

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

---

**Financial Report**  
**with Supplemental Information**  
**June 30, 2016**

# Michigan State Housing Development Authority

---

## Contents

<b>Report Letter</b>	1-3
<b>Management's Discussion and Analysis (Unaudited)</b>	4-7
<b>Basic Financial Statements</b>	
Statement of Net Position	8
Statement of Revenue, Expenses, and Changes in Net Position	9
Statement of Cash Flows	10-11
Statement of Net Position - Michigan Homeowner Assistance Nonprofit Housing Corporation (Discretely Presented Component Unit)	12
Statement of Revenue, Expenses, and Changes in Net Position - Michigan Homeowner Assistance Nonprofit Housing Corporation (Discretely Presented Component Unit)	13
Statement of Cash Flows - Michigan Homeowner Assistance Nonprofit Housing Corporation (Discretely Presented Component Unit)	14
Notes to Financial Statements	15-55
<b>Required Supplemental Information</b>	56
Schedule of the Authority's Proportionate Share of Net Pension Liability	57
Schedule of the Authority's Contributions	58
Notes to Pension Required Supplemental Information Schedules	59
<b>Other Supplemental Information</b>	60
Statement of Net Position Information	61-62
Statement of Revenue, Expenses, and Changes in Net Position Information	63-64
<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>	65-67

## Independent Auditor's Report

To the Board of Directors and  
Mr. Doug A. Ringler, CPA, CIA  
Auditor General, State of Michigan  
Michigan State Housing Development Authority  
Lansing, Michigan

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Michigan State Housing Development Authority, a component unit of the State of Michigan, as of and for the years ended June 30, 2016 and 2015 and the related notes to the financial statements, which collectively comprise the Michigan State Housing Development Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors and  
Mr. Doug A. Ringler, CPA, CIA  
Auditor General, State of Michigan  
Michigan State Housing Development Authority  
Lansing, Michigan

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component unit of the Michigan State Housing Development Authority as of June 30, 2016 and 2015 and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 15 to the basic financial statements, the Authority adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as of June 30, 2015. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplemental Information***

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

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Michigan State Housing Development Authority's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

To the Board of Directors and  
Mr. Doug A. Ringler, CPA, CIA  
Auditor General, State of Michigan  
Michigan State Housing Development Authority  
Lansing, Michigan

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2016 on our consideration of the Michigan State Housing Development 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 an opinion 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* in considering Michigan State Housing Development Authority's internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

October 19, 2016

# Michigan State Housing Development Authority

## Management's Discussion and Analysis (Unaudited)

The Michigan State Housing Development Authority (the "Authority") provides financial and technical assistance through public and private partnerships to create and preserve decent, affordable housing for low- and moderate-income Michigan residents. The Authority was created under the terms of Act 346, Public Acts of Michigan of 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, multifamily lending, mortgage credit certificates, and pass-through obligations.

The enclosed financial statements present the Authority's net position, revenue, expenses, changes in net position, and cash flows. The following is a condensed summary of financial information as of and for the years ended June 30, 2016, 2015, and 2014:

### Condensed Financial Information

(in thousands of dollars)

	2016	2015	2014
<b>Assets</b>			
Investments	\$ 968,764	\$ 925,087	\$ 1,000,948
Loans receivable - Net	2,285,923	2,189,147	2,173,968
Other assets	202,143	265,776	147,595
Total assets	3,456,830	3,380,010	3,322,511
<b>Accumulated Decrease in Fair Value of Hedging Derivatives</b>	134,547	123,200	129,799
<b>Deferred Outflow of Resources</b>	15,365	16,854	13,568
Total assets, hedging derivatives, and deferred outflows	<u>\$ 3,606,742</u>	<u>\$ 3,520,064</u>	<u>\$ 3,465,878</u>
<b>Liabilities</b>			
Bonds payable	\$ 2,065,320	\$ 2,016,695	\$ 2,020,095
Hedging derivatives	134,547	123,200	129,799
Other liabilities	637,437	641,377	557,052
Total liabilities	2,837,304	2,781,272	2,706,946
<b>Deferred Inflows of Resources</b>	12,930	16,214	11,749
<b>Net Position</b>			
Restricted for bond repayment	438,204	447,654	471,554
Unrestricted	318,304	274,924	275,629
Total net position	756,508	722,578	747,183
Total liabilities, deferred inflows, and net position	<u>\$ 3,606,742</u>	<u>\$ 3,520,064</u>	<u>\$ 3,465,878</u>

# Michigan State Housing Development Authority

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

	2016	2015	2014
<b>Operating Revenue</b>			
Net investment income	\$ 64,188	\$ 54,334	\$ 42,604
Federal and state assistance programs revenue	552,727	515,725	520,975
Section 8 program administrative fees	18,282	16,298	13,676
Contract administration fees	6,880	6,746	6,699
Other income	<u>46,197</u>	<u>15,549</u>	<u>34,389</u>
Total revenue	688,274	608,652	618,343
<b>Operating Expenses</b>			
Federal and state assistance programs expenses	552,953	515,300	521,011
Salaries and benefits	37,230	36,291	36,293
Other general operating expenses	29,880	30,278	31,512
Other expenses	<u>24,617</u>	<u>8,598</u>	<u>4,901</u>
Total expenses	644,680	590,467	593,717
<b>Nonoperating Expenses - Grants and subsidies</b>	<u>9,664</u>	<u>7,176</u>	<u>8,899</u>
<b>Change in Net Position</b>	<u><u>\$ 33,930</u></u>	<u><u>\$ 11,009</u></u>	<u><u>\$ 15,727</u></u>

### Financial Analysis

Total assets and deferred outflows increased from \$3.52 billion at June 30, 2015 to \$3.61 billion at June 30, 2016. This was an increase of approximately \$87 million, or 2.5 percent. Total assets and deferred outflows increased from \$3.47 billion at June 30, 2014 to \$3.52 billion at June 30, 2015. This was an increase of approximately \$54 million, or 1.6 percent.

Net loans receivable increased from \$2.19 billion at June 30, 2015 to \$2.29 billion at June 30, 2016. Loans receivable increased due to an increase in the closing of both single-family and multifamily mortgages (net increase of \$54.6 million and \$42.2 million, respectively).

Net loans receivable increased from \$2.17 billion at June 30, 2014 to \$2.19 billion at June 30, 2015. Loans receivable increased due to an increase in the closing of single-family mortgages (net increase of \$26.2 million), partially offset by a net decrease in the closing of multifamily mortgages (net decrease of \$11.5 million).

# Michigan State Housing Development Authority

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

Bonds payable increased from \$2.0 billion at June 30, 2015 to \$2.1 billion at June 30, 2016, a net increase of approximately \$49 million. The increase in bonds outstanding for the year ended June 30, 2016 was due primarily to the issuance of \$174.6 million of Single Family Mortgage Revenue Bonds, 2015 Series A and 2016 Series A; this was partially offset by the early redemption of \$77.5 million and scheduled maturities of \$54.8 million. Bonds payable is \$2.0 billion at both June 30, 2015 and 2014.

Escrow funds, which are recorded in other liabilities, increased by \$3.1 million from a year earlier to \$509.6 million at June 30, 2016 due to the market value of investments. Escrow funds increased by \$33 million from a year earlier to \$506.5 million at June 30, 2015 due to the market value of investments.

The Authority's net position totaled \$756.5 million at June 30, 2016, equal to 21.9 percent of total assets and 26.7 percent of total liabilities. A significant portion of net position is restricted. At June 30, 2016, \$438.2 million of net position was pledged for payment against the various bond indentures. In addition, \$296.5 million is designated by board resolution represented by the Mortgage Resource Fund.

The Authority's net position totaled \$722.6 million at June 30, 2015, equal to 21.4 percent of total assets and 26.0 percent of total liabilities. A significant portion of net position is restricted. At June 30, 2015, \$447.7 million of net position was pledged for payment against the various bond indentures. In addition, \$262.9 million is designated by board resolution represented by the Mortgage Resource Fund.

The Authority's June 30, 2015 net position reflects a \$34.5 million negative entry in order to recognize the Authority's portion of the Michigan State Employees' Retirement System's net pension liability as a result of implementing GASB 68. This action is further discussed in Note 9.

### Operating Results

Operations for the year ended June 30, 2016 resulted in excess revenue over expenses of \$33.9 million, compared to prior year results of \$11.0 million. Operations for the year ended June 30, 2015 resulted in excess revenue over expenses of \$11.0 million, compared to prior year results of \$15.7 million. Under Governmental Accounting Standards Board (GASB) Statement No. 31, the Authority is required to present investments at fair market value and reflect this adjustment in the statement of revenue, expenses, and changes in net position. This presentation increased revenue over expenses by approximately \$5.8 million. Results for the year ended June 30, 2015 were positively impacted by an increase of approximately \$998,000. Currently, GASB Statement No. 31 has had a cumulative positive effect of \$22.2 million on the Authority's net position; however, the Authority generally intends to hold these securities to maturity.



# **Michigan State Housing Development Authority**

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

---

Net investment income increased from \$54.3 million in 2015 to \$64.2 million in 2016, an increase of \$9.9 million.

Total revenue increased from \$608.7 million for the year ended June 30, 2015 to \$688.3 million for the year ended June 30, 2016, a net increase of \$79.6 million. Total revenue increased due primarily to the increase in federal and state assistance program revenue and other income preservation fees of \$34.3 million. Total revenue decreased from \$618.3 million for the year ended June 30, 2014 to \$608.7 million for the year ended June 30, 2015, a net decrease of \$9.7 million. Total revenue decreased due primarily to the decrease in federal and state assistance program revenue.

Total operating expenses increased from \$590.5 million for the year ended June 30, 2015 to \$644.7 million for the year ended June 30, 2016, a net increase of \$54.2 million. Total operating expenses increased due primarily to an increase in the federal and state assistance programs. Total operating expenses decreased from \$593.7 million for the year ended June 30, 2014 to \$590.5 million for the year ended June 30, 2015, a net decrease of \$3.2 million. Total operating expenses decreased due primarily to a decrease in the federal and state assistance programs.

# Michigan State Housing Development Authority

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

	June 30	
	2016	2015
<b>Assets, Hedging Derivatives, and Deferred Outflows</b>		
<b>Cash and Cash Equivalents</b> (Note 3)	\$ 129,777	\$ 195,844
<b>Investments</b> (Note 3)	968,764	925,087
<b>Loans Receivable</b> (Note 4)		
Multi-family mortgage loans	1,321,438	1,276,692
Single-family mortgage loans	957,290	896,053
Home improvement and moderate rehabilitation loans	5,416	6,283
Total	2,284,144	2,179,028
Accrued loan interest receivable	56,775	54,663
Allowance on loans receivable (Note 4)	(54,996)	(44,544)
Net loans receivable	2,285,923	2,189,147
<b>Other Assets</b>		
Real estate owned - Net	35,382	38,597
Other miscellaneous receivables and other assets	36,984	31,335
Total other assets	72,366	69,932
Total assets	3,456,830	3,380,010
<b>Accumulated Decrease in Fair Value of Hedging Derivatives</b> (Note 14)	134,547	123,200
<b>Deferred Outflows of Resources</b>		
Deferred outflows related to pensions (Note 9)	4,567	4,831
Deferred charges on refunding - Reassigned swaps (Note 14)	10,798	12,023
Total deferred outflows of resources	15,365	16,854
Total assets, hedging derivatives, and deferred outflows	<b>\$ 3,606,742</b>	<b>\$ 3,520,064</b>
<b>Liabilities, Deferred Inflows, and Net Position</b>		
<b>Liabilities</b>		
Bonds payable (Notes 5 and 6)	\$ 2,065,320	\$ 2,016,695
Hedging derivatives (Note 14)	134,547	123,200
Accrued interest payable	11,103	10,029
Escrow funds	509,620	506,516
Unamortized mortgage interest income (Note 7)	31,592	28,643
Net pension liability (Note 9)	38,909	35,279
Other liabilities	46,213	60,910
Total liabilities	2,837,304	2,781,272
<b>Deferred Inflows of Resources</b>		
Deferred inflows related to pensions (Note 9)	1	4,138
Loan origination fees	12,929	12,076
Total deferred inflows of resources	12,930	16,214
<b>Net Position</b>		
Restricted for bond repayment (Note 11)	438,204	447,654
Unrestricted	318,304	274,924
Total net position	756,508	722,578
Total liabilities, deferred inflows, and net position	<b>\$ 3,606,742</b>	<b>\$ 3,520,064</b>

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

# Michigan State Housing Development Authority

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

	Year Ended June 30	
	2016	2015
<b>Operating Revenue</b>		
Investment income:		
Loan interest income	\$ 115,604	\$ 115,124
Investment interest income	22,298	20,920
Increase in fair value of investments - Including change in unrealized gains of \$15,847 in 2016 and \$998 in 2015	15,885	2,520
Total investment income	153,787	138,564
Less interest expense and debt financing costs	89,599	84,230
Net investment income	64,188	54,334
Other revenue:		
Federal and state assistance programs	552,727	515,725
Section 8 program administrative fees	18,282	16,298
Contract administration fees	6,880	6,746
Other income	46,197	15,549
Total other revenue	624,086	554,318
Total operating revenue	688,274	608,652
<b>Operating Expenses</b>		
Federal and state assistance programs	552,953	515,300
Salaries and benefits	37,230	36,291
Other general operating expenses	29,880	30,278
Loan servicing and insurance costs	4,278	3,714
Provision for possible losses on loans	20,339	4,884
Total operating expenses	644,680	590,467
<b>Operating Income - Before nonoperating expenses</b>	43,594	18,185
<b>Nonoperating Expenses - Grants and subsidies</b>	(9,664)	(7,176)
<b>Change in Net Position</b>	33,930	11,009
<b>Net Position - Beginning of year</b>	722,578	747,183
Restatement due to change in accounting principle - (Note 15)	-	(35,614)
<b>Net Position - End of year</b>	<b>\$ 756,508</b>	<b>\$ 722,578</b>

# Michigan State Housing Development Authority

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

	Year Ended June 30	
	2016	2015
<b>Cash Flows from Operating Activities</b>		
Loan receipts	\$ 310,551	\$ 277,737
Other receipts	755,410	619,798
Loan disbursements	(325,703)	(203,106)
Payments to vendors	(74,280)	(66,271)
Payments to employees	(21,933)	(20,774)
Other disbursements	(679,761)	(503,317)
Net cash (used in) provided by operating activities	(35,716)	104,067
<b>Cash Flows from Investing Activities</b>		
Purchase of investments	(665,942)	(652,718)
Proceeds from sale and maturities of investments	643,285	727,695
Interest received on investments	18,972	18,430
Net cash (used in) provided by investing activities	(3,685)	93,407
<b>Cash Flows from Noncapital Financing Activities</b>		
Proceeds from issuance of bonds - Less discounts	179,112	156,172
Principal repayments on bonds	(132,360)	(160,905)
Interest paid	(73,418)	(73,950)
Net cash used in noncapital financing activities	(26,666)	(78,683)
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(66,067)	118,791
<b>Cash and Cash Equivalents - Beginning of year</b>	195,844	77,053
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 129,777</u>	<u>\$ 195,844</u>

# Michigan State Housing Development Authority

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

	Year Ended June 30	
	2016	2015
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>		
Operating income	\$ 43,594	\$ 18,185
Adjustments to reconcile operating income to net cash from operating activities:		
Amortization of deferred items - Net	1,417	1,445
Arbitrage rebate expense	2,124	797
Investment interest income	(22,298)	(20,920)
Decrease in realized and unrealized gain on market value of investments	(39,473)	(8,044)
Interest expense on bonds and debt financing expense	89,502	84,002
Provision for possible losses on loans	20,339	4,884
Grants and subsidies	(9,664)	(7,176)
Changes in assets and liabilities:		
Accrued loan interest receivable	(2,112)	(4,650)
Loans receivable	(105,117)	(13,584)
Other assets	(2,435)	611
Escrow funds	3,104	32,671
Other liabilities	(14,697)	15,846
Net cash provided by operating activities	<u>\$ (35,716)</u>	<u>\$ 104,067</u>

**Noncash Financing and Investing Activities** - During the years ended June 30, 2016 and 2015, the Authority foreclosed on various properties with mortgage values of approximately \$22.2 million and \$16.6 million, respectively.

# Michigan State Housing Development Authority

## Statement of Net Position - Michigan Homeowner Assistance Nonprofit Housing Corporation (Discretely Presented Component Unit) (in thousands of dollars)

	June 30	
	2016	2015
<b>Assets</b>		
Cash and Cash Equivalents (Note 3)	\$ 76,689	\$ 40,072
Other Assets - Prepaid and other	30	37
Total assets	<u>\$ 76,719</u>	<u>\$ 40,109</u>
<b>Liabilities and Net Position</b>		
Liabilities - Accounts payable and other	\$ 702	\$ 312
Net Position - Restricted for Hardest Hit Program	76,017	39,797
Total liabilities and net position	<u>\$ 76,719</u>	<u>\$ 40,109</u>

# Michigan State Housing Development Authority

## Statement of Revenue, Expenses, and Changes in Net Position Michigan Homeowner Assistance Nonprofit Housing Corporation (Discretely Presented Component Unit) (in thousands of dollars)

	Year Ended June 30	
	2016	2015
<b>Operating Revenue - Hardest Hit Program</b>	\$ 157,494	\$ 136,727
<b>Operating Expenses</b>		
Program	115,610	108,434
Marketing	5	1,825
Contracted services	3,752	4,068
Other operating expenses	1,907	1,189
Total operating expenses	121,274	115,516
<b>Change in Net Position</b>	36,220	21,211
<b>Net Position - Beginning of year</b>	39,797	18,586
<b>Net Position - End of year</b>	<u>\$ 76,017</u>	<u>\$ 39,797</u>

# Michigan State Housing Development Authority

## Statement of Cash Flows - Michigan Homeowner Assistance Nonprofit Housing Corporation (Discretely Presented Component Unit) (in thousands of dollars)

	Year Ended June 30	
	2016	2015
<b>Cash Flows from Operating Activities</b>		
Receipts of federal funds	157,494	136,727
Payments to grantees	(115,610)	(108,434)
Payments to suppliers	(1,515)	(3,232)
Payments to contractors	(3,752)	(4,068)
<b>Net Increase in Cash and Cash Equivalents</b>	<b>36,617</b>	<b>20,993</b>
<b>Cash and Cash Equivalents - Beginning of year</b>	<b>40,072</b>	<b>19,079</b>
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 76,689</b>	<b>\$ 40,072</b>
<b>Reconciliation of Change in Net Position to Net Cash from Operating Activities</b>		
Change in net position	\$ 36,220	\$ 21,211
Adjustments to reconcile operating income to net cash provided by operating activities -		
Changes in assets and liabilities:		
Prepaid expenses and other assets	7	341
Accounts payable	390	(559)
<b>Net cash provided by operating activities</b>	<b>\$ 36,617</b>	<b>\$ 20,993</b>



# Michigan State Housing Development Authority

---

## Notes to Financial Statements June 30, 2016 and 2015

### Note I - Authorizing Legislation and Reporting Entity

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

#### Component Units

Although blended component units are legal separate entities, in substance, they are part of the Authority's operations. The discretely presented component unit is reported in separate financial statements which follow the Authority's financial statements to emphasize that it is legally separate from the Authority.

#### **Blended Component Units:**

***MMIF Fund Management, LLC (MMIF Fund Management)*** - Pursuant to the provisions of Public Act 346 of 1966, the Authority is empowered to establish limited liability companies. The Authority created this single-member limited liability company through which the Authority will make its investment to the Michigan Mezzanine Investment Fund, LP (MMIF) once this is established. The Authority has the sole power to select a fund manager to provide day-to-day managerial and administrative services to the fund. MMIF Fund Management is considered a blended component unit of the Authority.

MMIF has no activity during 2016 and all balance sheet accounts were closed out during the year. MMIF Fund Management had \$53,000 in assets, \$53,000 in liabilities (owed to the Authority), \$0 in net position, \$247,000 in operating income, \$38,000 in operating expenses, and \$209,000 in operating income for 2015.

# Michigan State Housing Development Authority

---

## Notes to Financial Statements June 30, 2016 and 2015

### Note 1 - Authorizing Legislation and Reporting Entity (Continued)

*Michigan Community Development Corporation* - The Authority, jointly with the Michigan Land Bank Authority, established an entity to carry out community development programs and functions throughout Michigan. The entity, Michigan Community Development Corporation (MCDC), was created on March 1, 2014, pursuant to the Urban Cooperation Act. During 2015, the board of MCDC was dissolved and the entity is governed by the board of the Authority and the Authority has operational responsibility of the entity.

MCDC had no activity during 2016 and all balance sheet accounts were closed during the year. MCDC had \$21,000 in assets, \$21,000 in liabilities, \$0 in net position, \$779,000 in operating income, \$275,000 in operating expenses, and \$505,000 in net income for 2015.

#### Discretely Presented Component Units:

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

# Michigan State Housing Development Authority

---

## Notes to Financial Statements June 30, 2016 and 2015

### Note 2 - Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies used by the Authority:

**Accounting and Reporting Principles** - The Authority follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Government Accounting Standards Board. The Authority follows the business-type activities reporting requirements of GASB Statement No. 34, which provides a comprehensive one-line look at the Authority's financial activities.

**Basis of Accounting** - Proprietary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

**Report Presentation** - This report includes the fund-based statements of the Authority. In accordance with government accounting principles, a government-wide presentation with program and general revenue is not applicable to special purpose governments engaged only in business-type activities. The Authority presents all funds and blended component units in a single-column presentation.

#### **Specific Balances and Transactions**

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

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

# Michigan State Housing Development Authority

---

## Notes to Financial Statements June 30, 2016 and 2015

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

**Multifamily Mortgage Loans Receivable** - Multifamily 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 multifamily program. Housing developments securing multifamily loans are subject to regulatory agreements under which the Authority has certain powers relating to rents, cash distributions, occupancy, management, and operations. Monies representing escrow funds for reserves for the payment of property taxes, insurance, property repairs and replacements, and income in excess of allowable cash distributions are required to be deposited with the Authority. Investment income earned on the deposited funds is credited to the respective mortgagor's escrow accounts.

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

**Real Estate Owned** - The Authority acquires real estate through foreclosure proceedings and holds that property until which time it can be sold at a fair price. These properties are valued at the lower of cost or fair market value.

**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, 2016 and 2015 totaled \$3,002,546 and \$3,224,616, respectively.

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

# Michigan State Housing Development Authority

---

## Notes to Financial Statements June 30, 2016 and 2015

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

**Loan Origination Fees** - The Authority charges the mortgagor of each multifamily 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.

**Restricted Net Position** - Portions of the net position of the Authority are pledged for payment against the various bond indentures. All of the net position of the component unit is restricted for eligible federal program expenditures. When an expense is incurred for the purpose for which both restricted and unrestricted net position are available, the Authority's policy is generally to first apply restricted resources.

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

- **Section 8 Program** - The Authority receives federal financial assistance through various housing and rental programs to provide rental subsidies and tenant vouchers.
- **Hardest Hit Program** - A component unit of the Authority, Michigan Homeowner Assistance Nonprofit Housing Corporation administers funds under this program to prevent, reduce, and mitigate foreclosures.
- **State Assistance Programs** - Pursuant to PA 296 of 2012, the Authority received national foreclosure settlement funds through the State of Michigan's Homeowner's Protection Fund to provide foreclosure counseling and legal aid to homeowners, blight elimination, a home affordable refinance program, down payment assistance to homebuyers, and housing and community development.

**Deferred Outflows/Inflows of Resources** - In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority has three items that qualify for reporting in this category. The deferred outflows of resources related to the pension, deferred charges on refunding - reassigned swaps, and the accumulated decrease in the fair value of hedging derivatives.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has two items that qualify for reporting in this category. The deferred inflows of resources related to the pension and loan origination fees.

# Michigan State Housing Development Authority

---

## Notes to Financial Statements June 30, 2016 and 2015

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

**Pensions** - For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Employees' Retirement System (SERS) and additions to/deductions from SERS' fiduciary net position have been determined on the same basis as they are reported by SERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Other Postemployment Benefit Costs** - The Authority offers retiree healthcare benefits to retirees through participation in the State of Michigan's cost-sharing, multiemployer postemployment benefit plan. See Note 9 for additional information.

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

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

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

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2016 and 2015

### Note 3 - Deposits and Investments

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

	MSHDA			Component
	Cash and Cash Equivalents	Investments	Total	Unit Cash and Cash Equivalents
<b>2016</b>				
Deposits	\$ 3,094	\$ 259	\$ 3,353	\$ 6,062
Investments	<u>126,683</u>	<u>968,505</u>	<u>1,095,188</u>	<u>70,627</u>
Total	<u>\$ 129,777</u>	<u>\$ 968,764</u>	<u>\$ 1,098,541</u>	<u>\$ 76,689</u>
<b>2015</b>				
Deposits	\$ (318)	\$ 764	\$ 446	\$ 8,104
Investments	<u>196,162</u>	<u>924,323</u>	<u>1,120,485</u>	<u>31,968</u>
Total	<u>\$ 195,844</u>	<u>\$ 925,087</u>	<u>\$ 1,120,931</u>	<u>\$ 40,072</u>

The investment noted above within the component unit relates to an investment pool valued at amortized cost under GASB 79. There are no limitations or restrictions on participant withdrawals for the investment pool recorded at amortized cost.

The Authority has designated eight 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, and 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, 2016 and 2015

### 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, 2016, the Authority had approximately \$6,649,000 of bank deposits (certificates of deposit, checking, and savings accounts) and of that balance approximately \$1,377,000 was uninsured and uncollateralized. In addition, the Authority had \$121,444,000 of government money market funds. The component unit does not have a deposit policy for custodial credit risk. At June 30, 2016, the component unit had approximately \$6,062,000 of bank deposits (checking accounts) and of that balance approximately \$5,812,000 was uninsured and uncollateralized.

At June 30, 2015, the Authority had approximately \$4,351,000 of bank deposits (certificates of deposit and checking and savings accounts) and of that balance approximately \$288,000 was uninsured and uncollateralized. In addition, the Authority had \$195,921,000 of government money market funds. The component unit does not have a deposit policy for custodial credit risk. At June 30, 2015, the component unit had approximately \$8,104,000 of bank deposits (checking accounts) and of that balance approximately \$7,854,000 was uninsured and uncollateralized.

The Authority believes that, due to the dollar amounts of cash deposits and the limits of the FDIC insurance, it is impractical to insure all deposits. At June 30, 2016 and 2015, there was \$3,922,000 and \$2,313,000, respectively, of deposits which were 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.



# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2016 and 2015

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

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

Type of Investment	Carrying Value (in thousands of dollars)		How Held
	2016	2015	
<b>MSHDA</b>			
Investment agreements	\$ 240	\$ 241	Counterparty's trust dept.
U.S. government securities	427,589	364,363	Counterparty's trust dept.
Mortgage-backed securities	525,150	546,212	Counterparty's trust dept.
U.S. government agency securities	18,291	10,971	Counterparty's trust dept.
U.S. government money market funds	121,445	195,921	Counterparty's trust dept.
<b>Component Unit</b>			
U.S. government money market funds	70,627	31,968	Counterparty's trust dept.

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2016 and 2015

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

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

Type of Investment	Fair Value	Less than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
<b>2016</b>					
<b>MSHDA</b>					
Investment agreements	\$ 240	\$ 240	\$ -	\$ -	\$ -
U.S. government securities	427,589	150,648	227,322	21,704	27,915
Mortgage-backed securities	525,150	-	60	586	524,504
U.S. government agency securities	18,291	-	-	-	18,291
U.S. government money market funds	121,445	121,445	-	-	-
<b>Component Unit</b>					
U.S. government money market funds	70,627	70,627	-	-	-
Type of Investment	Fair Value	Less than One Year	1-5 Years	6-10 Years	More Than 10 Years
<b>2015</b>					
<b>MSHDA</b>					
Investment agreements	\$ 241	\$ 241	\$ -	\$ -	\$ -
U.S. government securities	364,363	112,255	193,038	39,313	19,757
Mortgage-backed securities	546,212	8	73	1,035	545,096
U.S. government agency securities	10,971	1,937	-	1,969	7,065
U.S. government money market funds	195,921	195,921	-	-	-
<b>Component Unit</b>					
U.S. government money market funds	31,968	31,968	-	-	-

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2016 and 2015

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

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

Investment	Fair Value	Rating	Rating Organization
<b>2016</b>			
<b>MSHDA</b>			
Investment agreements	\$ 240	A	S&P
U.S. government securities	427,589	AA+	S&P
Mortgage-backed securities	525,150	AA+	S&P
U.S. government agency securities	18,291	AA+	S&P
U.S. government money market funds	121,445	Not rated	-
<b>Component Unit</b>			
U.S. government money market funds	70,627	Not rated	-
Investment	Fair Value	Rating	Rating Organization
<b>2015</b>			
<b>MSHDA</b>			
Investment agreements	\$ 241	A	S&P
U.S. government securities	364,363	AA+	S&P
Mortgage-backed securities	546,207	AA+	S&P
Mortgage-backed securities	5	Not rated	-
U.S. government agency securities	10,971	AA+	S&P
U.S. government money market funds	195,921	Not rated	-
<b>Component Unit</b>			
U.S. government money market funds	31,968	Not rated	-

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2016 and 2015

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

**Concentration of Credit Risk** - The Authority has 15 percent of its investment portfolio invested in the securities of government-sponsored enterprises as of both June 30, 2016 and 2015. These include securities issued by the Federal Home Loan Banks, the 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 approximately \$592,792,000 and \$555,183,000 at June 30, 2016 and 2015, respectively.

**Fair Value Measurements** - The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Authority's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The Authority has the following recurring fair value measurements as of June 30, 2016 and 2015:

Type of Investment	Fair Value	Level 1	Level 2	Level 3
<b>2016</b>				
<b>MSHDA</b>				
Investment agreements	\$ 240		\$ 240	
U.S. government securities	427,589	427,589		
Mortgage-backed securities	525,150		525,150	
U.S. government agency securities	18,291		18,291	
U.S. government money market funds	121,445		121,445	

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2016 and 2015

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

Type of Investment	Fair Value	Level 1	Level 2	Level 3
<b>2015</b>				
<b>MSHDA</b>				
Investment agreements	\$ 241		\$ 241	
U.S. government securities	364,363	364,363		
Mortgage-backed securities	546,212		546,212	
U.S. government agency securities	10,971		10,971	
U.S. government money market funds	195,921		195,921	

U.S. government securities classified in Level 1 are valued using prices quoted in active markets for those securities.

The fair value of investment agreements, mortgage-backed securities, U.S. government agency securities, and U.S. government money market funds at June 30, 2016 was determined primarily based on Level 2 inputs. The Authority estimates the fair value of these investments using other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

The Authority also has interest rate swaps reported as liabilities on the balance sheet based on Level 2 inputs. The methodology used to determine the fair values of these swaps as well as the fair values of investments is shown within Note 14.

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2016 and 2015

### 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 multifamily loans are uninsured.

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

	<u>2016</u>	<u>2015</u>
Loans receivable:		
FHA insured, VA, or U.S. Department of Agriculture guaranteed	\$ 766,403	\$ 679,158
Insured by private mortgage insurance companies	95,064	132,185
Uninsured	<u>1,422,677</u>	<u>1,367,685</u>
Total loans receivable	<u>\$ 2,284,144</u>	<u>\$ 2,179,028</u>

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

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 44,544	\$ 41,488
Provision for possible losses	18,811	4,884
Write-offs of uncollectible losses - Net of recoveries	<u>(8,359)</u>	<u>(1,828)</u>
Ending balance	<u>\$ 54,996</u>	<u>\$ 44,544</u>

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2016 and 2015

### Note 5 - Bonds Payable

The Authority issues revenue bonds to fund loans to finance multifamily housing developments and single-family housing units for persons of low and moderate income within the state of Michigan. Such bonds constitute a direct obligation of the Authority and are not a debt of the State of Michigan. Each bond issue is secured by the pledge of all repayments to the Authority of loans issued with the proceeds of the bond issue and all income earned by the Authority relating to those bonds. Interest on all bonds is payable semiannually. 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.

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

As of June 30, 2016

	Beginning Balance	Additions	Payments	Ending Balance
Revenue bonds:				
Single-family home ownership	380,995	-	45,295	335,700
Single-family mortgage	557,385	174,575	41,810	690,150
Multifamily housing	5,775	-	2,020	3,755
Rental housing	1,070,865	-	43,235	1,027,630
Total revenue bonds	<u>\$ 2,015,020</u>	<u>\$ 174,575</u>	<u>\$ 132,360</u>	<u>\$ 2,057,235</u>
Due within one year				<u>\$ 70,060</u>

As of June 30, 2015

	Beginning Balance	Additions	Payments	Ending Balance
Revenue bonds:				
Single-family home ownership	406,285	-	25,290	380,995
Single-family mortgage	536,735	38,410	17,760	557,385
Multifamily housing	7,685	-	1,910	5,775
Rental housing	1,043,625	117,410	90,170	1,070,865
Multifamily	25,775	-	25,775	-
Total revenue bonds	<u>\$ 2,020,105</u>	<u>\$ 155,820</u>	<u>\$ 160,905</u>	<u>\$ 2,015,020</u>
Due within one year				<u>\$ 54,270</u>

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2016 and 2015

### Note 5 - Bonds Payable (Continued)

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

	2016	2015
Single-family Homeownership Revenue Bonds:		
2009 Series A-1/2010 Series A, B and C, 2016 to 2041, 3.16% to 5.50%	91,290	104,475
2009 Series A-2 & A-3/2011 Series A, 2016 to 2041, 2.50% to 5.00%	50,245	60,325
2009 Series A-4, 2019 to 2041, 2.67%	59,215	62,245
2009 Series A-5, A-6 & A-7, 2016 to 2041, 2.66%	134,950	153,950
Total Single-family Homeownership Revenue Bonds	335,700	380,995
Single-family Mortgage Revenue Bonds:		
2006 Series C, 2035, variable rate (Note 6)	50,600	50,600
2007 Series B and C, 2038 to 2039, variable rate (Note 6)	138,945	145,445
2007 Series D, E, and F, 2038, variable rate (Note 6)	220,240	240,485
2009 Series A, 2016 to 2019, 4.75% to 5.00%**	-	6,025
2009 Series D, 2030, variable rate (Note 6)	74,850	77,850
2014 Series A, 2016 to 2044, 0.70% to 4.00%	32,170	36,980
2015 Series A, 2016 to 2046, 0.65% to 4.00%	76,530	-
2016 Series A, 2016 to 2046, 0.65% to 4.00%	96,815	-
Total Single-family Mortgage Revenue Bonds	690,150	557,385

\*\* These bonds were paid off during the 2015-2016 fiscal year



# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2016 and 2015

### Note 5 - Bonds Payable (Continued)

	<u>2016</u>	<u>2015</u>
Multifamily Housing Revenue Bonds - 1988 Series A, 2016 to 2017, 4.50%	\$ 3,755	\$ 5,775
Rental Housing Revenue Bonds:		
1999 Series A, 2021 to 2029, 5.15%	18,685	18,685
2000 Series A, 2035, variable rate (Note 6)	35,695	36,575
2002 Series A, 2037, variable rate (Note 6)	47,490	48,815
2003 Series A, 2023, variable rate	25,365	25,530
2005 Series A, 2040, variable rate (Note 6)	61,900	63,035
2006 Series A, 2040, variable rate (Note 6)	62,085	63,620
2006 Series C, 2041, variable rate (Note 6)	55,805	56,990
2006 Series D, 2016 to 2042, 4.75% to 5.20%	40,630	41,715
2007 Series A, 2042, variable rate (Note 6)	35,935	36,635
2007 Series B, 2016 to 2037, 4.30% to 4.85%	20,180	20,690
2007 Series C, 2042, variable rate (Note 6)	85,330	86,775
2008 Series A, C and D, 2023 to 2039, variable rate (Note 6)	155,610	163,235
2008 Series B and E, 2016 to 2018, 4.125% to 4.375%	395	2,260
2009 Series A, B-1 and B-2, 2016 to 2034, 4.00% to 5.625%	23,000	27,600
2010 Series A and B, 2016 to 2046, 2.625% to 5.25%	42,495	54,480
2011 Series A, B and C, 2016 to 2041, 3.50% to 6.05%	23,660	26,390
2012 Series A, B and C, 2016 to 2046, 1.40% to 5.622%	42,825	44,060
2012 Series D and E, 2016 to 2048, 1.35% to 4.50%	57,595	60,140
2014 Series A, 2016 to 2050, 0.85% to 4.875%	76,135	76,225
2015 Series A and B, 2016 to 2052, 0.90% to 4.60%	<u>116,815</u>	<u>117,410</u>
Total Rental Housing Revenue Bonds	<u>1,027,630</u>	<u>1,070,865</u>
Total revenue bonds	2,057,235	2,015,020
Off-market borrowings (Note 14)	10,798	12,023
Deferred charges - Bond discounts	<u>(2,713)</u>	<u>(10,348)</u>
Total	<u>\$ 2,065,320</u>	<u>\$ 2,016,695</u>

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2016 and 2015

### Note 5 - Bonds Payable (Continued)

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

Fiscal Years Ending	Principal	Interest	Total
2017	\$ 70,060	\$ 78,721	\$ 148,781
2018	56,450	76,890	133,340
2019	65,880	75,065	140,945
2020	52,155	73,076	125,231
2021	49,695	71,346	121,041
2022-2026	299,610	325,695	625,305
2027-2031	425,350	254,426	679,776
2032-2036	459,630	165,556	625,186
2037-2041	384,340	77,285	461,625
2042-2046	144,270	25,582	169,852
2047-2051	49,795	6,360	56,155
Total	<u>\$ 2,057,235</u>	<u>\$ 1,230,002</u>	<u>\$ 3,287,237</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 revenue. Bonds retired pursuant to such provisions total \$77,520,000 and \$72,240,000 during the years ended June 30, 2016 and 2015, respectively. Such bond retirements, in the aggregate, resulted in a net gain of \$59,905 and \$229,000 for the years ended June 30, 2016 and 2015, respectively.

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2016 and 2015

### Note 6 - Demand Bonds

The following table summarizes the demand bonds outstanding at June 30, 2016, which are included in the bonds payable disclosed in Note 5:

Debt Associated	Bonds		Standby Bond Purchase Agreement Provider	Remarketing Fee (1)	SBPA Fee	Expiration Date of Agreement
	Outstanding (in thousands)	Remarketing Agent				
<b>Single-family Mortgage Revenue Bonds</b>						
2006 Series C	\$50,600	Barclays Capital Inc.	Barclays Bank PLC	0.07%	0.450% (8)	06/19/17
2007 Series B	\$135,000	Barclays Capital Inc.	FHLB of Topeka	0.07%	0.500% (6)	09/11/17
2007 Series C	\$3,945	Barclays Capital Inc.	FHLB of Topeka	0.07%	0.500% (6)	09/11/17
2007 Series D	\$29,300	Barclays Capital Inc.	Barclays Bank PLC	0.07%	0.450% (8)	08/28/17
2007 Series E	\$119,490	Morgan Stanley	Bank of Tokyo	0.10%	0.450% (2)	06/29/20
2007 Series F	\$71,450	Merrill Lynch & Co.	Bank of America, N.A.	0.07%	0.480% (4)	11/16/17
2009 Series D	\$74,850	Barclays Capital Inc.	FHLB of Topeka	0.07%	0.500% (6)	09/11/17
<b>Rental Housing Revenue Bonds</b>						
2000 Series A	\$35,695	JPMorgan	JPMorgan Chase Bank, N.A.	0.10%	0.520% (3)	05/15/17
2002 Series A	\$47,490	Merrill Lynch & Co.	Bank of America, N.A.	0.07%	0.430% (7)	04/27/18
2005 Series A	\$61,900	Merrill Lynch & Co.	Bank of Tokyo	0.07%	0.450% (2)	11/12/19
2006 Series A	\$62,085	Barclays Bank PLC	Barclays Bank PLC	0.09%	0.400% (8)	03/06/17
2006 Series C	\$55,805	Merrill Lynch & Co.	Bank of America, N.A.	0.07%	0.430% (9)	04/27/18
2007 Series A	\$35,935	Merrill Lynch & Co.	BNP Paribas	0.09%	0.110% (5)	04/26/17
2007 Series C	\$85,330	JPMorgan	JPMorgan Chase Bank, N.A.	0.10%	0.520% (3)	05/15/17
2008 Series A	\$87,670	JPMorgan	JPMorgan Chase Bank, N.A.	0.10%	0.520% (3)	05/15/17
2008 Series C	\$12,560	Morgan Stanley	Bank of Tokyo	0.10%	0.450% (2)	08/20/19
2008 Series D	\$55,380	Morgan Stanley	Bank of Tokyo	0.10%	0.450% (2)	08/20/19

- (1) Fee is per annum based on the outstanding principal amount of the bonds.
- (2) While the Bank of Tokyo-Mitsubishi UFJ, LTD (Bank of Tokyo) is holding the bonds, they will bear interest at the higher of the Bank of Tokyo's prime rate plus 3.00 percent, the federal funds rate plus 5.00 percent, or 8.00 percent per annum. Once the Bank of Tokyo becomes the owner of the bonds, the bonds will be subject to a mandatory redemption that begins 91 days after the Bank of Tokyo becomes the holder of the bonds and will amortize in 16 equal quarterly installments. The Authority is required to pay the Bank of Tokyo an annual liquidity fee per annum on the amount of bonds outstanding plus interest for 34 days at a rate of 14 percent. Standard & Poor's rating on the Bank of Tokyo-Mitsubishi UFJ, LTD is "A+/A-1" at June 30, 2016.
- (3) While JPMorgan is holding the bonds, they will bear interest at the higher of the bank's prime rate plus 1.0 percent, the federal funds rate plus 0.50, or 8.50 percent per annum. Once the bank becomes the owner of the bonds, the bonds will be subject to a mandatory redemption 91 days after the bank becomes the holder of the bonds and will amortize in six equal semiannual installments. The Authority is required to pay the bank an annual liquidity fee per annum on the amount of bonds outstanding plus interest for 34 days at a rate of 14 percent. Standard & Poor's rating on JPMorgan is "A+/A-1" at June 30, 2016.

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2016 and 2015

### Note 6 - Demand Bonds (Continued)

- (4) While Bank of America, N.A. (BofA) is holding the bonds, they will bear interest at the higher of the Prime Rate plus 1.00 percent, the Federal Funds Rate plus 2.00 percent or 7.50 percent per annum. Once Bank of America becomes the owner of the bonds and has held such bonds for six months, the bonds become subject to mandatory redemption over a three-year period with principal payable in six equal semiannual installments. The Authority shall pay Bank of America a liquidity fee per annum on outstanding bonds plus 184 days of interest at 12 percent, based on a 365-day year. Standard & Poor's rating on Bank of America, N.A. is "A/A-1" at June 30, 2016.
- (5) While BNP Paribas Bank is holding the bonds, they will bear interest at the greater of BNP Paribas Bank's prime rate or the federal funds rate plus 0.50 percent per annum. The Authority agrees to cause the mandatory redemption of bonds outstanding in 10 equal installments each April and October commencing on the first such date to occur following the 91st day after BNP Paribas Bank becomes the bond holder. The Authority is required to pay BNP Paribas Bank an annual liquidity fee per annum on bonds outstanding plus 184 days of interest at 12 percent, based on a 365-day year. Standard & Poor's rating on BNP Paribas Bank is "A/A-1" at June 30, 2016.
- (6) While the Federal Home Loan Bank of Topeka (FHLBT) is holding the bonds, they will bear interest at one-month LIBOR plus 3.00 percent per annum. Once FHLBT becomes the owner of the bonds and has held such bonds for 91 days, the bonds become subject to mandatory redemption over a five-year period with principal payable in 10 equal semiannual installments. The Authority shall pay the FHLBT 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 of the FHLBT is "AA+/A-1+" at June 30, 2016.
- (7) While Bank of America, N.A. holding the bonds, they will bear interest at the higher of the Prime Rate plus 1.00 percent, the Federal Funds Rate plus 3.00 percent, the LIBOR plus 5.00 percent, or 7.50 percent per annum. Once Bank of America becomes the owner of the bonds and has held such bonds for six months, the bonds become subject to mandatory redemption over a three-year period with principal payable in six equal semiannual installments. The Authority shall pay Bank of America a liquidity fee per annum on outstanding bonds plus 34 days of interest at 14 percent, based on a 365-day year. Standard & Poor's rating on Bank of America, N.A. is "A/A-1" at June 30, 2016.
- (8) While Barclays Bank PLC (Barclays) is holding the bonds, they will bear interest at the higher of the prime rate plus 5.00 percent, the federal funds rate plus 5.00 percent, or LIBOR plus 5.00 percent per annum. Once Barclays becomes the owner of the bonds and has held such bonds for 90 days, the bonds become subject to mandatory redemption in full on the third-year anniversary of the first purchase date. The Authority shall pay Barclays a liquidity fee per annum on outstanding bonds plus 186 days of interest at 12 percent, based on a 365-day year. Standard & Poor's rating on Barclays Bank PLC is "A-/A-2" at June 30, 2016.
- (9) While Bank of America, N.A. holding the bonds, they will bear interest at the higher of the Prime Rate plus 1.00 percent, the Federal Funds Rate plus 3.00 percent, the LIBOR plus 5.00 percent or 7.50 percent per annum. Once Bank of America becomes the owner of the bonds and has held such bonds for six months, the bonds become subject to mandatory redemption over a three-year period with principal payable in six equal semiannual installments. The Authority shall pay Bank of America a liquidity fee per annum on outstanding bonds plus 184 days of interest at 12 percent, based on a 365-day year. Standard & Poor's rating on Bank of America, N.A. is "A/A-1" at June 30, 2016.

# Michigan State Housing Development Authority

---

## Notes to Financial Statements June 30, 2016 and 2015

### **Note 7 - Unamortized Mortgage Interest Income**

Since 1990, the Authority has refunded a substantial amount of high-yielding multifamily 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 multifamily 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 interest income is and will continue to be amortized to income in the future as the average rate on the outstanding mortgage loans drops to a rate that is less than 1.5 percent above the average rate on the new bonds. The average rate will decline primarily because the higher yielding mortgage loans have average remaining lives substantially shorter than the lower yielding mortgage loans.

### **Note 8 - Limited Obligation Bonds**

The Act, as amended, authorizes the Authority to issue limited obligation bonds to finance multifamily housing. Such bonds are not general obligations of the Authority and the Authority has no liability for this debt. Such bonds are secured solely by revenue and property derived from or obtained in connection with the housing projects. Thus, with the exception of limited obligation bond financing fees, transactions related to these bonds are not reflected in the Authority's financial statements. At June 30, 2016, limited obligation bonds had been issued totaling approximately \$877,397,000, of which 63 issues totaling \$636,697,000 have been retired. At June 30, 2015, limited obligation bonds had been issued totaling approximately \$877,397,000, of which 53 issues totaling \$534,872,000 have been retired.

# Michigan State Housing Development Authority

---

## Notes to Financial Statements June 30, 2016 and 2015

### Note 9 - Pension Plan and Other Employee Benefits

#### Defined Pension Plan

**Plan Description** - The Michigan State Employees' Retirement System (the "System" or SERS) is a single-employer, statewide, defined benefit public employee retirement plan governed by the State of Michigan (the "State") and created under Public Act 240 of 1943, as amended. Section 2 of this act established the board's authority to promulgate or amend the provisions of the System. The board consists of nine members - four appointed by the governor, which consist of two employee members and two retirant members, the insurance commissioner, attorney general, state treasurer, deputy legislative auditor general, and state personnel director, who serves as an ex-officio member. The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to the State's government employees.

The Michigan State Employees' Retirement System is accounted for in a separate pension trust fund and also issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by visiting [www.michigan.gov/ors](http://www.michigan.gov/ors) or by calling the Customer Information Center at (517) 322-5103 or (800) 381-5111.

#### **Benefits Provided:**

**Introduction** - Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 240 of 1943, State Employees' Retirement Act, as amended, establishes eligibility and benefit provisions for the defined benefit pension plan. Retirement benefits are determined by final average compensation and years of service. Members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides duty disability, non-duty disability, and survivor benefits.

A member who has separated from employment may request a refund of his or her member contribution account. A refund may cancel a former member's rights to future benefits. However, former members who return to employment and who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Effective March 31, 1997, Public Act 487 of 1996 closed the plan to new entrants. All new employees become members of the defined contribution plan. The Public Act allows returning employees and members who left state employment on or before March 31, 1997, to elect the defined benefit plan instead of the defined contribution plan.

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2016 and 2015

### Note 9 - Pension Plan and Other Employee Benefits (Continued)

Public Act 185 of 2010, established a pension supplement. Members who retired under the retirement incentive of the legislation agreed to forfeit accumulated leave balances, excluding banked leave time; in exchange they receive a pension supplement for 60 months to their retirement allowance payments equal to 1/60 of the amount forfeited from funds, beginning on January 1, 2011.

**Pension Reform of 2012** - On December 15, 2011, the governor signed Public Act 264 of 2011 into law. The legislation granted members a choice regarding their future retirement plan. They had the following options:

- Option 1: DB Classified - Members voluntarily elected to remain in the defined benefit (DB) plan for future service and contribute 4 percent of their annual compensation to the pension fund until they terminate state employment. The 4 percent contribution began on April 1, 2012.
- Option 2: DB 30 - Members voluntarily elected to remain in the DB plan for future service and contribute 4 percent of pay until they reach 30 years of service. When they reach 30 years of service, they will switch to the State's defined contribution (DC) plan. The 4 percent contribution began on April 1, 2012, and continues until they switch to the DC plan or terminate employment, whichever comes first.
- Option 3: DB/DC Blend - Members voluntarily elected not to pay the 4 percent and therefore became participants in the DC plan for future service beginning on April 1, 2012. As a DC plan participant, they receive a 4 percent employer contribution to their 401(k) account and are eligible for an additional dollar-for-dollar employer match of up to 3 percent of pay to the plan.

Deferred members of the DB plan (with 10 or more years of service) who are reemployed by the State on or after January 1, 2012, become participants in the DC plan. Their pension calculation is determined by their final average compensation (FAC) and years of service as of March 31, 2012. They retain their eligibility for the retiree health insurance premium subsidy offered by the State.

Former nonvested members of the DB plan (with less than 10 years of service) who are reemployed by the State on or after January 1, 2012 and before January 1, 2014, become participants in the DC plan. When they have earned sufficient service credit for vesting (10 years) they would be eligible for a pension based on their FAC and years of service in the DB plan as of March 31, 2012. They retain their eligibility for the retiree health insurance premium subsidy offered by the State.

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2016 and 2015

### Note 9 - Pension Plan and Other Employee Benefits (Continued)

Former nonvested members (with less than 10 years of service) of the DB plan who are reemployed by the State on or after January 1, 2014 become members of the DC plan. Any service credit previously earned would count towards vesting for the DC plan. They will not be eligible for any pension or retiree health insurance coverage premium but will become a participant in the Personal Healthcare Fund wherein they will contribute up to 2 percent of their compensation to a 401(k) or 457 account, earning a matching 2 percent employer contribution. They will also receive a credit into a health reimbursement account (HRA) at termination if they terminate employment with at least 10 years of service. The credit will be \$2,000 for participants who are at least 60 years old or \$1,000 for participants who are less than 60 years old at termination.

**Regular Retirement** - The retirement benefit is based on a member's years of credited service (employment) and FAC. The normal benefit equals 1.5 percent of a member's FAC multiplied by the years and partial year of credited service and is payable monthly over the member's lifetime.

Under PA 264 of 2011, FAC is initially determined as the annual average of the highest three years of compensation (including overtime paid before January 1, 2012, but excluding overtime paid after December 31, 2011). If the end date for the initial FAC calculation is between January 1, 2012, and January 1, 2015, then a prorated amount of post-2008 average overtime will be added to the initial FAC calculation. If the end date for the initial FAC calculation is January 1, 2015, or later, then an annual average of overtime - for the six-year period ending on the FAC calculation date - will be added to that initial FAC calculation to get the final FAC number.

For members who switch to the DC plan for future service, the pension calculation (FAC times 1.5 percent times years of service) will be determined as of the point the member switches to the DC plan. If the FAC period includes the date of the switch to the DC plan, then the FAC will include up to 240 hours of accrued annual leave multiplied by the rate of pay as of the date of the switch. The hours will be paid at separation.

A member may retire and receive a monthly benefit after attaining:

1. Age 60 with 10 or more years of credited service
2. Age 55 with 30 or more years of credited service
3. Age 55 with at least 15 but less than 30 years of credited service. The benefit allowance is permanently reduced 0.5 percent for each month from the member's age on the effective date of retirement to the date the member will attain age 60.



# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2016 and 2015

### Note 9 - Pension Plan and Other Employee Benefits (Continued)

Employees in covered positions are eligible for supplemental benefits and may retire after attaining:

1. Age 51 with 25 or more years in a covered position
2. Age 56 with 10 or more years in a covered position

In either case, the three years immediately preceding retirement must have been in a covered position.

**Deferred Retirement** - Any member with 10 or more years of credited service who terminates employment but has not reached the age of retirement is a deferred member and is entitled to receive a monthly pension upon reaching age 60, provided the member's accumulated contributions have not been refunded. Deferred retirement is available after five years of service for State employees occupying unclassified positions in the executive and legislative branches and certain Department of Community Health employees subject to reduction in force lay-offs by reason of deinstitutionalization.

**Non-Duty Disability Benefit** - A member with 10 or more years of credited service who becomes totally and permanently disabled not due to performing duties as a State employee is eligible for a non-duty disability pension. The non-duty disability benefit is computed in the same manner as an age and service allowance based upon service and salary at the time of disability.

**Duty Disability Benefit** - A member who becomes totally and permanently disabled from performing duties as a State employee as a direct result of State employment and who has not met the age and service requirement for a regular pension, is eligible for a duty disability pension. Public Act 109 of 2004 amended the State Employees' Retirement Act to change the calculation of the pension benefit and increase the minimum annual payment. If the member is under age 60, the duty disability allowance is now a minimum of \$6,000 payable annually. At age 60 the benefit is recomputed under service retirement.

**Survivor Benefit** - Upon the death of a member who was vested, the surviving spouse shall receive a benefit calculated as if the member had retired the day before the date of death and selected a survivor pension. Certain designated beneficiaries can be named to receive a survivor benefit. Public Act 109 of 2004 amended the State Employees' Retirement Act to change the calculation of duty death benefits and redefines eligibility for deceased member's survivors. The new minimum duty-related death benefit has been increased to \$6,000.

# Michigan State Housing Development Authority

---

## Notes to Financial Statements June 30, 2016 and 2015

### Note 9 - Pension Plan and Other Employee Benefits (Continued)

*Pension Payment Options* - When applying for retirement, an employee may name a person other than his or her spouse as a beneficiary if the spouse waives this right. If a beneficiary is named, the employee must choose whether the beneficiary will receive 100 percent, 75 percent or 50 percent of the retiree's pension benefit after the retiree's death. The decision is irrevocable. A description of the options follows.

*Regular Pension* - The pension benefit is computed with no beneficiary rights. If the retiree made contributions while an employee and has not received the total accumulated contributions before death, a refund of the balance of the contributions is made to the beneficiary of record. If the retiree did not make any contributions, there will not be payments to beneficiaries.

*100 percent Survivor Pension* - Under this option, after the retiree's death, the beneficiary will receive 100 percent of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. If the beneficiary predeceases the retiree, the pension "pops-up" to the regular pension amount; another beneficiary cannot be named.

*75 percent Survivor Pension* - Under this option, after the retiree's death, the beneficiary will receive 75 percent of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. The reduction factor is lower than the factor used in the 100 percent option previously described. If the beneficiary predeceases the retiree, the pension "pops-up" to the regular pension amount; another beneficiary cannot be named.

*50 percent Survivor Pension* - Under this option, after the retiree's death, the beneficiary will receive 50 percent of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. The reduction factor is lower than the factor used in the 100 percent or 75 percent option previously described. If the beneficiary predeceases the retiree, the pension "pops-up" to the regular pension amount; another beneficiary cannot be named.

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2016 and 2015

### Note 9 - Pension Plan and Other Employee Benefits (Continued)

*Equated Pension* - An equated pension may be chosen by any member under age 65 except a disability retiree and an early supplemental retiree. Equated pensions provide an additional amount until age 65 and may be combined with Regular, 100 percent, 75 percent, or 50 percent option. At age 65, the monthly amount is permanently reduced. The initial and reduced amounts are based on an estimate of social security benefits at age 65, provided by the Social Security Administration Office. In order to calculate this benefit, members choosing this option must provide the Office of Retirement Services (ORS) with an estimate from the Social Security Administration Office. The actual amount received from social security may vary from the estimate.

*Postretirement Adjustments* - One-time upward benefit adjustments were made in 1972, 1974, 1976, 1977, and 1987. Beginning on October 1, 1988, a 3 percent noncompounding increase, up to a maximum of \$25 monthly, is paid each October to recipient who have been retired 12 full months. Beginning in 1983, eligible benefit recipients share in a distribution of investment income earned in excess of 8 percent annually. This distribution is known as the supplemental payment. The supplemental payment is offset by one year's cumulative increases received after the implementation of the annual 3 percent increase in benefits. These adjustment payments were not issued during fiscal years 1991 through 1994. Members who retired on or after October 1, 1987, are not eligible for the supplemental payment.

#### **Contributions:**

*Member Contributions* - Under Public Act 264 of 2011, members who voluntarily elected to remain in the DB plan contribute 4 percent of compensation to the retirement system. In addition, members may voluntarily contribute to the System for the purchase of creditable service, such as military service or maternity leave, or a universal buy-in. If a member terminates employment before a retirement benefit is payable, the member's contribution and interest on deposit may be refunded. If the member dies before being vested, the member's contribution and interest are refunded to the designated beneficiaries.

*Employer Contributions* - The statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level-dollar value funding principles so the contribution rates do not have to increase over time. For fiscal year 2016, the Authority's contribution rate ranged from 26.1 to 27.5 percent of the defined benefit employee wages and 22.8 to 24.2 percent of the defined contribution employee wages. The Authority's contribution to SERS for the fiscal year ending June 30, 2016 was \$5,030,000.

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2016 and 2015

### Note 9 - Pension Plan and Other Employee Benefits (Continued)

For fiscal year 2015, the Authority's contribution rate ranged from 26.0 to 27.5 percent of the defined benefit employee wages and 22.8 to 24.2 percent of the defined contribution employee wages. The Authority's contribution to SERS for the fiscal year ending June 30, 2015 was \$5,161,000.

**Actuarial Assumptions** - The Authority's net pension liability for the year ended June 30, 2016 was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014, and rolled-forward using generally accepted actuarial procedures. The Authority's net pension liability for the year ended June 30, 2015 was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2013, and rolled-forward using generally accepted actuarial procedures. The total pension liability for both years was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage inflation rate	3.5%
Projected salary increases	3.5 to 12.5 percent, including wage inflation at 3.5 percent
Investment rate of return	8 percent
Cost-of-living pension adjustment	3 percent annual noncompounded with maximum annual increase of \$300 for those eligible

Mortality rates were based on RP-2000 male and female combined healthy life mortality tables, adjusted for mortality improvements to 2015 projections scale BB. For retirees, 100 percent of the table rates were used. For active members, 50 percent of the table rates were used for males and females.

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2016 and 2015

### Note 9 - Pension Plan and Other Employee Benefits (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015 and 2014, are summarized in the following tables:

#### September 30, 2015

##### Asset Allocation

Asset Class	Target Allocation	Long-term Expected Real Rate of Return*
Domestic equity pools	28.0 %	5.9 %
International equity pools	16.0	7.2
Private equity pools	18.0	9.2
Real estate and infrastructure pools	10.0	4.3
Fixed-income pools	10.5	0.9
Absolute return pools	15.5	6.0
Short-term investment pools	2.0	0.0
Total	100.0 %	

\* Rate of return does not include 2.1% inflation

#### September 30, 2014

##### Asset Allocation

Asset Class	Target Allocation	Long-term Expected Real Rate of Return*
Domestic equity pools	28.0 %	4.8 %
International equity pools	16.0	6.1
Private equity pools	18.0	8.5
Real estate and infrastructure pools	10.0	5.3
Fixed-income pools	10.5	1.5
Absolute return pools	15.5	6.3
Short-term investment pools	2.0	(0.2)
Total	100.0 %	

\* Rate of return does not include 2.5% inflation

# Michigan State Housing Development Authority

---

## Notes to Financial Statements June 30, 2016 and 2015

### Note 9 - Pension Plan and Other Employee Benefits (Continued)

**Discount Rate** - A discount rate of 8.0 percent was used to measure the total pension liability as of September 30, 2015 and 2014. This discount rate was based on the long-term expected rate of return on pension plan investments of 8.0 percent. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Net Pension Liability** - At June 30, 2016, the Authority reported a liability of \$38,909,019 for its proportionate share of SERS' net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014, and rolled forward using generally accepted actuarial procedures. The Authority's proportion of the net pension liability was based on MSHDA's required pension contributions received by SERS during the measurement period October 1, 2014 through September 30, 2015, relative to the total required employer contributions from all of SERS' participating employers. At September 30, 2015, the Authority's proportion was 0.707 percent.

At June 30, 2015, the Authority reported a liability of \$35,278,982 for its proportionate share of SERS' net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2013, and rolled forward using generally accepted actuarial procedures. The Authority's proportion of the net pension liability was based on MSHDA's required pension contributions received by SERS during the measurement period October 1, 2013 through September 30, 2014, relative to the total required employer contributions from all of SERS' participating employers. At September 30, 2014, the Authority's proportion was 0.685 percent.

For the year ended June 30, 2015, assumption changes, based on the adoption of the findings of the experience study covering the period October 1, 2007 through September 30, 2012, increased the computed liabilities.

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2016 and 2015

### Note 9 - Pension Plan and Other Employee Benefits (Continued)

**Pension Liability Sensitivity** - The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 8 percent as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	June 30, 2016		
	1 Percent Decrease (7 Percent)	Current Discount (8 Percent)	1 Percent Increase (9 Percent)
Authority's proportionate share of the net pension liability	\$49,722,717	\$38,909,019	\$29,591,318

  

	June 30, 2015		
	1 Percent Decrease (7 Percent)	Current Discount (8 Percent)	1 Percent Increase (9 Percent)
Authority's proportionate share of the net pension liability	\$45,904,137	\$35,278,982	\$26,137,800

**Pension Plan Fiduciary Net Position** - Detailed information about the pension plan's fiduciary net position is available in the SERS Comprehensive Annual Financial Report that may be obtained by visiting ([www.michigan.gov/ors](http://www.michigan.gov/ors)).

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2016 and 2015

### Note 9 - Pension Plan and Other Employee Benefits (Continued)

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** - For the year ended June 30, 2016 and 2015, the Authority recognized pension expense of \$5,013,712 and \$3,986,927, respectively. At June 30, 2016 and 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 109,765	\$ -
Net difference between projected and actual earnings on investments	343,030	-
Changes in proportion and differences between actual contributions and proportion share of contributions	342,642	1,290
Authority's contributions subsequent to the measurement date	<u>3,771,523</u>	<u>-</u>
Total	<u>\$ 4,566,960</u>	<u>\$ 1,290</u>
	June 30, 2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 1,021,704	\$ -
Net difference between projected and actual earnings on investments	-	4,137,904
Changes in proportion and differences between actual contributions and proportionate share of contributions	-	3
Authority's contributions subsequent to the measurement date	<u>3,809,195</u>	<u>-</u>
Total	<u>\$ 4,830,899</u>	<u>\$ 4,137,907</u>



# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2016 and 2015

### Note 9 - Pension Plan and Other Employee Benefits (Continued)

Amounts reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions at June 30, 2016 will be recognized in pension expense as follows:

Year Ended June 30	Pension Expense Amount
2017	\$ 270,067
2018	(181,050)
2019	(181,050)
2020	886,180

#### **Defined Contribution Plan**

The Authority participates in the State of Michigan's defined contribution plan system. 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 plan were \$927,090, \$905,646, and \$857,538, for the years ended June 30, 2016, 2015, and 2014, respectively, and are recorded in salaries and benefits expense.

#### **Postemployment Benefits**

The Authority participates in the State of Michigan's cost-sharing, multiemployer postemployment benefit plan. The cost of retiree healthcare benefits is an allocation calculated by the State of Michigan. The contributions paid to this plan for the year ended June 30, 2016 ranged from 20.63 percent to 22.76 percent of payroll. The contributions paid to this plan for the year ended June 30, 2015 ranged from 45.32 percent to 51.50 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.

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2016 and 2015

### Note 10 - Operating Lease

The Authority leases its office building in Lansing, Michigan under an agreement that expires on February 28, 2021. The lease is subject to an annual adjustment equal to 60 percent of the increase or decrease in the U.S. Department of Labor's Bureau of Labor Statistics Consumer Price Index. Expense incurred related to the operating lease was approximately \$3,409,000 and \$3,234,000 for the years ended June 30, 2016 and 2015, respectively. The estimated minimum annual payments under this lease are as follows:

Years	Amount
2017	\$ 3,429,523
2018	3,449,978
2019	3,470,432
2020	3,490,887
2021	<u>2,340,894</u>
Total	<u>\$ 16,181,714</u>

### Note 11 - Restricted Net Position

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

	2016	2015
Pledged for payment of:		
All bond issues (capital reserve account)	\$ 100,330	\$ 93,275
Single-family Mortgage Revenue Bonds	114,273	117,206
Single-family Home Ownership Revenue Bonds	8,610	4,494
Multifamily 1988 Housing Revenue Bonds	1,614	1,484
Rental Housing Revenue Bonds	<u>213,377</u>	<u>231,195</u>
Total	<u>\$ 438,204</u>	<u>\$ 447,654</u>

# Michigan State Housing Development Authority

---

## Notes to Financial Statements June 30, 2016 and 2015

### 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.

The Authority was previously involved in a counterclaim, which was filed in conjunction with adversary proceedings filed by the Authority regarding the termination of interest rate swap agreements. This claim has been resolved in April 2016, therefore no contingencies are recorded related to this matter.

### Note 13 - Commitments

As of June 30, 2016 and 2015, the Authority has commitments to issue multifamily mortgage loans in the amounts of \$60,850,000 and \$53,289,000, respectively, and single-family mortgage loans in the amounts of \$20,013,000 and \$32,515,000, 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 multifamily 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 \$132,000 and \$310,000 for the years ended June 30, 2016 and 2015, respectively.

In addition, the Authority makes available up to approximately \$1,000,000 per year for up to 30 years to subsidize rents in a similar fashion for 20 percent of the units in certain other developments financed or to be financed under its multifamily 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. Net subsidy disbursements under this program totaled \$130,000 for the year ended June 30, 2016. Subsidy repayment of \$2,038,000 exceeded subsidy disbursements for the year ended June 30, 2015.

# Michigan State Housing Development Authority

---

## Notes to Financial Statements June 30, 2016 and 2015

### Note 13 - Commitments (Continued)

In conjunction with a multifamily 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 repayment of \$858,000 exceeded subsidy disbursements for the year ended June 30, 2016. Net subsidy disbursements under this program totaled \$3,000 for the year ended June 30, 2015.

The Authority also makes available interest-free loans of up to \$25,000 annually to developments that incur increased operating costs because of their small size (less than 100 rental units) and up to \$25,000 annually for developments that incur increased security costs due to their location. The loans are repayable from excess development revenue and are also repayable upon repayment of the first mortgage loan. As of June 30, 2016 and 2015, disbursements, net of reimbursements, under this program totaled \$144,000 and \$338,000, respectively.

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, 2016 and 2015

### Note 14 - Interest Rate Swaps

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

The Authority is issuing the June 30, 2016 and 2015 financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 53. This standard is used to determine whether a derivative instrument will result in an effective hedge. Changes in the market value of effective hedges are recognized in the year to which they relate. Effective hedge changes do not affect investment income, but are reported as deferrals in the statement of net position. Derivatives that are not deemed effective would be reported at fair market value and recognized as investments.

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

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2016 and 2015

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

The following summarizes the interest rate swap contracts at June 30, 2016:

Associated Debt/Swap Agreement	Effective Date	Notional Amount as of June 30, 2016	Termination Date	Rate	Fixed Rate	Optional Termination Date/Without Payment (%)	Market (Payment)/to Terminate Swap	GASB No. 53 Presentation in Statement of Net Position	Type of Risk Associated With Swap Contract (4)(8)
<b>Rental housing</b>									
revenue bonds (effective hedges):									
2000 Series A (1)	09/25/00	\$ 35,695,000	10/01/20	70% of 1 M LIBOR	4.960%	N.A.	\$ (6,354,296)	\$ (6,354,296)	(5)(6)(7)
2002 Series A (1)	07/03/02	47,490,000	04/01/37	70% of 1 M LIBOR	4.560%	N.A.	(18,690,611)	(18,690,611)	(5)(6)
2005 Series A (3)	09/22/05	61,900,000	04/01/40	65% of 1 M LIBOR+0.23%	3.514%	10/01/25	(12,419,693)	(12,419,693)	(5)(6)
2006 Series A (3)	03/16/06	62,085,000	10/01/40	65% of 3 M LIBOR+0.16%	3.514%	04/01/26	(12,470,764)	(12,470,764)	(5)(6)
2006 Series C (3)	07/25/06	55,805,000	04/01/41	61% of 1 M LIBOR+0.40%	3.996%	10/01/26	(13,861,315)	(13,861,315)	(5)(6)
2007 Series A (3)	07/02/07	26,940,000	04/01/42	65% of 3 M LIBOR+0.16%	3.378%	04/01/27	(5,531,341)	(5,531,341)	(5)(6)
2007 Series C (3)	01/23/08	73,950,000	10/01/42	61% of 1 M LIBOR+0.40%	3.564%	10/01/22	(15,545,039)	(15,545,039)	(5)(6)
2008 Series A (1)(10)	04/01/01	22,245,000	04/01/23	SIFMA + 0.10%	5.350%	N.A.	(4,083,584)	(2,316,761)	(5)(6)
2008 Series A (1)(10)	08/28/03	42,295,000	10/01/37	70% of 1 M LIBOR	4.197%	10/01/17	(2,085,945)	(1,444,132)	(5)(6)
2008 Series D (3)(10)	11/18/04	20,780,000	10/01/39	65% of 1 M LIBOR+0.23%	3.705%	10/01/24	(4,033,580)	(3,422,973)	(5)(6)
2008 Series D (3)(10)	11/18/04	34,600,000	10/01/39	65% of 3 M LIBOR+0.16%	3.597%	10/01/24	(6,398,262)	(5,610,700)	(5)(6)
2008 Series C (1)(10)	04/01/01	12,110,000	04/01/23	SIFMA	4.770%	N.A.	(1,813,434)	(918,212)	(5)(6)
Subtotal		\$ 495,895,000					\$ (103,287,864)	\$ (98,585,837)	
<b>Single-family mortgage</b>									
revenue bonds (effective hedges):									
2006 Series C (2)	12/01/06	\$ 50,645,000	06/01/33	Floating Rate	4.417%	12/01/19	\$ (6,390,787)	\$ (6,390,787)	(5)(6)(7)
2007 Series B (2)	09/04/07	65,000,000	06/01/38	Floating Rate	4.156%	06/01/17	(3,931,700)	(3,931,700)	(5)(6)
2007 Series C (2)	09/04/07	865,000	12/01/16	Floating Rate	5.165%	N.A.	(20,131)	(20,131)	(5)(7)
2007 Series B (2)	01/01/08	35,000,000	06/01/38	Floating Rate	4.252%	06/01/17	(2,177,655)	(2,177,655)	(5)(6)
2007 Series B (2)	01/02/08	35,000,000	06/01/38	Floating Rate	4.444%	06/01/17	(2,297,019)	(2,297,019)	(5)(6)
2007 Series D (2)	12/01/08	25,095,000	12/01/38	Floating Rate	4.116%	12/01/16	(1,544,767)	(1,544,767)	(5)(6)
2007 Series E (2)	06/02/08	35,000,000	12/01/38	Floating Rate	4.019%	12/01/17	(2,579,494)	(2,579,494)	(5)(6)
2007 Series E (2)	06/02/08	35,000,000	12/01/38	Floating Rate	3.927%	12/01/17	(2,502,164)	(2,502,164)	(5)(6)
2007 Series E (2)	06/02/08	49,490,000	12/01/38	Floating Rate	3.846%	12/01/17	(3,308,987)	(3,308,987)	(5)(6)
2007 Series F (2)	12/01/08	35,845,000	12/01/38	Floating Rate	4.165%	12/01/16	(2,281,391)	(2,281,391)	(5)(6)
2007 Series F (2)	12/01/08	25,090,000	12/01/38	Floating Rate	4.340%	12/01/16	(6,175,164)	(6,175,164)	(5)(6)
2009 Series D (2)(10)	10/05/05	15,650,000	06/01/30	Floating Rate	4.064%	12/01/17	(1,155,293)	(840,133)	(5)(6)
2009 Series D (2)(10)	04/01/07	43,345,000	06/01/30	Floating Rate	4.574%	12/01/16	(3,085,653)	(1,911,712)	(5)(6)
Subtotal		451,025,000					(37,450,205)	(35,961,104)	
Total interest rate swaps		\$ 946,920,000					\$ (140,738,069)	(134,546,941)	(12)
						Unamortized off-market borrowings		(10,797,759)	(11)
Total swaps							\$ (145,344,700)		

- 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 AA- stable outlook by S&P and Aa2 by Moody's as of June 30, 2016.
- Counterparty risk is the risk that the swap counterparty will not fulfill its obligations set forth under the terms and conditions of the swap contract. The counterparty associated with these bonds is Barclays Bank PLC (Barclays). Barclays is currently rated A- negative outlook by S&P and A1 by Moody's as of June 30, 2016.
- Counterparty risk is the risk that the swap counterparty will not fulfill its obligations set forth under the terms and conditions of the swap contract. The counterparty associated with these bonds is Merrill Lynch Capital Services, Inc. (MLCS) or Merrill Lynch Derivative Products (MLDP). MLDP is currently rated AA- by S&P and Aa3 by Moody's as of June 30, 2016. MLCS is not rated by Moody's or S&P. MLCS's obligations under each agreement are guaranteed by Merrill Lynch & Co., Inc. (MLCO), which has a rating of A-2 by S&P and Baa1 by Moody's as of June 30, 2016.
- 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.
- Basis risk refers to a mismatch between the interest rate received from the swap contract and the interest actually paid on the Authority's debt. All contracts have this risk.
- 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.
- 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, 2016 and 2015

### Note 14 - Interest Rate Swaps (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 more quickly than anticipated. All contracts have this risk.
- (9) The Authority has the option to terminate the contract in whole or in part without payment after the stated date.
- (10) These interest rate swap agreements have been reassigned from their original bond issue as part of an economic refunding. GASB Statement No. 53 has termed these "reassigned swaps" to be "in-substance hybrids." Essentially, the swaps that are reassigned have two components as follows:
- On-market component - This is the component of the swap that requires a calculation on the effectiveness and to be valued at the market on an annual basis. In the case of the Authority, these seven swaps' "on-market" components have been determined to be effective based on the calculation and are included in interest rate swaps in the table.
  - Off-market component - This is the component of the swap that at the time of the reassignment, is determined to be "off-market" and takes on the characteristics of a "fixed contract." Therefore, at the time of reassignment, this component needs to be valued based on the rate differential, which compares the market rates to the original swap rates. This component is then considered a fixed contract and should be amortized over the life of the new debt and added to the deferred cost of issuance. See table below summarizing this component.
- (11) Table of off-market borrowings:

	<u>Off-market Borrowing Rate</u>	<u>On-market Borrowing rate</u>	<u>Unamortized Off-market Borrowing Balance</u>
Rental Housing			
Revenue Bonds:			
2008 Series A	1.920%	3.433%	\$ (1,577,371)
2008 Series A	0.941%	3.256%	(2,793,377)
2008 Series D	0.404%	3.301%	(766,080)
2008 Series D	0.331%	3.266%	(994,240)
2008 Series C	1.982%	2.788%	(829,566)
Single-family Mortgage			
Revenue Bonds:			
2009 Series D	0.649%	3.415%	(788,801)
2009 Series D	1.320%	3.254%	<u>(3,048,324)</u>
Total			<u>\$ (10,797,759)</u>

- (12) Cumulative decrease in fair market value of hedging derivatives is a deferred outflow of resources per GASB Statement No. 53.

# Michigan State Housing Development Authority

## Notes to Financial Statements June 30, 2016 and 2015

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

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

	Changes in Fair Value		Fair Value at June 30, 2016		Notional
	Classification	Amount	Classification	Amount	
Cash flow hedges:					
Pay-fixed interest rate swaps (receive-variable)	Deferred charge	\$ (11,346,834)	Bonds payable	\$ (134,546,941)	\$ 946,920,000
Off-market borrowings	Interest expense	-	Off-market borrowings	(10,797,759)	-

  

	Changes in Fair Value		Fair Value at June 30, 2015		Notional
	Classification	Amount	Classification	Amount	
Cash flow hedges:					
Pay-fixed interest rate swaps (receive-variable)	Deferred charge	\$ 6,599,048	Bonds payable	\$ (123,200,107)	\$ 969,555,000
Off-market borrowings	Interest expense	-	Off-market borrowings	(12,022,885)	-

### Note 15 - Change in Accounting

During the year ended June 30, 2015, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*. As a result, the financial statements now include a net pension liability for our unfunded defined benefit plan legacy costs. Some of the changes in this net pension liability each year will be recognized immediately as part of the pension expense measurement, and part will be deferred and recognized over future years. Refer to Note 9 for further details. As a result of implementing this statement, the net position of the Authority as of July 1, 2014 was restated by (\$35,614,000) to \$711,569,000. Of the (\$35,614,000) restatement, (\$39,241,000) was related to the beginning of year net pension liability and \$3,627,000 was related to the beginning of year deferred outflows for employer contributions made subsequent to the measurement date.



# Michigan State Housing Development Authority

---

## Notes to Financial Statements June 30, 2016 and 2015

### **Note 16 - Upcoming Accounting Pronouncements**

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the Authority to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the Michigan State Employees' Retirement System. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The Authority is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Authority's financial statements for the year ending June 30, 2018.

### **Note 17 - Subsequent Events**

Subsequent to the balance sheet date and through October 19, 2016, the date of the report, the Authority issued one new bond, Rental Housing Revenue Bond 2016ABCDE in the amount of \$305,015,000 (\$233,320,000 are refunding bonds) and was in the process of issuing another new bond, Single Family Mortgage Revenue Bond 2016BC in the amount of \$376,955,000 (\$264,010,000 are refunding bonds).

## **Required Supplemental Information**

---

# Michigan State Housing Development Authority

## Schedule of the Authority's Proportionate Share of Net Pension Liability State Employees' Retirement System (in thousands of dollars)

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Authority's proportion of the net pension liability	0.707%	0.685%
Authority's proportionate share of the net pension liability	\$ 38,909	\$ 35,279
Authority's covered-employee payroll	\$ 20,749	\$ 20,741
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	188%	169%
Plan fiduciary net position as a percentage of the total pension liability	66.11%	68.07%

The amounts presented for each fiscal year were determined as of the measurement date of September 30 of the previous year.

# Michigan State Housing Development Authority

---

## Schedule of the Authority's Contributions State Employees' Retirement System (in thousands of dollars)

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Statutorily required contribution	\$ 5,030	\$ 5,161
Contributions in relation to the statutorily required contribution	\$ 5,030	\$ 5,161
Contribution deficiency (excess)	-	-
Authority's covered-employee payroll	\$ 20,749	\$ 20,741
Contributions as a percentage of covered-employee payroll	24%	25%

# Michigan State Housing Development Authority

## Note to Pension Required Supplemental Information Schedules Year Ended June 30, 2016

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the pension and other postemployment benefit obligations as a factor.

The schedule of contributions is presented to show the responsibility of the Authority in meeting the actuarial requirements to maintain the System on a sound financial basis.

The schedule of the proportionate share of the net pension liability and schedule of contributions are schedules that are required in implementing GASB Statement No. 68. The schedule of the proportionate share of the net pension liability represents in actuarial terms, the accrued liability less the market value of assets. The schedule of contributions is a comparison of the Authority's contributions to the actuarially determined contributions.

The information presented in the schedule of contributions was used in the actuarial valuation for the purpose of determining the actuarially determined contribution rate. Additional information as of the latest actuarial valuation for the pension plan follows.

**Valuation** - Actuarially determined contribution amounts are calculated as of September 30 each year.

### Methods and Assumptions Used to Determine Contribution for Fiscal Year 2015

Actuarial cost method	Entry age, normal
Amortization method	Level dollar, closed
Remaining amortization period	22 years
Asset valuation method	Five-year smoothed market
Inflation	2.50 percent
Salary increases	3.5 percent wage inflation
Investment rate of return	8.00 percent net of investment and administrative expenses
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	RP-2000 combined health life mortality table, adjusted for mortality improvements to 2015 using projection scale BB. For retirees, 100 percent of the table rates were used. For active members, 50 percent of the table rates were used for males and females.

## **Other Supplemental Information**

---

# Michigan State Housing Development Authority

	Activities			
	Single-family	Single-family	Multifamily Housing	Rental Housing
	Mortgage Revenue Bonds	Homeownership Revenue Bonds		
<b>Assets, Hedging Derivatives, and Deferred Outflows</b>				
<b>Cash and Investments</b>				
Cash and cash equivalents	\$ 44,174	\$ 4,537	\$ 148	\$ 27,078
Investments	158,510	27,913	-	129,767
Total cash and investments	202,684	32,450	148	156,845
<b>Loans Receivable</b>				
Multifamily mortgage loans:				
Construction in progress	-	-	-	156,817
Completed construction	-	-	5,562	957,644
Housing development loans	-	-	-	-
Single-family mortgage loans	619,834	320,166	-	-
Home improvement and moderate rehabilitation loans	-	-	-	-
Total	619,834	320,166	5,562	1,114,461
Accrued loan interest receivable	3,251	1,559	22	27,672
Allowance on loans receivable	(20,387)	(12,215)	(56)	(18,276)
Net loans receivable	602,698	309,510	5,528	1,123,857
<b>Other Assets</b>				
Real estate owned	6,482	2,266	-	25,912
Other	11,058	2,222	-	-
Interfund accounts	(15,179)	1,217	(284)	(28,303)
Total other assets	2,361	5,705	(284)	(2,391)
Total assets	807,743	347,665	5,392	1,278,311
<b>Accumulated Decrease in Fair Value of Hedging Derivatives</b>				
	35,961	-	-	98,586
<b>Deferred Outflow of Resources</b>				
Deferred outflows related to pensions	-	-	-	-
Deferred charges on refunding - Reassigned swaps	3,837	-	-	6,961
Total deferred outflow of resources	3,837	-	-	6,961
Total assets, deferred outflows, and hedging derivatives	<b>\$ 847,541</b>	<b>\$ 347,665</b>	<b>\$ 5,392</b>	<b>\$ 1,383,858</b>
<b>Liabilities, Deferred Inflows, and Net Position</b>				
<b>Liabilities</b>				
Bonds payable	\$ 695,273	\$ 335,131	\$ 3,745	\$ 1,031,171
Hedging derivatives	35,961	-	-	98,586
Accrued interest payable	1,979	907	22	8,195
Escrow funds	-	-	-	847
Deferred mortgage interest income	-	-	-	31,592
Net pension liability	-	-	-	-
Other liabilities	-	3,017	11	-
Total liabilities	733,213	339,055	3,778	1,170,391
<b>Deferred Inflows of Resources</b>				
Deferred inflows related to pensions	-	-	-	-
Loan origination fees	55	-	-	90
Total deferred inflow of resources	55	-	-	90
<b>Net Position</b>	<b>114,273</b>	<b>8,610</b>	<b>1,614</b>	<b>213,377</b>
Total liabilities, deferred inflows, and net position	<b>\$ 847,541</b>	<b>\$ 347,665</b>	<b>\$ 5,392</b>	<b>\$ 1,383,858</b>

**Statement of Net Position Information**  
**June 30, 2016**  
(in thousands of dollars)

Activities				
General Operating	Capital Reserve	Mortgage Escrow and Reserve	Other	Combined
\$ 1,113	\$ 715	\$ 46,459	\$ 5,553	\$ 129,777
5,979	99,615	546,980	-	968,764
7,092	100,330	593,439	5,553	1,098,541
14,118	-	-	-	170,935
57,205	-	-	127,499	1,147,910
-	-	-	2,593	2,593
17,290	-	-	-	957,290
5,416	-	-	-	5,416
94,029	-	-	130,092	2,284,144
6,707	-	-	17,564	56,775
(3,873)	-	-	(189)	(54,996)
96,863	-	-	147,467	2,285,923
722	-	-	-	35,382
16,743	-	-	6,961	36,984
(14,163)	-	53,791	2,921	-
3,302	-	53,791	9,882	72,366
107,257	100,330	647,230	162,902	3,456,830
-	-	-	-	134,547
4,567	-	-	-	4,567
-	-	-	-	10,798
4,567	-	-	-	15,365
<b>\$ 111,824</b>	<b>\$ 100,330</b>	<b>\$ 647,230</b>	<b>\$ 162,902</b>	<b>\$ 3,606,742</b>
\$ -	\$ -	\$ -	\$ -	\$ 2,065,320
-	-	-	-	134,547
-	-	-	-	11,103
692	-	647,230	(139,149)	509,620
-	-	-	-	31,592
38,909	-	-	-	38,909
37,659	-	-	5,526	46,213
77,260	-	647,230	(133,623)	2,837,304
1	-	-	-	1
12,784	-	-	-	12,929
12,785	-	-	-	12,930
21,779	100,330	-	296,525	756,508
<b>\$ 111,824</b>	<b>\$ 100,330</b>	<b>\$ 647,230</b>	<b>\$ 162,902</b>	<b>\$ 3,606,742</b>



# Michigan State Housing Development Authority

	Activities		
	Single-family Mortgage Revenue Bonds	Single-family Homeownership Revenue Bonds	Multifamily Housing Revenue Bonds
<b>Operating Revenue</b>			
Investment income:			
Loan interest income	\$ 29,153	\$ 14,394	\$ 290
Investment interest income	4,815	714	-
Increase (decrease) in fair value of investments - Including change in unrealized gains (losses)	<u>7,569</u>	<u>778</u>	<u>-</u>
Total investment income	41,537	15,886	290
Less interest expense and debt financing costs	<u>31,952</u>	<u>12,135</u>	<u>172</u>
Net investment income	9,585	3,751	118
Other revenue:			
Federal and state assistance programs	-	-	-
Section 8 program administrative fees	-	-	-
Contract administration fees	-	-	-
Other income	<u>366</u>	<u>-</u>	<u>-</u>
Total operating revenue	9,951	3,751	118
<b>Operating Expenses</b>			
Federal and state assistance programs	-	-	-
Salaries and benefits	-	-	-
Other general operating expenses	-	-	-
Loan servicing and insurance costs	1,921	435	-
Provision for possible losses on loans	<u>9,925</u>	<u>760</u>	<u>(12)</u>
Total operating expenses	<u>11,846</u>	<u>1,195</u>	<u>(12)</u>
<b>Operating (Loss) Income</b> - Before nonoperating expenses	(1,895)	2,556	130
<b>Nonoperating Expenses</b> - Grants and subsidies	<u>-</u>	<u>-</u>	<u>-</u>
<b>Change in Net Position</b>	(1,895)	2,556	130
<b>Net Position</b> - Beginning of year	117,206	4,494	1,484
<b>Transfers to Other Funds for Payment of Operating Fund Expenses</b>	(5,000)	-	-
<b>Funding to Provide Additional Cash Flow and Payment of Bond Issuance Costs</b>	<u>3,962</u>	<u>1,560</u>	<u>-</u>
<b>Net Position</b> - End of year	<u>\$ 114,273</u>	<u>\$ 8,610</u>	<u>\$ 1,614</u>

**Statement of Revenue, Expenses, and Changes in Net Position Information**  
**Year Ended June 30, 2016**  
(in thousands of dollars)

Activities					
Rental Housing Revenue Bonds	General Operating	Capital Reserve	Other	Combined	
\$ 61,770	\$ 6,490	\$ -	\$ 3,507	\$ 115,604	
2,606	169	2,756	11,238	22,298	
<u>3,368</u>	<u>(128)</u>	<u>4,299</u>	<u>(1)</u>	<u>15,885</u>	
67,744	6,531	7,055	14,744	153,787	
<u>45,066</u>	<u>274</u>	<u>-</u>	<u>-</u>	<u>89,599</u>	
22,678	6,257	7,055	14,744	64,188	
-	6,609	-	546,118	552,727	
-	18,282	-	-	18,282	
-	6,880	-	-	6,880	
<u>368</u>	<u>11,133</u>	<u>-</u>	<u>34,330</u>	<u>46,197</u>	
23,046	49,161	7,055	595,192	688,274	
-	6,609	-	546,344	552,953	
-	37,230	-	-	37,230	
-	29,880	-	-	29,880	
-	1,922	-	-	4,278	
<u>10,864</u>	<u>(2,734)</u>	<u>-</u>	<u>1,536</u>	<u>20,339</u>	
<u>10,864</u>	<u>72,907</u>	<u>-</u>	<u>547,880</u>	<u>644,680</u>	
12,182	(23,746)	7,055	47,312	43,594	
<u>-</u>	<u>(47)</u>	<u>-</u>	<u>(9,617)</u>	<u>(9,664)</u>	
12,182	(23,793)	7,055	37,695	33,930	
231,195	512	93,275	274,412	722,578	
(30,000)	35,000	-	-	-	
<u>-</u>	<u>10,060</u>	<u>-</u>	<u>(15,582)</u>	<u>-</u>	
<u>\$ 213,377</u>	<u>\$ 21,779</u>	<u>\$ 100,330</u>	<u>\$ 296,525</u>	<u>\$ 756,508</u>	

**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***

---

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*

Independent Auditor's Report

To Management, the Board of Directors, and  
Mr. Doug A. Ringler, CPA, CIA  
Auditor General, State of Michigan  
Michigan State Housing Development Authority  
Lansing, Michigan

We have audited, 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, the financial statements of the the business-type activities and the discretely presented component unit of the Michigan State Housing Development Authority (the "Authority") as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 19, 2016.

**Internal Control Over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To Management, the Board of Directors, and  
Mr. Doug A. Ringler, CPA, CIA  
Auditor General, State of Michigan  
Michigan State Housing Development Authority  
Lansing, Michigan

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Plante & Moran, PLLC*

October 19, 2016