

**Michigan State Housing  
Development Authority**  
(a component unit of the State of Michigan)

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**Financial Report**  
**with Supplemental Information**  
**June 30, 2008**

# Michigan State Housing Development Authority

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## Contents

<b>Report Letter</b>	1-2
<b>Management's Discussion and Analysis (Unaudited)</b>	3-6
<b>Basic Financial Statements</b>	
Statement of Net Assets	7
Statement of Revenue, Expenses, and Changes in Net Assets	8
Statement of Cash Flows	9-10
Notes to Financial Statements	11-32
<b>Other Supplemental Information</b>	33
<b>Report Letter</b>	34
Statement of Net Assets Information	35-36
Statement of Revenue, Expenses, and Changes in Net Assets Information	37-38
<b>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</b>	39-41

## 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 of Michigan State Housing Development Authority (the "Authority"), a component unit of the State of Michigan, as of and for the years ended June 30, 2008 and 2007, 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 financial position of Michigan State Housing Development Authority as of June 30, 2008 and 2007 and the 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.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2008 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 considered in assessing the results of our audits.

*Plante & Moran, PLLC*

October 22, 2008

# Michigan State Housing Development Authority

## Management's Discussion and Analysis (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 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, 2008, 2007, and 2006.

### Condensed Financial Information

(in thousands of dollars)

	2008	2007	2006
<b>Assets</b>			
Investments	\$ 790,849	\$ 553,626	\$ 538,750
Loans receivable - Net	2,373,286	2,138,174	1,941,650
Other assets	409,893	187,794	354,442
Total assets	<u>\$ 3,574,028</u>	<u>\$ 2,879,594</u>	<u>\$ 2,834,842</u>
<b>Liabilities</b>			
Bonds payable	\$ 2,396,971	\$ 1,785,202	\$ 1,766,202
Other liabilities	496,631	442,088	448,634
Total liabilities	<u>\$ 2,893,602</u>	<u>\$ 2,227,290</u>	<u>\$ 2,214,836</u>
<b>Net Assets</b>			
Restricted	\$ 295,131	\$ 266,612	\$ 265,313
Unrestricted	385,295	385,692	354,693
Total net assets	<u>\$ 680,426</u>	<u>\$ 652,304</u>	<u>\$ 620,006</u>

# Michigan State Housing Development Authority

## Management's Discussion and Analysis (Unaudited) (Continued)

	2008	2007	2006
<b>Revenue</b>			
Net investment income	\$ 69,875	\$ 62,796	\$ 55,964
Federal assistance programs revenue	458,951	414,460	395,952
Section 8 program administrative fees	14,388	13,154	13,464
Contract administration fees	8,253	7,678	6,834
Other income	13,905	20,478	16,320
Total revenue	565,372	518,566	488,534
<b>Expenses</b>			
Federal assistance programs expenses	458,951	414,460	395,952
Salaries and benefits	25,226	23,718	21,568
Other general operating expenses	22,732	22,010	24,649
Other expenses	10,004	11,406	6,894
Total expenses	516,913	471,594	449,063
<b>Grants and Subsidies</b>	<u>20,337</u>	<u>14,674</u>	<u>15,844</u>
<b>Change in Net Assets</b>	<u><u>\$ 28,122</u></u>	<u><u>\$ 32,298</u></u>	<u><u>\$ 23,627</u></u>

### Financial Analysis

Total assets increased from \$2.88 billion at June 30, 2007 to \$3.57 billion at June 30, 2008. This was an increase of approximately \$694.4 million, or 24.1 percent. Total assets increased from \$2.83 billion at June 30, 2006 to \$2.88 billion at June 30, 2007. This was an increase of approximately \$44.7 million, or 1.6 percent.

Net loans receivable increased from \$2,138.2 million at June 30, 2007 to \$2,373.3 million at June 30, 2008. Loans receivable increased due to improved single-family mortgage (increase of \$219.3 million) and multi-family mortgage (increase of \$16.9 million) loan production. Net loans receivable increased from \$1,941.7 million at June 30, 2006 to \$2,138.2 million at June 30, 2007. Loans receivable increased due to a single-family mortgage loan balance increase of \$114.2 million and multi-family mortgage loan increase of \$86.3 million.

Bonds payable increased from \$1,785.2 million at June 30, 2007 to \$2,397.0 million at June 30, 2008, a net increase of approximately \$611.8 million. This increase was due primarily to the Authority issuing \$162.2 million of Rental Housing Revenue Bonds and \$629.2 million of Single-Family Mortgage Revenue Bonds, while bond calls and scheduled debt service totaled \$179.6 million. Bonds payable increased from \$1,766.2 million at June 30, 2006 to \$1,785.2 million at June 30, 2007, a net increase of approximately \$19.0 million. This increase was primarily due to the Authority issuing \$224.4 million of Rental Housing Revenue Bonds during the fiscal year, while bond calls and scheduled debt service totaled \$206.9 million.

# Michigan State Housing Development Authority

## Management's Discussion and Analysis (Unaudited) (Continued)

Escrow funds, which are recorded in other liabilities, increased by \$47.4 million from a year earlier to \$392.4 million at June 30, 2008 due to an increase in multi-family loans and increased investments. Escrow funds decreased by \$2.2 million from a year earlier to \$345.0 million at June 30, 2007 due to the prepayment of multi-family developments with large reserves.

The Authority's net assets totaled \$680.4 million at June 30, 2008, equal to 19.0 percent of total assets and 23.5 percent of total liabilities. A significant portion of net assets is restricted. At June 30, 2008, \$295.1 million of net assets was pledged for payment against the various bond indentures. In addition, \$148.0 million is designated by board resolution, represented by the Community Development Fund. The Authority's net assets totaled \$652.3 million at June 30, 2007, equal to 22.7 percent of total assets and 29.3 percent of total liabilities. A significant portion of net assets is restricted. At June 30, 2007, \$266.6 million of net assets was pledged for payment against the various bond indentures. In addition, \$162.1 million is designated by board resolution for the Community Development Fund.

### Operating Results

Operations for the year ended June 30, 2008 resulted in excess of revenues over expenses of \$28.1 million compared to prior year results of \$32.3 million. Under the 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 \$6.2 million. Results for the year ended June 30, 2007 were negatively impacted by a decrease of approximately \$356,000. Currently, GASB No. 31 has had a cumulative positive effect of \$4.3 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, 2007 resulted in excess of revenues over expenses of \$32.3 million, compared to prior year results of \$23.6 million.

Net investment income increased from \$62.8 million in 2007 to \$69.9 million in 2008, an increase of \$7.1 million. On November 16, 2005, the Authority amended a \$50 million investment with the Michigan Broadband Development Authority (MBDA) and agreed to write-off approximately \$13.7 million and record \$5.1 million of previously unrealized interest income on the MBDA investment, resulting in a negative impact of \$8.6 million in net investment income for June 30, 2006. In the agreement, MBDA assigned all principal and interest payments from all loans to MSHDA. Net investment income increased from \$56.0 million in 2006 to \$62.8 million in 2007, an increase of \$6.8 million.

# **Michigan State Housing Development Authority**

## **Management's Discussion and Analysis (Unaudited) (Continued)**

Total revenue increased from \$518.6 million for the year ended June 30, 2007 to \$565.4 million for the year ended June 30, 2008, a net increase of \$46.8 million. Total revenue increased due primarily to the increase of federal assistance program revenue of \$44.5 million, the increase of net interest income of \$7.1 million, partially offset by a decrease of \$7.5 million in preservation fees. Under the preservation program, the Authority receives a portion of excess reserves of multi-family developments and the developments' owners. Based on an agreement, the owners are permitted to borrow a portion of the excess revenue if they preserve the developments for occupancy by low-income families. The preservation fees are realized based on the timing of the agreements. Total revenue increased from \$488.5 million for the year ended June 30, 2006 to \$518.6 million for the year ended June 30, 2007, a net increase of \$30.1 million. Total revenue increased due primarily to the increase of federal assistance program revenue of \$18.5 million, the increase of net interest income of \$6.8 million, and an increase in preservation fees of \$4.0 million.

Total operating expenses increased from \$471.6 million for the year ended June 30, 2007 to \$517.0 million for the year ended June 30, 2008, a net increase of \$45.4 million. Total operating expenses increased due primarily to an increase in the federal assistance programs of \$44.5 million. Total operating expenses increased from \$449.1 million for the year ended June 30, 2006 to \$471.6 million for the year ended June 30, 2007, a net increase of \$22.5 million. Total operating expenses increased due primarily to an increase in federal assistance programs of \$18.5 million and an increase in the provision for possible losses on loans of \$4.6 million.

# Michigan State Housing Development Authority

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

	June 30, 2008	June 30, 2007
<b>Assets</b>		
<b>Cash and Cash Equivalents</b> (Note 3)	\$ 350,465	\$ 138,813
<b>Investments</b> (Note 3)	790,849	553,626
<b>Loans Receivable</b>		
Multi-family mortgage loans	1,549,785	1,532,883
Single-family mortgage loans	855,552	636,288
Home improvement and moderate rehabilitation loans	8,461	8,432
Total (Note 4)	2,413,798	2,177,603
Accrued loan interest receivable	36,700	31,352
Allowance on loans receivable (Note 4)	(64,785)	(58,818)
Loan origination fees	(12,427)	(11,963)
Net loans receivable	2,373,286	2,138,174
<b>Other Assets</b>		
Unamortized bond financing costs	5,234	4,275
Real estate owned	24,595	12,245
Other	29,599	32,461
Total other assets	59,428	48,981
Total assets	<b><u>\$ 3,574,028</u></b>	<b><u>\$ 2,879,594</u></b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Bonds payable (Notes 5 and 6)	\$ 2,396,971	\$ 1,785,202
Accrued interest payable	14,096	12,070
Escrow funds	392,419	345,025
Deferred mortgage interest income (Note 7)	51,175	53,175
Other liabilities	38,941	31,818
Total liabilities	2,893,602	2,227,290
<b>Net Assets</b>		
Restricted (Note 11)	295,131	266,612
Unrestricted	385,295	385,692
Total net assets	680,426	652,304
Total liabilities and net assets	<b><u>\$ 3,574,028</u></b>	<b><u>\$ 2,879,594</u></b>

# Michigan State Housing Development Authority

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

	Year Ended June 30	
	2008	2007
<b>Operating Revenue</b>		
Investment income:		
Loan interest income	\$ 144,671	\$ 131,853
Investment interest income	28,057	21,156
Increase (decrease) in fair value of investments - Including change in unrealized (gains) losses of \$6,195 in 2008 and (\$356) in 2007	6,202	(938)
Total investment income	178,930	152,071
Less interest expense and debt financing costs	109,055	89,275
Net investment income	69,875	62,796
Other revenue:		
Federal assistance programs	458,951	414,460
Section 8 program administrative fees	14,388	13,154
Contract administration fees	8,253	7,678
Other income	13,905	20,478
Total other revenue	495,497	455,770
Total operating revenue	565,372	518,566
<b>Operating Expenses</b>		
Federal assistance programs	458,951	414,460
Salaries and benefits	25,226	23,718
Other general operating expenses	22,732	22,010
Loan servicing and insurance costs	2,402	2,054
Provision for possible losses on loans	7,602	9,352
Total operating expenses	516,913	471,594
<b>Operating Income Before Nonoperating Expenses</b>	48,459	46,972
<b>Nonoperating Expenses - Grants and subsidies</b>	(20,337)	(14,674)
<b>Change in Net Assets</b>	28,122	32,298
<b>Net Assets - Beginning of year</b>	652,304	620,006
<b>Net Assets - End of year</b>	<b>\$ 680,426</b>	<b>\$ 652,304</b>

# Michigan State Housing Development Authority

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

	Year Ended June 30	
	2008	2007
<b>Cash Flows from Operating Activities</b>		
Loan receipts	\$ 310,257	\$ 285,129
Other receipts	597,215	580,317
Loan disbursements	(427,062)	(375,443)
Payments to vendors	(67,508)	(63,770)
Payments to employees	(16,556)	(15,920)
Other disbursements	(544,136)	(533,303)
Net cash used in operating activities	(147,790)	(122,990)
<b>Cash Flows from Investing Activities</b>		
Purchase of investments	(900,932)	(331,096)
Proceeds from sale and maturities of investments	730,522	331,971
Interest received on investments	18,546	12,509
Net cash (used in) provided by investing activities	(151,864)	13,384
<b>Cash Flows from Noncapital Financing Activities</b>		
Proceeds from issuance of bonds, less discounts	790,793	222,364
Principal repayments on bonds	(180,419)	(206,870)
Interest paid	(99,068)	(81,597)
Net cash provided by (used in) noncapital financing activities	511,306	(66,103)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	211,652	(175,709)
<b>Cash and Cash Equivalents - Beginning of year</b>	138,813	314,522
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 350,465</b>	<b>\$ 138,813</b>

# Michigan State Housing Development Authority

## Statement of Cash Flows (Continued) (In thousands of dollars)

	Year Ended June 30	
	2008	2007
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>		
Operating income	\$ 48,459	\$ 46,972
Adjustments to reconcile operating income to net cash from operating activities:		
Amortization of deferred items - Net	1,192	1,312
Arbitrage rebate expense	3,035	(4,096)
Investment interest income	(34,259)	(20,218)
Increase in realized and unrealized gain on market value of investments	(64,507)	(8,212)
Interest expense on bonds	108,498	88,664
Provision for possible losses on loans	7,602	9,352
Grants and subsidies	(20,337)	(14,674)
Changes in assets and liabilities:		
Accrued loan interest receivable	(5,348)	(5,714)
Loans receivable	(236,195)	(200,023)
Other assets	(10,447)	(9,061)
Escrow funds	47,394	(2,129)
Other liabilities	7,123	(5,163)
Net cash used in operating activities	<u>\$ (147,790)</u>	<u>\$ (122,990)</u>

**Noncash Financing and Investing Activities** - During the years ended June 30, 2008 and 2007, the Authority foreclosed on various properties with mortgage values of approximately \$29.5 million and \$15.5 million, respectively.

# Michigan State Housing Development Authority

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## Notes to Financial Statements June 30, 2008 and 2007

### Note 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, 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 revenues 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.

### 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 that provides a comprehensive one-line look at the Authority's financial activities.

**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.

**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.

# Michigan State Housing Development Authority

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## Notes to Financial Statements June 30, 2008 and 2007

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

**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 mortgagors' 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.

**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.

**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, 2008 and 2007 totaled \$3,263,299 and \$3,255,291, respectively.

# Michigan State Housing Development Authority

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**Notes to Financial Statements  
June 30, 2008 and 2007**

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

**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.

**Section 8 Program** - 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.

**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 statement of revenue, expenses, and changes in net assets.

**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 effect 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2008 and 2007

### Note 3 - Deposits and Investments

Cash, cash equivalents, and investments held by the Authority at June 30, 2008 and 2007 were as follows (in thousands of dollars):

	Cash and Cash Equivalents	Investments	Total
<b>2008</b>			
Deposits	\$ 1,410	\$ 1,250	\$ 2,660
Government money market funds	332,709	-	332,709
Investments	<u>16,346</u>	<u>789,599</u>	<u>805,945</u>
Total	<u>\$ 350,465</u>	<u>\$ 790,849</u>	<u>\$ 1,141,314</u>
<b>2007</b>			
Deposits	\$ 228	\$ 1,239	\$ 1,467
Government money market funds	116,597	-	116,597
Investments	<u>21,988</u>	<u>552,387</u>	<u>574,375</u>
Total	<u>\$ 138,813</u>	<u>\$ 553,626</u>	<u>\$ 692,439</u>

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.

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2008 and 2007

### 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, 2008, the Authority had approximately \$336,526,000 of bank deposits (certificates of deposit, checking and savings accounts, and government money market funds) and of that balance \$332,585,000 was uninsured and uncollateralized. At June 30, 2007, the Authority had approximately \$122,933,000 of bank deposits (certificates of deposit, checking and savings accounts, and government money market funds) and of that balance \$117,551,000 was uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. To limit its risk, the Authority has deposits that are uninsured but collateralized. There are deposits of \$3,384,328 and \$4,597,275 for the years ended June 30, 2008 and 2007, respectively, 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.

**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:

Type of Investment	Carrying Value (in thousands of dollars)		How Held
	2008	2007	
Investment agreements	\$ 15,073	\$ 13,900	Counterparty's trust dept.
U.S. government securities	117,749	82,006	Counterparty's trust dept.
Mortgage-backed securities	337,148	253,113	Counterparty's trust dept.
U.S. government agency securities	320,142	198,239	Counterparty's trust dept.

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2008 and 2007

### 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 One Year	1-5 Years	6-10 Years	More Than 10 Years
<b>2008</b>					
Investment agreements	\$ 15,073	\$ 6,685	\$ -	\$ -	\$ 8,388
U.S. government securities	117,749	68,132	9,668	19,299	20,650
Mortgage-backed securities	338,574	3	1,203	631	336,737
U.S. government agency securities	320,142	135,379	-	14,814	169,949
<b>2007</b>					
Investment agreements	13,900	5,512	-	-	8,388
U.S. government securities	82,006	35,477	9,270	18,053	19,206
Mortgage-backed securities	253,113	63	2,269	895	249,886
U.S. government agency securities	198,239	-	-	14,319	183,920

**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
<b>2008</b>			
Investment agreements	\$ 13,100	AA-	S&P
Investment agreements	1,973	A	S&P
U.S. government securities	117,749	AAA	S&P
Mortgage-backed securities	337,148	AAA	S&P
Mortgage-backed securities	1,426	Not rated	-
U.S. government agency securities	320,142	AAA	S&P
<b>2007</b>			
Investment agreements	669	AAA	S&P
Investment agreements	13,231	AA	S&P
U.S. government securities	82,006	AAA	S&P
Mortgage-backed securities	251,324	AAA	S&P
Mortgage-backed securities	1,789	Not rated	-
U.S. government agency securities	198,239	AAA	S&P

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2008 and 2007

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

#### Concentration of Credit Risk

The Authority has 40 percent and 41 percent of its investment portfolio invested in the securities of government-sponsored enterprises as of June 30, 2008 and 2007, 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 \$490,377,000 and \$435,840,000 at June 30, 2008 and 2007, respectively.

**Michigan Broadband Development Authority (MBDA)** - On November 16, 2005, the Authority renegotiated its previous \$50,000,000 investment commitment with MBDA. The Authority made available \$35,483,810 to MBDA, of which \$21,992,613 was to fund future loan disbursements, \$1,245,000 for future operating expenses, and \$12,246,197 for existing loans. As of June 30, 2008, \$7,458,583 of loans were outstanding, \$2,898,078 was available to fund existing commitment and no funds were available for operating expenses. MBDA has assigned the Authority all principal and interest payments from current and future loans.

### 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 are as follows (in thousands of dollars):

	<u>2008</u>	<u>2007</u>
Loans receivable:		
FHA insured, VA, or Department of Agriculture guaranteed	\$ 516,248	\$ 435,445
Insured by private mortgage insurance companies	281,049	163,805
Uninsured	<u>1,616,501</u>	<u>1,578,353</u>
 Total loans receivable	 <u>\$ 2,413,798</u>	 <u>\$ 2,177,603</u>

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2008 and 2007

### Note 4 - Loans Receivable (Continued)

A summary of the allowance for possible losses is as follows:

	2008	2007
Beginning balance	\$ 58,818	\$ 50,200
Provision for possible losses on loans	7,602	9,352
Write-offs of uncollectible losses - Net of recoveries	<u>(1,635)</u>	<u>(734)</u>
Ending balance	<u>\$ 64,785</u>	<u>\$ 58,818</u>

### Note 5 - Bonds Payable

The Authority issues revenue 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 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 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.

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2008 and 2007

### Note 5 - Bonds Payable (Continued)

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

	Beginning Balance	Additions	Payments	Ending Balance
Revenue bonds:				
Section 8 assisted mortgage	\$ 15,403	\$ 1,675	\$ 694	\$ 16,384
Single-family mortgage	476,270	629,330	45,515	1,060,085
Multi-family housing	36,100	-	2,000	34,100
Rental housing	1,207,310	162,245	130,825	1,238,730
Insured rental housing	33,800	-	835	32,965
Multi-family	30,730	-	550	30,180
Total revenue bonds	1,799,613	<u>\$ 793,250</u>	<u>\$ 180,419</u>	2,412,444
Less deferred amounts	<u>(14,411)</u>			<u>(15,473)</u>
Total bonds - Net	<u>\$ 1,785,202</u>			<u>\$ 2,396,971</u>
Due within one year				<u>\$ 59,246</u>

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

	2008	2007
Section 8 assisted mortgage revenue bonds -		
1983 Series I, 2009 to 2014, 10.875% *	\$ 16,384	\$ 15,403
Single-family mortgage revenue bonds:		
1997 Series C, D, and E, 2018 to 2028, 5.65%	19,860	21,185
1998 Series B and C, 2008 to 2030, 4.60% to 5.20%	23,330	26,005
1999 Series B-2, 2024 variable rate (Note 6)	7,800	7,800
2000 Series A, 2016, variable rate (Note 6)	27,710	27,710
2000 Series C, 2020, variable rate (Note 6)	450	6,065
2001 Series A, 2008 to 2021, 4.60% to 5.35%	20,170	29,015
2002 Series A, 2020, variable rate (Note 6)	11,700	30,275
2003 Series B, 2008 to 2014, 2.95% to 4.30%	3,755	4,175
2003 Series C and D, 2030 to 2034, variable rate (Note 6)	28,970	31,360
2005 Series A, 2008 to 2030, 3.35% to 3.90%	22,635	24,815
2005 Series B and C, 2030 to 2036, variable rate (Note 6)	52,965	52,965
2006 Series A, 2008 to 2030, 3.95% to 5.00%	38,895	41,795
2006 Series B and D, 2030 to 2036, variable rate (Note 6)	99,620	99,915
2006 Series C, 2037, variable rate (Note 6)	73,190	73,190
2007 Series A, 2008 to 2039, 5.20% to 5.50%	19,035	-
2007 Series B and C, 2038 to 2039, variable rate (Note 6)	225,000	-
2007 Series D, E, F and G, 2038, variable rate (Note 6)	385,000	-
Total single-family mortgage revenue bonds	1,060,085	476,270

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2008 and 2007

### Note 5 - Bonds Payable (Continued)

	2008	2007
Multi-family housing revenue bond -		
1988 Series A, 2010 to 2019, variable rate (Note 6)	\$ 34,100	\$ 36,100
Rental housing revenue bonds:		
1997 Series A, 2008 to 2033, 5.50% to 6.10%	23,635	74,330
1999 Series A, B, and C, 2008 to 2037, 4.25% to 5.30%	63,485	69,660
1999 Series D, 2014, variable rate	25	25
2000 Series A, 2035, variable rate (Note 6)	41,600	42,180
2001 Series A, B, and C, 2023 to 2035, variable rate	100,420	122,110
2002 Series A and B, 2019 to 2037, variable rate (Note 6)	85,730	90,960
2003 Series A, 2023, variable rate	56,220	73,525
2003 Series B, C, and D, 2018 to 2037, variable rate	139,215	145,840
2004 Series B, 2008 to 2016, 2.45% to 4.15%	33,085	37,500
2004 Series A and C, 2020 to 2039, variable rate (Note 6)	111,405	118,000
2005 Series B, 2008 to 2015, 3.10% to 3.95%	24,285	27,075
2005 Series A and C, 2020 to 2040, variable rate (Note 6)	79,190	80,635
2006 Series A, 2040, variable rate (Note 6)	73,265	73,895
2006 Series B, 2008 to 2024, 3.50% to 4.45%	25,180	28,320
2006 Series C, 2041, variable rate (Note 6)	65,875	67,785
2006 Series D, 2008 to 2042, 4.00% to 5.20%	62,045	62,615
2007 Series A, 2042, variable rate (Note 6)	40,000	40,000
2007 Series B, 2008 to 2044, 3.70% to 4.95%	51,825	52,855
2007 Series C, 2042, variable rate (Note 6)	113,325	-
2007 Series D, 2008 to 2033, 3.625% to 5.40%	48,920	-
	<u>1,238,730</u>	<u>1,207,310</u>
Insured rental housing revenue bond -		
1998 Series A, 2008 to 2026, 6.325% to 6.89%	32,965	33,800
Multi-family revenue bond -		
1995 Series A, 2008 to 2030, 8.10% to 8.55%	<u>30,180</u>	<u>30,730</u>
	<u>2,412,444</u>	<u>1,799,613</u>
Less deferred amounts	<u>15,473</u>	<u>14,411</u>
Total	<u>\$ 2,396,971</u>	<u>\$ 1,785,202</u>

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.

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2008 and 2007

### Note 5 - Bonds Payable (Continued)

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 59,246	\$ 103,714	\$ 162,960
2010	64,045	101,387	165,432
2011	63,267	98,915	162,182
2012	66,038	96,375	162,413
2013	57,801	93,719	151,520
2014-2018	361,222	424,560	785,782
2019-2023	371,835	337,786	709,621
2024-2028	363,215	256,315	619,530
2029-2033	394,730	169,674	564,404
2034-2038	425,890	88,543	514,433
2039-2044	<u>185,155</u>	<u>13,963</u>	<u>199,118</u>
Total	<u>\$ 2,412,444</u>	<u>\$ 1,784,951</u>	<u>\$ 4,197,395</u>

**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 revenues. Bonds retired pursuant to such provisions total \$134,819,000 and \$161,775,000 during the years ended June 30, 2008 and 2007, respectively. Such bond retirements, in the aggregate, resulted in a net loss of \$499,000 and \$602,000 for the years ended June 30, 2008 and 2007, respectively. These losses represent the net write-off of related bond issuance costs and are recorded in interest expense and debt financing costs in the statement of revenue, expenses, and changes in net assets.

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2008 and 2007

### Note 6 - Demand Bonds

The following table summarizes the demand bonds outstanding at June 30, 2008, 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
<b>Multi-family Housing Revenue Bonds</b>						
1988 Series A	\$34,100	Merrill Lynch & Co.	Helaba	0.08%	0.260% (10)	12/31/15
<b>Single-family Mortgage Revenue Bonds</b>						
1999 Series B-2	\$7,800	Lehman Brothers	JP Morgan	0.10%	0.140% (7)	06/01/10
2000 Series A	\$27,710	Lehman Brothers	JP Morgan	0.10%	0.140% (7)	06/01/10
2000 Series C	\$450	Lehman Brothers	JP Morgan	0.10%	0.140% (7)	06/01/10
2002 Series A	\$11,700	Lehman Brothers	Dexia Credit Local	0.10%	0.1075% (5)	05/25/12
2003 Series C	\$24,400	Merrill Lynch & Co.	Dexia Credit Local	0.08%	0.1075% (8)	11/25/11
2003 Series D	\$4,570	Merrill Lynch & Co.	Dexia Credit Local	0.08%	0.1075% (8)	11/25/11
2005 Series B	\$34,505	Lehman Brothers	DEPFA Bank	0.07%	0.080% (11)	09/05/12
2005 Series C	\$18,460	Lehman Brothers	DEPFA Bank	0.07%	0.080% (11)	09/05/12
2006 Series B	\$69,915	Lehman Brothers	DEPFA Bank	0.07%	0.080% (11)	06/12/13
2006 Series C	\$73,190	Lehman Brothers	DEPFA Bank	0.07%	0.080% (11)	06/12/13
2006 Series D	\$29,705	Lehman Brothers	DEPFA Bank	0.07%	0.080% (11)	06/12/13
2007 Series B	\$205,000	Lehman Brothers	DEPFA Bank	0.07%	0.080% (14)	07/11/14
2007 Series C	\$20,000	Lehman Brothers	DEPFA Bank	0.07%	0.080% (14)	07/11/14
2007 Series E	\$125,000	Lehman Brothers	KBC Bank N.V.	0.07%	0.195% (15)	12/10/12
2007 Series F	\$85,000	Lehman Brothers	Bank of Nova Scotia	0.07%	0.195% (6)	12/10/12
2007 Series G	\$40,000	Lehman Brothers	Bank of Nova Scotia	0.07%	0.195% (6)	12/10/12
<b>Rental Housing Revenue Bonds</b>						
2000 Series A	\$41,600	Goldman Sachs & Co.	JP Morgan	0.10%	0.095% (3)	09/29/09
2002 Series A	\$56,565	Goldman Sachs & Co.	Helaba	0.10%	0.150% (2)	12/31/15 (9)
2002 Series B	\$29,165	Goldman Sachs & Co.	Helaba	0.10%	0.150% (2)	12/31/15 (9)
2004 Series A	\$66,395	Merrill Lynch & Co.	West LB	0.07%	0.140% (13)	12/29/15
2004 Series C	\$45,010	Merrill Lynch & Co.	West LB	0.07%	0.140% (13)	12/29/15
2005 Series A	\$71,255	Merrill Lynch & Co.	DEPFA Bank	0.07%	0.080% (4)	09/21/12
2005 Series C	\$7,935	Merrill Lynch & Co.	DEPFA Bank	0.07%	0.080% (4)	09/21/12
2006 Series A	\$73,265	Merrill Lynch & Co.	Fortis Bank	0.09%	0.110% (12)	03/15/13
2006 Series C	\$65,875	Merrill Lynch & Co.	Fortis Bank	0.09%	0.110% (12)	07/25/13
2007 Series A	\$40,000	Merrill Lynch & Co.	Fortis Bank	0.09%	0.110% (12)	04/26/17
2007 Series C	\$113,325	Merrill Lynch & Co.	Bank of Nova Scotia	0.07%	0.200% (6)	12/17/12

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

(2) While Helaba is holding the bonds, they will bear interest at the higher of Helaba's prime rate or the Federal Funds Rate plus 0.50 percent per annum. Once Helaba becomes the owner of the bonds, the bonds will be subject to a mandatory redemption that begins 90 days after Helaba becomes the holder of the bonds and will amortize in 20 equal quarterly installments. The Authority is required to pay Helaba 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 Helaba is "A/A-1" at June 30, 2008.

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2008 and 2007

### Note 6 - Demand Bonds (Continued)

- (3) While JP Morgan is holding the bonds, they will bear interest at the higher of the bank's prime rate or the Federal Funds Rate plus 0.50 percent per annum. Once the bank becomes the owner of the bonds, the bonds will be subject to a mandatory redemption commencing between 6 and 12 months after the bank becomes the holder of the bonds and will amortize in 10 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 JP Morgan is "AA/A-1+" at June 30, 2008.
- (4) While DEPFA Bank is holding the bonds, they will bear interest at the higher of the Federal Funds Rate plus 0.50 percent per annum or the prime rate. Once DEPFA Bank becomes the owner of the bonds, the bonds will be subject to a mandatory redemption that begins the first business day of April or October following the 91st day after DEPFA Bank purchased the bonds and will amortize in equal semiannual principal installments until the 10th anniversary of such purchase date. The Authority shall pay DEPFA Bank a liquidity fee per annum on outstanding bonds plus 184 days interest at 12 percent (tax-exempt bonds) and 15 percent (taxable bonds), based on a 365-day year. Subsequent to year end, Standard & Poor's lowered its rating on DEPFA to "BBB+/A-2" from "A/A-1."
- (5) While Dexia Credit Local (Dexia) is holding the bonds, they will bear interest at the higher of Dexia's prime rate or the Federal Funds Rate plus 0.50 percent per annum. Once Dexia becomes the owner of the bonds, the bonds will be subject to a mandatory redemption that begins the first business day of January, April, July, or October and will amortize in 20 equal quarterly installments. The Authority is required to pay Dexia an annual liquidity fee per annum on the amount of bonds outstanding plus interest for 185 days at a rate of 14 percent. Subsequent to year end, Standard & Poor's lowered its rating on Dexia to "A+/A-1" from "AA/A-1."
- (6) 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 have 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, 2008.
- (7) While the bonds are held by JP Morgan, they shall bear interest at a rate determined in reference to the British Bankers' Association Interest Settlement Rate, as adjusted for JP Morgan's reserve requirement, plus 0.70 percent and will be subject to mandatory redemption by the Authority on a quarterly basis beginning six months and ending five years after the purchase by JP Morgan. The Authority is required to pay an annual liquidity fee per annum on the amount of bonds outstanding plus interest for 205 days at a rate of 14 percent per annum. Standard & Poor's rating on JP Morgan is "AA/A-1+" at June 30, 2008.

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2008 and 2007

### Note 6 - Demand Bonds (Continued)

- (8) While Dexia is holding the bonds, they will bear interest at the higher of Dexia's prime rate or the Federal Funds Rate plus 0.50 percent per annum. Once Dexia becomes the owner of the bonds, the bonds will be subject to a mandatory redemption that begins on the earlier of the 181st day after the purchase date or the first business day of the sixth month after the end of the purchase period and will amortize over 14 equal semiannual installments. The Authority is required to pay Dexia an annual liquidity fee per annum on the amount of bonds outstanding plus interest for 185 days at a rate of 12 percent per annum for the Series C Bonds and at a rate of 18 percent per annum for the Series D Bonds. Subsequent to year end Standard & Poor's lowered its rating on Dexia to "A+/A-1" from "AA/A-1."
- (9) Helaba has the option to terminate the standby bond purchase agreement on January 26, 2009 and 2012.
- (10) The trustee is entitled to draw on the irrevocable letter of credit, issued by Helaba, in an amount sufficient to pay the purchase price of bonds delivered to it. 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 25 percent. The Authority is required to pay Helaba an annual liquidity fee for the letter of credit per annum of the amount of the outstanding bonds plus interest for 41 days at 25 percent per annum. Helaba has the option to terminate the standby bond purchase agreement on January 26, 2009 and 2012. Standard & Poor's rating on Helaba is "A/A-1" at June 30, 2008.
- (11) While DEPFA Bank is holding the bonds, they will bear interest at the higher of the Federal Funds Rate plus 0.50 percent per annum or the prime rate. Once DEPFA Bank becomes the owner of the bonds, the bonds will be subject to a mandatory redemption that begins the first business day of October following the 91st day DEPFA purchased the bonds and will amortize in equal semiannual principal installments until the seventh anniversary of such purchase date. The Authority shall pay DEPFA Bank a liquidity fee per annum on outstanding bonds plus 184 days interest at 12 percent (tax-exempt bonds) and 15 percent (taxable bonds), based on a 365-day year. Subsequent to year end, Standard & Poor's lowered its rating on DEPFA to "BBB+/A-2" from "A/A-1."
- (12) While Fortis Bank is holding the bonds, they will bear interest of the greater of Fortis 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 Fortis Bank becomes the bond holder. The Authority is required to pay Fortis Bank an annual liquidity fee per annum on bonds outstanding plus 184 days of interest at 12 percent, based on a 365-day year. Subsequent to year end, Standard & Poor's lowered its rating on Fortis Bank to "A/A-1" from "A+/A-1."
- (13) While West LB is holding the bonds, they will bear interest at the higher of the Federal Funds Rate plus 0.50 percent per annum or the prime rate for the first 90 days, add 0.50 percent per annum for days 91 through 180, and add 1.00 percent per annum from day 181 until the bonds are repaid. Once West LB becomes the owner of the bonds, the bonds will be subject to mandatory redemption in 10 equal installments each April and October. The Authority shall pay West LB a liquidity fee per annum on outstanding bonds plus 184 days of interest at 12 percent (tax-exempt bonds) and 15 percent (taxable bonds), based on a 365-day year. Standard & Poor's rating on West LB is "A-/A-2" at June 30, 2008.

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2008 and 2007

### Note 6 - Demand Bonds (Continued)

- (14) While DEPFA Bank is holding the bonds, they will bear interest at the higher of the Federal Funds Rate plus 0.50 percent per annum or the prime rate, the base rate. Once the bonds have been held by DEPFA Bank for 91 days, they will bear interest at the base rate plus 1.15 percent. Once DEPFA Bank becomes the owner of the bonds, the bonds will be subject to a mandatory redemption that begins the first business day of the immediately succeeding April or October following the 91th day DEPFA purchased the bonds. The bonds will amortize in equal semi-annual principal installments until the seventh anniversary of such purchase date. The Authority shall pay DEPFA Bank a liquidity fee per annum on outstanding bonds plus 184 days interest at 12 percent (tax-exempt bonds) and 15 percent (taxable bonds), based on a 365-day year. Subsequent to year end, Standard & Poor's lowered its rating on DEPFA to "BBB+/A-2" from "A/A-1."
- (15) While KBC Bank N.V. is holding the bonds, they will bear interest at the higher of the prime rate or the Federal Funds Rate plus 0.50 percent per annum. Once KBC Bank N.V. 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 KBC Bank N.V. 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 KBC Bank is "AA-/A-1+" at June 30, 2008.

### 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.

# Michigan State Housing Development Authority

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## Notes to Financial Statements June 30, 2008 and 2007

### 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 revenues 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, 2008, limited obligation bonds had been issued totaling approximately \$787,268,000, of which 25 issues totaling \$292,598,000 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 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 supplementary 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.

**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 4.68 percent to 35.10 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 \$3,475,000, \$3,508,000, and \$3,256,000 for the years ended June 30, 2008, 2007, and 2006, respectively, and are recorded in salaries and benefits expense.

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2008 and 2007

### Note 9 - Other Employee Benefits (Continued)

**Postemployment Benefits** - In addition, the Authority participates in the State of Michigan's postemployment benefits. 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, 2008 ranged from 11.4 percent to 12.2 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 \$2,230,000 and \$2,164,500 for the years ended June 30, 2008 and 2007, respectively. The estimated minimum annual payments under this lease are as follows:

2009	\$	2,361,800
2010		2,465,900
2011		2,570,000
2012		2,674,100
2013		2,778,200
2014-2018		15,452,500
2019-2021		<u>9,317,033</u>
Total	\$	<u>37,619,533</u>

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2008 and 2007

### Note 11 - Restricted Net Assets

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

	2008	2007
Pledged for payment of:		
All bond issues (capital reserve account)	\$ 53,982	\$ 46,244
Section 8 assisted mortgage revenue bonds	5,168	5,403
Single-family mortgage revenue bonds	101,373	88,295
Multi-family 1988 housing revenue bonds	654	288
Rental housing revenue bonds	130,239	117,504
Insured rental housing revenue bonds	3,575	7,613
Multi-family revenue bonds	140	1,265
	<u>          </u>	<u>          </u>
Total	<u>\$ 295,131</u>	<u>\$ 266,612</u>

### 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 13 - Commitments

As of June 30, 2008 and 2007, the Authority has commitments to issue multi-family mortgage loans in the amounts of \$107,638,000 and \$45,222,000, respectively, and single-family mortgage loans in the amounts of \$114,557,000 and \$35,073,000, 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 \$680,000 and \$949,000 for the years ended June 30, 2008 and 2007, respectively.

# Michigan State Housing Development Authority

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## Notes to Financial Statements June 30, 2008 and 2007

### Note 13 - Commitments (Continued)

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, 2008 and 2007.

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. Subsidy disbursements under this program totaled \$777,000 and \$883,000 for the years ended June 30, 2008 and 2007, 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 \$489,000 and \$604,000 for the years ended June 30, 2008 and 2007, 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.

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2008 and 2007

### Note 14 - Off-balance-sheet Financial Instruments

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 where 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. 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 following summarizes the interest rate swap contracts at June 30, 2008:

Associated Debt/Swap Agreement	Notional Amount as of June 30, 2008	Termination Date	Rate	Fixed Rate	Optional Termination Date/Without Payment (9)	Market (Payment)/ to Terminate Swap	Type of Risk Associated With Swap Contract (4)(8)
Rental housing							
revenue bonds:							
2000 Series A (1)	\$ 41,600,000	10/01/20	70% of 1 M LIBOR	4.960%	NA	\$ (6,111,184)	(5)(6)(7)
2001 Series B (1)	36,875,000	04/01/23	SIFMA + 0.10%	5.350%	NA	(4,759,261)	
2001 Series C (1)	32,655,000	04/01/23	SIFMA	4.770%	NA	(2,538,131)	
2002 Series A (1)	56,565,000	04/01/37	70% of 1 M LIBOR	4.560%	NA	(7,951,694)	(5)(6)
2002 Series B (1)	29,165,000	04/01/19	70% of 1 M LIBOR	3.535%	NA	(716,023)	(5)(6)
2003 Series B (1)	70,415,000	10/01/37	70% of 1 M LIBOR	4.197%	10/01/12	(4,150,306)	(5)(6)
2003 Series C (1)	23,450,000	10/01/37	Floating rate (10)	3.808%	10/01/23	(854,500)	(5)(6)
2004 Series A (3)	24,905,000	10/01/39	65% of 1 M LIBOR+0.23%	3.705%	10/01/24	(581,379)	(5)(6)
2004 Series A (3)	41,490,000	10/01/39	SIFMA + 0.05%	4.275%	10/01/24	(1,468,145)	(5)(6)
2005 Series A (3)	71,255,000	04/01/40	65% of 1 M LIBOR+0.23%	3.5135%	10/01/25	(133,654)	(5)(6)
2006 Series A (3)	73,265,000	10/01/40	SIFMA + 0.05%	4.192%	04/01/26	(2,194,462)	(5)(6)
2006 Series C (3)	65,875,000	04/01/41	61% of 1 M LIBOR+0.40%	3.996%	10/01/26	(3,629,236)	(5)(6)
2007 Series A (3)	30,000,000	04/01/42	SIFMA + 0.05%	4.056%	04/01/27	(378,859)	(5)(6)
2007 Series C (3)	<u>85,325,000</u>	10/01/42	61% of 1 M LIBOR+0.40%	3.564%	10/01/22	<u>(359,263)</u>	(5)(6)
Subtotal	682,840,000					(35,826,097)	

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2008 and 2007

### Note 14 - Off-balance-sheet Financial Instruments (Continued)

Associated Debt/Swap Agreement	Notional Amount as of June 30, 2008	Termination Date	Rate	Fixed Rate	Optional Termination Date/Without Payment (9)	Market (Payment)/ to Terminate Swap	Type of Risk Associated With Swap Contract (4)(8)
Single-family mortgage revenue bonds:							
1999 Series B-2 (2)	\$ 7,800,000	12/01/18	Actual bond rate	5.489%	NA	\$ (898,949)	(6)(7)
2000 Series A (2)	13,750,000	12/01/16	Actual bond rate	5.439%	NA	(2,063,992)	(6)
2000 Series C (2)	450,000	12/01/08	Actual bond rate	7.696%	NA	(11,160)	(7)
2002 Series A (2)	11,700,000	06/01/20	Actual bond rate	3.860%	NA	(374,264)	(6)
2003 Series C (3)	9,355,000	12/01/20	65% of 1 M LIBOR+0.23%	3.512%	12/1/2013	(158,785)	(5)(6)(7)
2003 Series C (3)	15,045,000	06/01/30	65% of 1 M LIBOR+0.23%	4.347%	12/01/06	(411,511)	(5)(6)
2005 Series B (2)	13,635,000	12/01/25	Floating rate (10)	4.165%	12/01/10	(408,839)	(5)(6)
2005 Series B (2)	20,870,000	06/01/30	Floating rate (10)	4.064%	12/01/14	(757,978)	(5)(6)
2006 Series B (2)	69,915,000	06/01/30	Floating rate (10)	4.574%	12/01/12	(5,659,674)	(5)(6)
2006 Series C (2)	50,645,000	06/01/33	Floating rate (10)	4.417%	12/01/19	(4,764,589)	(5)(6)(7)
2007 Series B (2)	65,000,000	06/01/38	Floating rate (10)	4.156%	06/01/17	(3,455,274)	(5)(6)
2007 Series C (2)	20,000,000	12/01/16	Floating rate (10)	5.165%	NA	(775,399)	(5)(7)
2007 Series B (2)	35,000,000	06/01/38	Floating rate (10)	4.2524%	06/01/17	(2,084,693)	(5)(6)
2007 Series B (2)	35,000,000	06/01/38	Floating rate (10)	4.4435%	06/01/17	(2,716,362)	(5)(6)
2007 Series B (2)	35,000,000	06/01/38	Floating rate (10)	4.5032%	12/01/10	(1,702,153)	(5)(6)
2007 Series B (2)	35,000,000	06/01/38	Floating rate (10)	4.358%	12/01/10	(1,362,632)	(5)(6)
2007 Series E (2)	35,000,000	12/01/38	Floating rate (10)	4.0187%	12/01/17	(1,346,977)	(5)(6)
2007 Series E (2)	35,000,000	12/01/38	Floating rate (10)	3.927%	12/01/17	(1,021,831)	(5)(6)
2007 Series E (2)	55,000,000	12/01/38	Floating rate (10)	3.846%	12/01/17	(1,344,911)	(5)(6)
2007 Series F (2)	50,000,000	12/01/38	Floating rate (10)	4.1647%	12/01/14	(1,891,274)	(5)(6)
2007 Series F (2)	35,000,000	12/01/38	Floating rate (10)	4.3399%	12/01/14	(1,844,992)	(5)(6)
Subtotal	648,165,000					(35,056,239)	
Total	\$ 1,331,005,000					\$ (70,882,336)	

- (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 by S&P as of June 30, 2008.
- (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 Lehman Brothers Derivative Product Inc. (LBDP). (See Note 15.)
- (3) Counterparty risk is the risk that the swap counterpart 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. (MLES) or Merrill Lynch Derivative Products (MLDP). MLDP is rated AAA by S&P as of June 30, 2008. MLES is not rated by Moody's or S&P.
- (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. (See Note 15.)
- (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.
- (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.

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2008 and 2007

### Note 14 - Off-balance-sheet Financial Instruments (Continued)

- (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 quicker 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) The Authority may enter into interest rate swap agreements where the floating rate is one of the following: the Authority's cost of funds, a percentage of BMA Municipal Swap Index plus an increment, a percentage of the Securities Industry and Financial Markets Association (SIFMA) Index plus an increment or the London Inter Bank Offer Rate (LIBOR) plus an increment.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 53, *Accounting and Financial Reporting for Derivative Instruments*. The new pronouncement provides a comprehensive framework for the measurement, recognition, and disclosure of derivative instrument transactions in the financial statements. The new rules will cause the financial statements to report a fair value for certain derivative investments that have in the past only been disclosed in the notes. This new requirement will change how MSHDA reports its interest rate swap agreements in the financial statements. The new pronouncement is effective for the year ending June 30, 2010.

### Note 15 - Subsequent Event

Subsequent to year end, the Authority issued \$427,615,000 of Rental Housing Revenue Bonds, 2008 Series A, B, C, D, and E and remarketed the following Rental Housing Revenue Bonds: 2000 Series A, 2002 Series A and B, 2001 Series A and B, and 2003 Series C. The 2008 Series E bonds were issued to fund two new multi-family mortgages. All other bonds were remarketed into bond structures that would be better received in the capital markets in an effort to reduce the Authority's cost of borrowing.

On September 15, 2008, Lehman Brothers Holdings Incorporated (Lehman) filed a Chapter 11 bankruptcy petition with U.S. Bankruptcy Court. Lehman filing bankruptcy is a termination event under the terms of the International Swaps and Derivatives Association, Inc. (ISDA) agreement that the Authority had with Lehman Brothers Derivatives Products (LBDP). At the time, the Authority would have had to make a termination payment to LBDP to terminate the interest rate swap agreements and this would have exposed those bonds to fluctuating short-term interest rates. The Authority chose to assign the swap agreement to Lehman Brothers Special Finance (LBSF), an entity that had not yet filed for bankruptcy but has subsequently done so in October 2008. It is the intent of the Authority to move these interest rate swap agreements from LBSF to another counterparty in the very near future; therefore, the Authority anticipates that the new counterparty will pay the termination fees.

## **Other Supplemental Information**

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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

We have audited the basic financial statements of the Michigan State Housing Development Authority, a component unit of the State of Michigan, as of and for the year ended June 30, 2008. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplemental information listed in the table of contents is presented for purpose of additional analysis and is not a required part of the basic financial statements of Michigan State Housing Development Authority. The information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

October 22, 2008

# Michigan State Housing Development Authority

## Statement of Net Assets Information June 30, 2008 (in thousands of dollars)

	Activities				
	Section 8 Assisted	Home Improvement	Single-family Mortgage	Multi-family Housing	Rental Housing
	Mortgage Revenue Bonds	Program Bonds	Revenue Bonds	Revenue Bonds	Revenue Bonds
<b>Assets</b>					
<b>Cash and Investments</b>					
Cash and cash equivalents	\$ 220	\$ 338	\$ 182,805	\$ 3,015	\$ 106,812
Investments	14,741	-	146,240	3	45,522
Total cash and investments	14,961	338	329,045	3,018	152,334
<b>Loans Receivable</b>					
Multi-family mortgage loans:					
Construction in progress	-	-	-	-	138,834
Completed construction	6,903	-	-	30,876	1,141,342
Housing development loans	-	-	-	-	-
Single-family mortgage loans	-	65	843,796	-	-
Home improvement and moderate rehabilitation loans	-	2,516	-	-	-
Total	6,903	2,581	843,796	30,876	1,280,176
Accrued loan interest receivable	51	12	5,323	122	18,572
Allowance on loans receivable	-	(150)	(4,195)	(310)	(37,970)
Loan origination	(77)	-	(245)	-	(545)
Net loans receivable	6,877	2,443	844,679	30,688	1,260,233
<b>Other Assets</b>					
Unamortized bond financing costs	6	-	2,316	57	2,685
Real estate owned	-	2	12,408	-	10,242
Other assets	-	2	8,553	-	-
Interfund accounts	(22)	3,045	(36,431)	980	(1,259)
Total other assets	(16)	3,049	(13,154)	1,037	11,668
Total assets	<u>\$ 21,822</u>	<u>\$ 5,830</u>	<u>\$ 1,160,570</u>	<u>\$ 34,743</u>	<u>\$ 1,424,235</u>
<b>Liabilities and Net Assets</b>					
<b>Liabilities</b>					
Bonds payable	\$ 16,654	\$ -	\$ 1,055,190	\$ 34,017	\$ 1,228,531
Accrued interest payable	-	-	3,359	61	10,060
Escrow funds	-	-	-	-	1,087
Deferred mortgage interest income	-	-	-	-	51,175
Other liabilities	-	-	648	11	3,143
Total liabilities	16,654	-	1,059,197	34,089	1,293,996
<b>Net Assets</b>	<u>5,168</u>	<u>5,830</u>	<u>101,373</u>	<u>654</u>	<u>130,239</u>
Total liabilities and net assets	<u>\$ 21,822</u>	<u>\$ 5,830</u>	<u>\$ 1,160,570</u>	<u>\$ 34,743</u>	<u>\$ 1,424,235</u>

# Michigan State Housing Development Authority

## Statement of Net Assets Information (Continued)

June 30, 2008

(in thousands of dollars)

	Activities						Combined
	Insured Rental Housing	Multi-Family Revenue	General Operating	Capital Reserve	Mortgage Escrow and	Other	
	Revenue Bonds	Bonds			Reserve		
<b>Assets</b>							
<b>Cash and Investments</b>							
Cash and cash equivalents	\$ 665	\$ 3,401	\$ 3,064	\$ 2,567	\$ 13,784	\$ 33,794	\$ 350,465
Investments	2,986	3,658	24,443	51,415	478,126	23,715	790,849
Total cash and investments	3,651	7,059	27,507	53,982	491,910	57,509	1,141,314
<b>Loans Receivable</b>							
Multi-family mortgage loans:							
Construction in progress	-	-	11,054	-	-	-	149,888
Completed construction	34,740	31,367	92,985	-	-	52,948	1,391,161
Housing development loans	-	-	-	-	-	8,736	8,736
Single-family mortgage loans	-	-	11,691	-	-	-	855,552
Home improvement and moderate rehabilitation loans	-	-	5,945	-	-	-	8,461
Total	34,740	31,367	121,675	-	-	61,684	2,413,798
Accrued loan interest receivable	1,208	2,039	3,080	-	-	6,293	36,700
Allowance on loans receivable	(3,530)	(2,390)	(16,240)	-	-	-	(64,785)
Loan origination	-	-	(11,560)	-	-	-	(12,427)
Net loans receivable	32,418	31,016	96,955	-	-	67,977	2,373,286
<b>Other Assets</b>							
Unamortized bond financing costs	105	65	-	-	-	-	5,234
Real estate owned	-	-	1,943	-	-	-	24,595
Other assets	-	-	20,853	-	-	191	29,599
Interfund accounts	(44)	(7,360)	32,883	-	(13,050)	21,258	-
Total other assets	61	(7,295)	55,679	-	(13,050)	21,449	59,428
Total assets	\$ 36,130	\$ 30,780	\$ 180,141	\$ 53,982	\$ 478,860	\$ 146,935	\$ 3,574,028
<b>Liabilities and Net Assets</b>							
<b>Liabilities</b>							
Bonds payable	\$ 32,366	\$ 30,213	\$ -	\$ -	\$ -	\$ -	\$ 2,396,971
Accrued interest payable	189	427	-	-	-	-	14,096
Escrow funds	-	-	98	-	478,860	(87,626)	392,419
Deferred mortgage interest income	-	-	-	-	-	-	51,175
Other liabilities	-	-	13,918	-	-	21,221	38,941
Total liabilities	32,555	30,640	14,016	-	478,860	(66,405)	2,893,602
<b>Net Assets</b>	3,575	140	166,125	53,982	-	213,340	680,426
Total liabilities and net assets	\$ 36,130	\$ 30,780	\$ 180,141	\$ 53,982	\$ 478,860	\$ 146,935	\$ 3,574,028

# Michigan State Housing Development Authority

## Statement of Revenue, Expenses, and Changes in Net Assets Information June 30, 2008 (in thousands of dollars)

	Activities				
	Section 8 Assisted Mortgage Revenue Bonds	Home Improvement Program Bonds	Single-family Mortgage Revenue Bonds	Multi-family Housing Revenue Bonds	Rental Housing Revenue Bonds
<b>Operating Revenue</b>					
Investment income:					
Loan interest income	\$ 694	\$ 146	\$ 42,158	\$ 1,506	\$ 83,275
Investment interest income	564	5	9,433	72	5,180
Increase (decrease) in fair value of investments - Including change in unrealized losses	66	-	560	-	(1)
Total investment income	1,324	151	52,151	1,578	88,454
Less interest expense and debt financing costs	1,574	-	39,835	1,227	61,129
Net investment income	(250)	151	12,316	351	27,325
Other revenue:					
Federal assistance programs	-	-	-	-	-
Section 8 program administrative fees	-	-	-	-	-
Contract administration fees	-	-	-	-	-
Other income	15	-	14	-	1,146
Total operating revenue	(235)	151	12,330	351	28,471
<b>Operating Expenses</b>					
Federal assistance programs	-	-	-	-	-
Salaries and benefits	-	-	-	-	-
Other general operating expenses	-	1	-	-	-
Loan servicing and insurance costs	-	181	572	-	-
Provision for possible losses on loans	-	41	2,297	(15)	2
Total operating expenses	-	223	2,869	(15)	2
<b>Operating Income (Loss) Before Nonoperating Expenses</b>	(235)	(72)	9,461	366	28,469
<b>Nonoperating Expenses - Grants and subsidies</b>	-	-	-	-	-
<b>Change in Net Assets</b>	(235)	(72)	9,461	366	28,469
<b>Net Assets - Beginning of year</b>	5,403	5,902	88,295	288	117,504
<b>Transfers (to) from Other Funds for</b>					
Payment of operating fund expenses	-	-	-	-	(15,734)
Funding to provide additional cash flow and payment of bond issuance costs	-	-	3,617	-	-
<b>Net Assets - End of year</b>	<b>\$ 5,168</b>	<b>\$ 5,830</b>	<b>\$ 101,373</b>	<b>\$ 654</b>	<b>\$ 130,239</b>

# Michigan State Housing Development Authority

## Statement of Revenue, Expenses, and Changes in Net Assets Information (Continued) June 30, 2008 (in thousands of dollars)

	Activities					
	Insured Rental Housing	Multi-family Revenue	General Operating	Capital Reserve	Other	Combined
	Revenue Bonds	Bonds				
<b>Operating Revenue</b>						
Investment income:						
Loan interest income	\$ 3,077	\$ 2,889	\$ 9,375	\$ -	\$ 1,551	\$ 144,671
Investment interest income	126	262	2,210	3,218	6,987	28,057
Increase (decrease) in fair value of investments - Including change in unrealized losses	60	229	761	4,520	7	6,202
Total investment income	3,263	3,380	12,346	7,738	8,545	178,930
Less interest expense and debt financing costs	2,371	2,666	253	-	-	109,055
Net investment income	892	714	12,093	7,738	8,545	69,875
Other revenue:						
Federal assistance programs	-	-	458,951	-	-	458,951
Section 8 program administrative fees	-	-	14,388	-	-	14,388
Contract administration fees	-	-	8,253	-	-	8,253
Other income	1	1	5,835	-	6,893	13,905
Total operating revenue	893	715	499,520	7,738	15,438	565,372
<b>Operating Expenses</b>						
Federal assistance programs	-	-	458,951	-	-	458,951
Salaries and benefits	-	-	25,226	-	-	25,226
Other general operating expenses	1	-	22,699	-	31	22,732
Loan servicing and insurance costs	-	-	1,649	-	-	2,402
Provision for possible losses on loans	630	40	4,607	-	-	7,602
Total operating expenses	631	40	513,132	-	31	516,913
<b>Operating Income (Loss) Before Nonoperating Expenses</b>	262	675	(13,612)	7,738	15,407	48,459
<b>Nonoperating Expenses - Grants and subsidies</b>	-	-	(2,207)	-	(18,130)	(20,337)
<b>Change in Net Assets</b>	262	675	(15,819)	7,738	(2,723)	28,122
<b>Net Assets - Beginning of year</b>	7,613	1,265	183,727	46,244	196,063	652,304
<b>Transfers (to) from Other Funds for</b>						
Payment of operating fund expenses	(4,300)	(1,800)	21,834	-	-	-
Funding to provide additional cash flow and payment of bond issuance costs	-	-	(23,617)	-	20,000	-
<b>Net Assets - End of year</b>	<b>\$ 3,575</b>	<b>\$ 140</b>	<b>\$ 166,125</b>	<b>\$ 53,982</b>	<b>\$ 213,340</b>	<b>\$ 680,426</b>

**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 Michigan State Housing Development Authority (the "Authority"), a component unit of the State of Michigan, as of and for the years ended June 30, 2008 and 2007 and have issued our reports thereon dated October 22, 2008 and October 22, 2007, 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, 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.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

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

### **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*.

This report is intended for the information of 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 22, 2008

## Master Document

<b>FIELD</b>	<b>VALUES</b>
<b>SchoolNameHeadings</b>	Michigan State Housing Development Authority
<b>SchoolNameText</b>	Michigan State Housing Development Authority
<b>CountyState</b>	Macomb County, Michigan
<b>SchoolNameShort</b>	Authority
<b>SchoolNameShort's</b>	Authority's
<b>Year End</b>	June 30, 2008
<b>PriorYear</b>	June 30, 2007
<b>2YearPrior</b>	June 30, 2006
<b>Opinion Date</b>	October 22, 2008
<b>Comparative Date</b>	June 30, 2008 and 2007
<b>2008</b>	2008
<b>2007</b>	2007
<b>2006</b>	2006