

Office of the Auditor General
Financial Audit

Michigan State Housing Development Authority
Cash and Investments

Department of Labor and Economic Opportunity

As of March 31, 2019

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

The auditor general may make investigations pertinent to the conduct of audits.

Article IV, Section 53 of the Michigan Constitution



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Report Summary

Financial Audit

*Michigan State Housing Development
Authority (MSHDA) Cash and Investments
Department of Labor and Economic
Opportunity
As of March 31, 2019*

**Report Number:
186-0201-19**

**Released:
December 2019**

MSHDA was created under the provisions of the State Housing Development Authority Act of 1966, as amended, and is a discretely presented component unit of the State of Michigan. A financial audit determines if the financial schedules are fairly stated.

Auditor's Report Issued

UNMODIFIED OPINION

MODIFIED OPINION

We issued an unmodified opinion on MSHDA's schedule of cash and investments to reflect that it was fairly presented, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

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Doug A. Ringler, CPA, CIA
Auditor General

December 4, 2019

Mr. Jeff Donofrio, Director
Department of Labor and Economic Opportunity
300 North Washington Square
Lansing, Michigan
and
Mr. Gary Heidel, Acting Executive Director
Michigan State Housing Development Authority
Department of Labor and Economic Opportunity
735 East Michigan Avenue
Lansing, Michigan

Dear Mr. Donofrio and Mr. Heidel:

This is our financial audit report on the Michigan State Housing Development Authority Cash and Investments, Department of Labor and Economic Opportunity, as of March 31, 2019.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

A handwritten signature in dark ink that reads "Doug Ringler". The signature is written in a cursive, flowing style.

Doug Ringler
Auditor General

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INDEPENDENT AUDITOR'S REPORT AND FINANCIAL SCHEDULE



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Doug A. Ringler, CPA, CIA
Auditor General

Independent Auditor's Report on the Financial Schedule

Mr. Jeff Donofrio, Director
Department of Labor and Economic Opportunity
300 North Washington Square
Lansing, Michigan
and
Mr. Gary Heidel, Acting Executive Director
Michigan State Housing Development Authority
Department of Labor and Economic Opportunity
735 East Michigan Avenue
Lansing, Michigan

Dear Mr. Donofrio and Mr. Heidel:

Report on the Financial Schedule

We have audited the accompanying schedule of cash and investments of the Michigan State Housing Development Authority (MSHDA), a discretely presented component unit of the State of Michigan, as of March 31, 2019 and the related notes to the financial schedule.

Management's Responsibility for the Financial Schedule

Management is responsible for the preparation and fair presentation of this financial schedule 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 a financial schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedule, 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 schedule 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 schedule.

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 schedule referred to in the first paragraph presents fairly, in all material respects, the cash and investments of MSHDA as of March 31, 2019 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial schedule presents only the cash and investments of MSHDA as of March 31, 2019. Accordingly, this schedule does not purport to, and does not, constitute a complete financial presentation of MSHDA, the State of Michigan, or any individual fund or component unit of MSHDA or the State of Michigan as of March 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Sincerely,



Doug Ringler
Auditor General
October 25, 2019

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

Department of Labor and Economic Opportunity

Schedule of Cash and Investments

As of March 31, 2019

Account	Cash and Cash Equivalents	Short-Term Investments (Maturity Date Greater Than 90 days)	Long-Term Investments (Maturity Date Greater Than 1 year)	Total Cash, Cash Equivalents, and Investments
General Operating	\$ 12,607,188	\$	\$	\$ 12,607,188
Capital Reserve	1,243,332	10,740,716	89,198,966	101,183,014
Mortgage Escrow	22,407,695	29,552,732	491,488,057	543,448,484
Federal Programs	9,834,352			9,834,352
Home Improvement	191,393			191,393
Single Family Mortgage Servicing	202,460			202,460
Single Family Homeownership Revenue Bonds	906,447			906,447
Mortgage-Backed Securitized Loans	708,980			708,980
Single Family Mortgage Revenue Bonds	90,305,937	510,195	75,229,450	166,045,582
Rental Housing Revenue Bonds	125,191,516	14,944,950	32,202,886	172,339,353
Broadband	3,491,740	1,534,841	62,248	5,088,829
Total	\$ 267,091,040	\$57,283,434	\$ 688,181,607	\$ 1,012,556,081

The accompanying notes are an integral part of the financial schedule.

NOTES TO THE FINANCIAL SCHEDULE

Note 1

Authorizing Legislation and Reporting Entity

The Michigan State Housing Development Authority (MSHDA) was created by the Michigan Legislature under the provisions of the State Housing Development Authority Act of 1966, as amended (the Act). MSHDA, as a special purpose entity, is a discretely presented component unit of the State of Michigan and is reported in the *State of Michigan Comprehensive Annual Financial Report*. The Act empowers MSHDA, 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 various bond and note resolutions adopted by MSHDA, contains 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.

Note 2

Summary of Significant Accounting Policies

- a. Accounting and Reporting Principles
MSHDA follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board.
- b. Basis of Accounting and Financial Schedule Presentation
The schedule of cash and investments reports MSHDA cash and investments as of March 31, 2019. This report is a special purpose financial presentation and does not constitute a complete presentation of assets, liabilities, revenues, and expenses but is otherwise prepared in conformity with accounting principles generally accepted in the United States of America. Accordingly, this schedule does not purport to, and does not, constitute a complete financial presentation of MSHDA, the State of Michigan, or any individual fund or component unit of MSHDA or the State of Michigan.
- c. Cash and Cash Equivalents
MSHDA considers all liquid investments with a maturity of three months or less to be cash and cash equivalents. MSHDA also considers all United States government money market funds to be cash and cash equivalents.
- d. Investments
MSHDA reports investments at fair value.

Note 3

Deposits and Investments

MSHDA has designated eight banks for deposit of its funds. The investment policy adopted by MSHDA's 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, obligations of which the principal and interest are guaranteed by the State of Michigan or United States government, other obligations as may be approved by the State Treasurer, bank accounts, and certificates of deposit (CDs).

MSHDA's cash and investments are subject to several types of risk, which are examined in more detail below:

a. Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, MSHDA's deposits may not be returned to it. MSHDA does not have a deposit policy for custodial credit risk. MSHDA believes that, because of the dollar amounts of cash deposits and the limits of Federal Deposit Insurance Corporation (FDIC) insurance, it is impractical to insure all deposits. As one measure to limit its risk, MSHDA 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.

b. Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise of interest rates. MSHDA's investment policy does not restrict investment maturities.

c. Credit Risk

MSHDA has no investment policy that would limit its investment choices, except as noted in State statute.

GLOSSARY OF ABBREVIATIONS AND TERMS

financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules of an audited entity are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
generally accepted accounting principles (GAAP)	A technical accounting term that encompasses the conventions, rules, guidelines, and procedures necessary to define accepted accounting practice at a particular time; also cited as "accounting principles generally accepted in the United States of America."
Governmental Accounting Standards Board (GASB)	An arm of the Financial Accounting Foundation established to promulgate standards of financial accounting and reporting with respect to activities and transactions of state and local governmental entities.
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
material misstatement	A misstatement in the financial schedules that causes the schedules to not present fairly the financial position or the changes in financial position, and, where applicable, cash flows thereof, in accordance with the applicable financial reporting framework.
modified opinion	A qualified opinion, an adverse opinion, or a disclaimer of opinion.
unmodified opinion	The opinion expressed by the auditor when the auditor, having obtained sufficient appropriate audit evidence, concludes that the financial schedules are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.



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