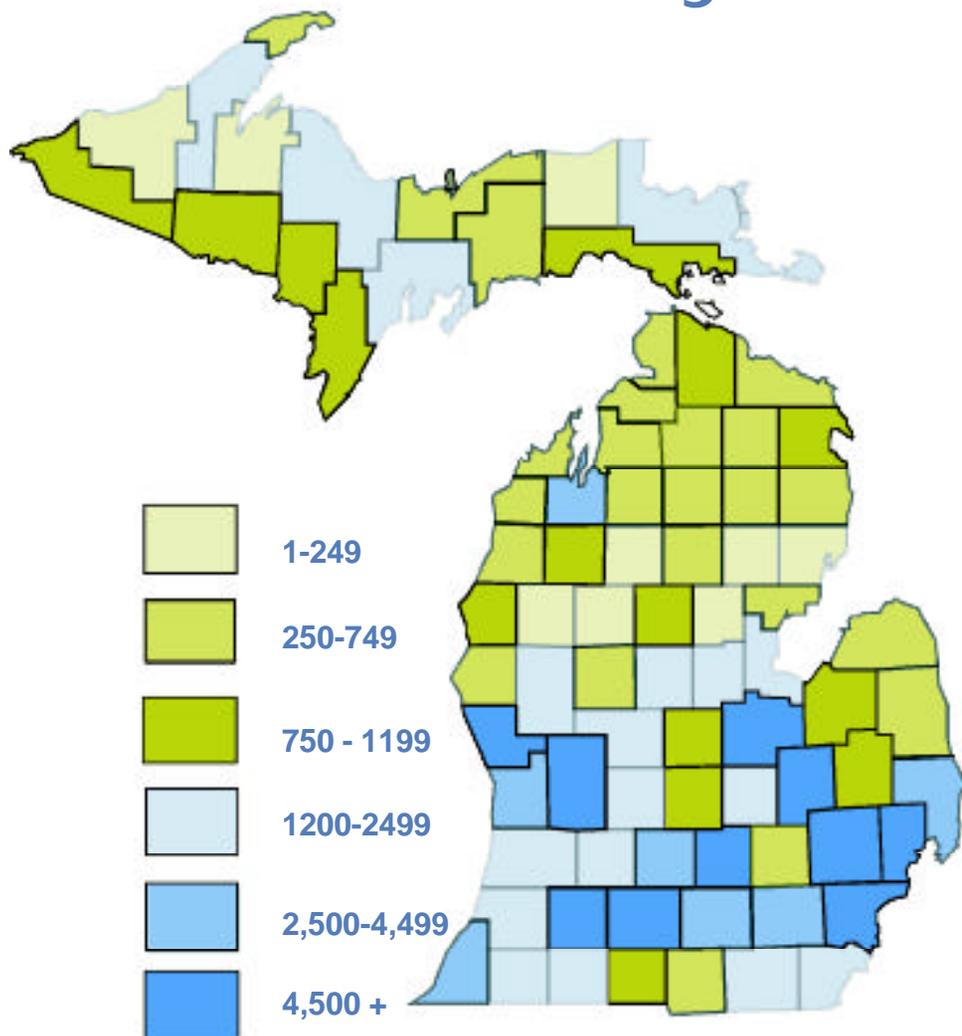


**before**



**after**

# activity by county



# mshda fact

## Production



### Rental

#### Section 8 Housing Choice Voucher Program

18,183 vouchers/\$77,160,287

#### Low Income Housing Tax Credit (LIHTC)

4,219 units/\$23,869,516

#### Tax Exempt Bonds (Direct Lending)

1,059 units/\$62,046,973

#### Pass Through

764 units/\$35,750,000

#### Special Housing

29 units/\$2,138,000

# and figures

## Production (continued)



### Home Purchase

#### Single Family

1,372 units/\$94,745,836

#### Mortgage Credit Certificates (MCC)

1,472 units/\$106,339,331

#### Down Payment Assistance

502 units-loans/\$2,837,679



### Community Development

#### Homeless

222 Emergency Shelter Grants/  
\$7,077,000

#### Housing Resource Fund

138 grants/\$19,916,617

## Average Household Incomes for HOMEOWNERS and HOMEBUYERS

Single Family	\$30,622
MCC	\$27,609
Down Payment Assistance	\$24,856
Property Improvement	\$22,835
Housing Resource Fund (HOME \$)	
Homebuyer	\$18,699
Homeowner	\$15,164



## Average Household Income for RENTERS

Section 8	\$ 9,116
Section 8 Multifamily	\$ 9,264
MI Home	\$12,479
Low Income Housing Tax Credit	\$14,207
Section 236	\$14,497
Direct Lending Assisted	\$19,295



### Home Improvement

#### Property Improvement

300/units/\$3,137,901

#### CDBG

41grants/\$10,928,850

# authority members...

The Authority meets once a month, generally in the Lansing Board Room at 735 East Michigan Avenue. The members provide policy direction to the MSHDA staff, authorize bond issues, approve development loan commitments, and evaluate programs.

During the time this annual report covers, four of the members are appointed by the Governor, with confirmation by the state Senate, for terms of four years. The remaining members are the State Treasurer and directors of the Michigan Department of Consumer and Industry Services and Michigan Family Independence Agency.

**GILBERT B. SILVERMAN, CHAIRPERSON**

*Holtzman & Silverman Construction & Realty, Ltd.*

**COLLEEN PERO, VICE CHAIRPERSON**

*Director of Group & Incentive Travel/Classic Travel*

**HERMAN W. COLEMAN**

*H. W. Coleman & Associates, Inc.*

**RICHARD T. MILLER**

*Coldwell Banker Alliance Group*



**DOUGLAS E. HOWARD**

*Director, Michigan Family Independence Agency*

**DOUGLAS B. ROBERTS**

*State Treasurer, Michigan Department of Treasury*

**DOROTHY STOCKBRIDGE**

*Section 8 Representative*

**KATHLEEN M. WILBUR**

*Director, Michigan Department of Consumer & Industry Services*

# financial report 2002

## *Michigan State Housing Development Authority*

Financial Statements and Required  
Supplementary Information for the Years  
Ended June 30, 2002 and 2001, Supplemental  
Data for the Year Ended June 30, 2002, and  
Independent Auditors' Report, and  
Independent Auditors' Report on Compliance  
and on Internal Control Over Financial  
Reporting Based Upon the Audit of the  
Financial Statements for the Years Ended  
June 30, 2002 and 2001



# MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

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## INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Directors of the Michigan State Housing Development Authority and Auditor General:

We have audited the accompanying balance sheets of the Michigan State Housing Development Authority (the "Authority") (a component unit of the State of Michigan) as of June 30, 2002 and 2001, and the statements of revenue and expenses and changes in fund equity and of cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these 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, such financial statements present fairly, in all material respects, the balance sheet of the Michigan State Housing Development Authority as of June 30, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying required supplementary information, Management's Discussion and Analysis of Financial Position and Results of Operations, on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the Authority taken as a whole. The supplemental data, Balance Sheet Information and Statement of Revenue and Expenses and Changes in Fund Equity Information contained on pages 25 through 28, is presented for purposes of additional analysis of the financial statements rather than to present the financial position, and results of operations of the individual activities, and is not a required part of the 2002 financial statements. This supplemental data is also the responsibility of the Authority's management. Such supplemental data has been subjected to the auditing procedures applied in our audit of the 2002 financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the 2002 financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 10, 2002 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, and grants. 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.



October 10, 2002

## **Management's Discussion and Analysis of Financial Position and Results of Operations (Unaudited)**

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 certificates, and pass-through obligations. A variety of other programs are also offered, including:

- The Contractors Assistance Program,
- The Commercial Economic Development Fund that creates funds to enhance economic revitalization in concert with existing or future housing developments in low and moderate-income neighborhoods,
- The Family Self Sufficiency Program, and
- The Office of Community Development programs and initiatives that award grants for housing projects, assist community groups rebuild their neighborhoods, provide technical assistance to nonprofit housing organizations, and help homeless shelters.

The enclosed financial statements present the Authority's financial position, revenue and expenses and changes in fund equity, and cash flows. The following is a condensed summary of financial information for the years ended June 30, 2002 and 2001, respectively.

## Condensed Financial Information

(In Thousands of Dollars)

	2002	2001
<b>Balance Sheet</b>		
Investments	\$ 618,262	\$ 568,376
Loans Receivable, Net	1,930,718	1,917,280
Total Assets	2,749,399	2,893,222
Bonds Payable	1,828,839	2,006,194
Total Liabilities	2,314,073	2,485,555
Restricted Fund Equity	201,747	173,599
Unrestricted Fund Equity	233,579	234,068
Total Fund Equity	435,326	407,667
	<b>2002</b>	<b>2001</b>
<b>Operating Results</b>		
Fair Value Adjustment of Investments	\$ 1,351	\$ 2,746
Net Interest Income	60,911	60,664
Federal Assistance Programs Revenue	191,723	134,669
Section 8 Program Administrative Fees	9,111	7,434
Contract Administration Fees	6,286	4,669
Other Income	4,159	4,054
Total Revenue	272,190	211,490
Federal Assistance Programs Expenses	191,723	134,669
Salaries and Benefits	19,733	19,012
Other General Operating Expenses	16,977	13,038
Total Expenses	232,401	171,406
Grants and Subsidies	12,130	13,026
Change in Fund Equity	27,659	27,058
Ending Fund Equity	435,326	407,667

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## Financial Position

Total assets decreased from \$2.89 billion at June 30, 2001 to \$2.75 billion at June 30, 2002. This was a decrease of \$144 million, or 5.0 percent. The decrease occurred primarily in cash and cash equivalents.

Cash and cash equivalents decreased by \$204.9 million to \$151.6 million from a year earlier. This decrease occurred due primarily to the payment of bond calls and scheduled bond payments.

Net loans receivable increased from \$1,917.3 million at June 30, 2001 to \$1,930.7 million at June 30, 2002. Loans receivable increased due to growth in multi-family lending of \$45.7 million, net of repayments, partially offset by a decline in single-family loans of \$29.9 million, net of repayments. The decline in single-family loans was due to accelerated prepayments due to the current low interest rate environment. The allowance for loan losses increased from \$32.0 million to \$33.0 million at June 30, 2002. The allowance represents 1.67 percent and 1.71 percent of loans receivable at June 30, 2002 and 2001, respectively.

Bonds payable decreased from \$2,006.2 million at June 30, 2001 to \$1,828.8 million at June 30, 2002. This was a net decrease of \$177.4 million, which was primarily due to the following activity. During the year two single-family bond issues generated proceeds of \$46.8 million. Bond calls and scheduled payments totaled \$226.6 million.

Escrow funds increased by \$26.8 million to \$357.9 million at June 30, 2002 from a year earlier. The increase due to the net unrealized gain in the fair value of investments resulting from the growth in the number of multi-family loans with escrows and because the Authority began maintaining the escrow funds for single-family loans in 2002.

The Authority's fund equity totaled \$435.3 million at June 30, 2002, equal to 15.8 percent of total assets and 23.8 percent of bonds payable. A significant portion of fund equity is restricted. At June 30, 2002, \$201.7 million of fund equity was pledged for payment against the various bond indentures. In addition, \$43.8 million is restricted by board resolution, represented by the Community Development Fund.

## Results of Operations for the Year Ended June 30, 2002 Compared to the Year Ended June 30, 2001

The Authority had another strong year as excess of revenues over expenses for the year ended June 30, 2002 were \$27.7 million compared to \$27.1 million for 2001, a net increase of \$601,000. Under Governmental Accounting Standards Board Statement 31 the Authority is required to present investments at fair market value. This presentation increased the revenues over expenses by \$1.4 million. 2001 results were also positively impacted by an increase of \$2.7 million in the market value of the Authority's investments. Removing the impact of market value adjustments on results of operations indicates an increase of \$2.0 million in excess of revenues over expenses in 2002 compared to 2001.

Net investment income, excluding market value adjustments, increased from \$57.9 million in 2001 to \$59.6 million in 2002, an increase of \$1.7 million. On October 1, 2001, the 1991 Series A Rental Housing Revenue Bonds were called from excess revenues from the bond series. The remaining deferred interest income on the underlying mortgage loans was reversed into mortgage interest income in the amount of \$3.0 million. This positive variance in net interest income was partially offset by unfavorable variances in net interest margin. Net interest margin was lower than prior year due to lower interest rates on mortgage loans and investments, which was partially offset by lower interest rates on bonds payable. Interest rates on mortgages are lower than prior year due to the high level of prepayments on single-family mortgage loans, unused single-family loan bond proceeds, and workouts on two multi-family loans totaling \$307,000.

Total revenue increased from \$211.5 million for the year ended June 30, 2001 to \$272.2 million for the year ended June 30, 2002, a net increase of \$5.0 million, excluding the fair value adjustment to investments and Federal Assistance Programs revenue. Total revenue increased due to the increase in net investment income of \$1.7 million, a \$1.7 million increase in Section 8 Program administrative fees, and a \$1.6 million increase in contract administration fees. Section 8 Program administrative fees increased due to an increase in Section 8 vouchers administered by the Authority. Contract administration was a new program in 2001 under which the Authority administers Section 8 contracts for the Department of Housing and Urban Development.

Total expenses increased from \$171.4 million for the year ended June 30, 2001 to \$232.4 million for the year ended June 30, 2002, a net increase of \$3.9 million, excluding Federal Assistance Programs expenses. Total expenses increased due primarily to an increase of \$3.9 million in other general operating expenses. The increase in general operating expenses was caused by an increase in contract administration costs and office rent. Contract administration costs increased due to the new program in 2001 under which the Authority administers Section 8 contracts for the Department of Housing and Urban Development. Office rent increased as a result of costs associated with the Authority's move into a new office building in August 2001.

**MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY**

**BALANCE SHEETS**

**JUNE 30, 2002 AND 2001**

**(In Thousands of Dollars)**

<b>ASSETS</b>	<b>2002</b>	<b>2001</b>
CASH AND CASH EQUIVALENTS (Notes 2 and 3)	\$ 151,586	\$ 356,487
INVESTMENTS, including related interest receivable of \$4,022 and \$6,321, respectively (Notes 2 and 3)	618,262	568,376
LOANS RECEIVABLE (Note 4):		
Multi-family mortgage loans	1,280,829	1,235,086
Single-family mortgage loans	662,826	692,757
Home improvement and moderate rehabilitation loans	<u>16,399</u>	<u>18,699</u>
Subtotal	1,960,054	1,946,542
Add interest receivable	14,508	14,483
Less allowance for possible losses	(33,000)	(32,000)
Less mortgage discount	<u>(10,844)</u>	<u>(11,745)</u>
Loans receivable, net	1,930,718	1,917,280
OTHER ASSETS:		
Unamortized bond financing costs	4,443	5,018
Real estate owned	9,500	8,784
Other (Notes 2 and 10)	<u>34,890</u>	<u>37,277</u>
Total other assets	<u>48,833</u>	<u>51,079</u>
TOTAL ASSETS	<u>\$ 2,749,399</u>	<u>\$ 2,893,222</u>
<b>LIABILITIES AND FUND EQUITY</b>		
LIABILITIES:		
Bonds payable (Notes 5, 6 and 7)	\$ 1,828,839	\$ 2,006,194
Accrued interest payable	14,543	17,008
Escrow funds	357,896	331,107
Deferred mortgage interest income (Note 9)	62,100	57,430
Other (Note 10)	<u>50,695</u>	<u>73,816</u>
Total liabilities	2,314,073	2,485,555
COMMITMENTS AND CONTINGENCIES (Notes 3, 6, 8, 12 and 13)		
FUND EQUITY:		
Restricted (Note 11)	201,747	173,599
Unrestricted	<u>233,579</u>	<u>234,068</u>
Total fund equity	<u>435,326</u>	<u>407,667</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 2,749,399</u>	<u>\$ 2,893,222</u>

See notes to financial statements.

**MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY**  
**STATEMENTS OF REVENUE AND EXPENSES AND CHANGES IN FUND EQUITY**  
**YEARS ENDED JUNE 30, 2002 AND 2001**  
**(In Thousands of Dollars)**

	<b>2002</b>	<b>2001</b>
<b>OPERATING REVENUES:</b>		
Investment income:		
Loan interest income	\$ 139,750	\$ 143,779
Investment interest income	26,528	34,159
Increase in fair value of investments, including change in unrealized gains of \$1,351 and \$2,746, respectively (Notes 2 and 3)	<u>3,072</u>	<u>3,622</u>
Subtotal	169,350	181,560
Less: Interest expense and debt financing costs	<u>108,439</u>	<u>120,896</u>
Net investment income	60,911	60,664
Other revenue:		
Federal assistance programs	191,723	134,669
Section 8 Program administrative fees	9,111	7,434
Contract administration fees	6,286	4,669
Other income	<u>4,159</u>	<u>4,054</u>
Total other revenue	<u>211,279</u>	<u>150,826</u>
Total operating revenues	272,190	211,490
<b>OPERATING EXPENSES:</b>		
Federal assistance programs	191,723	134,669
Salaries and benefits	19,733	19,012
Other general operating expenses	16,977	13,038
Loan servicing and insurance costs	2,873	2,966
Provision for possible losses on loans	<u>1,095</u>	<u>1,721</u>
Total operating expenses	<u>232,401</u>	<u>171,406</u>
<b>OPERATING INCOME BEFORE GRANTS AND SUBSIDIES</b>	39,789	40,084
<b>GRANTS AND SUBSIDIES (Note 14)</b>	<u>(12,130)</u>	<u>(13,026)</u>
<b>NET INCOME</b>	27,659	27,058
<b>FUND EQUITY AT BEGINNING OF YEAR</b>	<u>407,667</u>	<u>380,609</u>
<b>FUND EQUITY AT END OF YEAR</b>	<u>\$ 435,326</u>	<u>\$ 407,667</u>

See notes to financial statements.

# MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

## STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2002 AND 2001 (In Thousands of Dollars)

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Loan receipts	\$ 330,763	\$ 294,452
Other receipts	369,195	308,935
Loan disbursements	(205,265)	(163,436)
Payments to vendors	(43,602)	(38,470)
Payments to employees	(14,427)	(14,027)
Other disbursements	<u>(356,334)</u>	<u>(290,863)</u>
Net cash provided by operating activities	80,330	96,591
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from issuance of bonds	46,765	383,711
Principal repayments on bonds	(226,585)	(369,158)
Interest paid	<u>(104,675)</u>	<u>(116,189)</u>
Net cash used in noncapital financing activities	(284,495)	(101,636)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(301,295)	(227,160)
Proceeds from sale and maturities of investment securities	290,090	268,788
Investment income received	<u>10,469</u>	<u>22,359</u>
Net cash (used in) provided by investing activities	<u>(736)</u>	<u>63,987</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(204,901)	58,942
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>356,487</u>	<u>297,545</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 151,586</u>	<u>\$ 356,487</u>

(Continued)

# MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

## STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2002 AND 2001 (In Thousands of Dollars)

	2002	2001
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income	\$ 27,659	\$ 27,058
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities:		
Amortization of deferred items, net	(13,513)	(10,024)
Arbitrage rebate expense	6,799	4,848
Investment income	(29,598)	(37,780)
Increase in realized and unrealized gain on market value of investments	(1,351)	(2,746)
Interest expense on bonds	108,374	121,679
Provision for possible losses on loans	1,095	1,721
Changes in assets and liabilities:		
Accrued interest - loans receivable	(25)	(197)
Loans receivable	(13,512)	(12,290)
Other assets	2,246	(28,826)
Escrow funds	19,678	11,356
Other liabilities	<u>(27,522)</u>	<u>21,792</u>
Net cash provided by operating activities	<u>\$ 80,330</u>	<u>\$ 96,591</u>

NONCASH FINANCING AND INVESTING ACTIVITIES - During the years ended June 30, 2002 and 2001, the Authority foreclosed on various properties with mortgage values of approximately \$6.6 million and \$5.5 million, respectively.

During the year ended June 30, 2001, the Authority entered into a capital lease agreement for its new building resulting in the recording of a capital asset totaling \$15,097,520.

See notes to financial statements.

(Concluded)

# MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2002 AND 2001

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### 1. AUTHORIZING LEGISLATION

The Michigan State Housing Development Authority (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 engaged in business type activities, is a component unit of the State of Michigan and is reflected 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 revenues from mortgages, and (c) the creation of certain funds along with the accounting policies for such funds. As of June 30, 2002, the Authority is authorized by statute to have notes and bonds outstanding up to a total of \$4.2 billion.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**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 Governmental Accounting Standards Board ("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.

**New Accounting Standard** - In May 2002, the GASB issued Statement No. 39, "Determining Whether Certain Organizations Are Component Units," an amendment of GASB Statement No. 14. The Authority will adopt GASB Statement No. 39 effective July 1, 2003. The Authority does not expect that the impact of adopting GASB Statement No. 39 will have a material effect on the Authority's results of operations or financial position.

**Restricted Assets** - Substantially all of the assets of the Authority are pledged for payment against the various bond indentures.

**Cash and Cash Equivalents** - For purposes of the statements of cash flows, the Authority considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

**Investments** are carried 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** 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 mortgagors' escrow accounts.

**Allowance for Possible Losses 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 and of 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.

**Mortgage Discount, Loan, and Origination Costs** are deferred and recognized as income or expense over the life of the related loan, using the interest method.

**Bond Financing Costs** - The costs of issuing bonds, other than bond discount, are capitalized and are classified as unamortized bond financing costs in the accompanying balance sheets. They are amortized to expense using the interest method over the life of the related debt.

**Bond Discount** - The discounts incurred on bonds issued are deferred and amortized to interest expense using the interest method. Such unamortized discounts are netted against bonds payable in the balance sheets.

**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 accrued liabilities at June 30, 2002 and 2001 were \$3,087,000 and \$3,122,000, respectively.

**Bond Financing Fees** - The Authority charges the mortgagor of each multi-family development a financing fee, equal to 2% of the mortgage loan and, for certain loans, charges a credit enhancement fee equal to 3% of the mortgage loan. These fees and the associated direct costs are deferred and recognized to mortgage interest income over the life of the loan using the interest method.

The Authority charged special fees for certain Section 8 assisted mortgage loans to enable the Authority to earn its normal interest override on such mortgage loans. These fees were included in mortgage discount and are being recognized as mortgage interest income over the life of the related mortgage loans using the interest method.

In connection with the issuance of limited obligation bonds, the Authority generally assesses financing fees equal to either 1% or 2% of the amount of the bonds issued depending on the location of the project for original issuances and 0.25% for the refunding of limited obligation bonds. All fees received in excess of 1% are recorded as a liability as they are required to be used to assist projects located in eligible distressed areas.

**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 accrued in the accompanying statements of financial position and included in deferred mortgage interest income and other liabilities.

**Section 8 Programs** - The Authority is the administrator of various Section 8 housing programs in Michigan for the U.S. Department of Housing and Urban Development. The Authority receives federal financial assistance to provide rental subsidies to the tenants of various housing developments and for program administration costs. During the years ended June 30, 2002 and 2001, the Authority received approximately \$171,307,000 and \$178,971,000 and disbursed approximately \$163,400,000 and \$171,443,000, respectively, in rental subsidies. Of the amounts disbursed, \$65,613,000 and \$62,542,000 were processed by the Authority on behalf of program participants and are reflected as a revenue and expense item on the Authority's Statements of Revenue and Expenses and Changes in Fund Equity for the years ended June 30, 2002 and 2001, respectively. The remaining amounts were processed by the Authority as a federal mortgage subsidy for multi-family housing projects and have been included in the accompanying financial statements as interest income and reduction of principal in mortgage loans receivable. In addition, the Authority receives an administrative fee for these services on a portion of the units administered under this program based on the number of units serviced.

**Off Balance Sheet Financial Instruments** - In connection with the Authority's various debt issuances, interest rate swaps were entered into to convert variable rate bonds into fixed rate bonds.

*Notional amount of interest rate swaps and fixed rate at June 30 are as follows (in thousands of dollars):*

	<b>2002</b>	<b>2001</b>
Single-Family Mortgage Revenue Bonds:		
1999 Series B-2, 5.489%	\$ 12,850	\$ 12,850
2000 Series A, 5.439%	13,750	13,750
2000 Series C, 7.696%	<u>32,150</u>	<u>37,000</u>
Total	58,750	63,600
Rental Housing Revenue Bonds:		
2000 Series A, 4.96%	51,550	54,910
2001 Series B, 5.35%	43,385	44,220
2001 Series C, 4.77%	<u>46,885</u>	<u>48,710</u>
Total	<u>\$ 141,820</u>	<u>\$ 147,840</u>

**Operating Revenues 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 revenues in the statements of Revenue and Expenses and Changes in Fund Equity.

**Reclassification** - Certain of the 2001 balances have been reclassified to conform with the 2002 presentation.

### 3. DEPOSITS AND INVESTMENTS

**Deposits** - At June 30, 2002 and 2001, the carrying amount of the Authority's bank deposits, including certificates of deposit and money market accounts, was \$51,545,000 and \$70,546,000, and the bank balance was \$55,548,000 and \$75,456,000, respectively. Of the bank balance, \$518,000 and \$633,000 for 2002 and 2001 was covered by federal depository insurance, \$2,746,000 and \$5,179,000 was collateralized, \$578,000 and \$17,486,000 was uninsured and uncollateralized, and \$51,706,000 and \$52,158,000, respectively, was held in money market accounts.

**Investments** - Statutes authorize the Authority to invest, at the discretion of the Authority, funds held in reserve or sinking funds, or monies not required for immediate use or disbursement, in obligations of the State of Michigan or of the United States, in obligations of which the principal and interest are guaranteed by the State of Michigan or the United States, or in other obligations approved by the State Treasurer.

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

	2002		2001	
	Amortized Cost	Carrying Value	Amortized Cost	Carrying Value
Cash	\$ (2,134)	\$ (2,134)	\$13,061	\$ 13,061
Certificates of deposit	1,973	1,973	5,327	5,327
Government money market funds	51,706	51,706	52,158	52,158
U.S. Government securities	145,748	162,897	217,513	232,888
Mortgage-backed securities	172,750	177,182	138,579	137,983
U.S. Government agency securities	235,092	240,909	156,929	159,440
Investment agreements	116,626	116,626	317,685	317,685
Michigan Broadband Authority	<u>16,667</u>	<u>16,667</u>		
Subtotal	738,428	765,826	901,252	918,542
Accrued interest	<u>4,022</u>	<u>4,022</u>	<u>6,321</u>	<u>6,321</u>
Total cash, cash equivalents, and investments	<u>\$ 742,450</u>	<u>\$ 769,848</u>	<u>\$ 907,573</u>	<u>\$ 924,863</u>

The amortized cost and estimated market value of cash, cash equivalents, and investments at June 30, 2002, by contractual maturity, are shown below (in thousands of dollars). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Carrying Value
Due in one year or less	\$ 226,816	\$ 226,861
Due one year through five years	39,472	42,070
Due after five years through ten years	21,167	27,960
Due after ten years	<u>278,223</u>	<u>291,753</u>
Subtotal	565,678	588,644
Mortgage-backed securities	<u>172,750</u>	<u>177,182</u>
Total	<u>\$ 738,428</u>	<u>\$ 765,826</u>

Proceeds from the sales of investments in debt securities in 2002 and 2001 were \$154,246,000 and \$8,575,000, respectively. Those sales had realized gains of \$1,721,000 and \$876,000 in 2002 and 2001, respectively. The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The net change in the fair value of investments during 2002 and 2001 was a \$10,108,000 increase and a \$20,526,000 increase, respectively. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year.

Included in cash and investments are funds held in trust for mortgagors with a carrying value of \$375,903,000 and \$328,449,000 at June 30, 2002 and 2001, respectively, and amortized cost of \$362,896,000 and \$322,554,000 at June 30, 2002 and 2001, respectively.

The Authority's investments are categorized below (in thousands of dollars) to give an indication of the level of risk assumed by the entity at June 30, 2002 and 2001. Category 1 includes investments that are insured or registered or for which the securities are held by the Authority's agent in the Authority's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by banks, brokers or dealers, or by their agents, but not in the Authority's name. Not categorized includes certain other investments, such as certificates of deposit, government money market funds, repurchase agreements, and investment agreements, as they are not evidenced by securities that exist in physical or book entry form.

	2002				
	Category			Not Categorized	Carrying Amount
	1	2	3		
U.S. Government securities	\$ 162,897				\$ 162,897
Mortgage-backed securities	134,860		\$ 42,322		177,182
U.S. Government-backed securities			240,909		240,909
Noncategorized deposits and investments				\$ 184,838	184,838
<b>Total</b>	<u>\$ 297,757</u>	<u>None</u>	<u>\$ 283,231</u>	<u>\$ 184,838</u>	<u>\$ 765,826</u>

	2001				
	Category			Not Categorized	Carrying Amount
	1	2	3		
U.S. Government securities	\$ 232,888				\$ 232,888
Mortgage-backed securities	124,279		\$ 13,704		137,983
U.S. Government-backed securities			159,440		159,440
Noncategorized deposits and investments				\$ 388,231	388,231
<b>Total</b>	<u>\$ 357,167</u>	<u>None</u>	<u>\$ 173,144</u>	<u>\$ 388,231</u>	<u>\$ 918,542</u>

#### 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 by the United States Department of Agriculture. Substantially all multi-family loans are uninsured.

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

	<b>June 30</b>	
	<b>2002</b>	<b>2001</b>
Loans receivable:		
FHA insured, VA, or Department of Agriculture guaranteed	\$ 562,048	\$ 598,297
Insured by private mortgage insurance companies	103,852	104,863
Uninsured	<u>1,294,154</u>	<u>1,243,382</u>
 Total	 <u>\$ 1,960,054</u>	 <u>\$ 1,946,542</u>

The Authority has written off uncollectible loans, net of recoveries, of \$95,000 and \$221,000 for the years ended June 30, 2002 and 2001, respectively.

#### 5. GENERAL OBLIGATION BONDS PAYABLE

The Authority issues general obligation bonds to provide loans to finance multi-family housing projects, single-family housing units, and home improvements 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 semi-annually. 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 table 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.

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

	2002	2001
Single-Family Insured Mortgage Revenue Bonds - 1978 Series A, 2005 to 2010, 5%	\$ 7,420	\$ 7,420
Section 8 Assisted Mortgage Revenue Bonds - 1983 Series I, 2009 to 2014, 10.875% *	<u>9,071</u>	<u>8,159</u>
	9,071	8,159
Home Improvement Program Bonds:		
1989 Series A, 2007 to 2009, 7.30%		2,000
1989 Series B, 2003 to 2012, 7.65%		<u>7,400</u>
		9,400
Single-Family Mortgage Revenue Bonds:		
1990 Series C		4,310
1991 Series A		4,945
1991 Series B, 2002 to 2005, 6.20% to 6.50%	6,005	15,470
1992 Series A, 2002 to 2005, 6.25% to 6.55%	10,840	28,020
1994 Series A, 2002 to 2008, 5.60% to 6.20%	18,390	25,810
1994 Series C and D, 2002 to 2016, 5.60% to 6.50%	13,250	20,920
1995 Series A and B, 2002 to 2014, 5.90% to 6.75%	20,730	28,120
1995 Series C and D, 2002 to 2027, 4.95% to 6.30%	39,030	49,635
1996 Series A, B and C, 2002 to 2027, 5.15% to 6.20%	103,005	110,675
1996 Series D and E, 2002 to 2027, 4.95% to 6.20%	49,735	65,315
1997 Series A, 2002 to 2028, 4.90% to 6.05%	36,445	45,705
1997 Series C, D and E, 2002 to 2028, 4.65% to 6.87% including \$12,580,000 at a variable rate	74,195	87,095
1998 Series B and C, 2002 to 2030, 4.00% to 5.20%	74,075	80,890
1999 Series A, 2002 to 2029, 5.15% to 6.30%	14,830	15,095
1999 Series B-1, 2001 to 2029, 5.15% to 6.375%	21,235	24,550
1999 Series B-2, 2024, variable rate (Note 6)	12,850	12,850
2000 Series A, 2016, variable rate (Note 6)	27,710	36,610
2000 Series B, 2001 to 2030, 5.15% to 6.375%	6,675	7,150
2000 Series C, 2020, variable rate (Note 6)	40,000	40,000
2001 Series A, 2002 to 2032, 3.45% to 5.55%	102,835	102,835
2001 Series B, 2002, variable rate	24,365	
2002 Series A, 2002, variable rate (Note 6)	15,000	
2002 Series B, 2005 to 2030, 3.25% to 5.50%	<u>7,615</u>	
	718,815	806,000

	2002	2001
Multi-Family Housing Revenue Bonds - 1988 Series A, 2000 to 2019, variable rate (Note 6)	\$ 49,200	\$ 50,500
Rental Housing Revenue Bonds:		
1991 Series A and B		1,390
1992 Series A, 2002 to 2023, 6.10% to 6.65%	143,905	157,590
1993 Series A, 2003 to 2023, 5.25% to 5.90%	147,965	156,985
1994 Series B, 2002 to 2019, 5.00% to 5.80%	80,285	86,515
1995 Series A and B, 2002 to 2023, 5.30% to 6.25%	103,620	117,050
1997 Series A, 2002 to 2033, 4.85% to 6.10%	81,975	83,300
1997 Series B, 2003 to 2009, variable rate (Note 6)	32,250	32,250
1999 Series A, B and C, 2002 to 2033, 3.60% to 5.30%	102,145	103,700
1999 Series D, 2002 to 2015, variable rate	50,000	50,000
2000 Series A and B, 2024 and 2035, variable rate (Note 6)	92,050	95,410
2001 Series A, B and C, 2023 and 2035, variable rate	<u>150,270</u>	<u>152,930</u>
	984,465	1,037,120
Insured Rental Housing Revenue Bonds:		
1992 Series A		28,430
1998 Series A, 2002 to 2026, 6.325% to 6.89%	<u>37,255</u>	<u>37,540</u>
	37,255	65,970
Multi-Family Revenue Bonds -		
1995 Series A, 2003 to 2030, 7.75% to 8.55%	<u>32,925</u>	<u>33,275</u>
Subtotal	1,839,151	2,017,844
Less bond discount, net of amortization	<u>10,312</u>	<u>11,650</u>
Total	<u>\$ 1,828,839</u>	<u>\$ 2,006,194</u>

(Concluded)

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.

The following summarizes principal and interest debt service requirements at June 30, 2002 for the next 36 fiscal years (in thousands of dollars):

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2003	\$ 84,285	\$ 101,313	\$ 185,598
2004	65,110	97,883	162,993
2005	68,045	94,495	162,540
2006	69,270	90,888	160,158
2007	<u>67,835</u>	<u>87,213</u>	<u>155,048</u>
Total Fiscal Year 2003 - 2007	354,545	471,792	826,337
2008-2012	422,071	372,389	794,460
2013-2017	366,745	262,459	629,204
2018-2022	294,175	162,253	456,428
2023-2027	227,800	88,724	316,524
2028-2032	125,245	28,924	154,169
2033-2037	46,590	5,738	52,328
2038	<u>1,980</u>	<u>52</u>	<u>2,032</u>
Total	<u>\$ 1,839,151</u>	<u>\$ 1,392,331</u>	<u>\$ 3,231,482</u>

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 revenues. Bonds retired pursuant to such provisions total \$145,870,000 and \$90,108,000 during the years ended June 30, 2002 and 2001, respectively. Such bond retirements, in the aggregate, resulted in net (loss)/gains of \$(65,000) and \$782,000 for the years ended June 30, 2002 and 2001, respectively. These gains represent net adjustments to unamortized bond discounts, net of the write-off of related unamortized issuance costs, and are recorded in interest expense and debt financing costs in the statements of revenues and expenses.

## 6. DEMAND BONDS

Included in bonds payable at June 30, 2002, are \$51,550,000 and \$40,500,000 of Rental Housing Revenue Bonds, 2000 Series A and 2000 Series B, respectively. The proceeds of the Series A Bonds are being used to fund new multi-family mortgage loans. The proceeds of the Series B Bonds were issued to refund an equal amount of Rental Housing Revenue Bonds, 1997 Series B (see next paragraph). The 2000 Series A and Series B Bonds are subject to purchase on the demand of the holders, at a price equal to principal plus accrued interest, on delivery to the Authority's remarketing agent, Goldman, Sachs & Co. The remarketing agent is required to use its best efforts to resell the bonds at a price equal to 100% of the principal amount and may adjust the interest rate in order to do so. If the remarketing agent is unsuccessful in remarketing any bonds, Morgan Guaranty Trust Company of New York (the "Bank") shall purchase such bonds pursuant to a Standby Bond Purchase Agreement between the Bank, the Trustee and the Authority. Such agreement is currently valid through September 28, 2005. While the bonds are held by the Bank they shall bear interest at the higher of the Bank's prime rate or .50% per annum above the Federal Funds Rate and will be subject to mandatory redemption in ten equal semi-annual installments commencing between six and twelve months after being acquired by the Bank. The Authority is required to pay the Bank an annual commitment fee of .20% per annum on the amount of bonds outstanding plus interest for 34 days at a rate of 14%. In addition, the remarketing agent receives a fee equal to one-tenth of 1% of the outstanding principal amount of the bonds.

Included in bonds payable at June 30, 2002, is \$32,250,000 of General Obligation Rental Housing Revenue Bonds, 1997 Series B, with semi-annual sinking fund requirements through April 1, 2019. The proceeds of the bonds were used to refund an equal amount of 1994 Series C Rental Housing Revenue Bonds, which in turn were issued to refund Section 8 Assisted Mortgage Revenue Bonds and a portion of the Rental Housing Revenue Bonds, 1992 Series B. The 1997 Series B Bonds are subject to purchase option on the demand of the holder, at a price equal to principal plus accrued interest on delivery to the Authority's remarketing agent, Goldman, Sachs & Co. The remarketing agent is required to use its best efforts to resell the bonds at a price equal to 100% of their principal amount and may adjust the interest rate in order to do so. If the remarketing agent is unsuccessful in remarketing any bonds, they are to be delivered to the trustee for payment. The trustee is entitled to draw on an irrevocable letter of credit, issued by Landesbank Hessen-Thüringen Girozentrale ("Landesbank"), an amount sufficient to pay the purchase price of bonds delivered to it. The letter of credit is valid through April 12, 2003. The Authority must repay the bank for each draw on the letter of credit by its expiration date. Interest is also payable on any of these draws outstanding at a variable rate not to exceed 12%. The Authority is required to pay the bank an annual commitment fee for the letter of credit of .25% per annum of the amount of the letter of credit, which is equal to the amount of bonds outstanding plus interest for 211 days at 12% per annum. In addition, the remarketing agent receives an annual fee equal to one-eighth of 1% of the outstanding principal amount of the bonds.

Included in bonds payable at June 30, 2002, is \$15,000,000 of Single-Family Mortgage Revenue Bonds, 2002 Series A. The bonds were issued to finance the purchase of new single-family mortgage loans. The bonds are subject to purchase on the demand of the holders, at a price equal to principal plus accrued interest, on delivery to the Authority's remarketing agent, Lehman Brothers. The remarketing agent is required to use its best efforts to resell the bonds at a price equal to 100% of the principal amount and may adjust the interest rate in order to do so. If the remarketing agent is unsuccessful in remarketing any of the bonds, Landesbank shall purchase such bonds pursuant to a standby bond purchase agreement between Landesbank, the trustee and the Authority. Such agreement is currently valid through May 28, 2003. While the bonds are held by Landesbank, they shall bear interest at a rate per annum equal to the higher of (a) Federal Funds Rate plus .50% or (b) prime rate, and will be subject to mandatory redemption by the Authority on a quarterly basis beginning six months and ending five years after their purchase by Landesbank. The Authority is required to pay an annual commitment fee of .14% per annum on the amount of bonds outstanding plus interest for 183 days at a rate of 14% per annum. In addition, the remarketing agent receives a fee equal to one-tenth of 1% of the outstanding principal amount of the bonds.

Included in bonds payable at June 30, 2002, are \$12,850,000, \$27,710,000 and \$40,000,000 of Single-Family Mortgage Revenue Bonds, 1999 Series B-2, 2000 Series A and 2000 Series C, respectively. The proceeds of the 2000 Series A Bonds were used to refund the Authority's 1990 Series A Single-Family Mortgage Revenue Bonds and the proceeds of the 1999 Series B-2 and 2000 Series C Bonds were used to finance the purchase of new single-family mortgage loans. The bonds are subject to purchase on the demand of the holders, at a price equal to principal plus accrued interest, on delivery to the Authority's remarketing agent, Lehman Brothers. The remarketing agent is required to use its best efforts to resell the bonds at a price equal to 100% of the principal amount and may adjust the interest rate in order to do so. If the remarketing agent is unsuccessful in remarketing any of the bonds, Bank One Michigan ("Bank One") shall purchase such bonds pursuant to a Standby Bond Purchase Agreement between Bank One, the Trustee and the Authority. Such agreement is currently valid through June 1, 2005. While the bonds are held by Bank One they shall bear interest at a rate determined in reference to the British Bankers' Association Interest Settlement Rate, as adjusted for Bank One's Reserve Requirement, plus .70%, and will be subject to mandatory redemption by the Authority on a quarterly basis beginning six months and ending five years after their purchase by Bank One. The Authority is required to pay an annual commitment fee of .115% per annum on the amount of bonds outstanding plus interest for 205 days at a rate of 14% per annum. In addition, the remarketing agent receives a fee equal to one-tenth of 1% of the outstanding principal amount of the bonds.

Included in bonds payable at June 30, 2002, is \$49,200,000 of General Obligation Multi-Family Housing Revenue Bonds (1988 Series A) with annual sinking fund requirements through November 1, 2019. The proceeds of the bonds were used to (a) provide funds for multi-family mortgage loans, (b) establish reserve funds in accordance with the trust agreement, and (c) pay costs incurred to issue the bonds. The bonds are subject to purchase on the demand of the holders at a price equal to principal plus accrued interest on delivery to the Authority's remarketing agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated. The remarketing agent is required to use its best efforts to resell the bonds at a price equal to 100% of their principal amount and may adjust the interest rate in order to do so. If the remarketing agent is unsuccessful in remarketing any bonds, they are to be delivered to the trustee for payment. The trustee is entitled to draw on an irrevocable letter of credit, issued by Landesbank Hessen-Thüringen Girozentrale ("Landesbank"), an amount sufficient to pay the purchase price of bonds delivered to it. The letter of credit is valid through March 31, 2003. The Authority must repay Landesbank for each draw on the letter of credit by its expiration date. Interest is also payable on any draws outstanding at a rate equal to the lesser of (a) the greater of Landesbank's prime rate or the Federal Funds Rate plus .50% or (b) 25%. The Authority is required to pay Landesbank an annual commitment fee for the letter of credit of .26% per annum of the amount of the letter of credit, which is equal to the amount of bonds outstanding plus interest for 41 days at 25% per annum. In addition, the remarketing agent receives an annual fee equal to one-eighth of 1% of the outstanding principal amount of the bonds.

## 7. 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 revenues and property derived from or obtained in connection with the housing projects. Thus, with the exception of limited obligation bond financing fees discussed in Note 2, transactions related to these bonds are not reflected in the Authority's financial statements. At June 30, 2002, limited obligation bonds had been issued totaling approximately \$463,413,000 of which ten issues totaling \$77,598,000 have been retired.

## 8. PENSION PLAN

Plan Description - The employer's share of life, health, optical, dental and long-term disability insurance premiums are charged by the State of Michigan to the Authority biweekly based on each employee's selected coverage.

The Authority's employees are also enrolled in a noncontributory Defined Benefit Plan or a Defined Contribution Plan through the State Employee's Retirement System upon meeting certain eligibility requirements. The Defined Benefit Plan provides for retiree pension, dental, vision, and major medical coverage. The Defined Contribution Plan provides for a 4% gross pay contribution to the participant's plans, and to which participants may contribute up to 18% of their salary. The State matches the first 3% of participant contributions. All new employees after March 31, 1997 are members of the Defined Contribution Plan. In 1997, when the Defined Contribution Plan was adopted, participants in the Defined Benefit Plan had a one-time irrevocable choice to continue in that Plan or convert to the Defined Contribution Plan. The cost of these benefits is allocated to the Authority as a percentage of gross payroll.

A member of the Defined Benefit Plan may retire with an age and service allowance after completing: (1) at least ten years of credited service, and (2) attaining the minimum retirement age of 60, or at least age 55 with 30 years of service credit. The normal retirement benefit is payable for the lifetime of a member and is determined using 1.5% times a member's final average compensation multiplied by the number of years of credited service. Final average compensation is calculated as the average of a member's monthly pay during the period of 36 consecutive months of credited service producing the highest monthly average.

Pension costs of the Authority paid into the Plan aggregated \$1,925,000 and \$1,738,000 for the years ended June 30, 2002 and 2001, respectively, and are included in salaries and benefits expense. The Authority has no liability for pension costs other than the normal contributions as determined by the Plan.

Additional detail and data regarding the Plan description, accounting policies, vesting and eligibility requirements, actuarial cost methods and assumptions, funding status and requirements and ten-year historical trend information is provided in the State of Michigan Comprehensive Annual Financial Report and the Plan's detailed financial reports, issued by the Bureau of Retirement Systems.

## 9. 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 of the 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 thereof 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%. 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% 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. The mortgage interest income that was deferred, net of amortization, was \$4,670,000 and \$3,680,000 for the years ended June 30, 2002 and 2001, respectively.

## 10. CAPITAL LEASE

Effective April 2001, the Authority entered into an agreement to lease its building through the year 2021. The Authority has purchase options at the end of five or ten years respectively, equal to the present value of the future lease payments. Based upon a review of the lease terms, the Authority has determined that such lease is a capital lease. Accordingly, the land and building has been recorded as a capital asset of the Authority, totaling \$15,097,520 with accumulated depreciation of \$646,136 at June 30, 2002, and is included in other assets.

Future minimum lease payments under the scheduled capital lease that have initial or remaining non-cancelable terms in excess of one year are as follows:

Fiscal Year	Principal	Interest	Total
2003	\$ 364,811	\$ 1,114,689	\$ 1,479,500
2004	393,836	1,085,664	1,479,500
2005	425,170	1,054,330	1,479,500
2006	458,997	1,020,503	1,479,500
2007	495,516	983,984	1,479,500
Total Fiscal Year 2003 - 2007	2,138,330	5,259,170	7,397,500
2008-2012	3,135,539	4,261,961	7,397,500
2013-2017	4,597,798	2,799,702	7,397,500
2018-2021	4,930,704	740,712	5,671,416
Total	<u>\$ 14,802,371</u>	<u>\$ 13,061,545</u>	<u>\$ 27,863,916</u>

## 11. RESTRICTED FUND EQUITY

The components of restricted fund equity are as follows (in thousands of dollars):

	<u>June 30</u>	
	<u>2002</u>	<u>2001</u>
Pledged for payment of:		
All bond issues (Capital Reserve Capital Account)	\$ 37,351	\$ 32,910
Section 8 Assisted Mortgage Revenue Bonds	12,975	12,578
Single-Family Insured Mortgage Revenue Bonds	3,399	3,173
Home Improvement Program Bonds	6,192	5,923
Single-Family Mortgage Revenue Bonds	54,323	47,268
Multi-Family 1988 Housing Revenue Bonds	742	899
Rental Housing Revenue (Tax-Exempt) Bonds	78,085	62,703
1992 and 1998 Insured Rental Housing Revenue Bonds	6,940	6,910
Multi-Family 1995 Series A Revenue Bonds	<u>1,740</u>	<u>1,235</u>
Total	<u>\$ 201,747</u>	<u>\$ 173,599</u>

## 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.

## 13. COMMITMENTS

As of June 30, 2002 and 2001, the Authority has commitments to issue multi-family mortgage loans in the amounts of \$58,451,000 and \$77,480,000, respectively, and single-family mortgage loans in the amounts of \$18,660,000 and \$21,009,000, 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% or less of median income or to subsidize operations in general. Subsidy disbursements began in 1985 and totaled approximately \$639,000 and \$625,000 for the years ended June 30, 2002 and 2001, 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% 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 repayments exceeded subsidy disbursements by \$63,000 and \$197,000 for the years ended June 30, 2002 and 2001, respectively.

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% of the subsidies provided by the Authority. The Authority has not established a maximum amount that it will make available under this program. Subsidy disbursements under this program totaled \$940,000 and \$896,000, for the years ended June 30, 2002 and 2001, respectively.

Finally, 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 revenues and are also repayable upon repayment of the first mortgage loan. Disbursements under this program totaled \$517,000 and \$560,000, for the years ended June 30, 2002 and 2001, respectively.

#### **14. GRANTS AND SUBSIDIES**

Disbursements under the programs described in Note 13 are included in grants and subsidies on the statements of revenues and expenses and changes in fund equity, along with grants made to non-profit 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.

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# MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

## SUPPLEMENTAL DATA - BALANCE SHEET INFORMATION

JUNE 30, 2002

(In Thousands of Dollars)

	Section 8 Assisted Mortgage Revenue Bonds Activities	Single-Family Insured Mortgage Revenue Bonds Activities	Home Improvement Program Bonds Activities	Single-Family Mortgage Revenue Bonds Activities
<b>ASSETS</b>				
CASH AND EQUIVALENTS	\$ 232	\$ 544	\$ 189	\$ 66,695
INVESTMENTS, including related interest receivable	12,502	2,962		62,048
LOANS RECEIVABLE:				
Multi-family mortgage loans:				
Construction-in-progress				
Completed construction	9,928			
Housing development loans				
Single-family mortgage loans		8,098	870	638,479
Home improvement and moderate rehabilitation loans			8,426	
Subtotal	9,928	8,098	9,296	638,479
Add interest receivable	76	44	32	4,507
Less allowance for possible losses			(250)	(675)
Less mortgage discount	(183)			(1,299)
Loans receivable, net	9,821	8,142	9,078	641,012
OTHER ASSETS:				
Unamortized bond financing costs	14	5		1,957
Real estate owned		88		3,482
Other		15	338	1,714
Interfund accounts	90	(1,249)	(3,413)	(4,597)
Total other assets	104	(1,141)	(3,075)	2,556
<b>TOTAL ASSETS</b>	<b>\$ 22,659</b>	<b>\$ 10,507</b>	<b>\$ 6,192</b>	<b>\$ 772,311</b>
<b>LIABILITIES AND FUND EQUITY</b>				
LIABILITIES:				
Bonds payable	\$ 9,684	\$ 7,015		\$ 698,286
Demand bonds				15,000
Accrued interest payable		93		3,437
Escrow funds				
Deferred mortgage interest income				
Other				1,265
Total liabilities	9,684	7,108		717,988
FUND EQUITY	12,975	3,399	\$ 6,192	54,323
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 22,659</b>	<b>\$ 10,507</b>	<b>\$ 6,192</b>	<b>\$ 772,311</b>

(Continued)

SUPPLEMENTAL DATA - BALANCE SHEET INFORMATION  
JUNE 30, 2002

(In Thousands of Dollars)

ASSETS	Multi-Family 1988 Revenue Bonds Activities	Rental Housing Revenue Bonds (Tax-Exempt) Activities	1992 & 1998 Insured Rental Housing Revenue Bonds Activities	Multi-Family 1995 Series A Revenue Bonds Activities	General Operating Activities	Capital Reserve Capital Activities	Mortgage Escrow and Reserve Activities	Other Activities	Total
CASH AND CASH EQUIVALENTS	\$ 3,919	\$ 61,321	\$ 732	\$ 639	\$ 7,902	\$ 4	\$ 9,409		\$ 151,586
INVESTMENTS, including related interest receivable	4	66,513	3,095	4,533	45,389	37,347	367,202	\$ 16,667	618,262
LOANS RECEIVABLE:									
Multi-family mortgage loans:									
Construction-in-progress		80,840			12,447				93,287
Completed construction	46,292	941,522	41,232	33,532	89,811			837	1,163,154
Housing development loans								24,388	24,388
Single-family mortgage loans					15,379				662,826
Home improvement and moderate rehabilitation loans					7,973				16,399
Subtotal	46,292	1,022,362	41,232	33,532	125,610			25,225	1,960,054
Add interest receivable	212	6,868	297	247	1,661			564	14,508
Less allowance for possible losses	(500)	(20,000)	(1,500)	(500)	(9,575)				(33,000)
Less mortgage discount		(1,296)			(8,066)				(10,844)
Loans receivable, net	46,004	1,007,934	40,029	33,279	109,630			25,789	1,930,718
OTHER ASSETS:									
Unamortized bond financing costs	121	2,082	166	96	2				4,443
Real estate owned		1,305			4,625				9,500
Other		9			32,059			755	34,890
Interfund accounts	1	(2,349)	(658)	(3,493)	25,003		1,938	(11,273)	
Total other assets	122	1,047	(492)	(3,397)	61,689		1,938	(10,518)	48,833
<b>TOTAL ASSETS</b>	<b>\$ 50,049</b>	<b>\$ 1,136,815</b>	<b>\$ 43,364</b>	<b>\$ 35,054</b>	<b>\$ 224,610</b>	<b>\$ 37,351</b>	<b>\$ 378,549</b>	<b>\$ 31,938</b>	<b>\$ 2,749,399</b>
LIABILITIES AND FUND EQUITY									
LIABILITIES:									
Bonds payable	\$ 49,022	\$ 980,769	\$ 36,213	\$ 32,850					\$ 1,828,839
Accrued interest payable	145	10,193	211	464					14,543
Escrow funds		955			\$ 4,732		\$ 378,549	\$ (26,340)	357,896
Deferred mortgage interest income		62,100							62,100
Other	140	4,713			33,342			11,235	50,695
Total liabilities	49,307	1,058,730	36,424	33,314	38,074		378,549	(15,105)	2,314,073
FUND EQUITY	742	78,085	6,940	1,740	186,536	\$ 37,351		47,043	435,326
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 50,049</b>	<b>\$ 1,136,815</b>	<b>\$ 43,364</b>	<b>\$ 35,054</b>	<b>\$ 224,610</b>	<b>\$ 37,351</b>	<b>\$ 378,549</b>	<b>\$ 31,938</b>	<b>\$ 2,749,399</b>

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

SUPPLEMENTAL DATA - STATEMENT OF REVENUE AND EXPENSES AND CHANGES IN FUND EQUITY INFORMATION

YEAR ENDED JUNE 30, 2002

(In Thousands of Dollars)

	Section 8 Assisted Mortgage Revenue Bonds Activities	Single- Family Insured Mortgage Revenue Bonds Activities	Home Improvement Program Bonds Activities	Single- Family Mortgage Revenue Bonds Activities
OPERATING REVENUES:				
Investment income:				
Loan interest income	\$ 939	\$ 353	\$ 621	\$ 46,063
Investments interest income	657	258	104	7,432
Increase (decrease) in fair value of investments	(39)	83		23
Subtotal	1,557	694	725	53,518
Less: Interest expense and debt financing costs	904	447	205	45,836
Net investment income	653	247	520	7,682
Other revenue:				
Federal assistance programs				
Section 8 Program administrative fees				
Contract administration fees				
Other income		2		23
Total other revenue	653	249	520	7,705
OPERATING EXPENSES:				
Federal assistance programs				
Salaries and benefits				
Other general operating expenses				
Loan servicing and insurance costs		23	285	2,396
Provision for possible losses on loans			(34)	104
Total expenses		23	251	2,500
OPERATING INCOME BEFORE GRANTS AND SUBSIDIES	653	226	269	5,205
GRANTS AND SUBSIDIES				
NET INCOME	653	226	269	5,205
FUND EQUITY, BEGINNING OF YEAR	12,578	3,173	5,923	47,268
TRANSFERS (TO) FROM OTHER FUNDS FOR:				
Payment of operating fund expenses	(256)			
Funding to provide additional cash flow and payment of bond issuance costs				1,850
FUND EQUITY, END OF YEAR	<u>\$ 12,975</u>	<u>\$ 3,399</u>	<u>\$ 6,192</u>	<u>\$ 54,323</u>

(Continued)

# MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

## SUPPLEMENTAL DATA - STATEMENT OF REVENUE AND EXPENSES AND CHANGES IN FUND EQUITY INFORMATION

YEAR ENDED JUNE 30, 2002

(In Thousands of Dollars)

	Multi-Family 1988 Revenue Bonds Activities	Rental Housing Revenue Bonds (Tax-Exempt) Activities	1992 & 1998 Insured Rental Housing Revenue Bonds Activities	Multi-Family 1995 Series A Revenue Bonds Activities	General Operating Activities	Capital Reserve Capital Activities	Other Activities	Total
OPERATING REVENUES:								
Investment income:								
Loan interest income	\$2,516	\$ 71,584	\$ 3,427	\$ 2,983	\$ 9,917		\$1,347	\$ 139,750
Investments income, net	73	8,941	931	244	3,157	\$ 2,274	2,457	26,528
Increase (decrease) in fair value of investments		155	66	176	441	2,167		3,072
Subtotal	2,589	80,680	4,424	3,403	13,515	4,441	3,804	169,350
Less: Interest expense and debt financing costs	1,096	53,264	3,695	2,899	93			108,439
Net investment income	1,493	27,416	729	504	13,422	4,441	3,804	60,911
Other revenue:								
Federal assistance programs					191,723			191,723
Section 8 Program administrative fees					9,111			9,111
Contract administration fees					6,286			6,286
Other income	1	2	1	1	3,210		919	4,159
Total other revenue	1,494	27,418	730	505	223,752	4,441	4,723	272,190
OPERATING EXPENSES:								
Federal assistance programs					191,723			191,723
Salaries and benefits					19,733			19,733
Other general operating expenses					16,977			16,977
Loan servicing and insurance costs					169			2,873
Provision for possible losses on loans	500				525			1,095
Total expenses	500				229,127			232,401
OPERATING INCOME BEFORE GRANTS AND SUBSIDIES	994	27,418	730	505	(5,375)	4,441	4,723	39,789
GRANTS AND SUBSIDIES					(1,738)		(10,392)	(12,130)
NET INCOME	994	27,418	730	505	(7,113)	4,441	(5,669)	27,659
FUND EQUITY, BEGINNING OF YEAR	899	62,703	6,910	1,235	189,356	32,910	44,712	407,667
TRANSFERS (TO) FROM OTHER FUNDS FOR:								
Payment of operating fund expenses	(1,151)	(12,036)	(700)		6,143		8,000	
Funding to provide additional cash flow and payment of bond issuance costs					(1,850)			
FUND EQUITY, END OF YEAR	<u>\$ 742</u>	<u>\$ 78,085</u>	<u>\$ 6,940</u>	<u>\$ 1,740</u>	<u>\$186,536</u>	<u>\$ 37,351</u>	<u>\$ 47,043</u>	<u>\$ 435,326</u>

(Concluded)

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED UPON THE AUDIT OF THE FINANCIAL  
STATEMENTS FOR THE YEARS ENDED JUNE 30, 2002 AND 2001**



To the Members of the Board of Directors of the  
Michigan State Housing Development Authority and Auditor General:

We have audited the accompanying financial statements of the Michigan State Housing Development Authority (the "Authority") as of and for the years ended June 30, 2002 and 2001, and have issued our report thereon dated October 10, 2002. 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.

**Compliance**

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audits, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of management and others within the Authority, the Auditor General, State of Michigan, federal awarding agencies, and officials of the applicable regulatory, executive, and legislative offices and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Deloitte &amp; Touche LLP". The signature is written in a cursive, flowing style.

October 10, 2002

# legal and financial services

## UNDERWRITERS

### Senior Managers

*Bear, Stearns & Company,  
Inc.*

*Goldman, Sachs & Company*

*Lehman Brothers*

*Merrill Lynch & Company*

### Co-Managers

*Banc One Capital Markets  
Inc.*

*M. R. Beal & Company*

*Comerica Securities*

*A. G. Edwards & Sons, Inc.*

*NatCity Investments, Inc.*

*UBS Paine Webber Inc.*

*Salomon Smith Barney*

*Raymond James*

*Fifth Third*

*Loop Capitol*

## INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

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*John O. Renken, Esq.*

*Dickinson Wright PLLC*

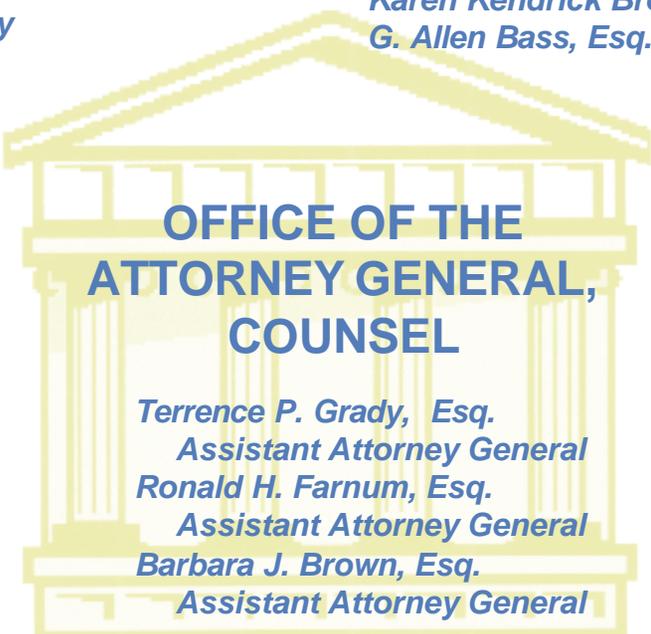
*Terence M. Donnelly, Esq.*

*Rhonda D. Welburn, Esq.*

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*Karen Kendrick Brown, Esq.*

*G. Allen Bass, Esq.*



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