Michigan State Housing Development Authority

(a component unit of the State of Michigan)

Financial Report

with Supplemental Information

June 30, 2013

Michigan State Housing Development Authority

Contents

Plante & Moran, PLLC
Suite 100
1111 Michigan Ave.
East Lansing, MI 48823
Tel: 517.332.6200
Fax: 517.332.8502
plantemoran.com

Independent Auditor's Report

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

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 (the "Authority"), a component unit of the State of Michigan, as and for the years ended June 30, 2013 and 2012 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.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activites and the discretely presented component unit as of June 30, 2013 and 2012 and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, the Authority adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, as of June 30, 2013. 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, 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 is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

The other supplemental information, as identified in the table of contents, 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 audits 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2013 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 the Michigan State Housing Development Authority's internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 18, 2013

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, multi-family 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, 2013, 2012, and 2011:

Condensed Financial Information
(in thousands of dollars)

	2013	2012	2011
Assets			
Investments	$ 979,839	$ 1,029,170	$ 876,901
Loans receivable - Net	2,205,004	2,330,406	2,405,218
Other assets	217,183	358,507	496,552
Total assets	3,402,026	3,718,083	3,778,671
Accumulated Decrease in Fair Value of Hedging Derivatives	138,334	203,862	118,344
Total assets and hedging derivatives	3,540,360	3,921,945	3,897,015
Liabilities			
Bonds payable	2,099,057	2,343,126	2,474,228
Hedging derivatives	138,566	204,560	118,344
Other liabilities	571,281	649,911	604,724
Total liabilities	2,808,904	3,197,597	3,197,296
Net Position			
Restricted	457,083	448,789	423,830
Unrestricted	274,373	275,559	275,889
Total net position	**$ 731,456**	**$ 724,348**	**$ 699,719**

	2013	2012	2011
Revenue			
Net investment income	$ 59,088	$ 67,422	$ 61,382
Federal and state assistance programs revenue	653,916	751,649	733,849
Section 8 program administrative fees	13,383	16,012	16,970
Contract administration fees	6,205	8,957	8,148
Other income	25,190	36,811	24,020
Total revenue	757,782	880,851	844,369
Expenses			
Federal and state assistance programs expenses	652,074	752,222	733,645
Salaries and benefits	35,401	33,273	31,740
Other general operating expenses	33,588	28,916	33,614
Other expenses	15,964	28,223	22,327
Total expenses	737,027	842,634	821,326
Grants and Subsidies	13,647	13,589	16,967
Change in Net Position	**$ 7,108**	**$ 24,628**	**$ 6,076**

Financial Analysis

Total assets and deferred outflows decreased from $3.92 billion at June 30, 2012 to $3.54 billion at June 30, 2013. This was a decrease of approximately $382 million, or 9.7 percent. Total assets and deferred outflows increased from $3.90 billion at June 30, 2011 to $3.92 billion at June 30, 2012. This was an increase of approximately $24.9 million, or 0.6 percent.

Net loans receivable decreased from $2.3 billion at June 30, 2012 to $2.2 billion at June 30, 2013. Loans receivable fell due to the Authority's offered single-family mortgage rates being higher than conventional mortgage interest rates (net decrease of $75.7 million) and a reduction in the closing of multi-family mortgages (net decrease of $64.2 million).

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

Bonds payable decreased from $2.3 billion at June 30, 2012 to $2.1 billion at June 30, 2013, a net decrease of approximately $244 million. Bonds payable decreased from $2.6 billion at June 30, 2011 to $2.3 billion at June 30, 2012, a net decrease of approximately $131.1 million. The decrease in bonds outstanding for the year ended June 30, 2013 was due primarily to the early redemption of $391.5 million of various bonds and scheduled debt service of $88.8 million; this was partially offset by the issuance of $72.1 million of Rental Housing Revenue Bonds, 2012 Series D and E, and $166.5 million of Single-Family Homeownership Revenue Bonds, 2009 Series A-5, A-6, and A-7. The decrease between 2012 and 2011 was primarily due to the early redemption of $261.7 million of various bonds.

Escrow funds, which are recorded in other liabilities, decreased by $69 million from a year earlier to $496 million at June 30, 2013 due to a decrease in mortgage reserve balances. Escrow funds increased by $37.4 million from a year earlier to $565 million at June 30, 2012 due to an increase in mortgage reserve balances.

The Authority's net position totaled $731.5 million at June 30, 2013, equal to 20.7 percent of total assets and 26.0 percent of total liabilities. A significant portion of net position is restricted. At June 30, 2013, $457 million of net position was pledged for payment against the various bond indentures. In addition, $255 million is designated by board resolution, represented by the Community Development Fund.

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

Operating Results

Operations for the year ended June 30, 2013 resulted in excess of revenue over expenses of $7.1 million, compared to prior year results of $24.6 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 decreased revenue over expenses by approximately $10.0 million. Results for the year ended June 30, 2012 were positively impacted by an increase of approximately $6.1 million. Currently, GASB Statement No. 31 has had a cumulative positive effect of $5.7 million on the Authority's net position; however, the Authority generally intends to hold these securities to maturity. Operations for the year ended June 30, 2012 resulted in excess revenue over expenses of $24.6 million, compared to prior year results of $6.1 million.

Net investment income decreased from $67.4 million in 2012 to $59.1 million in 2013, a decrease of $8.3 million. Net investment income was lower at June 30, 2013 primarily due to a $10.0 million decrease in the fair market value of investments.

Total revenue decreased from $880.9 million for the year ended June 30, 2012 to $757.8 million for the year ended June 30, 2013, a net decrease of $123.1 million. Total revenue decreased due primarily to the decrease in federal assistance program revenue of $143.2 million and an increase in state assistance programs of $42.8 million. Total revenue increased from $844.4 million for the year ended June 30, 2011 to $880.9 million for the year ended June 30, 2012, a net increase of $36.5 million. Total revenue increased due primarily to the increase of federal assistance program revenue of $17.8 million.

Total operating expenses decreased from $842.6 million for the year ended June 30, 2012 to $737.0 million for the year ended June 30, 2013, a net decrease of $105.6 million. Total operating expenses increased due primarily to a decrease in the federal and state assistance programs of $100.1 million. Total operating expenses increased from $821.3 million for the year ended June 30, 2011 to $842.6 million for the year ended June 30, 2012, a net increase of $21.3 million. Total operating expenses increased due primarily to an increase in the federal assistance programs of $18.4 million.

Statement of Net Position
(in thousands of dollars)

	June 30 2013	June 30 2012
Assets and Hedging Derivatives		
Cash and Cash Equivalents (Note 3)	$ 128,939	$ 256,729
Investments (Note 3)	979,839	1,029,170
Loans Receivable (Note 4)		
Multi-family mortgage loans	1,355,495	1,419,782
Single-family mortgage loans	854,254	929,966
Home improvement and moderate rehabilitation loans	8,479	9,488
Total	2,218,228	2,359,236
Accrued loan interest receivable	44,953	43,496
Allowance on loans receivable (Note 4)	(46,047)	(60,041)
Loan origination fees	(12,130)	(12,285)
Net loans receivable	2,205,004	2,330,406
Other Assets		
Unamortized bond financing costs	6,729	6,832
Real estate owned - Net	38,375	41,786
Other	43,140	53,160
Total other assets	88,244	101,778
Total assets	3,402,026	3,718,083
Accumulated Decrease in Fair Value of Hedging Derivatives (Note 14)	138,334	203,862
Total assets and hedging derivatives	**$ 3,540,360**	**$ 3,921,945**
Liabilities and Net Position		
Liabilities		
Bonds payable (Notes 5 and 6)	$ 2,099,057	$ 2,343,126
Hedging derivatives (Note 14)	138,566	204,560
Accrued interest payable	11,808	13,593
Escrow funds	495,962	565,026
Deferred mortgage interest income (Note 7)	24,610	37,930
Other liabilities	38,901	33,362
Total liabilities	2,808,904	3,197,597
Net Position		
Restricted (Note 11)	457,083	448,789
Unrestricted	274,373	275,559
Total net position	731,456	724,348
Total liabilities and net position	**$ 3,540,360**	**$ 3,921,945**

Michigan State Housing Development Authority

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

	Year Ended June 30 2013	Year Ended June 30 2012
Operating Revenue		
Investment income:		
Loan interest income	$ 144,443	$ 139,901
Investment interest income	23,221	24,793
(Decrease) increase in fair value of investments - Including change in unrealized (losses) gains of ($10,042) in 2013 and $6,095 in 2012	(9,572)	6,290
Total investment income	158,092	170,984
Less interest expense and debt financing costs	99,004	102,863
Fair market value adjustment to interest rate swap contracts recognized as investments	-	698
Net investment income	59,088	67,423
Other revenue:		
Federal and state assistance programs	653,916	751,649
Section 8 program administrative fees	13,383	16,012
Contract administration fees	6,205	8,957
Other income	25,190	36,811
Total other revenue	698,694	813,429
Total operating revenue	757,782	880,852
Operating Expenses		
Federal and state assistance programs	652,074	752,222
Salaries and benefits	35,401	33,273
Other general operating expenses	33,588	28,916
Loan servicing and insurance costs	2,479	3,156
Provision for possible losses on loans	13,485	25,067
Total operating expenses	737,027	842,634
Operating Income - Before nonoperating expenses	20,755	38,218
Nonoperating Expenses - Grants and subsidies	(13,647)	(13,589)
Change in Net Position	7,108	24,629
Net Position - Beginning of year	724,348	699,719
Net Position - End of year	**$ 731,456**	**$ 724,348**

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

Statement of Cash Flows
(in thousands of dollars)

	Year Ended June 30	
	2013	2012
Cash Flows from Operating Activities		
Loan receipts	$ 392,739	$ 354,986
Other receipts	791,749	902,035
Loan disbursements	(164,523)	(185,686)
Payments to vendors	(73,931)	(72,632)
Payments to employees	(20,738)	(20,023)
Other disbursements	(742,141)	(730,096)
Net cash provided by operating activities	183,155	248,584
Cash Flows from Investing Activities		
Purchase of investments	(966,874)	(1,015,080)
Proceeds from sale and maturities of investments	963,920	872,966
Interest received on investments	22,696	20,889
Net cash provided by (used in) investing activities	19,742	(121,225)
Cash Flows from Noncapital Financing Activities		
Proceeds from issuance of bonds - Less discounts	235,330	259,428
Principal repayments on bonds	(480,246)	(391,951)
Interest paid	(85,771)	(88,889)
Net cash used in noncapital financing activities	(330,687)	(221,412)
Net Decrease in Cash and Cash Equivalents	(127,790)	(94,053)
Cash and Cash Equivalents - Beginning of year	256,729	350,782
Cash and Cash Equivalents - End of year	**$ 128,939**	**$ 256,729**

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

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

	Year Ended June 30 2013	Year Ended June 30 2012
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	$ 20,755	$ 38,218
Adjustments to reconcile operating income to net cash from operating activities:		
Amortization of deferred items - Net	1,602	1,526
Arbitrage rebate expense	(12,556)	(3,994)
Investment interest income	(23,221)	(31,083)
Increase (decrease) in realized and unrealized gain on market value of investments	11,431	(45,329)
Interest expense on bonds	99,998	102,911
Provision for possible losses on loans	13,485	25,067
Grants and subsidies	(13,647)	(13,589)
Changes in assets and liabilities:		
Accrued loan interest receivable	(1,457)	(3,143)
Loans receivable	141,008	83,313
Other assets	1,648	33,469
Escrow funds	(69,064)	37,474
Other liabilities	13,173	23,744
Net cash provided by operating activities	**$ 183,155**	**$ 248,584**

Noncash Financing and Investing Activities - During the years ended June 30, 2013 and 2012, the Authority foreclosed on various properties with mortgage values of approximately $51.3 million and $48.9 million, respectively.

Statement of Net Position - Michigan Homeowner Assistance Nonprofit Housing Corporation (a component unit of the Michigan State Housing Development Authority)

(in thousands of dollars)

	Year Ended June 30	
Assets	2013	2012
Cash and Cash Equivalents	$ 10,695	$ 16,241
Other Assets - Prepaid and other	2,221	1,733
Total assets	**$ 12,916**	**$ 17,974**
Liabilities and Net Position		
Liabilities - Accounts payable	$ 481	$ 243
Net Position - Restricted for Hardest Hit Program	12,435	17,731
Total liabilities and net position	**$ 12,916**	**$ 17,974**

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

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

	Year Ended June 30	
	2013	2012
Operating Revenue - Hardest hit program	$ 62,492	$ 17,153
Operating Expenses		
Program	60,671	19,727
Marketing	2,350	823
Contracted services	3,033	2,146
Other operating expenses	1,734	1,342
Total operating expenses	67,788	24,038
Change in Net Position	(5,296)	(6,885)
Net Position - Beginning of year	17,731	24,616
Net Position - End of year	**$ 12,435**	**$ 17,731**

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

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

(in thousands of dollars)

	Year Ended June 30 2013	Year Ended June 30 2012
Cash Flows from Operating Activities		
Receipts of federal funds	$ 62,492	$ 17,153
Payments to grantees	(60,671)	(19,727)
Payments to suppliers	(4,334)	(2,738)
Payments to contractors	(3,033)	(2,146)
Net Decrease in Cash and Cash Equivalents	(5,546)	(7,458)
Cash and Cash Equivalents - Beginning of year	16,241	23,699
Cash and Cash Equivalents - End of year	**$ 10,695**	**$ 16,241**
Reconciliation of Change in Net Position to Net Cash from Operating Activities		
Change in net position	$ (5,296)	$ (6,885)
Adjustments to reconcile operating loss to net cash used in operating activities - Changes in assets and liabilities:		
Accounts payable	238	83
Prepaid expenses and other	(488)	(656)
Net cash used in operating activities	**$ (5,546)**	**$ (7,458)**

Note 1 - Authorizing Legislation

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

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

Note 2 - Summary of Significant Accounting Policies

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

Basis of Accounting - The Authority's financial statements have been prepared on the basis of the governmental proprietary fund concept, which pertains to financial activities that operate in a manner similar to private business enterprises and are financed through fees and charges assessed primarily to the users of the services. The Authority applies all applicable GASB pronouncements.

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

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

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

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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

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

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.

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, 2013 and 2012 totaled $3,610,851and $3,697,271, respectively.

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

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

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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

Note 2 - Summary of Significant Accounting Policies (Continued)

Net Position - Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in accordance with Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Accounting and Reporting Change - During the year, the Authority adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This pronouncement provided guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of net position and related disclosures. Because GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, provided for the reporting of deferred outflows of resources and deferred inflows of resources for the changes in fair value of qualified hedging derivatives, the accumulated decrease in the fair value of hedging derivatives was reclassified on the statement of net position to be shown as a deferred outflow rather than in the other assets category.

Reclassification - Certain immaterial amounts were reclassified in the prior year column to conform with current year presentation. Certain items were reclassified between other assets and other liabilities.

Note 3 - Deposits and Investments

Cash, cash equivalents, and investments held by the Authority at June 30, 2013 and 2012 were as follows (in thousands of dollars):

	MSHDA			Component Unit
	Cash and Cash Equivalents	Investments	Total	Cash and Cash Equivalents
2013				
Deposits	$ 244	$ 1,015	$ 1,259	$ 3,246
Investments	128,695	978,824	1,107,519	7,449
Total	$ 128,939	$ 979,839	$ 1,108,778	$ 10,695
2012				
Deposits	$ 1,678	$ 1,010	$ 2,688	$ 2,908
Investments	255,051	1,028,160	1,283,211	13,333
Total	$ 256,729	$ 1,029,170	$ 1,285,899	$ 16,241

Note 3 - Deposits and Investments (Continued)

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

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, 2013, the Authority had approximately $4,991,000 of bank deposits (certificates of deposit, checking, and savings accounts) and of that balance approximately $12,000 was uninsured and uncollateralized. In addition, the Authority had $129,422,000 of government money market funds. The component unit does not have a deposit policy for custodial credit risk. At June 30, 2013, the component unit had approximately $3,246,000 of bank deposits (checking accounts) and of that balance approximately $2,996,000 was uninsured and uncollateralized.

At June 30, 2012, the Authority had approximately $5,555,000 of bank deposits (certificates of deposit, checking, and savings accounts) all of which were insured. In addition, the Authority had $254,369,000 of government money market funds. The component unit does not have a deposit policy for custodial credit risk. At June 30, 2012, the component unit had approximately $4,791,000 of bank deposits (checking accounts) and of that balance approximately $4,541,000 was uninsured and uncollateralized.

Note 3 - Deposits and Investments (Continued)

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, 2013 there was $3,497,000 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. There are no deposits held as of June 30, 2012 which are collateralized with securities held by the Federal Reserve Bank or held in safekeeping for the Authority at a financial institution's trust department but not in the Authority's name. To also limit its risk, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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

	Carrying Value (in thousands of dollars)		
Type of Investment	2013	2012	How Held
MSHDA			
Investment agreements	$ 273	$ 7,545	Counterparty's trust dept.
U.S. government securities	516,905	359,459	Counterparty's trust dept.
Mortgage-backed securities	455,508	644,916	Counterparty's trust dept.
U.S. government agency securities	3,923	12,187	Counterparty's trust dept.
U.S. government money market funds	129,422	254,369	Counterparty's trust dept.
Component Unit			
U.S. government money market funds	7,449	13,333	Counterparty's trust dept.

Note 3 - Deposits and Investments (Continued)

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

Type of Investment	Fair Value	Less than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
2013					
MSHDA					
Investment agreements	$ 273	$ 273	$ -	$ -	$ -
U.S. government securities	516,905	218,100	193,295	82,345	23,165
Mortgage-backed securities	455,508	58	38	136	455,276
U.S. government agency securities	3,923	2,193	-	-	1,730
U.S. government money market funds	129,422	129,422	-	-	-
Component Unit					
U.S. government money market funds	7,449	7,449	-	-	-

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

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
2013			
MSHDA			
Investment agreements	$ 273	A	S&P
U.S. government securities	516,905	AA+	S&P
Mortgage-backed securities	455,491	AA+	S&P
Mortgage-backed securities	17	Not rated	-
U.S. government agency securities	3,923	AA+	S&P
U.S. government money market funds	129,422	Not rated	-
Component Unit			
U.S. government money market funds	7,449	Not rated	-

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

Note 3 - Deposits and Investments (Continued)

Concentration of Credit Risk

The Authority has 9 and 19 percent of its investment portfolio invested in the securities of government-sponsored enterprises as of June 30, 2013 and 2012, respectively. 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 $584,189,000 and $648,830,000 at June 30, 2013 and 2012, respectively.

Note 4 - Loans Receivable

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

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

	2013	2012
Loans receivable:		
FHA insured, VA, or U.S. Department of Agriculture guaranteed	$ 587,562	$ 614,085
Insured by private mortgage insurance companies	195,190	229,175
Uninsured	1,435,476	1,515,976
Total loans receivable	$ 2,218,228	$ 2,359,236

Note 4 - Loans Receivable (Continued)

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

	2013	2012
Beginning balance	$ 60,041	$ 63,860
Provision for possible losses	13,485	25,067
Write-offs of uncollectible losses - Net of recoveries	(27,479)	(28,886)
Ending balance	$ 46,047	$ 60,041

Note 5 - Bonds Payable

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

Note 5 - Bonds Payable (Continued)

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

As of June 30, 2013

	Beginning Balance	Additions	Payments	Ending Balance
Revenue bonds:				
Section 8 assisted mortgage	$ 5,859	$ 600	$ 4,011	$ 2,448
Single-family home ownership	449,095	166,540	186,070	429,565
Single-family mortgage	730,640	-	157,065	573,575
Multi-family housing	14,595	-	5,170	9,425
Rental housing	1,127,790	72,165	127,110	1,072,845
Multi-family	27,485	-	820	26,665
Total revenue bonds	$ 2,355,464	$ 239,305	$ 480,246	$ 2,114,523
Due within one year				$ 85,658

As of June 30, 2012

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

Note 5 - Bonds Payable (Continued)

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

	2013	2012
Section 8 Assisted Mortgage Revenue Bonds -		
1983 Series I, 2014, 10.875% *	$ 2,448	$ 5,859
Single-family Homeownership Revenue Bonds:		
2009 Series A, 2041, variable rate**	-	166,540
2009 Series A-1/2010 Series A, B, and C, 2013 to 2041, 2.30% to 5.50%	119,870	128,175
2009 Series A-2 and A-3/2011 Series A, 2013 to 2041, 1.25% to 5.00%	74,655	84,380
2009 Series A-4, 2013 to 2041, 2.67%	69,320	70,000
2009 Series A-5, A-6 & A-7, 2013 to 2041, 2.66%	165,720	-
Total Single-family Homeownership Revenue Bonds	429,565	449,095
Single-family Mortgage Revenue Bonds:	-	-
2005 Series A, 2013 to 2014, 4.05% to 4.15%**	-	3,785
2006 Series A, 2013 to 2030, 4.45% to 5.00%**	-	18,190
2006 Series C, 2035, variable rate (Note 6)	51,050	51,050
2007 Series B and C, 2038 to 2039, variable rate (Note 6)	145,445	197,945
2007 Series D, E, and F, 2038, variable rate (Note 6)	245,000	262,000
2009 Series A, 2013 to 2019, 4.10% to 5.00%	43,230	76,250
2009 Series D, 2030, variable rate (Note 6)	77,850	104,420
2012 Series A, 2014, variable rate	11,000	17,000
Total Single-family Mortgage Revenue Bonds	573,575	730,640

Note 5 - Bonds Payable (Continued)

	2013	2012
Multi-family Housing Revenue Bonds -		
1988 Series A, 2013 to 2017, 4.50%	$ 9,425	$ 14,595
Rental Housing Revenue Bonds:		
1999 Series A, 2020 to 2037, 5.15% to 5.30%	21,220	21,220
1999 Series D, 2014, variable rate	25	25
2000 Series A, 2035, variable rate (Note 6)	38,200	38,950
2001 Series A, 2013 to 2023, 4.25% to 6.00%**	-	4,615
2002 Series A, 2037, variable rate (Note 6)	51,285	64,210
2003 Series A, 2023, variable rate	35,330	46,630
2003 Series C, 2018 to 2037, 6.25%**	-	10,725
2004 Series B, 2013 to 2015, 3.70% to 3.90%	3,345	9,125
2005 Series A, 2040, variable rate (Note 6)	65,475	66,670
2005 Series B, 2013 to 2015, 3.80% to 3.95%	5,785	12,160
2006 Series A, 2040, variable rate (Note 6)	66,520	67,890
2006 Series B, 2013 to 2015, 3.85% to 4.05%**	-	3,645
2006 Series C, 2041, variable rate (Note 6)	59,170	60,360
2006 Series D, 2013 to 2042, 4.75% to 5.20%	46,000	49,625
2007 Series A, 2042, variable rate (Note 6)	37,955	38,575
2007 Series B, 2013 to 2044, 4.05% to 4.95%	25,545	25,940
2007 Series C, 2042, variable rate (Note 6)	89,435	90,665
2007 Series D, 2013 to 2033, 4.00% to 5.40%	23,760	25,455
2008 Series A, C, and D, 2023 to 2039, variable rate (Note 6)	176,240	181,560
2008 Series B and E, 2013 to 2033, 3.625% to 5.625%	24,780	30,015
2009 Series A, B-1, and B-2, 2013 to 2045, 3.50% to 5.70%	44,755	68,080
2010 Series A and B, 2013 to 2046, 1.625% to 5.25%	70,085	82,200
2011 Series A, B, and C, 2013 to 2041, 1.90% to 6.05%	38,350	46,365
2012 Series A, B, and C, 2013 to 2046, 0.55% to 5.622%	77,720	83,085
2012 Series D and E, 2013 to 2048, 0.50% to 4.50%	71,865	-
Total Rental Housing Revenue Bonds	1,072,845	1,127,790
Multi-family revenue bond -		
1995 Series A, 2013 to 2030, 8.30% to 8.55%	26,665	27,485
Total revenue bonds	2,114,523	2,355,464
Off-market borrowings (Note 14)	17,668	19,175
Interest rate swaps - Effective (Note 14)	138,333	203,862
Interest rate swaps - Ineffective (Note 14)	233	698
Deferred charges - Swap reassignment	(17,668)	(19,175)
Deferred charges - Bond discounts	(15,466)	(12,338)
Total	$ 2,237,623	$ 2,547,686

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

Bonds with asterisks (**) were paid off during the 2012-2013 fiscal year.

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
2014	$ 85,658	$ 82,359	$ 168,017
2015	94,920	79,478	174,398
2016	63,450	76,990	140,440
2017	68,905	74,445	143,350
2018	69,965	71,851	141,816
2019-2023	285,430	323,784	609,214
2024-2028	340,300	262,682	602,982
2029-2033	429,495	180,270	609,765
2034-2038	441,430	92,709	534,139
2039-2043	209,220	22,227	231,447
2044-2048	25,750	3,267	29,017
Total	$ 2,114,523	$ 1,270,062	$ 3,384,585

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 $391,455,000 and $261,745,000 during the years ended June 30, 2013 and 2012, respectively. Such bond retirements, in the aggregate, resulted in a net gain of $992,000 and a net loss of $48,000 for the years ended June 30, 2013 and 2012, respectively.

Note 6 - Demand Bonds

The following table summarizes the demand bonds outstanding at June 30, 2013, which are included in the bonds payable disclosed in Note 5:

Debt Associated	Bonds Outstanding (in thousands)	Remarketing Agent	Liquidity or Irrevocable Letter of Credit Provider	Remarketing Fee (1)	Liquidity/ LOC Fee		Expiration Date of Agreement
Single-family Mortgage Revenue Bonds							
2006 Series C	$51,050	Barclays Capital Inc.	Barclays Bank PLC	0.07%	0.600%	(8)	06/19/15
2007 Series B	$135,000	Barclays Capital Inc.	GSEs	0.07%	1.000%	(6)	12/31/15
2007 Series C	$10,445	Barclays Capital Inc.	GSEs	0.07%	1.000%	(6)	12/31/15
2007 Series D	$35,000	Barclays Capital Inc.	Barclays Bank PLC	0.07%	0.600%	(8)	08/28/15
2007 Series E	$125,000	Morgan Stanley	Bank of Tokyo	0.10%	0.850%	(2)	07/01/15
2007 Series F	$85,000	PNC Bank	PNC Bank	0.10%	0.800%	(4)	10/16/15
2009 Series D	$77,850	Barclays Capital Inc.	GSEs	0.07%	1.000%	(6)	12/31/15
Rental Housing Revenue Bonds							
2000 Series A	$38,200	JPMorgan	JPMorgan Chase Bank, N.A.	0.10%	0.900%	(3)	12/31/14
2002 Series A	$51,285	Merrill Lynch & Co.	Bank of America, N.A.	0.10%	0.650%	(7)	04/19/16
2005 Series A	$65,475	Merrill Lynch & Co.	Bank of Tokyo	0.07%	0.850%	(2)	11/14/14
2006 Series A	$66,520	Barclays Bank PLC	Barclays Bank PLC	0.09%	0.800%	(8)	03/06/15
2006 Series C	$59,170	Merrill Lynch & Co.	BNP Paribas	0.09%	0.110%	(5)	07/15/16
2007 Series A	$37,955	Merrill Lynch & Co.	BNP Paribas	0.09%	0.110%	(5)	04/26/17
2007 Series C	$89,435	JPMorgan	JPMorgan Chase Bank, N.A.	0.10%	0.900%	(3)	12/31/14
2008 Series A	$92,955	JPMorgan	JPMorgan Chase Bank, N.A.	0.10%	0.900%	(3)	12/31/14
2008 Series C	$23,315	Morgan Stanley	Bank of Tokyo	0.10%	0.850%	(2)	08/22/14
2008 Series D	$59,970	Morgan Stanley	Bank of Tokyo	0.10%	0.850%	(2)	08/22/14

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

(2) While the Bank of Tokyo-Mitsubishi UFJ, LTD (Bank of Tokyo) is holding the bonds, they will bear interest at the higher of the Bank of Tokyo's prime rate plus 3.00 percent, the federal funds rate plus 5.00 percent, or 8.00 percent per annum. Once the Bank of Tokyo becomes the owner of the bonds, the bonds will be subject to a mandatory redemption that begins 91 days after the Bank of Tokyo becomes the holder of the bonds and will amortize in 16 equal quarterly installments. The Authority is required to pay the Bank of Tokyo an annual liquidity fee per annum on the amount of bonds outstanding plus interest for 34 days at a rate of 14 percent. Standard & Poor's rating on the Bank of Tokyo-Mitsubishi UFJ, LTD is "A+/A-1" at June 30, 2013.

(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, 2013.

Note 6 - Demand Bonds (Continued)

(4) While PNC Bank, National Association (PNC) is holding the bonds, they will bear interest at the higher of the prime rate, federal funds rate plus 0.50 percent, or daily LIBOR plus 1.0 percent. Once PNC becomes the owner of the bonds and the bonds have been held for 181 days, the bonds become subject to mandatory redemption over 12 equal quarterly installments. The Authority shall pay PNC a liquidity fee of 80 basis points per annum on outstanding bonds plus 184 days of interest at 12 percent, based on a 365-day year. Standard & Poor's rating on PNC Bank, National Association is "A/AA"- at June 30, 2013.

(5) While BNP Paribas Bank is holding the bonds, they will bear interest at the greater of BNP Paribas Bank's prime rate or the federal funds rate plus 0.50 percent per annum. The Authority agrees to cause the mandatory redemption of bonds outstanding in 10 equal installments each April and October commencing on the first such date to occur following the 91st day after BNP Paribas Bank becomes the bond holder. The Authority is required to pay BNP Paribas Bank an annual liquidity fee per annum on bonds outstanding plus 184 days of interest at 12 percent, based on a 365-day year. Standard & Poor's rating on BNP Paribas Bank is "AA-/A-1+" at June 30, 2013. Effective July 18, 2013, Bank of America, N.A. will replace the current liquidity facility. The expiration date for the new facility is July 15, 2016.

(6) While the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation (GSEs) are holding the bonds, they will bear interest at JPMorgan's base or prime rate plus 1 percent per annum. Effective September 11, 2013, the Federal Home Loan Bank of Topeka will replace the current liquidity facility. The expiration date for the new facility is September 11, 2015.

(7) While Bank of America, N.A. (Bank of America) is holding the bonds, they will bear interest at the higher of the prime rate plus 1.50 percent, the federal funds rate plus 3.00 percent, or 7.50 percent per annum. Once Bank of America becomes the owner of the bonds and has held such bonds for 61 days, the bonds become subject to mandatory redemption over a three-year period with principal payable in six equal semiannual installments. The Authority shall pay Bank of America a liquidity fee per annum on outstanding bonds plus 184 days of interest at 12 percent, based on a 365-day year. Standard & Poor's rating on Bank of America, N.A. is "A+/A-1" at June 30, 2013.

(8) While Barclays Bank PLC (Barclays) is holding the bonds, they will bear interest at the higher of the prime rate plus 5.00 percent, the federal funds rate plus 5.00 percent, or LIBOR plus 5.00 percent per annum. Once Barclays becomes the owner of the bonds and has held such bonds for 90 days, the bonds become subject to mandatory redemption in full on the third-year anniversary of the first purchase date. The Authority shall pay Barclays a liquidity fee per annum on outstanding bonds plus 186 days of interest at 12 percent, based on a 365-day year. Standard & Poor's rating on Barclays Bank PLC is "A+/A-1" at June 30, 2013.

Note 7 - Deferred Mortgage Interest Income

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

Note 8 - Limited Obligation Bonds

The Act, as amended, authorizes the Authority to issue limited obligation bonds to finance multi-family housing. Such bonds are not general obligations of the Authority and the Authority has no liability for this debt. Such bonds are secured solely by revenue and property derived from or obtained in connection with the housing projects. Thus, with the exception of limited obligation bond financing fees, transactions related to these bonds are not reflected in the Authority's financial statements. At June 30, 2013, limited obligation bonds had been issued totaling approximately $801,572,000, of which 44 issues totaling $455,387,000 have been retired.

Note 9 - Other Employee Benefits

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

Note 9 - Other Employee Benefits (Continued)

Funding Policy - Plan members are not required to make contributions. The Authority is required to contribute an actuarially determined rate for the defined benefit plan that ranged from 49.5 to 62.4 percent of payroll for the year. The defined benefit contributions to the plan were equal to the required contributions for each year. The Authority is required to contribute to the defined contribution plan 4.0 percent of payroll with an additional match of up to 3.0 percent. The contribution requirements of plan members and the Authority are established and may be amended by the State legislature. The State legislature establishes the extent to which employer and employees are required to make contributions and establishes the benefit provisions for the plan. The Authority's contributions to the plans, including postemployment benefits as described below, were $9,219,000, $6,042,000, and $5,058,000 for the years ended June 30, 2013, 2012, and 2011, respectively, and are recorded in salaries and benefits expense.

Postemployment Benefits - In addition, the Authority participates in the State of Michigan's cost-sharing, multi-employer postemployment benefit plan. The cost of retiree healthcare benefits is an allocation calculated by the State of Michigan and funded on a pay-as-you-go basis. The contributions paid to this plan for the year ended June 30, 2013 ranged from 13.3 percent to 46.2 percent of payroll. Employees hired on or before March 30, 1997 who participate in either the defined benefit plan or the defined contribution plan and meet certain vesting and other requirements will receive the full amount of healthcare benefits from the State of Michigan. For employees who were hired after March 30, 1997, the State will pay up to 90 percent of healthcare benefits for employees who meet certain vesting and other requirements.

Note 10 - Operating Lease

The Authority leases its office building in Lansing, Michigan under an agreement that expires February 28, 2021. The lease is subject to an annual adjustment equal to 60 percent of the increase or decrease in the U.S. Department of Labor's Bureau of Labor Statistics Consumer Price Index. Expense incurred related to the operating lease was approximately $3,584,000 and $3,015,000 for the years ended June 30, 2013 and 2012, respectively. The estimated minimum annual payments under this lease are as follows:

2014		$ 3,749,552
2015		3,914,820
2016		4,080,087
2017		4,245,354
2018		4,410,622
2019-2021		19,295,160
	Total	$ 39,695,595

Note 11 - Restricted Net Position

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

	2013	2012
Pledged for payment of:		
All bond issues (capital reserve account)	$ 87,501	$ 89,646
Section 8 Assisted Mortgage Revenue Bonds	2,571	5,637
Single-family Mortgage Revenue Bonds	141,407	153,570
Single-family Home Ownership Revenue Bonds	879	1,122
Multi-family 1988 Housing Revenue Bonds	3,571	3,266
Rental Housing Revenue Bonds	221,027	194,241
Multi-family Revenue Bonds	127	1,307
Total	$ 457,083	$ 448,789

Note 12 - Contingencies

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

Note 12 - Contingencies (Continued)

The Authority is currently involved in a counterclaim which was filed in conjunction with adversary proceedings filed by the Authority against Lehman Brothers Holdings Inc. surrounding the termination of interest rate swap agreements. If the case were to be resolved in an unfavorable manner, the Authority could lose approximately $44,057,374 (such amount reflecting the $23,054,593 counterclaim plus interest accrued from November 5, 2008 to June 30, 2013 of approximately $21,002,781) plus any additional interest that accrues until the date of the final settlement. The Authority is self-insured for any potential loss amounts. There have been no case deadlines set, and the outcome cannot be predicted at this time.

Note 13 - Commitments

As of June 30, 2013 and 2012, the Authority has commitments to issue multi-family mortgage loans in the amounts of $64,960,000 and $77,682,000, respectively, and single-family mortgage loans in the amounts of $11,629,000 and $8,850,000, respectively.

The Authority has committed up to approximately $1,055,000 per year for up to 30 years from the date of completion of the respective developments (subject to three years' advance notice of termination) from its accumulated reserves and future income to subsidize operations or rents for certain tenants occupying units in certain developments funded under the Authority's multi-family program. Such developments receive funds either for the purpose of subsidizing rents so that some units can be afforded by families with incomes at 50 percent or less of median income or to subsidize operations in general. Subsidy disbursements began in 1985 and totaled approximately $539,000 and $577,000 for the years ended June 30, 2013 and 2012, respectively.

In addition, the Authority makes available up to approximately $1,000,000 per year for up to 30 years to subsidize rents in a similar fashion for 20 percent of the units in certain other developments financed or to be financed under its multi-family mortgage lending program. Under this program, the Authority is entitled to receive a portion of any excess cash flow generated by the developments as well as a share of the profits from the sale of the developments and is able to reduce the rent subsidies if the interest rates being charged by the Authority on the related mortgage loans are below certain preset levels. Subsidy repayment did not exceed subsidy disbursements for the years ended June 30, 2013 and 2012.

Note 13 - Commitments (Continued)

In conjunction with a multi-family taxable bond lending program, the Authority is making available annually to certain developments financed under the program an amount equal to 400 times the number of units in such developments (subject to a one-year advance notice of termination) for the purpose of subsidizing rents so that some of the units in such developments can be made available to very low-income tenants. Under certain circumstances, after 15 years or more, the owners of the developments will be required to repay without interest up to 100 percent of the subsidies provided by the Authority. The Authority has not established a maximum amount that it will make available under this program. Net subsidy disbursements under this program totaled $651,000 and $615,000 for the years ended June 30, 2013 and 2012, respectively.

The Authority also makes available interest-free loans of up to $25,000 annually to developments that incur increased operating costs because of their small size (less than 100 rental units) and up to $25,000 annually for developments that incur increased security costs due to their location. The loans are repayable from excess development revenue and are also repayable upon repayment of the first mortgage loan. Disbursements, net of reimbursements, under this program totaled $225,000 and $358,000 for the years ended June 30, 2013 and 2012, respectively.

Finally, the Authority is giving housing subsidy payments from Authority funds to participants in the Housing Choice Voucher Program. These payments are used to assist tenants paying their rents. Disbursements under this program were $0 and $220,000 for the years ended June 30, 2013 and 2012, respectively.

Grants and Subsidies

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

Note 14 - Interest Rate Swaps

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

The Authority is issuing the June 30, 2013 and 2012 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.

In 2012, two swaps relating to the 2007 Series G Single-family Mortgage Revenue Bonds were determined to be ineffective. A loss is included as a component of investment interest income of approximately $698,000 for the year ended June 30, 2012. In 2013, these swaps were remarketed to the 2012 Series A Single-family Mortgage Revenue bonds.

Note 14 - Interest Rate Swaps (Continued)

The following summarizes the interest rate swap contracts at June 30, 2013:

Associated Debt/Swap Agreement		Effective Date	Notional Amount as of June 30, 2013	Termination Date	Rate	Fixed Rate	Optional Termination Date/Without Payment (9)	Market (Payment)/ to Terminate Swap	GASB No. 53 Presentation in Statement of Net Assets	Type of Risk Associated With Swap Contract (4)(8)
Rental housing revenue bonds (effective hedges):										
2000 Series A	(1)	09/25/00	$ 38,200,000	10/01/20	70% of 1 M LIBOR	4.960%	N.A.	$ (8,679,427)	$ (8,679,427)	(5)(6)(7)
2002 Series A	(1)	07/03/02	51,285,000	04/01/37	70% of 1 M LIBOR	4.560%	N.A.	(14,539,103)	(14,539,103)	(5)(6)
2005 Series A	(3)	09/22/05	65,475,000	04/01/40	65% of 1 M LIBOR+0.23%	3.514%	10/01/25	(8,470,756)	(8,470,756)	(5)(6)
2006 Series A	(3)	03/16/06	66,520,000	10/01/40	65% of 3 M LIBOR+0.16%	3.514%	04/01/26	(8,775,170)	(8,775,170)	(5)(6)
2006 Series C	(3)	07/25/06	59,170,000	04/01/41	61% of 1 M LIBOR+0.40%	3.996%	10/01/26	(10,683,516)	(10,683,516)	(5)(6)
2007 Series A	(3)	07/02/07	28,455,000	04/01/42	65% of 3 M LIBOR+0.16%	3.378%	04/01/27	(3,437,439)	(3,437,439)	(5)(6)
2007 Series C	(3)	01/23/08	77,405,000	10/01/42	61% of 1 M LIBOR+0.40%	3.564%	10/01/22	(10,256,514)	(10,256,514)	(5)(6)
2008 Series A	(1)(10)	04/01/01	28,765,000	04/01/23	SIFMA + 0.10%	5.350%	N.A.	(5,930,742)	(2,765,360)	(5)(6)
2008 Series A	(1)(10)	08/28/03	50,915,000	10/01/37	70% of 1 M LIBOR	4.197%	10/01/17	(6,084,932)	(3,299,815)	(5)(6)
2008 Series C	(1)(10)	04/01/01	16,200,000	04/01/23	SIFMA	4.770%	N.A.	(2,794,616)	(1,082,960)	(5)(6)
2008 Series D	(3)(10)	11/18/04	22,495,000	10/01/39	65% of 1 M LIBOR+0.23%	3.705%	10/01/24	(3,103,709)	(2,155,002)	(5)(6)
2008 Series D	(3)(10)	11/18/04	37,475,000	10/01/39	65% of 3 M LIBOR+0.16%	3.597%	10/01/24	(4,733,711)	(3,493,574)	(5)(6)
Subtotal			542,360,000					(87,489,635)	(77,638,636)	
Single-family mortgage revenue bonds (effective hedges):										
2006 Series C	(2)	12/01/06	50,645,000	06/01/33	Floating rate (10)	4.417%	12/01/19	(8,842,203)	(8,842,203)	(5)(6)(7)
2007 Series B	(2)	09/04/07	65,000,000	06/01/38	Floating rate (10)	4.156%	06/01/17	(8,203,061)	(8,203,061)	(5)(6)
2007 Series B	(2)	01/01/08	35,000,000	06/01/38	Floating rate (10)	4.252%	06/01/17	(4,615,699)	(4,615,699)	(5)(6)
2007 Series B	(2)	01/02/08	35,000,000	06/01/38	Floating rate (10)	4.444%	06/01/17	(4,998,416)	(4,998,416)	(5)(6)
2007 Series C	(2)	09/04/07	6,855,000	12/01/16	Floating rate (10)	5.165%	N.A.	(595,409)	(595,409)	(5)(7)
2007 Series D	(2)	12/01/08	35,000,000	12/01/38	Floating rate (10)	4.116%	12/01/14	(3,678,582)	(3,678,582)	(5)(6)
2007 Series E	(2)	06/02/08	35,000,000	12/01/38	Floating rate (10)	4.019%	12/01/17	(4,336,980)	(4,336,980)	(5)(6)
2007 Series E	(2)	06/02/08	35,000,000	12/01/38	Floating rate (10)	3.927%	12/01/17	(4,118,621)	(4,118,621)	(5)(6)
2007 Series E	(2)	06/02/08	55,000,000	12/01/38	Floating rate (10)	3.846%	12/01/17	(5,939,932)	(5,939,932)	(5)(6)
2007 Series F	(2)	12/01/08	50,000,000	12/01/38	Floating rate (10)	4.165%	12/01/14	(5,395,076)	(5,395,076)	(5)(6)
2007 Series F	(2)	12/01/08	35,000,000	12/01/38	Floating rate (10)	4.340%	12/01/14	(5,847,684)	(5,847,684)	(5)(6)
2009 Series D	(2)(10)	10/05/05	6,815,000	12/01/25	Floating rate (10)	4.165%	12/01/13	(135,085)	(88,185)	(5)(6)
2009 Series D	(2)(10)	10/05/05	20,870,000	06/01/30	Floating rate (10)	4.064%	12/01/14	(2,230,799)	(1,056,785)	(5)(6)
2009 Series D	(2)(10)	04/01/07	43,345,000	06/01/30	Floating rate (10)	4.574%	12/01/16	(6,670,737)	(2,978,253)	(5)(6)
Subtotal			508,530,000					(65,608,284)	(60,694,886)	
Total effective interest rate swaps			1,050,890,000					(153,097,919)	(138,333,522)	
Single-family mortgage revenue bonds (ineffective hedges):										
2012 Series A	(3)	11/19/03	4,120,000	12/01/20	65% of 1 M LIBOR+0.23%	3.512%	12/01/13	(63,618)	(63,618)	(5)(6)(7)(12)
2012 Series A	(3)	11/19/03	7,500,000	06/01/30	65% of 1 M LIBOR+0.23%	4.347%	12/01/12	(169,235)	(169,235)	(5)(6)(12)
Total ineffective interest rate swaps			11,620,000					$ (232,853)	(232,853)	
Total effective and ineffective interest rate swaps			$ 1,062,510,000						(138,566,375)	(13)
							Unamortized off-market borrowings		(17,667,648)	(11)
Total swaps									$ (156,234,023)	

(1) Counterparty risk is the risk that the swap counterparty will not fulfill its obligations set forth under the terms and conditions of the swap contract. The counterparty associated with these bonds is Goldman Sachs Mitsui Marine Derivative Products, L.P. (GSMMDP). GSMMDP is currently rated AAA negative outlook by S&P and Aa1 by Moody's as of June 30, 2013.

(2) Counterparty risk is the risk that the swap counterparty will not fulfill its obligations set forth under the terms and conditions of the swap contract. The counterparty associated with these bonds is Barclays Bank PLC (Barclays). Barclays is currently rated AA- negative outlook by S&P and Aa3 by Moody's as of June 30, 2013.

(3) Counterparty risk is the risk that the swap counterparty will not fulfill its obligations set forth under the terms and conditions of the swap contract. The counterparty associated with these bonds is Merrill Lynch Capital Services, Inc. (MLCS) or Merrill Lynch Derivative Products (MLDP). MLDP is rated AAA by S&P and Aa3 by Moody's as of June 30, 2013. MLCS is not rated by Moody's or S&P. MLCS's obligations under each agreement are guaranteed by Merrill Lynch & Co., Inc. (MLCO), which has a rating of A by S&P and A2 by Moody's with one negative outlook.

Note 14 - Interest Rate Swaps (Continued)

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

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

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

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

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

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

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

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

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

(11) Table of off-market borrowings:

	Off-market Borrowing Rate	On-market Borrowing rate	Unamortized Off-market Borrowing Balance
Rental Housing Revenue Bonds:			
2008 Series A	1.9200%	3.4330%	$ (2,842,199)
2008 Series A	0.9410%	3.2560%	(3,399,535)
2008 Series D	0.4040%	3.3010%	(883,627)
2008 Series D	0.3310%	3.2660%	(1,141,101)
2008 Series C	1.9820%	2.7880%	(1,613,295)
Single-family Mortgage Revenue Bonds:			
2009 Series D	0.7490%	3.4160%	(459,551)
2009 Series D	0.6490%	3.4150%	(1,177,248)
2009 Series D	1.3200%	3.2540%	(6,151,092)
Total			$ (17,667,648)

Note 14 - Interest Rate Swaps (Continued)

(12) Unrealized increase (decrease) in the fair market value of interest rate swap contracts that must be recognized as investments as these swaps were deemed ineffective during the year ended June 30, 2013.

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

	Changes in Fair Value		Fair Value at June 30, 2013		
	Classification	Amount	Classification	Amount	Notional
Cash flow hedges:					
Pay-fixed interest rate					
swaps (receive-variable)	Deferred charge	$ 65,993,868	Bonds payable	$ (138,566,375)	$ -
Off-market borrowings	Interest expense	-	Off-market borrowings	(17,667,648)	-

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

(13) Cumulative decrease in fair market value of hedging derivatives is a deferred outflow of resources per GASB 53.

Note 15 - Upcoming Accounting Pronouncements

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

Note 15 - Upcoming Accounting Pronouncements (Continued)

In June 2012, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, was issued by the Governmental Accounting Standards Board. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information. For the Authority, this standard will be adopted for the year ending June 30, 2015.

Note 16 - Subsequent Events

Subsequent to year end, on September 5, 2013, the proceeds from the sale of the Single-Family Mortgage Revenue Bonds, 2007 Series B and C and 2009 Series D were remarketed.

Other Supplemental Information

	Section 8 Assisted Mortgage Revenue Bonds	Single-family Mortgage Revenue Bonds	Single-family Homeownership Revenue Bonds	Multi-family Housing Revenue Bonds	Rental Housing Revenue Bonds
	Activities				
Assets and Hedging Derivatives					
Cash and Investments					
Cash and cash equivalents	$ 9	$ 5,175	$ 47,851	$ 231	$ 16,860
Investments	6,854	105,547	68,443	2,988	108,249
Total cash and investments	6,863	110,722	116,294	3,219	125,109
Loans Receivable					
Multi-family mortgage loans:					
Construction in progress	-	-	-	-	49,139
Completed construction	4,061	-	-	9,105	1,096,401
Housing development loans	-	-	-	-	-
Single-family mortgage loans	-	503,515	329,176	-	-
Home improvement and moderate rehabilitation loans	-	-	-	-	-
Total	4,061	503,515	329,176	9,105	1,145,540
Accrued loan interest receivable	30	3,313	1,576	36	20,605
Allowance on loans receivable	-	(7,752)	(12,546)	(91)	(14,239)
Loan origination fees	(25)	(98)	-	-	(176)
Net loans receivable	4,066	498,978	318,206	9,050	1,151,730
Other Assets					
Unamortized bond financing costs	-	1,721	2,134	5	2,826
Real estate owned	-	9,872	2,997	-	25,226
Other	-	9,318	2,366	-	-
Interfund accounts	(5,900)	80,532	(10,202)	702	13,831
Total other assets	(5,900)	101,443	(2,705)	707	41,883
Total assets	5,029	711,143	431,795	12,976	1,318,722
Accumulated Decrease in Fair Value of Hedging Derivatives	-	60,695	-	-	77,639
Total assets and hedging derivatives	**$ 5,029**	**$ 771,838**	**$ 431,795**	**$ 12,976**	**$ 1,396,361**
Liabilities and Net Position					
Liabilities					
Bonds payable	$ 2,458	$ 567,529	$ 428,728	$ 9,348	$ 1,064,273
Hedging derivatives		60,927	-	-	77,639
Accrued interest payable	-	1,943	1,139	46	8,301
Escrow funds	-	-	-	-	510
Deferred mortgage interest income	-	-	-	-	24,610
Other liabilities	-	32	1,049	11	1
Total liabilities	2,458	630,431	430,916	9,405	1,175,334
Net Position	2,571	141,407	879	3,571	221,027
Total liabilities and net position	**$ 5,029**	**$ 771,838**	**$ 431,795**	**$ 12,976**	**$ 1,396,361**

(in thousands of dollars)

Activities					
Multi-family Revenue Bonds	General Operating	Capital Reserve	Mortgage Escrow and Reserve	Other	Combined
$ 3,423	$ 794	$ 5,269	$ 43,428	$ 5,899	$ 128,939
3,358	14,689	82,232	586,030	1,449	979,839
6,781	15,483	87,501	629,458	7,348	1,108,778
-	18,307	-	-	-	67,446
22,922	69,307	-	-	80,770	1,282,566
-	-	-	-	5,483	5,483
-	21,563	-	-	-	854,254
-	8,479	-	-	-	8,479
22,922	117,656	-	-	86,253	2,218,228
2,627	5,483	-	-	11,283	44,953
(2,788)	(8,442)	-	-	(189)	(46,047)
-	(11,831)	-	-	-	(12,130)
22,761	102,866	-	-	97,347	2,205,004
43	-	-	-	-	6,729
-	280	-	-	-	38,375
-	17,769	-	-	13,687	43,140
(2,358)	(87,042)	-	20,852	(10,415)	-
(2,315)	(68,993)	-	20,852	3,272	88,244
27,227	49,356	87,501	650,310	107,967	3,402,026
-	-	-	-	-	138,334
$ 27,227	**$ 49,356**	**$ 87,501**	**$ 650,310**	**$ 107,967**	**$ 3,540,360**
$ 26,721	$ -	$ -	$ -	$ -	$ 2,099,057
-	-	-	-	-	138,566
379	-	-	-	-	11,808
-	19	-	650,310	(154,877)	495,962
-	-	-	-	-	24,610
-	30,042	-	-	7,766	38,901
27,100	30,061	-	650,310	(147,111)	2,808,904
127	19,295	87,501	-	255,078	731,456
$ 27,227	**$ 49,356**	**$ 87,501**	**$ 650,310**	**$ 107,967**	**$ 3,540,360**

	Section 8 Assisted Mortgage Revenue Bonds	Single-family Mortgage Revenue Bonds	Single-family Homeownership Revenue Bonds	Multi-family Housing Revenue Bonds	Rental Housing Revenue Bonds
	Activities				
Operating Revenue					
Investment income:					
Loan interest income	$ 380	$ 34,413	$ 12,801	$ 590	$ 84,127
Investment interest income	33	1,491	628	3	2,794
(Decrease) increase in fair value of investments - inlcuding change in unrealized (losses) gains	(6)	(1,187)	(699)	1	(2,022)
Total investment income	407	34,717	12,730	594	84,899
Less interest expense and debt financing costs	523	34,433	12,224	445	48,743
Net investment (loss) income	(116)	284	506	149	36,156
Other revenue:					
Federal and state assistance programs	-	-	-	-	-
Section 8 program administrative fees	-	-	-	-	-
Contract administration fees	-	-	-	-	-
Other income	-	518	3	98	381
Total operating revenue	(116)	802	509	247	36,537
Operating Expenses					
Federal and state assistance programs	-	-	-	-	-
Salaries and benefits	-	-	-	-	-
Other general operating expenses	-	-	-	-	-
Loan servicing and insurance costs	-	(109)	757	-	-
Provision for possible losses on loans	-	6,716	7,843	(58)	(249)
Total operating expenses	-	6,607	8,600	(58)	(249)
Operating (Loss) Income - Before nonoperating expenses	(116)	(5,805)	(8,091)	305	36,786
Nonoperating Expenses - Grants and subsidies	-	-	-	-	-
Change in Net Position	(116)	(5,805)	(8,091)	305	36,786
Net Position - Beginning of year	5,637	153,570	1,122	3,266	194,241
Transfers to Other Funds for Payment of Operating Fund Expenses	-	-	-	-	(10,000)
Funding to Provide Additional Cash Flow and Payment of Bond Issuance Costs	(2,950)	(6,358)	7,848	-	-
Net Position - End of year	**$ 2,571**	**$ 141,407**	**$ 879**	**$ 3,571**	**$ 221,027**

Statement of Revenue, Expenses, and Changes in Net Position Information
Year Ended June 30, 2013
(in thousands of dollars)

Activities					
Multi-family Revenue Bonds	General Operating	Capital Reserve	Mortgage Escrow and Reserve	Other	Combined
$ 2,154	$ 6,920	$ -	$ -	$ 3,058	$ 144,443
14	186	3,474	-	14,598	23,221
7	(47)	(5,619)	-	-	(9,572)
2,175	7,059	(2,145)	-	17,656	158,092
2,372	264	-	-	-	99,004
(197)	6,795	(2,145)	-	17,656	59,088
-	-	-	-	653,916	653,916
-	13,383	-	-	-	13,383
-	6,205	-	-	-	6,205
45	17,773	-	-	6,372	25,190
(152)	44,156	(2,145)	-	677,944	757,782
-	-	-	-	652,074	652,074
-	35,401	-	-	-	35,401
-	33,588	-	-	-	33,588
-	1,831	-	-	-	2,479
1,778	(2,545)	-	-	-	13,485
1,778	68,275	-	-	652,074	737,027
(1,930)	(24,119)	(2,145)	-	25,870	20,755
-	(1,509)	-	-	(12,138)	(13,647)
(1,930)	(25,628)	(2,145)	-	13,732	7,108
1,307	21,731	89,646	-	253,828	724,348
-	10,000	-	-	-	-
750	13,192	-	-	(12,482)	-
$ 127	**$ 19,295**	**$ 87,501**	**$ -**	**$ 255,078**	**$ 731,456**

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*

Plante & Moran, PLLC
Suite 100
1111 Michigan Ave.
East Lansing, MI 48823
Tel: 517.332.6200
Fax: 517.332.8502
plantemoran.com

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. Thomas H. McTavish, CPA
Auditor General, State of Michigan
Michigan State Housing Development Authority

We have audited, in accordance with the 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 business-type activities and the presented component unit of the Michigan State Housing Development Authority (the "Authority"), a component unit of the State of Michigan, as of and for the year ended June 30, 2013 and related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 18, 2013.

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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity'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 entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2013-2001, that we consider to be a significant deficiency.

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*.

Authority's Response to the Finding

The Michigan State Housing Development Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Michigan State Housing Development Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

October 18, 2013

Reference Number	Finding
2013-001	**Finding Type** - Significant deficiency

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

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

Context - We understand the Authority had a significant amount of activity related to operations, especially near year end. Consequently, the Authority was performing its year-end close process during the start of the audit fieldwork.

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

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

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

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

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2013

Prior Year Reference Number	Findings
2012-1	**Original Finding Description** - Audit preparedness **Status** - The Authority improved their audit preparation from the prior year; however, there were still several adjustments made by the Authority after fieldwork began as well as several immaterial adjustments identified by the auditors. Therefore, finding was repeated.