

# ***Michigan State Housing Development Authority***

*Financial Statements and Required Supplementary  
Information for the Years Ended June 30, 2001 and  
2000, Supplemental Data for the Year Ended  
June 30, 2001, and Independent Auditors' Report*

# MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of the Michigan State Housing Development Authority (the "Authority") (a component unit of the State of Michigan) as of June 30, 2001 and 2000, and the statements of revenue and expenses and changes in fund equity and of cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the balance sheet of the Michigan State Housing Development Authority as of June 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the Authority taken as a whole. The supplemental data, Balance Sheet Information and Statement of Revenue and Expenses and Changes in Fund Equity Information contained on pages 25 through 28, is presented for purposes of additional analysis of the financial statements rather than to present the financial position, and results of operations of the individual activities, and is not a required part of the 2001 financial statements. This supplemental data is also the responsibility of the Authority's management. Such supplemental data has been subjected to the auditing procedures applied in our audit of the 2001 financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the 2001 financial statements taken as a whole.

*Deloitte & Touche LLP*

October 5, 2001

## Management's Discussion and Analysis of Financial Position and Results of Operations

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

The Authority offers a variety of programs to provide affordable housing opportunities, such as single-family lending, low-interest property improvement lending, multi-family lending, mortgage certificates, and pass through obligations. A variety of other programs are also offered, including:

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

The enclosed financial statements present the Authority's balance sheet, revenue and expenses and changes in fund equity, and cash flows. The following is a condensed summary of financial information for the years ended June 30, 2001 and 2000, respectively.

### Condensed Financial Information

(In Thousands of Dollars)

<b>Balance Sheet</b>	<b><u>2001</u></b>	<b><u>2000</u></b>
Investments	\$ 568,376	\$ 572,226
Loans Receivable, Net	1,902,797	1,891,545
Total Assets	2,893,222	2,797,855
Bonds Payable	2,006,194	1,990,136
Total Liabilities	2,485,555	2,417,246
Restricted Fund Equity	173,599	154,333
Unrestricted Fund Equity	234,068	226,276
Total Fund Equity	407,667	380,609

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## Operating Results

	<u>2001</u>	<u>2000</u>
Fair Value Adjustment of Investments	\$ 2,746	\$ (2,880)
Net Investment Income	60,664	51,258
Federal Assistance Programs Revenue	134,669	80,811
Section 8 Program Administrative Fees	7,434	6,567
Contract Administration Fees	4,669	-
Other Income	4,054	10,975
Total Revenue	211,490	149,611
Federal Assistance Programs Expenses	134,669	80,811
Salaries and Benefits	19,012	17,023
Other General Operating Expenses	13,038	7,384
Total Expenses	171,406	109,773
Grants and Subsidies	13,026	13,649
Change in Fund Equity	27,058	26,189
Ending Fund Equity	407,667	380,609

## Balance Sheet

Total assets increased from \$2.80 billion at June 30, 2000 to \$2.89 billion at June 30, 2001. This was an increase of \$95 million, or 3.4 percent. The increase occurred primarily in cash and cash equivalents and other assets.

Cash and cash equivalents increased by \$59.0 million to \$356.5 million from a year earlier. This increase occurred primarily due to an increase in fund equity of \$27.1 million.

Net loans receivable increased from \$1,891.5 million at June 30, 2000 to \$1,902.8 at June 30, 2001. Loans receivable increased due to growth in single-family lending of \$13.0 million, net of repayments.

Other assets increased by \$29.1 million to \$37.3 million at June 30, 2001 compared to a year ago. The increase was primarily due to the capitalization of a building lease and changes in net amounts receivable from and owed to the federal government. In April 2001, the Authority leased new office space. The lease was treated as a capital lease and a corresponding liability for the lease obligation was recorded in other liabilities, which accounts for a significant portion of the increase in other liabilities.

Bonds payable increased from \$1,990.1 million to \$2,006.2 million at June 30, 2001 compared to a year earlier. This was a net increase of \$16.1 million, which was primarily due to the issuance of two single-family bond issues resulting in proceeds of \$138.5 million, the issuance of two multi-family bond issues resulting in proceeds of \$249.4 million, offset by bond calls and scheduled payments totaling \$369.1 million.

Escrow funds increased by \$28.5 million to \$331.1 million at June 30, 2001 from a year earlier primarily due to the net unrealized gain in the fair value of investments and growth in multi-family loan operating and replacement reserves.

The Authority's fund equity totaled \$407.7 million at June 30, 2001, equal to 14.1 percent of total assets and 20.3 percent of bonds payable. A significant portion of fund equity is restricted. At June 30, 2001, \$173.6 million of fund equity was pledged for payment against the various bond indentures. In addition, \$43.1 is designated by board resolution, represented by the Community Development Fund and included in unrestricted fund equity.

The Authority continues to maintain its "top-tier" housing finance agency rating by Standard & Poor's and has an underlying general obligation rating of AA- with a positive outlook.

## **Results of Operations for the Year Ended June 30, 2001 Compared to the Year Ended June 30, 2000**

The Authority had another strong year as excess of revenues over expenses for the year ended June 30, 2001 was \$27.1 million compared to \$26.2 million for 2000, a net increase of \$869,000. The 2001 operating results were positively impacted by \$2.7 million, resulting from an increase in the fair market value of the Authority's investments. 2000 results were negatively impacted by a decline of \$2.9 million in the market value of the Authority's investments. Removing the impact of market value adjustments on results of operations indicates a decline of \$4.8 million in excess of revenues over expenses in 2001 compared to 2000.

Net investment income, excluding market value adjustments, increased from \$54.1 million in 2000 to \$57.9 million, an increase of \$3.8 million. This increase was due to an increase in net interest earning assets of \$22.8 million at June 30, 2001 compared to June 30, 2000 and an increase in net interest margin. Net interest earning assets increased due to the increase in fund equity from excess of revenues over expenses for 2001. Net interest margin increased due to a decrease in interest rates on bonds outstanding, partially offset by a decline in interest rates on loans and investments.

Total revenue increased from \$149.6 million for the year ended June 30, 2000 to \$211.5 million for the year ended June 30, 2001, a net increase of \$2.4 million, excluding the fair value adjustment to investments and Federal Assistance Programs revenue. Total revenue increased due to the increase in net investment income of \$3.8 million and a \$4.7 million increase in contract administration fees, partially offset by a decrease in preservation fees of \$6.3 million. Contract administration is a new program in 2001 under which the Authority administers Section 8 contracts for the Department of Housing and Urban Development. Preservation fees have declined due to a reduced level of activity in the Authority's program to preserve subsidized housing developments. Under the program, the Authority receives a portion of excess reserves of multi-family developments and the developments' owner, upon agreement of the owner to preserve the developments for occupancy by low-income families, is permitted to borrow a portion of the excess reserves.

Total expenses increased from \$109.8 million for the year ended June 30, 2000 to \$171.4 million for the year ended June 30, 2001, a net increase of \$7.8 million, excluding Federal Assistance Programs expenses. Total expenses increased due primarily to an increase of \$2.0 million in salaries and fringe benefits, an increase of \$2.9 million for technical service contracts and general consultant contracts, and an increase in office equipment purchases and rental expenses of \$1.7 million. Salaries and fringe benefits increased by 11.7 percent due primarily to an approximate 10 percent increase in staffing as prior vacancies were filled. The increase in contract costs is due primarily to a new program under which the Authority administers Section 8

contracts for the Department of Housing and Urban Development. Office equipment purchases and rental expenses increased as a result of costs associated with the Authority's move into a new office building in August 2001. Additional office equipment purchases and rental expenses, associated with the move and incurred in 2002, are expected to approximate \$1.5 million.

## **Disclosure Reports**

In addition to its audited financial statements, the Authority issues quarterly disclosure reports for its single-family program and semi-annual disclosure reports for its multi-family program. Interested parties may subscribe to such reports at a nominal cost by writing to the Authority at 735 E. Michigan Avenue, P.O. Box 30044, Lansing, MI 48909, by calling (517) 373-1890 or by faxing a request to (517) 373-2450. These reports are also available free of charge on the Authority's Web site at [www.mshda.org](http://www.mshda.org).

# MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

## BALANCE SHEETS JUNE 30, 2001 AND 2000 (In Thousands of Dollars)

<b>ASSETS</b>	<b>2001</b>	<b>2000</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (Notes 2 and 3)	\$ 356,487	\$ 297,545
Short term investments, including related interest receivable of \$6,321 and \$7,048, respectively (Notes 2 and 3)	108,283	85,382
Current portion of loans receivable	47,578	45,405
Loan interest receivable	<u>14,483</u>	<u>14,286</u>
Total current assets	526,831	442,618
<b>LONG TERM INVESTMENTS</b>	460,093	486,844
<b>LOANS RECEIVABLE (Note 4):</b>		
Multi-family mortgage loans	1,235,086	1,234,358
Single-family mortgage loans	692,757	679,755
Home improvement and moderate rehabilitation loans	<u>18,699</u>	<u>20,139</u>
Subtotal	1,946,542	1,934,252
Less allowance for possible losses	(32,000)	(30,500)
Less mortgage discount	<u>(11,745)</u>	<u>(12,207)</u>
Loans receivable, net	1,902,797	1,891,545
Less current portion of loans receivable	<u>(47,578)</u>	<u>(45,405)</u>
Long term portion of loans receivable, net	1,855,219	1,846,140
<b>OTHER ASSETS:</b>		
Unamortized bond financing costs	5,018	4,814
Real estate owned	8,784	9,264
Other (Notes 2 and 10)	<u>37,277</u>	<u>8,175</u>
Total other assets	<u>51,079</u>	<u>22,253</u>
<b>TOTAL ASSETS</b>	<u>\$2,893,222</u>	<u>\$2,797,855</u>
<b>LIABILITIES AND FUND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of bonds payable	\$ 54,465	\$ 74,110
Accrued interest payable	17,008	18,729
Current portion of escrow funds	<u>14,405</u>	<u>15,015</u>
Total current liabilities	85,878	107,854
<b>LONG TERM LIABILITIES:</b>		
Bonds payable (Notes 5, 6 and 7)	1,951,729	1,916,026
Escrow funds	316,702	287,592
Deferred mortgage interest income (Note 9)	57,430	53,750
Other (Note 10)	<u>73,816</u>	<u>52,024</u>
Total liabilities	2,485,555	2,417,246
<b>COMMITMENTS AND CONTINGENCIES (Notes 3, 6, 8, 12 and 13)</b>		
<b>FUND EQUITY:</b>		
Restricted (Note 11)	173,599	154,333
Unrestricted	<u>234,068</u>	<u>226,276</u>
Total fund equity	<u>407,667</u>	<u>380,609</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u>\$2,893,222</u>	<u>\$2,797,855</u>

See notes to financial statements.

# MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

## STATEMENTS OF REVENUE AND EXPENSES AND CHANGES IN FUND EQUITY

YEARS ENDED JUNE 30, 2001 AND 2000

(In Thousands of Dollars)

	2001	2000
OPERATING REVENUES:		
Investment income:		
Loan interest income	\$ 143,779	\$ 142,271
Investment interest income	34,159	32,787
Increase (decrease) in fair value of investments, including change in unrealized gains (losses) of \$2,746 and (\$2,880), respectively (Notes 2 and 3)	<u>3,622</u>	<u>(2,744)</u>
Subtotal	181,560	172,314
Less: Interest expense and debt financing costs	<u>120,896</u>	<u>121,056</u>
Net investment income	60,664	51,258
Other revenue:		
Federal assistance programs	134,669	80,811
Section 8 Program administrative fees	7,434	6,567
Contract administration fees	4,669	
Other income	<u>4,054</u>	<u>10,975</u>
Total other revenue	<u>150,826</u>	<u>98,353</u>
Total operating revenues	211,490	149,611
OPERATING EXPENSES:		
Federal assistance programs	134,669	80,811
Salaries and benefits	19,012	17,023
Other general operating expenses	13,038	7,384
Loan servicing and insurance costs	2,966	2,862
Provision for possible losses on loans	<u>1,721</u>	<u>1,693</u>
Total operating expenses	<u>171,406</u>	<u>109,773</u>
OPERATING INCOME BEFORE GRANTS AND SUBSIDIES	40,084	39,838
GRANTS AND SUBSIDIES (Note 14)	<u>(13,026)</u>	<u>(13,649)</u>
NET INCOME	27,058	26,189
FUND EQUITY AT BEGINNING OF YEAR	<u>380,609</u>	<u>354,420</u>
FUND EQUITY AT END OF YEAR	<u>\$ 407,667</u>	<u>\$ 380,609</u>

See notes to financial statements.

# MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

## STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2001 AND 2000 (In Thousands of Dollars)

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	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Loan receipts	\$ 294,452	\$ 309,841
Other receipts	308,935	246,779
Loan disbursements	(163,436)	(180,678)
Payments to vendors	38,470	31,700
Payment to employees	14,027	12,723
Other disbursements	<u>(395,857)</u>	<u>(290,796)</u>
Net cash provided by operating activities	96,591	129,569
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from issuance of bonds	383,711	145,987
Principal repayments on bonds	(369,158)	(190,847)
Interest paid	<u>(116,189)</u>	<u>(117,884)</u>
Net cash used in noncapital financing activities	(101,636)	(162,744)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(227,160)	(161,592)
Proceeds from sale and maturities of investment securities	268,788	136,888
Investment income received	<u>22,359</u>	<u>21,186</u>
Net cash provided by (used in) investing activities	<u>63,987</u>	<u>(3,518)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	58,942	(36,693)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>297,545</u>	<u>334,238</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 356,487</u>	<u>\$ 297,545</u>

(Continued)

# MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

## STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2001 AND 2000 (In Thousands of Dollars)

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	2001	2000
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Excess of revenue over expenses	\$ 27,058	\$ 26,189
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities:		
Amortization of deferred items (net)	(10,024)	(9,000)
Arbitrage rebate expense	4,848	4,683
Investment income	(37,780)	(30,043)
Decrease in realized and unrealized gain on market value of investments	(2,746)	2,880
Interest expense on bonds	121,679	120,022
Provision for possible losses on loans	1,721	1,693
Changes in assets and liabilities:		
Accrued interest - loans receivable	(197)	384
Loans receivable	(12,290)	(16,165)
Other assets	(28,826)	6,417
Escrow funds	11,356	4,203
Other liabilities	<u>21,792</u>	<u>18,306</u>
Net cash provided by operating activities	<u>\$ 96,591</u>	<u>\$ 129,569</u>

NONCASH FINANCING AND INVESTING ACTIVITIES - During the years ended June 30, 2001 and 2000, the Authority foreclosed on various properties with mortgage values of approximately \$5.5 million and \$6.9 million, respectively.

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

See notes to financial statements.

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# MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2001 AND 2000

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### 1. AUTHORIZING LEGISLATION

The Michigan State Housing Development Authority (the "Authority") was created by the Michigan legislature under the provisions of the State Housing Development Authority Act of 1966, as amended (the "Act"). The Authority, as a special purpose entity engaged in business type activities, is a component unit of the State of Michigan and is reflected as an enterprise fund in the State's Comprehensive Annual Financial Report. The Act empowers the Authority, among other things, to issue notes and bonds to finance housing for sale or rental to families with low and moderate income and to finance home improvements. The enabling legislation, along with the various bond and note resolutions adopted by the Authority, contain specific provisions pertaining to (a) the use of the proceeds from the sale of the notes and bonds, (b) the application of the revenues from mortgages, and (c) the creation of certain funds along with the accounting policies for such funds. As of June 30, 2001, the Authority is authorized by statute to have notes and bonds outstanding up to a total of \$4.2 billion.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

***New Accounting Standards Adopted*** - In Fiscal 2001, the Authority adopted Statement GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments," as amended by Statement No. 37 and Modified by Statement No. 38, "Certain Financial Statement Disclosures." Statement No. 34, as amended and modified, commonly referred to as the new reporting model retained much of the old reporting and disclosure requirements under the prior reporting model, with certain modifications and newly added information. The most significant effect on the Authority's annual financial statements was the addition of Management's Discussion and Analysis as required supplementary information.

In fiscal 2001, the Authority also adopted the provision of GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions." This statement establishes accounting and financial reporting standards to guide governmental entities' decisions about when to report the results of nonexchange transactions involving cash and other financial and capital resources. A nonexchange transaction is one in which a governmental entity gives (or receives) value without directly receiving (or giving) equal value in return. The effect of adopting GASB Statement No. 33 was insignificant.

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

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

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

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

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

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

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

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

**Compensated Absences** - Authority employees accrue vacation and sick leave in varying amounts for each biweekly period worked. Employees may accumulate, subject to certain limitations, vacation and sick leave, and upon retirement, termination, or death may be compensated for certain accumulated amounts at their then current rates of pay. The Authority records an expense for all accumulated vacation and sick leave that the Authority would be required to pay if all employees terminated their employment. The accrued liabilities at June 30, 2001 and 2000 were \$3,122,000 and \$2,825,000, respectively.

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

The Authority charged special fees for certain Section 8 assisted mortgage loans to enable the Authority to earn its normal interest override on such mortgage loans. These fees were included in mortgage

discount and are being recognized as mortgage interest income over the life of the related mortgage loans using the interest method.

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

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

**Section 8 Program** - The Authority is the administrator of various Section 8 housing programs in Michigan for the U.S. Department of Housing and Urban Development. The Authority receives federal financial assistance to provide rental subsidies to the tenants of various housing developments and for program administration costs. During the years ended June 30, 2001 and 2000, the Authority received approximately \$178,971,000 and \$181,226,000 and disbursed approximately \$171,443,000 and \$172,033,000, respectively, in rental subsidies. Of the amounts disbursed, \$62,542,000 and \$61,469,000 were processed by the Authority on behalf of program participants and are reflected as a revenue and expense item on the Authority's Statements of Revenue and Expenses and Changes in Fund Equity for the years ended June 30, 2001 and 2000, respectively. The remaining amounts were processed by the Authority as a federal mortgage subsidy for multi-family housing projects and have been included in the accompanying financial statements as interest income and reduction of principal in mortgage loans receivable. In addition, the Authority receives an administrative fee for these services on a portion of the units administered under this program based on the number of units serviced.

**Off Balance Sheet Financial Instruments** - In connection with the Rental Housing Revenue Bonds, the Authority has entered into three interest rate swaps with notional amounts totaling \$147,840,000 at June 30, 2001 and two interest rate swaps with notional amounts totaling \$92,930,000 at June 30, 2000. In connection with the Single-Family Mortgage Revenue Bonds, the Authority has entered into three interest rate swaps with notional amounts totaling \$66,600,000 and \$66,066,000 at June 30, 2001 and 2000, respectively. The interest rate swaps were entered to convert variable rate bonds into fixed rate bonds. The fair value of these interest rate swaps is estimated by discounting expected cash flows using quoted market interest rates.

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

### 3. DEPOSITS AND INVESTMENTS

**Deposits** - At June 30, 2001 and 2000, the carrying amount of the Authority's bank deposits, including certificates of deposit and money market accounts, was \$70,546,000 and \$58,407,000 and the bank

balance was \$75,456,000 and \$60,597,000, respectively. Of the bank balance, \$633,000 and \$588,000 for 2001 and 2000 was covered by federal depository insurance, \$5,179,000 and \$22,672,000 was collateralized, \$17,486,000 and \$272,000 was uninsured and uncollateralized, and \$52,158,000 and \$37,065,000, respectively, was held in money market accounts.

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

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

	2001		2000	
	Amortized Cost	Carrying Value	Amortized Cost	Carrying Value
Cash	\$ 13,061	\$ 13,061	\$ 16,449	\$ 16,449
Certificates of deposit	5,327	5,327	4,893	4,893
Government money market funds	52,158	52,158	37,065	37,065
U.S. Government securities	217,513	232,888	213,978	225,339
Mortgage-backed securities	138,579	137,983	152,054	144,134
U.S. Government agency securities	156,929	159,440	135,930	129,253
Investment agreements	317,685	317,685	305,590	305,590
Subtotal	901,252	918,542	865,959	862,723
Accrued interest	6,321	6,321	7,048	7,048
Total cash, cash equivalents, and investments	<u>\$ 907,573</u>	<u>\$ 924,863</u>	<u>\$ 873,007</u>	<u>\$ 869,771</u>

The amortized cost and estimated market value of cash, cash equivalents, and investments at June 30, 2001, by contractual maturity, are shown below (in thousands of dollars). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Carrying Value
Due in one year or less	\$ 458,285	\$ 458,449
Due one year through five years	56,737	59,797
Due after five years through ten years	33,652	38,179
Due after ten years	213,999	224,134
Subtotal	762,673	780,559
Mortgage-backed securities	138,579	137,983
Total	<u>\$ 901,252</u>	<u>\$ 918,542</u>

Proceeds from the sales of investments in debt securities in 2001 and 2000 were \$8,575,000 and \$5,067,000, respectively. Those sales had realized gains of \$876,000 and \$136,000 in 2001 and 2000, respectively. The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair

value of investments reported in the prior year. The net change in the fair value of investments during 2001 and 2000 was a \$20,526,000 increase and a (\$12,928,000) decrease, respectively. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year.

Included in cash and investments are funds held in trust for mortgagors with a carrying value of \$328,449,000 and \$293,480,000 at June 30, 2001 and 2000, respectively, and amortized cost of \$322,554,000 and \$304,728,000 at June 30, 2001 and 2000, respectively.

The Authority's investments are categorized below (in thousands of dollars) to give an indication of the level of risk assumed by the entity at June 30, 2001 and 2000. Category 1 includes investments that are insured or registered or for which the securities are held by the Authority's agent in the Authority's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by banks, brokers or dealers, or by their agents, but not in the Authority's name. Not categorized includes certain other investments, such as certificates of deposit, government money market funds, repurchase agreements, and investment agreements, as they are not evidenced by securities that exist in physical or book entry form.

	<b>2001</b>				
	<b>Category</b>			<b>Not Categorized</b>	<b>Carrying Amount</b>
	<b>1</b>	<b>2</b>	<b>3</b>		
U.S. Government securities	\$ 232,888				\$ 232,888
Mortgage-backed securities	124,279		\$ 13,704		137,983
U.S. Government-backed securities			159,440		159,440
Noncategorized deposits and investments	_____	_____	_____	<u>\$ 388,231</u>	<u>388,231</u>
<b>Total</b>	<u>\$ 357,167</u>	<u>None</u>	<u>\$ 173,144</u>	<u>\$ 388,231</u>	<u>\$ 918,542</u>
	<b>2000</b>				
	<b>Category</b>			<b>Not Categorized</b>	<b>Carrying Amount</b>
	<b>1</b>	<b>2</b>	<b>3</b>		
U.S. Government securities	\$ 225,339				\$ 225,339
Mortgage-backed securities	128,349		\$ 15,785		144,134
U.S. Government-backed securities	6,952		122,301		129,253
Noncategorized deposits and investments	_____	_____	_____	<u>\$ 363,997</u>	<u>363,997</u>
<b>Total</b>	<u>\$ 360,640</u>	<u>None</u>	<u>\$ 138,086</u>	<u>\$ 363,997</u>	<u>\$ 862,723</u>

#### 4. LOANS RECEIVABLE

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

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

	<u>June 30</u>	
	<u>2001</u>	<u>2000</u>
Loans receivable:		
FHA insured, VA, or Department of Agriculture guaranteed	\$ 598,297	\$ 599,818
Insured by private mortgage insurance companies	104,863	97,339
Uninsured	<u>1,243,382</u>	<u>1,237,095</u>
 Total	 <u>\$1,946,542</u>	 <u>\$1,934,252</u>

The Authority has written off uncollectible loans, net of recoveries, of \$221,000 and \$6,693,000 for the years ended June 30, 2001 and 2000, respectively.

**5. GENERAL OBLIGATION BONDS PAYABLE**

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

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

	<b>2001</b>	<b>2000</b>
Single-Family Insured Mortgage Revenue Bonds - 1978 Series A, 2005 to 2010, 5%	\$ 7,420	\$ 7,420
Section 8 Assisted Mortgage Revenue Bonds - 1983 Series I, 2009 to 2014, 10.875% *	<u>8,159</u>	<u>7,339</u>
	8,159	7,339
Home Improvement Program Bonds: 1989 Series A, 2007 to 2009, 7.30%	2,000	2,000
1989 Series B, 2003 to 2012, 7.65%	<u>7,400</u>	<u>12,700</u>
	9,400	14,700

(Continued)

	2001	2000
Single-Family Mortgage Revenue Bonds:		
1990 Series A		\$ 36,610
1990 Series C, 2003 to 2005, 7.15% to 7.30%	\$ 4,310	6,715
1991 Series A, 2000 to 2016, 6.40% to 7.30%	4,945	10,820
1991 Series B, 2000 to 2020, 6.00% to 6.95%	15,470	17,620
1992 Series A, 2000 to 2012, 6.05% to 6.875%	28,020	34,405
1994 Series A, 2000 to 2024, 5.30% to 6.45%	25,810	31,120
1994 Series C and D, 2000 to 2026, 5.35% to 6.85%	20,920	29,135
1995 Series A and B, 2000 to 2024, 5.70% to 6.80%	28,120	34,940
1995 Series C and D, 2000 to 2024, 4.65% to 6.30%	49,635	59,445
1996 Series A, B and C, 2000 to 2027, 4.80% to 6.20%	110,675	116,765
1996 Series D and E, 2000 to 2027, 4.60% to 6.20%	65,315	75,705
1997 Series A and B, 2000 to 2028, 4.60% to 7.32%	45,705	51,175
1997 Series C, D and E, 2000 to 2028, 4.45% to 6.87% including \$13,535,000 at a variable rate	87,095	94,780
1998 Series B and C, 2000 to 2030, 3.75% to 5.20%	80,890	83,395
1999 Series A, 2000 to 2029, 4.70% to 6.30%	15,095	15,350
1999 Series B-1, 2001 to 2029, 4.80% to 6.375%	24,550	24,650
1999 Series B-2, 2024, variable rate (Note 6)	12,850	12,850
1999 Series B, 2000, 3.95%		23,420
2000 Series A, 2016, variable rate (Note 6)	36,610	36,610
2000 Series B, 2001 to 2030, 4.80% to 6.375%	7,150	7,150
2000 Series C, 2020, variable rate (Note 6)	40,000	40,000
2001 Series A, 2002 to 2032, 3.45% to 5.55%	102,835	
	<u>806,000</u>	<u>842,660</u>
Multi-Family Housing Revenue Bonds -		
1988 Series A, 2000 to 2019, variable rate (Note 6)	50,500	51,700
Rental Housing Revenue Bonds:		
1990 Series A and B		96,560
1991 Series A and B, 2000 to 2021, 6.45% to 7.15%	1,390	22,805
1992 Series A, 2000 to 2023, 5.80% to 6.65%	157,590	165,340
1993 Series A, 2000 to 2023, 4.90% to 5.90%	156,985	162,565
1994 Series A and B, 2000 to 2019, 4.70% to 5.80%	86,515	90,310
1995 Series A and B, 2000 to 2023, 5.15% to 6.25%	117,050	122,205
1997 Series A, 2000 to 2033, 4.50% to 6.10%	83,300	84,565
1997 Series B, 2000 to 2019, variable rate (Note 6)	32,250	75,000
1999 Series A, B and C, 2000 to 2037, 3.20% to 5.30%	103,700	105,190
1999 Series D, 2000 to 2015, variable rate	50,000	50,000
2000 Series A and B, 2024 and 2035, variable rate (Note 6)	95,410	
2001 Series A, B and C, 2023 and 2035, variable rate	152,930	
	<u>1,037,120</u>	<u>974,540</u>
Insured Rental Housing Revenue Bonds:		
1992 Series A, 2000 to 2026, 8.95%	28,430	28,735
1998 Series A, 2002 to 2026, 6.325% to 6.89%	37,540	37,540
	<u>65,970</u>	<u>66,275</u>
Multi-Family Revenue Bonds -		
1995 Series A, 2000 to 2030, 7.35% to 8.55%	33,275	33,595
Subtotal	<u>2,017,844</u>	<u>1,998,229</u>
Less bond discount, net of amortization	11,650	8,093
Total	<u>\$ 2,006,194</u>	<u>\$ 1,990,136</u>

(Concluded)

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

The following summarizes principal and interest debt service requirements at June 30, 2001 for the next 37 fiscal years (in thousands of dollars):

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2002	\$ 54,465	\$ 117,183	\$ 171,648
2003	62,110	112,717	174,827
2004	69,870	109,143	179,013
2005	70,905	105,158	176,063
2006	<u>72,645</u>	<u>101,314</u>	<u>173,959</u>
Total Fiscal Year 2002 - 2006	329,995	545,515	875,510
2007-2011	415,860	443,189	859,049
2012-2016	429,784	324,373	754,157
2017-2021	337,900	211,915	549,815
2022-2026	271,445	123,839	395,284
2027-2031	165,960	44,468	210,428
2032-2036	61,110	11,041	72,151
2037-2038	<u>5,790</u>	<u>309</u>	<u>6,099</u>
Total	<u>\$2,017,844</u>	<u>\$1,704,649</u>	<u>\$3,722,493</u>

On March 13, 2001, the Authority issued Rental Housing Revenue Bonds as follows: 2001 Series A - \$60,000,000, 2001 Series B - \$44,220,000 and 2001 Series C - \$48,710,000. The Series A Bonds were issued for the purpose of funding new multi-family mortgage loans. The Series B and C Bonds were issued for the purpose of refunding the Authority’s Rental Housing Revenue Bonds, 1990 Series A and 1990 Series B, respectively. The interest rates for all three series of bonds are set by weekly auctions conducted by an independent auction agent. The Series B and C Bonds have, from the Authority’s standpoint, been converted into fixed rate bonds at interest rates of 4.78% and 5.35%, respectively, through swap agreements with Goldman Sachs Mitsui Marine Derivative Products, L.P. (“GSMMDP”). The refunding resulted in a deferred loss of \$2,335,000, representing call premiums and unamortized bond discount and costs of issuance of the refunded bonds, which was charged to bond discount for the newly issued bonds, in accordance with accounting principles generally accepted in the United States of America. The refundings will provide gross cash flow savings of approximately \$17,900,000, which represents an economic gain, based on the present value of the savings totaling \$15,565,000, net of the deferred loss discussed above and costs of issuance of the refunding bonds.

On September 28, 2000, the Authority issued Rental Housing Revenue Bonds, 2000 Series A in the amount of \$56,000,000 and 2000 Series B in the amount of \$40,500,000. The Series A Bonds were issued for the purpose of funding new multi-family mortgage loans. The Series B Bonds were issued for the purpose of refunding a portion of the Authority’s Rental Housing Revenue Bonds, 1997 Series B. The Series A and Series B Bonds are variable rate bonds with their interest rates reset weekly. The Series A Bonds are subject to an interest rate swap agreement with GSMMDP. The Authority pays on a monthly basis an amount computed at an interest rate of 4.96% on the amount of 2000 Series A Bonds outstanding and GSMMDP will pay the Authority based on the same principal amount an amount equal to 70% of the 30-day London Interbank Offered Rate (“LIBOR”) as of the last business day of the proceeding month. The refunding of the 1997 Series B Bonds resulted in a deferred loss of \$475,000

representing unamortized bond discount and costs of issuance of the refunded bonds, which was charged to costs of issuance of the newly issued bonds. The economic gain, if any, resulting from the refunding of the 1997 Series B Bonds cannot be quantified as the interest rates on both the refunded and refunding bonds are reset weekly.

Under provisions of the Authority's bond issues, the Authority is able to retire bonds, without the payment of call premiums, prior to their maturity dates from the proceeds of loan prepayments and foreclosures and, for certain bonds, from excess program revenues. Bonds retired pursuant to such provisions total \$90,108,000 and \$77,094,000 during the years ended June 30, 2001 and 2000, respectively. Such bond retirements, in the aggregate, resulted in net gains of \$782,000 and \$585,000 for the years ended June 30, 2001 and 2000, respectively. These gains represent net adjustments to unamortized bond discounts, net of the write-off of related unamortized issuance costs, and are recorded in interest expense and debt financing costs in the statements of revenues and expenses.

## **6. DEMAND BONDS**

Included in bonds payable at June 30, 2001, are \$54,910,000 and \$40,500,000, respectively, of Rental Housing Revenue Bonds, 2000 Series A and 2000 Series B. The proceeds of the Series A Bonds are being used to fund new multi-family mortgage loans. The proceeds of the Series B Bonds were issued to refund an equal amount of Rental Housing Revenue Bonds, 1997 Series B (see next paragraph). The 2000 Series A and Series B Bonds are subject to purchase on the demand of the holders, at a price equal to principal plus accrued interest, on delivery to the Authority's remarketing agent, Goldman, Sachs & Co. The remarketing agent is required to use its best efforts to resell the bonds at a price equal to 100% of the principal amount and may adjust the interest rate in order to do so. If the remarketing agent is unsuccessful in remarketing any bonds, Morgan Guaranty Trust Company of New York (the "Bank") shall purchase such bonds pursuant to a Standby Bond Purchase Agreement between the Bank, the Trustee and the Authority. Such agreement is currently valid through September 28, 2005. While the bonds are held by the Bank they shall bear interest at the higher of the Bank's prime rate or .50% per annum above the Federal Funds Rate and will be subject to mandatory redemption in ten equal semi-annual installments commencing between six and twelve months after being acquired by the Bank. The Authority is required to pay the Bank an annual commitment fee of .20% per annum on the amount of bonds outstanding plus interest for 34 days at a rate of 14%. In addition, the remarketing agent receives a fee equal to one-tenth of 1% of the outstanding principal amount of the bonds.

Included in bonds payable at June 30, 2001 and 2000 are \$32,250,000 and \$75,000,000 of General Obligation Rental Housing Revenue Bonds, 1997 Series B, with semi-annual sinking fund requirements from October 1, 2000 through April 1, 2019. The proceeds of the bonds were used to refund an equal amount of 1994 Series C Rental Housing Revenue Bonds, which in turn were issued to refund Section 8 Assisted Mortgage Revenue Bonds and a portion of the Rental Housing Revenue Bonds, 1992 Series B. The 1997 Series B Bonds are subject to purchase option on the demand of the holder, at a price equal to principal plus accrued interest on delivery to the Authority's remarketing agent, Goldman, Sachs & Co. The remarketing agent is required to use its best efforts to resell the bonds at a price equal to 100% of their principal amount and may adjust the interest rate in order to do so. If the remarketing agent is unsuccessful in remarketing any bonds, they are to be delivered to the trustee for payment. The trustee is entitled to draw on an irrevocable letter of credit, issued by Landesbank Hessen-Thüringen Girozentrale, an amount sufficient to pay the purchase price of bonds delivered to it. The letter of credit is valid through April 12, 2002. The Authority must repay the bank for each draw on the letter of credit by its expiration date. Interest is also payable on any of these draws outstanding at a variable rate not to exceed 12%. The Authority is required to pay the bank an annual commitment fee for the letter of credit of .25% per annum of the amount of the letter of credit, which is equal to the amount of bonds

outstanding plus interest for 211 days at 12% per annum. In addition, the remarketing agent receives an annual fee equal to one-eighth of 1% of the outstanding principal amount of the bonds.

Included in bonds payable at June 30, 2001 and 2000 are \$12,850,000, \$36,610,000 and \$40,000,000 of Single-Family Mortgage Revenue Bonds, 1999 Series B-2, 2000 Series A and 2000 Series C, respectively. The proceeds of the 2000 Series A Bonds were used to refund the Authority's 1990 Series A Single-Family Mortgage Revenue Bonds and the proceeds of the 1999 Series B-2 and 2000 Series C Bonds were used to finance the purchase of new single-family mortgage loans. The bonds are subject to purchase on the demand of the holders, at a price equal to principal plus accrued interest, on delivery to the Authority's remarketing agent, Lehman Brothers, Inc. The remarketing agent is required to use its best efforts to resell the bonds at a price equal to 100% of the principal amount and may adjust the interest rate in order to do so. If the remarketing agent is unsuccessful in remarketing any of the bonds, Bank One Michigan (the "Bank") shall purchase such bonds pursuant to a Standby Bond Purchase Agreement between the Bank, the Trustee and the Authority. Such agreement is currently valid through June 1, 2005. While the bonds are held by the Bank they shall bear interest at a rate determined in reference to the British Bankers' Association Interest Settlement Rate, as adjusted for the Bank's Reserve Requirement, plus .70%, and will be subject to mandatory redemption by the Authority on a quarterly basis beginning six months and ending five years after their purchase by the Bank. The Authority is required to pay an annual commitment fee of .115% per annum on the amount of bonds outstanding plus interest for 205 days at a rate of 14% per annum. In addition, the remarketing agent receives a fee equal to one-tenth of 1% of the outstanding principal amount of the bonds.

Included in bonds payable at June 30, 2001 and 2000 are \$50,500,000 and \$51,700,000, respectively, of General Obligation Multi-Family Housing Revenue Bonds (1988 Series A) with annual sinking fund requirements through November 1, 2019. The proceeds of the bonds were used to (a) provide funds for multi-family mortgage loans, (b) establish reserve funds in accordance with the trust agreement, and (c) pay costs incurred to issue the bonds. The bonds are subject to purchase on the demand of the holders at a price equal to principal plus accrued interest on delivery to the Authority's remarketing agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated. The remarketing agent is required to use its best efforts to resell the bonds at a price equal to 100% of their principal amount and may adjust the interest rate in order to do so. If the remarketing agent is unsuccessful in remarketing any bonds, they are to be delivered to the trustee for payment. The trustee is entitled to draw on an irrevocable letter of credit, issued by Landesbank Hessen-Thüringen Girozentrale, an amount sufficient to pay the purchase price of bonds delivered to it. The letter of credit is valid through March 31, 2003. The Authority must repay the bank for each draw on the letter of credit by its expiration date. Interest is also payable on any draws outstanding at a rate equal to the lesser of (a) the greater of the bank's prime rate or the federal funds rate plus .50% or (b) 25%. The Authority is required to pay the bank an annual commitment fee for the letter of credit of .26% per annum of the amount of the letter of credit, which is equal to the amount of bonds outstanding plus interest for 41 days at 25% per annum. In addition, the remarketing agent receives an annual fee equal to one-eighth of 1% of the outstanding principal amount of the bonds.

## 7. LIMITED OBLIGATION BONDS

The Act, as amended, authorizes the Authority to issue limited obligation bonds to finance multi-family housing. Such bonds are not general obligations of the Authority and the Authority has no liability for this debt. Such bonds are secured solely by revenues and property derived from or obtained in connection with the housing projects. Thus, with the exception of limited obligation bond financing fees discussed in Note 2, transactions related to these bonds are not reflected in the Authority's financial statements. At June 30, 2001, limited obligation bonds had been issued totaling approximately \$426,698,000 of which eight issues totaling \$70,198,000 have been retired.

## 8. PENSION PLAN

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

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

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

Pension costs of the Authority paid into the Plan aggregated \$1,738,000 and \$1,326,000 for the years ended June 30, 2001 and 2000, respectively, and are included in salaries and benefits expense. The Authority has no liability for pension costs other than the normal contributions as determined by the Plan.

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

## 9. DEFERRED MORTGAGE INTEREST INCOME

Since 1990, the Authority has refunded a substantial amount of high yielding multi-family bond issues with lower yielding bonds. In conjunction with the sale of certain of the refunding bonds, the Authority has sold additional bonds to provide funds for new multi-family mortgage loans, generally with interest rates below the interest rates on the bonds. The Authority is deferring the interest income on mortgage loans funded by the new bonds to the extent that the total thereof exceeds the total interest income that would have been earned if the average interest rate on such loans was equal to the average interest rate paid on the new bonds plus approximately 1.5%. This deferred interest income is and will continue to be amortized to income in the future as the average rate on the outstanding mortgage loans drops to a rate that is less than 1.5% above the average rate on the new bonds. The average rate will decline primarily because the higher yielding mortgage loans have average remaining lives substantially shorter than the lower yielding mortgage loans. The mortgage interest income that was deferred, net of amortization, was \$3,680,000 and \$4,726,000 for the years ended June 30, 2001 and 2000, respectively.

## 10. CAPITAL LEASE

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

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

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2002	\$ 351,147	\$ 1,128,389	\$ 1,479,536
2003	379,228	1,100,446	1,479,674
2004	409,549	1,070,269	1,479,818
2005	442,282	1,037,680	1,479,962
2006	477,620	1,002,486	1,480,106
Total Fiscal Year 2002 - 2006	2,059,826	5,339,270	7,399,096
2007-2011	3,024,790	4,377,900	7,402,690
2012-2016	4,439,773	2,966,517	7,406,290
2017-2021	5,495,206	926,491	6,421,697
Total	<u>\$ 15,019,595</u>	<u>\$ 13,610,178</u>	<u>\$ 28,629,773</u>

## 11. RESTRICTED FUND EQUITY

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

	<u>June 30</u>	
	<u>2001</u>	<u>2000</u>
Pledged for payment of:		
All bond issues (Capital Reserve Capital Account)	\$ 32,910	\$ 29,984
Section 8 Assisted Mortgage Revenue Bonds	12,578	11,799
Single-Family Insured Mortgage Revenue Bonds	3,173	2,897
Home Improvement Program Bonds	5,923	6,033
Single-Family Mortgage Revenue Bonds	47,268	38,240
Multi-Family 1988 Housing Revenue Bonds	899	2,770
Rental Housing Revenue (Tax-Exempt) Bonds	62,703	55,235
1992 and 1998 Insured Rental Housing Revenue Bonds	6,910	6,714
Multi-Family 1995 Series A Revenue Bonds	<u>1,235</u>	<u>661</u>
Total	<u>\$ 173,599</u>	<u>\$ 154,333</u>

## 12. CONTINGENCIES

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

## 13. COMMITMENTS

As of June 30, 2001 and 2000, the Authority has commitments to issue multi-family mortgage loans in the amounts of \$77,480,000 and \$70,080,000, respectively, and single-family mortgage loans in the amounts of \$21,009,000 and \$38,366,000, respectively.

The Authority has committed up to approximately \$1,055,000 per year for up to 30 years from the date of completion of the respective developments (subject to three years advance notice of termination) from its accumulated reserves and future income to subsidize operations or rents for certain tenants occupying units in certain developments funded under the Authority's multi-family program. Such developments receive funds either for the purpose of subsidizing rents so that some units can be afforded by families with incomes at 50% or less of median income or to subsidize operations in general. Subsidy disbursements began in 1985 and totaled approximately \$625,000 and \$816,000 for the years ended June 30, 2001 and 2000, respectively.

In addition, the Authority makes available up to approximately \$1,000,000 per year for up to 30 years to subsidize rents in a similar fashion for 20% of the units in certain other developments financed or to be financed under its multi-family mortgage lending program. Under this program, the Authority is entitled to receive a portion of any excess cash flow generated by the developments as well as a share of the profits from the sale of the developments and is able to reduce the rent subsidies if the interest rates being charged by the Authority on the related mortgage loans are below certain preset levels. Subsidy repayments exceeded subsidy disbursements by \$197,000 and \$91,000 for the years ended June 30, 2001 and 2000, respectively.

In conjunction with a multi-family taxable bond lending program, the Authority is making available annually to certain developments financed under the program an amount equal to 400 times the number of units in such developments (subject to a one year advance notice of termination) for the purpose of subsidizing rents so that some of the units in such developments can be made available to very low income tenants. Under certain circumstances, after 15 years or more, the owners of the developments will be required to repay without interest up to 100% of the subsidies provided by the Authority. The Authority has not established a maximum amount that it will make available under this program. Subsidy disbursements under this program totaled \$896,000 and \$995,000, for the years ended June 30, 2001 and 2000, respectively.

Finally, the Authority also makes available interest free loans of up to \$25,000 annually to developments that incur increased operating costs because of their small size (less than 100 rental units) and up to \$25,000 annually for developments that incur increased security costs due to their location. The loans are repayable from excess development revenues and are also repayable upon repayment of the first mortgage loan. Disbursements under this program totaled \$560,000 and \$542,000, for the years ended June 30, 2001 and 2000, respectively.

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

Disbursements under the programs described in Note 13 are included in grants and subsidies on the statements of revenues and expenses and changes in fund equity, along with grants made to non-profit organizations pursuant to various programs that have as their purpose increasing the supply of affordable housing for low and medium income families in Michigan and the provision of temporary shelter for homeless individuals and families.

\* \* \* \* \*

# MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

## SUPPLEMENTAL DATA - BALANCE SHEET INFORMATION

JUNE 30, 2001

(In Thousands of Dollars)

	Section 8 Assisted Mortgage Revenue Bonds Activities	Single-Family Insured Mortgage Revenue Bonds Activities	Home Improvement Program Bonds Activities	Single-Family Mortgage Revenue Bonds Activities
<b>ASSETS</b>				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 878	\$ 202	\$ 2,250	\$ 175,971
Short-term investments, including related interest receivable	7,131	2,528	12	1,409
Current portion of loans receivable	276	85	1,216	9,715
Loan interest receivable	78	30	47	4,501
Total current assets	8,363	2,845	3,525	191,596
LONG-TERM INVESTMENTS				
LOANS RECEIVABLE:				
Multi-family mortgage loans:				
Construction-in-progress				
Completed construction	10,206			
Housing development loans				
Single-family mortgage loans		5,321	1,171	666,655
Home improvement and moderate rehabilitation loans			11,993	
Subtotal	10,206	5,321	13,164	666,655
Less allowance for possible losses			(300)	(650)
Less mortgage discount	(203)			(1,836)
Loans receivable, net	10,003	5,321	12,864	664,169
Less current portion of loans receivable	(276)	(85)	(1,216)	(9,715)
Long-term portion of loans receivable, net	9,727	5,236	11,648	654,454
OTHER ASSETS:				
Unamortized bond financing costs	15	6	27	2,205
Real estate owned		44		2,747
Other		2	369	196
Interfund accounts	1	(729)	(979)	(2,654)
Total other assets	16	(677)	(583)	2,494
<b>TOTAL ASSETS</b>	<b>\$ 21,362</b>	<b>\$10,209</b>	<b>\$ 15,510</b>	<b>\$ 852,896</b>
<b>LIABILITIES AND FUND EQUITY</b>				
CURRENT LIABILITIES:				
Current portion of bonds payable				\$ 15,900
Accrued interest payable		\$ 93	\$ 59	4,771
Current portion of escrow funds				
Total current liabilities		93	59	20,671
LONG-TERM LIABILITIES:				
Bonds payable	\$ 8,784	6,943	9,519	783,693
Other escrow funds			26	
Deferred mortgage interest income				
Other			(17)	1,264
Total liabilities	8,784	6,943	9,528	784,957
<b>FUND EQUITY</b>	<b>12,578</b>	<b>3,173</b>	<b>5,923</b>	<b>47,268</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 21,362</b>	<b>\$10,209</b>	<b>\$ 15,510</b>	<b>\$ 852,896</b>

(Continued)

# MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

## SUPPLEMENTAL DATA - BALANCE SHEET INFORMATION

JUNE 30, 2001

(In Thousands of Dollars)

	Multi-Family 1988 Revenue Bonds Activities	Rental Housing Revenue Bonds (Tax-Exempt) Activities	1992 & 1998 Insured Rental Housing Revenue Bonds Activities	Multi-Family 1995 Series A Revenue Bonds Activities	General Operating Activities	Capital Reserve Capital Activities	Mortgage Escrow and Reserve Activities	Other Activities	Total
<b>ASSETS</b>									
<b>CURRENT ASSETS:</b>									
Cash and cash equivalents	\$ 3,506	\$ 126,977	\$21,884	\$ 621	\$ 25,423	\$ 3	\$ (1,230)	\$ 2	\$ 356,487
Short-term investments, including related interest receivable	7	5,115	229	1	21,270	1,887	68,694		108,283
Current portion of loans receivable	1,429	28,571	382	294	5,578			32	47,578
Loan interest receivable	219	6,996	319	249	1,477			567	14,483
Total current assets	5,161	167,659	22,814	1,165	53,748	1,890	67,464	601	526,831
LONG-TERM INVESTMENTS		58,107	9,190	4,131	40,918	31,020	305,394		460,093
<b>LOANS RECEIVABLE:</b>									
Multi-family mortgage loans:									
Construction-in-progress		70,793			283				71,076
Completed construction	47,710	922,149	41,632	33,829	86,321			853	1,142,700
Housing development loans								21,310	21,310
Single-family mortgage loans					19,610				692,757
Home improvement and moderate rehabilitation loans					6,706				18,699
Subtotal	47,710	992,942	41,632	33,829	112,920			22,163	1,946,542
Less allowance for possible losses		(20,000)	(1,500)	(500)	(9,050)				(32,000)
Less mortgage discount		(1,442)			(8,264)				(11,745)
Loans receivable, net	47,710	971,500	40,132	33,329	95,606			22,163	1,902,797
Less current portion of loans receivable	(1,429)	(28,571)	(382)	(294)	(5,578)			(32)	(47,578)
Long-term portion of loans receivable, net	46,281	942,929	39,750	33,035	90,028			22,131	1,855,219
<b>OTHER ASSETS:</b>									
Unamortized bond financing costs	133	2,312	217	102	1				5,018
Real estate owned		1,305			4,688				8,784
Other		10			36,330			370	37,277
Interfund accounts	1	(3,722)	832	(3,558)	19,625		(2,855)	(5,962)	
Total other assets	134	(95)	1,049	(3,456)	60,644		(2,855)	(5,592)	51,079
<b>TOTAL ASSETS</b>	<b>\$ 51,576</b>	<b>\$1,168,600</b>	<b>\$72,803</b>	<b>\$34,875</b>	<b>\$245,338</b>	<b>\$32,910</b>	<b>\$370,003</b>	<b>\$ 17,140</b>	<b>\$2,893,222</b>
<b>LIABILITIES AND FUND EQUITY</b>									
<b>CURRENT LIABILITIES:</b>									
Current portion of bonds payable	\$ 1,300	\$ 36,300	\$ 615	\$ 350					\$ 54,465
Accrued interest payable	230	10,963	424	468					17,008
Current portion of escrow funds							\$ 14,405		14,405
Total current liabilities	1,530	47,263	1,039	818			14,405		85,878
<b>LONG-TERM LIABILITIES:</b>									
Bonds payable	49,006	996,118	64,844	32,822					1,951,729
Escrow funds		(276)	10		\$ 3,644		355,598	\$(42,300)	316,702
Deferred mortgage interest income		57,430							57,430
Other	141	5,362			52,338			14,728	73,816
Total liabilities	49,147	1,058,634	64,854	32,822	55,982		355,598	(27,572)	2,399,677
<b>FUND EQUITY</b>	<b>899</b>	<b>62,703</b>	<b>6,910</b>	<b>1,235</b>	<b>189,356</b>	<b>\$32,910</b>	<b>44,712</b>	<b></b>	<b>407,667</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 51,576</b>	<b>\$1,168,600</b>	<b>\$72,803</b>	<b>\$34,875</b>	<b>\$245,338</b>	<b>\$32,910</b>	<b>\$370,003</b>	<b>\$ 17,140</b>	<b>\$2,893,222</b>

(Concluded)

# MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

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

YEAR ENDED JUNE 30, 2001

(In Thousands of Dollars)

	Section 8 Assisted Mortgage Revenue Bonds Activities	Single- Family Insured Mortgage Revenue Bonds Activities	Home Improvement Program Bonds Activities	Single- Family Mortgage Revenue Bonds Activities
OPERATING REVENUES:				
Investment income:				
Loan interest income	\$ 964	\$ 273	\$ 876	\$48,120
Investments interest income	1,129	385	299	11,394
Increase (decrease) in fair value of investments	(330)	82		395
Subtotal	1,763	740	1,175	59,909
Less: Interest expense and debt financing costs	844	446	922	48,216
Net investment income	919	294	253	11,693
Other revenue:				
Federal assistance programs				
Section 8 Program administrative fees				
Contract administration fees				
Other income				9
Total other revenue	919	294	253	11,702
OPERATING EXPENSES:				
Federal assistance programs				
Salaries and benefits				
Other general operating expenses				
Loan servicing and insurance costs		18	348	2,469
Provision for possible losses on loans			15	205
Total expenses		18	363	2,674
OPERATING INCOME BEFORE GRANTS AND SUBSIDIES	919	276	(110)	9,028
GRANTS AND SUBSIDIES				
NET INCOME	919	276	(110)	9,028
FUND EQUITY, BEGINNING OF YEAR	11,799	2,897	6,033	38,240
TRANSFERS (TO) FROM OTHER FUNDS FOR:				
Payment of operating fund expenses	(140)			
Funding to provide additional cash flow and payment of bond issuance costs				
FUND EQUITY, END OF YEAR	<u>\$12,578</u>	<u>\$3,173</u>	<u>\$5,923</u>	<u>\$47,268</u>

(Continued)

# MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

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

YEAR ENDED JUNE 30, 2001

(In Thousands of Dollars)

	Multi-Family 1988 Revenue Bonds Activities	Rental Housing Revenue Bonds (Tax-Exempt) Activities	1992 & 1998 Insured Rental Housing Revenue Bonds Activities	Multi-Family 1995 Series A Revenue Bonds Activities	General Operating Activities	Capital Reserve Capital Activities	Other Activities	Total
OPERATING REVENUES:								
Investment income:								
Loan interest income	\$2,520	\$72,852	\$3,839	\$3,008	\$ 10,215		\$ 1,112	\$143,779
Investments income, net	194	10,011	1,939	262	3,785	\$ 2,169	2,592	34,159
Increase (decrease) in fair value of investments		1,044	92	230	1,352	757		3,622
Subtotal	2,714	83,907	5,870	3,500	15,352	2,926	3,704	181,560
Less: Interest expense and debt financing costs	2,108	60,181	5,175	2,928	76			120,896
Net investment income	606	23,726	695	572	15,276	2,926	3,704	60,664
Other revenue:								
Federal assistance programs					134,669			134,669
Section 8 Program administrative fees					7,434			7,434
Contract administration fees					4,669			4,669
Other income		42	1	2	3,116		884	4,054
Total other revenue	606	23,768	696	574	165,164	2,926	4,588	211,490
OPERATING EXPENSES:								
Federal assistance programs					134,669			134,669
Salaries and benefits					19,012			19,012
Other general operating expenses					13,038			13,038
Loan servicing and insurance costs					131			2,966
Provision for possible losses on loans		1,000	500		1			1,721
Total expenses		1,000	500		166,851			171,406
OPERATING INCOME BEFORE GRANTS AND SUBSIDIES	606	22,768	196	574	(1,687)	2,926	4,588	40,084
GRANTS AND SUBSIDIES					(1,833)		(11,193)	(13,026)
NET INCOME	606	22,768	196	574	(3,520)	2,926	(6,605)	27,058
FUND EQUITY, BEGINNING OF YEAR	2,770	55,235	6,714	661	182,959	29,984	43,317	380,609
TRANSFERS (TO) FROM OTHER FUNDS FOR:								
Payment of operating fund expenses	(2,477)	(15,300)			17,917			
Funding to provide additional cash flow and payment of bond issuance costs					(8,000)		8,000	
FUND EQUITY, END OF YEAR	\$ 899	\$62,703	\$6,910	\$1,235	\$ 189,356	\$ 32,910	\$44,712	\$407,667

(Concluded)

