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

Financial Report

with Supplemental Information

June 30, 2006

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Michigan State Housing Development Authority

Contents

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Independent Auditor's Report

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

We have audited the accompanying basic financial statements of Michigan State Housing Development Authority (the Authority), a component unit of the State of Michigan, as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Michigan State Housing Development Authority as of June 30, 2006 and 2005 and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2006 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Plante & Moran, PLLC

October 20, 2006

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

The Authority offers a variety of programs to provide affordable housing opportunities, such as single-family lending, low-interest property improvement lending, multi-family lending, mortgage credit certificates, and pass-through obligations.

The enclosed financial statements present the Authority's financial position, revenue, expenses, changes in net assets, and cash flows. The following is a condensed summary of financial information as of and for the years ended June 30, 2006, 2005, and 2004.

Condensed Financial Information

(In thousands of dollars)

	2006	2005	2004
Net Assets			
Investments	$ 538,750	$ 740,281	$ 678,097
Loans receivable - Net	1,941,650	1,805,564	1,807,085
Other assets	354,442	155,325	222,671
Total assets	**$ 2,834,842**	**$ 2,701,170**	**$ 2,707,853**
Bonds payable	$ 1,766,202	$ 1,621,154	1,682,510
Other liabilities	448,634	483,637	472,609
Total liabilities	**$ 2,214,836**	**$ 2,104,791**	**$ 2,155,119**
Restricted net assets	$ 265,313	$ 268,047	261,272
Unrestricted net assets	354,693	328,332	291,462
Total net assets	**$ 620,006**	**$ 596,379**	**$ 552,734**

Condensed Financial Information (Continued)

(In thousands of dollars)

Change in Net Assets	2006	2005	2004
Net investment income	$ 55,964	$ 66,249	$ 55,743
Federal assistance programs revenue	395,952	381,733	348,447
Section 8 program administrative fees	13,464	10,461	10,438
Contract administration fees	6,834	7,602	7,030
Other income	16,320	18,902	33,599
Total revenue	488,534	484,947	455,257
Federal assistance programs expenses	395,952	381,733	348,447
Salaries and benefits	21,568	17,907	16,515
Other general operating expenses	24,649	18,957	18,922
Other expenses	6,894	7,050	4,625
Total expenses	449,063	425,647	388,509
Grants and subsidies	15,844	15,655	14,748
Change in net assets	**$ 23,627**	**$ 43,645**	**$ 52,000**

Financial Analysis

Total assets increased from $2.70 billion at June 30, 2005 to $2.83 billion at June 30, 2006. This was an increase of approximately $133.7 million, or 4.9 percent. Total assets decreased from $2.71 billion at June 30, 2004 to $2.70 billion at June 30, 2005. This was a decrease of approximately $7 million, or 0.2 percent.

Net loans receivable increased from $1,805.6 million at June 30, 2005 to $1,941.7 million at June 30, 2006. Loans receivable increased due to improved single-family mortgage (net increase of $81.0 million) and multi-family mortgage (net increase of $56.2 million) loan production. Net loans receivable decreased from $1.807 billion at June 30, 2004 to $1.805 billion at June 30, 2005. Loans receivable decreased due to a single-family mortgage loan balance reduction of $27.2 million and home improvement and moderate rehabilitation loan balance reduction of $1.4 million. The fiscal year 2005 loan decreases were partially offset by multi-family mortgage loan production of $27.4 million. The single-family loan prepayments exceeded loan originations due to the low interest rate environment.

Financial Analysis (Continued)

Bonds payable increased from $1,621.1 million at June 30, 2005 to $1,766.2 million at June 30, 2006, a net increase of approximately $145.0 million. This increase was due primarily to the Authority issuing $220.7 million of Rental Housing Revenue Bonds and $294.9 million of Single-Family Mortgage Revenue Bonds during the fiscal year, while bond calls and scheduled debt service totaled $370.7 million. Bonds payable decreased from $1.683 billion at June 30, 2004 to $1.621 billion at June 30, 2005, a net decrease of approximately $61.4 million. This decrease was primarily due to the Authority issuing $197.8 million of Rental Housing Revenue Bonds and $96.4 million of Single-Family Mortgage Revenue Bonds during the fiscal year, while bond calls and scheduled debt service totaled $358.2 million.

Escrow funds, which are recorded in other liabilities, decreased by $42.6 million to $347.2 million at June 30, 2006 from a year earlier due to the prepayment of multi-family developments with large reserves. Escrow funds increased by $21.7 million to $389.7 million at June 30, 2005 from a year earlier due to the increased balance of multi-family mortgage loans.

The Authority's net assets totaled $620.0 million at June 30, 2006, equal to 21.9 percent of total assets and 28.0 percent of total liabilities. A significant portion of net assets is restricted. At June 30, 2006, $265.3 million of net assets was pledged for payment against the various bond indentures. In addition, $114.4 million is designated by board resolution, represented by the Community Development Fund. The Authority's net assets totaled $596.4 million at June 30, 2005, equal to 22.1 percent of total assets and 28.3 percent of total liabilities. A significant portion of net assets is restricted. At June 30, 2005, $268.0 million of net assets was pledged for payment against the various bond indentures. In addition, $99.9 million is designated by board resolution, for community development activity.

Operating Results

Operations for the year ended June 30, 2006 resulted in excess of revenues over expenses of $23.6 million compared to prior year results of $43.6 million. Under the Governmental Accounting Standards Board ("GASB") Statement No. 31, the Authority is required to present investments at fair market value and reflect this adjustment in the statement of revenue, expenses, and changes in net assets. This presentation increased revenue over expenses by $2.0 million. Results for the year ended June 30, 2005 were negatively impacted by a decrease of $3.0 million. Currently, GASB No. 31 has had a cumulative negative effect of $1.6 million on the Authority's net assets; however, the Authority generally intends to hold these securities to maturity. Operations for the year ended June 30, 2005 resulted in excess of revenues over expenses of $43.6 million, compared to prior year results of $52.0 million.

Operating Results (Continued)

Net investment income decreased from $66.2 million in 2005 to $56.0 million in 2006, a decrease of $10.2 million. On November 16, 2005, the Authority amended a $50 million investment with the Michigan Broadband Development Authority (MBDA) and agreed to write-off approximately $8.6 million. The Authority will be making available to MBDA, approximately $22 million for new loans and existing loan commitments, as well as approximately $1 million for ongoing administrative costs. MBDA has assigned MSHDA all principal and interest payments from current loans and will do so for all new loans. Net investment income increased from $55.7 million in 2004 to $66.2 million in 2005, an increase of $10.5 million. The negative impact of GASB No. 31 was less at June 30, 2005 ($3.0 million) as compared to June 30, 2004 ($8.5 million); this made for a positive differential of $5.5 million. Gain on sale of investments increased over the prior year by $2.5 million.

Total revenue increased from $484.9 million for the year ended June 30, 2005 to $488.5 million for the year ended June 30, 2006, a net increase of $3.6 million. Total revenue increased due primarily to the increase of federal assistance program revenue of $14.2 million and the increase of Section 8 program administrative fees of $3.0 million, which were partially offset by a decrease of net investment income of $10.2 million. Total revenue increased from $455.3 million for the year ended June 30, 2004 to $484.9 million for the year ended June 30, 2005, a net increase of $29.6 million. Total revenue increased due primarily to the increase of federal assistance program revenue of $33.3 million and the increase of net investment income of $10.5 million, which were partially offset by a decrease of preservation fees of $16.9 million.

Total operating expenses increased from $425.6 million for the year ended June 30, 2005 to $449.1 million for the year ended June 30, 2006, a net increase of $23.4 million. Total operating expenses increased due primarily to an increase in the federal assistance programs of $14.2 million and an increase in salaries and benefits and other general operating expenses of $9.4 million. Total operating expenses increased from $388.5 million for the year ended June 30, 2004 to $425.6 million for the year ended June 30, 2005, a net increase of $37.1 million. Total operating expenses increased due primarily to an increase in federal assistance programs of $33.3 million. The Authority increased the provision for possible losses on loans by $4.5 million as compared to an increase of $0.9 million in 2004.

Statement of Net Assets
(in thousands of dollars)

	June 30, 2006	June 30, 2005
Assets		
Cash and Cash Equivalents (Note 3)	314,522	$ 113,336
Investments (Note 3)	538,750	740,281
Loans Receivable		
Multi-family mortgage loans	1,446,573	1,390,409
Single-family mortgage loans	522,100	441,058
Home improvement and moderate rehabilitation loans	8,907	10,320
Subtotal (Note 4)	1,977,580	1,841,787
Accrued loan interest receivable	25,638	20,336
Allowance on loans receivable (Note 4)	(50,200)	(46,150)
Loan origination fees	(11,368)	(10,409)
Net loans receivable	1,941,650	1,805,564
Other Assets		
Unamortized bond financing costs	3,635	3,709
Real estate owned	8,038	7,192
Other	28,247	31,088
Total other assets	39,920	41,989
Total assets	**$ 2,834,842**	**$ 2,701,170**
Liabilities and Net Assets		
Liabilities		
Bonds payable (Notes 5 and 6)	1,766,202	$ 1,621,154
Accrued interest payable	12,289	9,321
Escrow funds	347,154	389,716
Deferred mortgage interest income (Note 7)	52,210	56,485
Other liabilities	36,981	28,115
Total liabilities	2,214,836	2,104,791
Net Assets		
Restricted (Note 11)	265,313	268,047
Unrestricted	354,693	328,332
Total net assets	620,006	596,379
Total liabilities and net assets	**$ 2,834,842**	**$ 2,701,170**

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

Michigan State Housing Development Authority

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

	Year Ended June 30	
	2006	2005
Operating Revenue		
Investment income:		
Loan interest income	127,294	$ 125,253
Investment interest income	26,555	18,356
Increase (decrease) in fair value of investments, including change in unrealized losses of $1,993 in 2006 and $2,975 in 2005	(14,309)	413
Total investment income	139,540	144,022
Less interest expense and debt financing costs	83,576	77,773
Net investment income	55,964	66,249
Other Revenue		
Federal assistance programs	395,952	381,733
Section 8 program administrative fees	13,464	10,461
Contract administration fees	6,834	7,602
Other income	16,320	18,902
Total other revenue	432,570	418,698
Total operating revenue	488,534	484,947
Operating Expenses		
Federal assistance programs	395,952	381,733
Salaries and benefits	21,568	17,907
Other general operating expenses	24,649	18,957
Loan servicing and insurance costs	2,171	2,542
Provision for possible losses on loans	4,723	4,508
Total operating expenses	449,063	425,647
Operating Income Before Nonoperating Expenses	39,471	59,300
Nonoperating Expenses - Grants and subsidies	(15,844)	(15,655)
Change in Net Assets	23,627	43,645
Net Assets - Beginning of year	596,379	552,734
Net Assets - End of year	**$ 620,006**	**$ 596,379**

Michigan State Housing Development Authority

Statement of Cash Flows
(In thousands of dollars)

	Year Ended June 30	
	2006	2005
Cash Flows from Operating Activities		
Loan receipts	$ 284,651	$ 283,442
Other receipts	536,109	500,631
Loan disbursements	(310,272)	(169,521)
Payments to vendors	(62,441)	(51,154)
Payments to employees	(14,296)	(12,796)
Other disbursements	(514,288)	(430,126)
Net cash (used in) provided by operating activities	(80,537)	120,476
Cash Flows from Investing Activities		
Purchase of investments	(562,257)	(911,981)
Proceeds from sale and maturities of investments	758,363	870,846
Interest received on investments	15,898	13,079
Net cash provided by (used in) investing activities	212,004	(28,056)
Cash Flows from Noncapital Financing Activities		
Proceeds from issuance of bonds	513,762	292,965
Principal repayments on bonds	(370,705)	(358,265)
Interest paid	(73,338)	(75,983)
Net cash provided by (used in) noncapital financing activities	69,719	(141,283)
Net Increase (Decrease) in Cash and Cash Equivalents	201,186	(48,863)
Cash and Cash Equivalents - Beginning of year	113,336	162,199
Cash and Cash Equivalents - End of year	**$ 314,522**	**$ 113,336**

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

Statement of Cash Flows (Continued)
Year Ended June 30, 2006 and 2005
(In thousands of dollars)

	2006	2005
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	$ 39,471	$ 59,300
Adjustments to reconcile operating income to net cash from operating activities:		
Amortization of deferred items - Net	(18,733)	(15,866)
Arbitrage rebate expense	3,053	(324)
Investment interest income	(12,246)	(18,769)
Decrease (increase) in realized and unrealized gain on market value of investments	(1,993)	2,975
Interest expense on bonds	83,150	76,716
Provision for possible losses on loans	4,723	4,508
Grants and subsidies	(15,844)	(15,655)
Changes in assets and liabilities:		
Accrued loan interest receivable	5,302	(2,785)
Loans receivable	(135,793)	1,748
Other assets	2,069	18,483
Escrow funds	(42,562)	21,650
Other liabilities	8,866	(11,505)
Net cash (used in) provided by operating activities	**$ (80,537)**	**$ 120,476**

Noncash Financing and Investing Activities - During the years ended June 30, 2006 and 2005, the Authority foreclosed on various properties with mortgage values of approximately $13.1 million and $12.2 million, respectively.

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

Note 1 - Authorizing Legislation

The Michigan State Housing Development Authority (the "Authority") was created by the Michigan Legislature under the provisions of the State Housing Development Authority Act of 1966, as amended (the Act). The Authority, as a special purpose entity, is a component unit of the State of Michigan and is reported as an enterprise fund in the State's Comprehensive Annual Financial Report. The Act empowers the Authority, among other things, to issue notes and bonds to finance housing for sale or rental to families with low and moderate income and to finance home improvements. The enabling legislation, along with the various bond and note resolutions adopted by the Authority, contain specific provisions pertaining to (a) the use of the proceeds from the sale of the notes and bonds, (b) the application of the revenues from mortgages, and (c) the creation of certain funds along with the accounting policies for such funds. As of June 30, 2006, the Authority is authorized by statute to have notes and bonds outstanding up to a total of $4.2 billion.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation - The financial statements have been prepared in accordance with accounting principals 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 34 that provides a comprehensive one-line look at the Authority's financial activities.

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

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

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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

Allowance on Loans Receivable - It is the Authority's policy to provide for future losses on mortgage loans based on an evaluation of the loan portfolio 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.

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

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

Compensated Absences - Authority employees accrue vacation and sick leave in varying amounts for each biweekly period worked. Employees may accumulate, subject to certain limitations, vacation and sick leave and upon retirement, termination, or death may be compensated for certain accumulated amounts at their then current rates of pay. The Authority records an expense for all accumulated vacation and sick leave that the Authority would be required to pay if all employees terminated their employment. The compensated absences included in other liabilities at June 30, 2006 and 2005 were $3,094,374 and $2,642,000, respectively.

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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

Section 8 Program - The Authority is the administrator of various Section 8 housing programs in Michigan for the U.S. Department of Housing and Urban Development. The Authority receives federal financial assistance to provide rental subsidies to the tenants of various housing developments and for program administration costs.

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

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

Note 3 - Deposits and Investments

Cash, cash equivalents, and investments held by the Authority at June 30, 2006 and 2005 were as follows (in thousands of dollars):

	Cash and Cash Equivalents	Investments	Total
2006			
Deposits	$ (292)	$ 325	$ 33
Government money market funds	283,792	-	283,792
Investments	31,022	538,425	569,447
Total	$ 314,522	$ 538,750	$ 853,272
2005			
Deposits	$ 1,494	$ 316	$ 1,810
Government money market funds	75,466	-	75,466
Investments	36,376	739,965	776,341
Total	$ 113,336	$ 740,281	$ 853,617

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, bank accounts, and CDs. The Authority's deposits and investment policies are in accordance with state statues and any exceptions have had special approval from the state treasurer.

Note 3 - Deposits and Investments (Continued)

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At June 30, 2006, the Authority had approximately $287,267,000 of bank deposits (certificates of deposit, checking, and savings accounts and government money market funds) and of that balance $284,466,000 was uninsured and uncollateralized. At June 30, 2005, the Authority had approximately $81,851,000 of bank deposits (certificates of deposit, checking, and savings accounts and government money market funds) and of that balance $74,980,000 was uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. To limit its risk, the Authority has deposits that are uninsured but collateralized. There are deposits of $2,100,080 and $6,232,907 for the years ended June 30, 2006 and 2005, respectively, collateralized with securities held by the pledging financial institution's trust department but not in the Authority's name. To also limit its risk, the Authority evaluates each financial institution it deposits funds with 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	2006	2005	How Held
Investment agreements	$ 16,557	$ 30,970	Counterparty's trust dept
U.S. government securities	112,206	367,423	Counterparty's trust dept
Mortgage-backed securities	226,960	212,412	Counterparty's trust dept
U.S. government agency securities	197,075	161,975	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 One Year	1-5 Years	6-10 Years	More Than 10 Years
2006					
Investment agreements	$ 16,557	$ 8,169	$ -	$ -	$ 8,388
U.S. government securities	112,206	46,523	8,653	16,923	40,107
Mortgage-backed securities	226,960	-	1,180	1,493	224,287
U.S. government agency securities	197,075	1,660	-	14,427	180,988
2005					
Investment agreements	$ 30,970	$ 10,316	$ -	$ -	$ 20,654
U.S. government securities	367,423	174,896	95,901	35,169	61,457
Mortgage-backed securities	212,412	-	3,469	305	208,638
U.S. government agency securities	161,975	-	-	-	161,975

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
2006			
Investment agreements	$ 10,718	AAA	S&P
Investment agreements	2,460	AA	S&P
Investment agreements	3,379	A-	S&P
U.S. government securities	112,206	AAA	S&P
Mortgage-backed securities	224,776	AAA	S&P
Mortgage-backed securities	2,184	Not rated	-
U.S. government agency securities	197,074	AAA	S&P
2005			
Investment agreements	$ 28,301	AAA	S&P
Investment agreements	2,669	A-	S&P
U.S. government securities	367,423	AAA	S&P
Mortgage-backed securities	210,295	AAA	S&P
Mortgage-backed securities	2,117	Not rated	-
U.S. government agency securities	152,554	AAA	S&P
U.S. government agency securities	9,421	Not rated	-

Concentration of Credit Risk

The Authority has 54 percent and 35 percent of its investment portfolio invested in the securities of the government sponsored enterprises as of June 30, 2006 and 2005, respectively. These include securities issued by the Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Corporation. Excluding U.S. government securities, no other issuer represents over 5 percent of the Authority's investment portfolio.

Escrow Funds - Included in investments are funds held in trust for mortgagors with a carrying value of $424,963,000 and $432,321,000 at June 30, 2006 and 2005, respectively.

Note 3 - Deposits and Investments (Continued)

Michigan Broadband Development Authority (MBDA) - On November 16, 2005, the Authority renegotiated its previous $50,000,000 investment commitment with MBDA. The Authority made available $35,483,810 to MBDA, of which $21,992,613 was to fund future loan disbursements, $1,245,000 for future operating expenses, and $12,246,197 for existing loans. As of June 30, 2006, $13,475,000 of loans have been funded. MBDA has assigned the Authority all principal and interest payments from current and future loans.

Note 4 - Loans Receivable

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

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

	2006	2005
Loans receivable:		
FHA insured, VA, or Department of Agriculture guaranteed	$ 398,703	$ 361,618
Insured by private mortgage insurance companies	104,694	74,232
Uninsured	1,474,183	1,405,937
Total loans receivable	$ 1,977,580	$ 1,841,787

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

	2006	2005
Beginning balance	$ 46,150	$ 42,900
Provision for possible losses on loans	4,723	4,508
Write-offs of uncollectible losses, net of recoveries	(673)	(1,258)
Ending balance	$ 50,200	$ 46,150

Note 5 - Bonds Payable

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

Changes in bonds are as follows:

	Beginning Balance	Additions	Payments	Ending Balance
Revenue bonds:				
Section 8 assisted mortgage	$ 12,463	$ 1,392	$ -	$ 13,855
Single-family mortgage	513,935	294,900	207,530	601,305
Multi-family housing	44,700	-	6,700	38,000
Rental housing	996,120	220,705	155,270	1,061,555
Insured rental housing	35,315	-	735	34,580
Multi-family	31,705	-	470	31,235
Total revenue bonds	1,634,238	$ 516,997	$ 370,705	1,780,530
Less deferred amounts	(13,084)			(14,328)
Total bonds - Net	$ 1,621,154			$ 1,766,202
Due within one year				$ 42,580

Note 5 - Bonds Payable (Continued)

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

	2006	2005
Section 8 Assisted Mortgage Bonds -		
1983 Series I, 2009 to 2014, 10.875% *	$ 13,855	$ 12,463
Single-Family Mortgage Bonds:		
1996 Series A, B, and C, 2011 to 2027, 5.90% to 6.05%	73,190	73,190
1997 Series C, D, and E, 2017 to 2028, 5.65% to 6.87% including $1,205 at a variable rate	27,100	30,360
1998 Series B and C, 2005 to 2030, 4.30% to 5.20%	32,375	39,740
1999 Series B-2, 2024 variable rate (Note 6)	7,800	11,425
2000 Series A, 2016, variable rate (Note 6)	27,710	27,710
2000 Series C, 2020, variable rate (Note 6)	11,525	20,060
2001 Series A, 2006 to 2032, 4.20% to 5.55%	44,895	73,265
2002 Series A & C, 2020 to 2030, variable rate (Note 6)	34,065	35,000
2002 Series B, 2006 to 2022, 3.25% to 5.50%	3,050	4,945
2003 Series B, 2006 to 2014, 2.20% to 4.30%	4,495	4,695
2003 Series C and D, 2030 to 2034, variable rate (Note 6)	40,690	46,490
2004 Collateralized Note	-	147,055
2005 Series A, 2006 to 2030, 3.15% to 3.90%	25,495	-
2005 Series B and C, 2030 to 2036, variable rate (Note 6)	54,015	-
2006 Series A, 2007 to 2030, 3.85% to 5.00%	41,795	
2006 Series B and D, 2030 to 2036, variable rate (Note 6)	99,915	
2006 Series C, 2037, variable rate (Note 6)	73,190	-
Total Single-Family Mortgage Bonds	601,305	513,935

Note 5 - Bonds Payable (Continued)

	2006	2005
Multi-Family Housing Bonds -		
1988 Series A, 2005 to 2019, variable rate (Note 6)	$ 38,000	$ 44,700
Rental Housing Bonds:		
1995 Series A and B, 2005 to 2015, 5.45% to 6.15%	-	49,995
1997 Series A, 2006 to 2033, 5.30% to 6.10%	76,015	77,615
1997 Series B, 2006 to 2037, variable rate	-	21,365
1999 Series A, B, and C, 2005 to 2037, 3.95% to 5.30%	73,970	78,540
1999 Series D, 2014, variable rate	25	25
2000 Series A and B, 2035, variable rate (Note 6)	42,735	76,100
2001 Series A, B, and C, 2023 to 2035, variable rate	125,935	129,490
2002 Series A and B, 2019 to 2037, variable rate (Note 6)	95,995	100,835
2003 Series A, 2023, variable rate	94,020	115,655
2003 Series B, C, and D, 2018 to 2037, variable rate	150,940	153,335
2004 Series B, 2006 to 2019, 2.15% to 4.20%	52,955	57,240
2004 Series A and C, 2020 to 2039, variable rate (Note 6)	130,200	135,925
2005 Series B, 2006 to 2015, 2.80% to 3.95%	29,785	-
2005 Series A and C, 2020 to 2040, variable rate (Note 6)	81,635	-
2006 Series A, 2040, variable rate (Note 6)	79,025	-
2006 Series B, 2007 to 2024, 3.40% to 4.45%	28,320	-
Total Rental Housing Bonds	1,061,555	996,120
Insured Rental Housing Bonds -		
1998 Series A, 2005 to 2026, 6.325% to 6.89%	34,580	35,315
Multi-Family Bonds -		
1995 Series A, 2005 to 2030, 8.10% to 8.55%	31,235	31,705
Total Revenue Bonds	1,780,530	1,634,238
Less deferred amounts	14,328	13,084
Total	$ 1,766,202	$ 1,621,154

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.

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 Year	Principal	Interest	Total
2007	$ 42,580	$ 82,580	$ 125,160
2008	48,455	80,723	129,178
2009	55,971	78,657	134,628
2010	60,669	76,407	137,076
2011	71,120	73,755	144,875
2012-2016	351,250	321,424	672,674
2017-2021	344,120	237,275	581,395
2022-2026	254,880	159,684	414,564
2027-2031	275,240	93,474	368,714
2032-2036	152,820	43,869	196,689
2037-2040	123,425	6,469	129,894
Total	$ 1,780,530	$ 1,254,317	$ 3,034,847

Early Retirement of Debt - Under provisions of the Authority's bond issues, the Authority is able to retire bonds, without the payment of call premiums, prior to their maturity dates from the proceeds of loan prepayments and foreclosures and, for certain bonds, from excess program revenues. Bonds retired pursuant to such provisions total $114,295,000 and $132,570,000 during the years ended June 30, 2006 and 2005, respectively. Such bond retirements, in the aggregate, resulted in a net loss of $426,000 and $1,082,000 for the years ended June 30, 2006 and 2005, respectively. These losses represent the net write-off of related bond issuance costs, and are recorded in interest expense and debt financing costs in the statement of revenue, expenses, and changes in net assets.

Note 6 - Demand Bonds

The following table summarizes the demand bonds outstanding at June 30, 2006, which are included in the bonds payable disclosed in Note 5:

Debt Associated	Bonds Outstanding	Remarketing Agent	Liquidity or Irrevocable Letter of Credit Provider	Remarketing Fee (1)	Liquidity/ LOC Fee	Expiration Date of Agreement
Multi-Family Housing Revenue Bonds						
1988 Series A	$38,000	Merrill Lynch & Co.	Helaba	0.08%	0.260% (10)	12/31/15
Single-Family Mortgage Revenue Bonds						
1999 Series B-2	$7,800	Lehman Brothers	JP Morgan	0.10%	0.140% (7)	06/01/10
2000 Series A	$27,710	Lehman Brothers	JP Morgan	0.10%	0.140% (7)	06/01/10
2000 Series C	$11,525	Lehman Brothers	JP Morgan	0.10%	0.140% (7)	06/01/10
2002 Series A	$14,485	Lehman Brothers	Dexia Credit Local	0.10%	0.170% (5)	05/25/07
2002 Series C	$19,580	Lehman Brothers	Dexia Credit Local	0.10%	0.170% (6)	05/25/07
2003 Series C	$26,375	Merrill Lynch & Co.	Dexia Credit Local	0.08%	0.175% (8)	11/25/06
2003 Series D	$14,315	Merrill Lynch & Co.	Dexia Credit Local	0.08%	0.175% (8)	11/25/06
2005 Series B	$34,505	Lehman Brothers	DEPFA Bank	0.07%	0.080% (11)	09/05/12
2005 Series C	$19,510	Lehman Brothers	DEPFA Bank	0.07%	0.080% (11)	09/05/12
2006 Series B	$69,915	Lehman Brothers	DEPFA Bank	0.07%	0.080% (11)	06/12/13
2006 Series C	$73,190	Lehman Brothers	DEPFA Bank	0.07%	0.080% (11)	06/12/13
2006 Series D	$30,000	Lehman Brothers	DEPFA Bank	0.07%	0.080% (11)	06/12/13
Rental Housing Revenue Bonds						
2000 Series A	$42,735	Goldman Sachs & Co.	JP Morgan	0.10%	0.095% (3)	09/28/08
2002 Series A	$58,365	Goldman Sachs & Co.	Helaba	0.10%	0.150% (2)	12/31/15 (9)
2002 Series B	$37,630	Goldman Sachs & Co.	Helaba	0.10%	0.150% (2)	12/31/15 (9)
2004 Series A	$68,505	Merrill Lynch & Co.	West LB	0.07%	0.140% (13)	12/29/15
2004 Series C	$61,695	Merrill Lynch & Co.	West LB	0.07%	0.140% (13)	12/29/15
2005 Series A	$72,830	Merrill Lynch & Co.	DEPFA Bank	0.07%	0.080% (4)	09/21/12
2005 Series C	$8,805	Merrill Lynch & Co.	DEPFA Bank	0.07%	0.080% (4)	09/21/12
2006 Series A	$79,025	Merrill Lynch & Co.	Fortis Bank	0.09%	0.110% (12)	03/15/13

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

(2) While Helaba is holding the bonds, they will bear interest at the higher of Helaba's prime rate or the Federal Funds Rate plus 0.50 percent per annum. Once Helaba becomes the owner of the bonds, the bonds will be subject to a mandatory redemption that begins 90 days after Helaba becomes the holder of the bonds and is amortized in 20 equal quarterly installments. The Authority is required to pay Helaba an annual commitment fee of 0.15 percent per annum on the amount of bonds outstanding plus interest for 34 days at a rate of 14 percent.

Note 6 - Demand Bonds (Continued)

(3) While JP Morgan is holding the bonds, they will bear interest at the higher of the bank's prime rate or the Federal Funds Rate plus 0.50 percent per annum. Once the bank becomes the owner of the bonds, the bonds will be subject to a mandatory redemption commencing between 6 and 12 months after the bank becomes the holder of the bonds and is amortized in 10 equal semiannual installments. The Authority is required to pay the bank an annual commitment fee of 0.095 percent per annum on the amount of bonds outstanding plus interest for 34 days at a rate of 14 percent.

(4) While DEPFA Bank is holding the bonds, they will bear interest at the higher of the Federal Funds Rate plus 0.50 percent per annum of the prime rate. Once DEPFA Bank becomes the owner of the bonds, the bonds will be subject to a mandatory redemption that begins the first April or October following the 91st day after DEPFA Bank purchased the bonds and will amortize in equal semiannual principal installments until the 10th anniversary of such purchase date. The Authority shall pay DEPFA Bank a commitment fee of 8 basis points per annum on outstanding bonds plus 184 days interest at 12 percent (tax-exempt bonds) and 15 percent (taxable bonds), based on a 365-day year.

(5) While Dexia is holding the bonds, they will bear interest at the higher of Dexia's prime rate or the Federal Funds Rate plus 0.50 percent per annum. Once Dexia becomes the owner of the bonds, the bonds will be subject to a mandatory redemption that begins the first business day of January, April, July, or October and are amortized in 20 equal quarterly installments. The Authority is required to pay Dexia an annual commitment fee of 0.17 percent per annum on the amount of bonds outstanding plus interest for 185 days at a rate of 14 percent.

(6) While Dexia is holding the bonds, they will bear interest at the higher of Dexia's prime rate or the Federal Funds Rate plus 0.50 percent per annum. Once Dexia becomes the owner of the bonds, the bonds will be subject to a mandatory redemption that begins the first business day of January, April, July, or October after Dexia becomes the holder of the bonds and are amortized within five years in equal quarterly installments. The Authority is required to pay Dexia an annual commitment fee of 0.17 percent per annum on the amount of bonds outstanding plus interest for 183 days at a rate of 14 percent.

(7) While the bonds are held by JP Morgan, they shall bear interest at a rate determined in reference to the British Bankers' Association Interest Settlement Rate, as adjusted for JP Morgan's reserve requirement, plus 0.70 percent and will be subject to mandatory redemption by the Authority on a quarterly basis beginning six months and ending five years after the purchase by JP Morgan. The Authority is required to pay an annual commitment fee of 0.14 percent per annum on the amount of bonds outstanding plus interest for 205 days at a rate of 14 percent per annum.

(8) While Dexia is holding the bonds, they will bear interest at the higher of Dexia's prime rate or the Federal Funds Rate plus 0.50 percent per annum. Once Dexia becomes the owner of the bonds, the bonds will be subject to a mandatory redemption that begins on the earlier of the 181st day after the purchase date or the first business day of the sixth month after the end of the purchase period and are amortized over 14 equal semiannual installments. The Authority is required to pay Dexia an annual commitment fee of 0.175 percent per annum on the amount of bonds outstanding plus interest for 185 days at a rate of 12 percent per annum for the Series C Bonds and at a rate of 18 percent per annum for the Series D Bonds.

(9) Helaba has the option to terminate the standby bond purchase agreement on January 26, 2009 and 2012.

Note 6 - Demand Bonds (Continued)

(10) The trustee is entitled to draw on the irrevocable letter of credit, issued by Helaba, in an amount sufficient to pay the purchase price of bonds delivered to it. The Authority must repay the bank for each draw on the letter of credit by its expiration date. Interest is also payable on any of these draws outstanding at a variable rate not to exceed 25 percent. The Authority is required to pay Helaba an annual commitment fee for the letter of credit of 0.26 percent per annum of the amount of the outstanding bonds plus interest for 41 days at 25 percent per annum. Helaba has the option to terminate the standby bond purchase agreement on January 26, 2009 and 2012.

(11) While DEPFA Bank is holding the bonds, they will bear interest at the higher of the Federal Funds Rate plus 0.50 percent per annum of the prime rate. Once DEPFA Bank becomes the owner of the bonds, the bonds will be subject to a mandatory redemption that begins the first of October following the 91st day DEPFA purchased the bonds and will amortized in equal semiannual principal installments until the 7th anniversary of such purchase date. The Authority shall pay DEPFA Bank a commitment fee of 8 basis points per annum on outstanding bonds plus 184 days interest at 12 percent (tax-exempt bonds) and 15 percent (taxable bonds), based on a 365-day year.

(12) While Fortis Bank is holding the bonds, they will bear interest of the greater of Fortis Bank's prime rate or the Federal Funds Rate plus 0.50 percent per annum. The Authority agrees to cause the mandatory redemption of bonds outstanding, in 10 equal installments each April and October commencing on the first such date to occur following the 91st day after Fortis Bank becomes the bond holder. The Authority is required to pay Fortis Bank an annual commitment fee of 11 basis points per annum on bonds outstanding plus 184 days of interest at 12 percent, based on a 365-day year.

(13) While West LB is holding the bonds, they will bear interest at the higher of the Federal Funds Rate plus 0.50 percent per annum or the prime rate for the first 90 days, add 0.50 percent per annum for days 91 through 180, and add 1.00 percent per annum from day 181 until the bonds are repaid. Once West LB becomes the owner of the bonds, the bonds will be subject to mandatory redemption in 10 equal installments each April and October. The Authority shall pay West LB a commitment fee of 14 basis points per annum on outstanding bonds plus 184 days of interest at 12 percent (tax-exempt bonds) and 15 percent (taxable bonds), based on a 365-day year.

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 revenues and property derived from or obtained in connection with the housing projects. Thus, with the exception of limited obligation bond financing fees, transactions related to these bonds are not reflected in the Authority's financial statements. At June 30, 2006, limited obligation bonds had been issued totaling approximately $701,093,000, of which 17 issues totaling $171,188,000 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, death benefits, and annual cost of living adjustments to plan members. The system issues a publicly available financial report that includes financial statements and required supplementary information for the system. The report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Funding Policy - Plan members are not required to make contributions: The Authority is required to contribute an actuarially determined rate for the defined benefit plan of 4.02 percent of payroll for the year. The defined benefit contributions to the plan were equal to the required contributions for each year. The Authority is required to contribute to the defined contribution plan 4.0 percent of payroll with an additional match of up to 3.0 percent. The contribution requirements of plan members and the Authority are established and may be amended by the state legislature. The state legislature establishes the extent to which employer and employees are required to make contributions and establishes the benefit provisions for the plan. The Authority's contributions to the plans, including postemployment benefits as described below, were $3,256,000, $2,283,000, and $2,199,000 for the years ended June 30, 2006, 2005, and 2004, respectively, and are recorded in salaries and benefits expense.

Note 9 - Other Employee Benefits (Continued)

Postemployment Benefits - In addition, the Authority participates in the State of Michigan's postemployment benefits. The cost of retiree health care 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, 2006 were 30.15 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 health care benefits from the State of Michigan. For employees who were hired after March 30, 1997, the State will pay up to 90 percent of health care 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 $2,103,200 and $2,041,900 for the years ended June 30, 2006 and 2005, respectively. The estimated minimum annual payments under this lease are as follows:

2007		$ 2,164,500
2008		2,225,800
2009		2,287,100
2010		2,348,400
2011		2,409,700
2012-2016		12,968,000
2017-2021		14,500,500
	Total	$ 38,904,000

Note 11 - Restricted Net Assets

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

	2006	2005
Pledged for payment of:		
All bond issues (Capital Reserve Capital Account)	$ 44,049	$ 48,343
Section 8 Assisted Mortgage Revenue Bonds	7,944	9,930
Single-Family Mortgage Revenue Bonds	75,642	71,744
Multi-Family 1988 Housing Revenue Bonds	39	1,586
Rental Housing Revenue Bonds	129,067	128,492
Insured Rental Housing Revenue Bonds	6,943	6,632
Multi-Family Revenue Bonds	1,629	1,320
Total	$ 265,313	$ 268,047

Note 12 - Contingencies

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

Note 13 - Commitments

As of June 30, 2006 and 2005, the Authority has commitments to issue multi-family mortgage loans in the amounts of $75,623,000 and $78,454,000, respectively, and single-family mortgage loans in the amounts of $21,650,000 and $15,593,000, 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 $798,000 and $1,060,000 for the years ended June 30, 2006 and 2005, respectively.

Note 13 - Commitments (Continued)

In addition, the Authority makes available up to approximately $1,000,000 per year for up to 30 years to subsidize rents in a similar fashion for 20 percent of the units in certain other developments financed or to be financed under its multi-family mortgage lending program. Under this program, the Authority is entitled to receive a portion of any excess cash flow generated by the developments as well as a share of the profits from the sale of the developments and is able to reduce the rent subsidies if the interest rates being charged by the Authority on the related mortgage loans are below certain preset levels. Subsidy repayments exceeded subsidy disbursements by $6,000 and $26,000 for the years ended June 30, 2006 and 2005, 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 percent of the subsidies provided by the Authority. The Authority has not established a maximum amount that it will make available under this program. Subsidy disbursements under this program totaled $959,000 and $984,000 for the years ended June 30, 2006 and 2005, 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 $472,000 and $442,000 for the years ended June 30, 2006 and 2005, 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 - Off Balance Sheet Financial Instruments

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

Note 14 - Off Balance Sheet Financial Instruments (Continued)

The following summarizes the interest rate swap contracts at June 30, 2006:

Associated Debt/Swap Agreement	Notional Amount as of June 30, 2006	Termination Date	Rate	Fixed Rate	Optional Termination Date/ Without Payment (9)	Market (Payment)/ to Terminate Swap	Type of Risk Associated With Swap Contract (4)(8)
Rental Housing:							
Revenue Bonds :							
2000 Series A (1)	$ 42,735,000	10/01/20	70% of 1 M LIBOR	4.960%	N/A	$ (3,660,537)	(5)(6)(7)
2001 Series B (1)	39,370,000	04/01/23	Actual Bond Rate	5.530%	N/A	(3,145,121)	
2001 Series C (1)	38,105,000	04/01/23	Actual Bond Rate	4.770%	N/A	(1,436,918)	
2002 Series A (1)	58,365,000	04/01/27	70% of 1 M LIBOR	4.560%	N/A	(3,826,791)	(5)(6)
2002 Series B (1)	37,630,000	04/01/19	70% of 1 M LIBOR	3.535%	N/A	511,090	(5)(6)
2003 Series B (1)	75,200,000	10/01/37	70% of 1 M LIBOR	4.197%	10/01/17	(295,115)	(5)(6)
2003 Series C (1)	23,620,000	10/01/37	Floating Rate (10)	3.808%	10/01/23	651,177	(5)(6)
2004 Series A (3)	25,700,000	10/01/39	65% of 1 M Libor + 0.23%	3.705%	10/01/24	956,377	(5)(6)
2004 Series A (3)	42,805,000	10/01/39	BMA + 0.05%	4.275%	10/01/24	1,226,464	(5)(6)
2005 Series A (3)	72,830,000	04/01/40	65% of 1 M Libor + 0.23%	3.5135%	10/01/25	4,296,439	(5)(6)
2006 Series A (3)	79,025,000	10/01/40	BMA + 0.05%	4.192%	04/01/26	2,676,620	(5)(6)
Subtotal	535,385,000					(2,046,315)	
Single-Family Mortgage:							
Revenue Bonds:							
1999 Series B-2 (2)	7,800,000	12/01/18	Actual Bond Rate	5.489%	N/A	(737,574)	(6)(7)
2000 Series A (2)	13,750,000	12/01/16	Actual Bond Rate	5.439%	N/A	(1,598,457)	(6)
2000 Series C (2)	11,525,000	12/01/08	Actual Bond Rate	7.696%	N/A	(311,615)	(7)
2002 Series A (2)	14,485,000	06/01/20	Actual Bond Rate	3.860%	N/A	71,910	(6)
2003 Series C (3)	11,330,000	12/01/20	65% of 1 M Libor + 0.23%	3.512%	12/01/13	228,782	(5)(6)(7)
2003 Series C (3)	15,045,000	06/01/30	65% of 1 M Libor + 0.23%	4.347%	12/01/06	123,903	(5)(6)
2005 Series B (2)	13,635,000	12/01/25	Floating Rate (11)	4.165%	12/01/10	96,414	(5)(6)
2005 Series B (2)	20,870,000	06/01/30	Floating Rate (11)	4.064%	12/01/14	336,624	(5)(6)
2006 Series B (2)	46,905,000	06/01/30	Floating Rate (12)	4.605%	12/01/12	(1,602,730)	(5)(6)
2006 Series C (2)	50,645,000	06/01/33	Floating Rate (13)	4.417%	N/A	(1,768,187)	(5)(6)(7)
Subtotal	205,990,000					(5,160,930)	
Total	$ 741,375,000					$ (7,207,245)	

(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 Aaa by Moody's and AAA by S&P as of June 30, 2006.

(2) Counterparty risk is the risk that the swap counterparty will not fulfill its obligations set forth under the terms and conditions of the swap contract. The counterparty associated with these bonds is Lehman Brothers Derivative Product Inc. (LBDP). LBDP is currently rated Aaa by Moody's and AAA by S&P as of June 30, 2006.

(3) Counterparty risk is the risk that the swap counterpart will not fulfill its obligations set forth under the terms and conditions of the swap contract. The counterparty associated with these bonds is Merrill Lynch Capital Services, Inc. (MLES) or Merrill Lynch Derivative Products (MLDP). MLDP is rated Aaa by Moody's and AAA by S&P as of June 30, 2006. MLES is not rated by Moody’s or S&P.

Note 14 - Off Balance Sheet Financial Instruments (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.

(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 quicker than anticipated. All contracts have this risk.

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

(10) The floating rate option is the lesser of a) one-month USD-LIBOR-BBA, and b) the greater of i) one-month USD-LIBOR-BBA times 68 percent, and ii) one-month USD-LIBOR-BBA times 58 percent plus .42 percent.

(11) The Authority will pay one of the following floating rate options:

Option A: If the one-month USD-LIBOR-BBA rate is equal to a greater than 4.00 percent, the Authority will receive of USD-LIBOR-BBA.

Option B: If the one-month USD-LIBOR-BBA rate is less than 4.00 percent, the Authority will receive USD-BMA Municipal Swap Index plus 7 basis points.

(12) The Authority will pay one of the following floating rate options:

Option A: If the one-month USD-LIBOR-BBA rate is equal to a greater than 3.50 percent, the Authority will receive USD-LIBOR-BBA.

Option B: If the one-month USD-LIBOR-BBA rate is less than 3.50 percent, the Authority will receive USD-BMA Municipal Swap Index plus 9 basis points.

(13) The Authority will pay one of the following rate options:

Option A: If the one-month USD-LIBOR-BBA rate is equal to a greater than 3.50 percent, the Authority will receive of USD-LIBOR-BBA.

Option B: If the one-month USD-LIBOR-BBA rate is less than 3.50 percent, the Authority will receive USD-BMA Municipal Swap Index plus 1 basis point.

Note 15 - Subsequent Events

Subsequent to year end, the Authority issued $131,500,000 of Rental Housing Revenue Bonds, 2006 Series C and D. These bonds were issued to finance 5 new multi-family developments and 12 preservation agreements. The closing for these bonds occurred on July 25, 2006.

Other Supplemental Data

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

We have audited the basic financial statements of the Michigan State Housing Development Authority, a component unit of the State of Michigan as of and for the year ended June 30, 2006. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplemental information listed in the table of contents is presented for purpose of additional analysis and is not a required part of the basic financial statements of Michigan State Housing Development Authority. The information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 20, 2006

Statement of Net Assets Information
June 30, 2006
(in thousands of dollars)

	Activities				
	Section 8 Assisted Mortgage Revenue Bonds	Home Improvement Program Bonds	Single-Family Mortgage Revenue Bonds	Multi-Family Housing Revenue Bonds	Rental Housing Revenue Bonds
Assets					
Cash and Investments					
Cash and cash equivalents	$ 114	$ 264	$ 171,988	$ 3,240	$ 80,364
Investments	13,686	1	8,257	8	24,971
Total cash and investments	13,800	265	180,245	3,248	105,335
Loans Receivable					
Multi-family mortgage loans:					
Construction in progress	-	-	-	-	111,026
Completed construction	8,482	-	-	34,367	995,006
Housing development loans					
Single-family mortgage loans	-	208	507,569	-	-
Home improvement and moderate rehabilitation loans	-	2,752	-	-	-
Subtotal	8,482	2,960	507,569	34,367	1,106,032
Accrued loan interest receivable	65	12	3,661	126	13,205
Allowance on loans receivable	-	(155)	(2,530)	(345)	(30,920)
Loan origination	(108)	-	(363)	-	(767)
Net loans receivable	8,439	2,817	508,337	34,148	1,087,550
Other Assets					
Unamortized bond financing costs	10	-	911	75	2,441
Real estate owned	-	-	5,537	-	2,182
Other assets	-	132	2,130	-	-
Interfund accounts	(3)	2,766	(20,699)	698	49,415
Total other assets	7	2,898	(12,121)	773	54,038
Total assets	**$ 22,246**	**$ 5,980**	**$ 676,461**	**$ 38,169**	**$ 1,246,923**
Liabilities and Net Assets					
Liabilities					
Bonds payable	$ 14,302	$ -	$ 597,983	$ 37,890	$ 1,050,931
Accrued interest payable	-	-	2,624	229	8,798
Escrow funds	-	-	-	-	225
Deferred mortgage interest income	-	-	-	-	52,210
Other liabilities	-	-	212	11	5,692
Total liabilities	14,302	-	600,819	38,130	1,117,856
Net Assets	7,944	5,980	75,642	39	129,067
Total liabilities and net assets	**$ 22,246**	**$ 5,980**	**$ 676,461**	**$ 38,169**	**$ 1,246,923**

Michigan State Housing Development Authority

Statement of Net Assets Information (Continued)
June 30, 2006
(in thousands of dollars)

	Activities						
	Insured Rental Housing Revenue Bonds	Multi-Family Revenue Bonds	General Operating	Capital Reserve	Mortgage Escrow and Reserve	Other	Combined
Assets							
Cash and Investments							
Cash and cash equivalents	$ 861	$ 2,698	$ 2,828	$ 3,027	$ 6,859	$ 42,279	$ 314,522
Investments	2,871	3,106	4,695	41,022	426,304	13,829	538,750
Total cash and investments	3,732	5,804	7,523	44,049	433,163	56,108	853,272
Loans Receivable							
Multi-family mortgage loans:							
Construction in progress	-	-	2,589	-	-	-	113,615
Completed construction	39,226	32,137	178,917	-	-	38,563	1,326,698
Housing development loans						6,260	6,260
Single-family mortgage loans	-	-	14,323	-	-	-	522,100
Home improvement and moderate rehabilitation loans	-	-	6,155	-	-	-	8,907
Subtotal	39,226	32,137	201,984	-	-	44,823	1,977,580
Accrued loan interest receivable	709	841	3,387	-	-	3,632	25,638
Allowance on loans receivable	(2,795)	(1,495)	(11,960)	-	-	-	(50,200)
Loan origination	-	-	(10,130)	-	-	-	(11,368)
Net loans receivable	37,140	31,483	183,281	-	-	48,455	1,941,650
Other Assets							
Unamortized bond financing costs	123	75	-	-	-	-	3,635
Real estate owned	-	-	319	-	-	-	8,038
Other assets	-	-	24,983	-	-	1,002	28,247
Interfund accounts	(1)	(4,050)	(29,769)	-	(16,759)	18,402	-
Total other assets	122	(3,975)	(4,467)	-	(16,759)	19,404	39,920
Total assets	**$ 40,994**	**$ 33,312**	**$ 186,337**	**$ 44,049**	**$ 416,404**	**$ 123,967**	**$ 2,834,842**
Liabilities and Net Assets							
Liabilities							
Bonds payable	$ 33,854	$ 31,242	$ -	$ -	$ -	$ -	$ 1,766,202
Accrued interest payable	197	441	-	-	-	-	12,289
Escrow funds	-	-	643	-	416,404	(70,118)	347,154
Deferred mortgage interest income	-	-	-	-	-	-	52,210
Other liabilities	-	-	15,047	-	-	16,019	36,981
Total liabilities	34,051	31,683	15,690	-	416,404	(54,099)	2,214,836
Net Assets	6,943	1,629	170,647	44,049	-	178,066	620,006
Total liabilities and net assets	**$ 40,994**	**$ 33,312**	**$ 186,337**	**$ 44,049**	**$ 416,404**	**$ 123,967**	**$ 2,834,842**

Michigan State Housing Development Authority

Statement of Revenue and Expenses and Changes in Net Assets Information
June 30, 2006
(in thousands of dollars)

	Activities					
	Section 8 Assisted Mortgage Revenue Bonds	Single-Family Insured Mortgage Revenue Bonds	Home Improvement Program Bonds	Single-Family Mortgage Revenue Bonds	Multi-Family Housing Revenue Bonds	Rental Housing Revenue Bonds
Operating Revenue - Investment income						
Loan interest income	$ 809	$ -	$ 173	$ 28,080	$ 1,794	$ 78,019
Investment interest income	632	-	5	5,518	184	4,827
Increase (decrease) in fair value of investments	(263)	-	-	(697)	-	-
Subtotal	1,178	-	178	32,901	1,978	82,846
Less interest expense and debt financing costs	1,325	-	-	26,416	1,460	49,051
Net investment income	(147)	-	178	6,485	518	33,795
Other Revenue						
Federal assistance programs	-	-	-	-	-	-
Section 8 program administrative fees	-	-	-	-	-	-
Contract administration fees	-	-	-	-	-	-
Other income	-	-	-	17	1	72
Total operating revenue	(147)	-	178	6,502	519	33,867
Operating Expenses						
Federal assistance programs	-	-	-	-	-	-
Salaries and benefits	-	-	-	-	-	-
Other general operating expenses	-	-	-	-	-	-
Loan servicing and insurance costs	-	-	201	442	-	-
Provision for possible losses on loans	-	-	51	2,651	(55)	2,720
Total operating expenses	-	-	252	3,093	(55)	2,720
Operating Income (Loss) Before Nonoperating Expenses	(147)	-	(74)	3,409	574	31,147
Nonoperating Expenses - Grants and subsidies	-	-	-	-	-	-
Change in Net Assets	(147)	-	(74)	3,409	574	31,147
Net Assets - Beginning of year	9,930	1,005	6,054	71,744	1,586	128,492
Transfers (to) from Other Funds for						
Payment of operating fund expenses	(1,839)	-	-	-	(2,121)	(31,290)
Funding to provide additional cash flow and payment of bond issuance costs	-	(1,005)	-	489	-	718
Net Assets - End of year	**$ 7,944**	**$ -**	**$ 5,980**	**$ 75,642**	**$ 39**	**$ 129,067**

Michigan State Housing Development Authority

Statement of Revenue and Expenses and Changes in Net Assets Information (Continued)
June 30, 2006
(in thousands of dollars)

	Activities					
	Insured Rental Housing Revenue Bonds	Multi-Family Revenue Bonds	General Operating	Capital Reserve	Other	Combined
Operating Revenue - Investment income						
Loan interest income	$ 3,367	$ 3,033	$ 11,005	$ -	$ 1,014	$ 127,294
Investment interest income	143	218	1,352	3,195	10,481	26,555
Increase (decrease) in fair value of investments	(74)	(193)	8,579	(7,489)	(14,172)	(14,309)
Subtotal	3,436	3,058	20,936	(4,294)	(2,677)	139,540
Less interest expense and debt financing costs	2,478	2,754	92	-	-	83,576
Net investment income	958	304	20,844	(4,294)	(2,677)	55,964
Other Revenue						
Federal assistance programs	-	-	-	-	395,952	395,952
Section 8 program administrative fees	-	-	13,464	-	-	13,464
Contract administration fees	-	-	6,834	-	-	6,834
Other income	2	-	6,332	-	9,896	16,320
Total operating revenue	960	304	47,474	(4,294)	403,171	488,534
Operating Expenses						
Federal assistance programs	-	-	-	-	395,952	395,952
Salaries and benefits	-	-	21,568	-	-	21,568
Other general operating expenses	-	-	24,649	-	-	24,649
Loan servicing and insurance costs	-	-	1,528	-	-	2,171
Provision for possible losses on loans	(5)	(5)	(634)	-	-	4,723
Total operating expenses	(5)	(5)	47,111	-	395,952	449,063
Operating Income (Loss) Before Nonoperating Expenses	965	309	363	(4,294)	7,219	39,471
Nonoperating Expenses - Grants and subsidies	-	-	-	-	(15,844)	(15,844)
Change in Net Assets	965	309	363	(4,294)	(8,625)	23,627
Net Assets - Beginning of year	6,632	1,320	203,147	48,343	118,126	596,379
Transfers (to) from Other Funds for						
Payment of operating fund expenses	(654)	-	35,904	-	-	-
Funding to provide additional cash flow and payment of bond issuance costs	-	-	(68,767)	-	68,565	-
Net Assets - End of year	**$ 6,943**	**$ 1,629**	**$ 170,647**	**$ 44,049**	**$ 178,066**	**$ 620,006**

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited the basic financial statements of Michigan State Housing Development Authority (the Authority), a component unit of the State of Michigan, as of and for the years ended June 30, 2006 and 2005 and have issued our reports thereon dated October 20, 2006 and October 21, 2005, respectively. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

We noted other matters involving the internal control over financial reporting that we have reported to the management of the Authority in a separate letter dated October 20, 2006.

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

Compliance and Other Matters

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

This report is intended for the information of Michigan State Housing Development Authority and the Auditor General of the State of Michigan and is not intended to be, and should not be, used by anyone other than these specified parties.

Plante & Moran, PLLC

October 20, 2006