Michigan State Housing Development Authority (A Component Unit of the State of Michigan)

Financial Report

with Supplemental Information

June 30, 2005

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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 the Michigan State Housing Development Authority (the Authority), a component unit of the State of Michigan, as of and for the years ended June 30, 2005 and 2004, 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 the Michigan State Housing Development Authority as of June 30, 2005 and 2004, and the changes in 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 the Governmental Accounting Standards Board. 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 21, 2005, 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, and 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 21, 2005

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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, and 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, 2005 and 2004.

Condensed Financial Information

(In thousands of dollars)

	2005	2004
Net Assets		
Investments	$ 740,281	$ 678,097
Loans receivable - Net	1,805,564	1,807,085
Other assets	155,325	222,671
Total assets	**$ 2,701,170**	**$ 2,707,853**
Bonds payable	$ 1,621,154	$ 1,682,510
Other liabilities	483,637	472,609
Total liabilities	**$ 2,104,791**	**$ 2,155,119**
Restricted net assets	$ 268,047	$ 261,272
Unrestricted net assets	328,332	291,462
Total net assets	**$ 596,379**	**$ 552,734**

Condensed Financial Information (Continued)

(In thousands of dollars)

Change in Net Assets	2005	2004
Net investment income	$ 66,249	$ 55,743
Federal assistance programs revenue	381,733	348,447
Section 8 program administrative fees	10,461	10,438
Contract administration fees	7,602	7,030
Other income	18,902	33,599
Total revenue	484,947	455,257
Federal assistance programs expenses	381,733	348,447
Salaries and benefits	17,907	16,515
Other general operating expenses	18,957	18,922
Other expenses	7,050	4,625
Total expenses	425,647	388,509
Grants and subsidies	15,655	14,748
Change in net assets	**$ 43,645**	**$ 52,000**

Financial Analysis

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 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 above 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.

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.

Financial Analysis (Continued)

Escrow funds, which are recorded in other liabilities, 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 $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, 2005, resulted in excess of revenues over expenses of $43.6 million, compared to prior year results of $52.0 million. Under Governmental Accounting Standards Board (GASB) Statement No. 31, the Authority is required to present investments at fair market value and reflect this adjustment in the statements of revenue and expenses and changes in net assets. This presentation decreased revenue over expenses by $3.0 million. Results for the year ended June 30, 2004, were negatively impacted by a decrease of $8.5 million. Currently, GASB No. 31 has had a cumulative negative effect of $3.6 million on the Authority's net assets, however, the Authority generally intends to hold these securities to maturity.

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 $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 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 expenses increased due primarily to an increase in the 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
June 30, 2005 and 2004
(In thousands of dollars)

	2005	2004
Assets		
Cash and Cash Equivalents (Note 3)	$ 113,336	$ 162,199
Investments (Note 3)	740,281	678,097
Loans Receivable		
Multi-family mortgage loans	1,390,409	1,363,007
Single-family mortgage loans	441,058	468,791
Home improvement and moderate rehabilitation loans	10,320	11,737
Subtotal (Note 4)	1,841,787	1,843,535
Accrued loan interest receivable	20,336	17,551
Allowance on loans receivable (Note 4)	(46,150)	(42,900)
Loan origination fees	(10,409)	(11,101)
Loans receivable, net	1,805,564	1,807,085
Other Assets		
Unamortized bond financing costs	3,709	4,208
Real estate owned	7,192	11,886
Other	31,088	44,378
Total other assets	41,989	60,472
Total assets	**$ 2,701,170**	**$ 2,707,853**
Liabilities and Net Assets		
Liabilities		
Bonds payable (Notes 5 and 6)	$ 1,621,154	$ 1,682,510
Accrued interest payable	9,321	8,588
Escrow funds	389,716	368,066
Deferred mortgage interest income (Note 7)	56,485	56,335
Other liabilities	28,115	39,620
Total liabilities	2,104,791	2,155,119
Net Assets		
Restricted (Note 11)	268,047	261,272
Unrestricted	328,332	291,462
Total net assets	596,379	552,734
Total liabilities and net assets	**$ 2,701,170**	**$ 2,707,853**

See Notes to Financial Statements.

Michigan State Housing Development Authority

Statement of Revenue, Expenses, and Changes in Net Assets
Year Ended June 30, 2005 and 2004
(In thousands of dollars)

	2005	2004
Operating Revenue		
Investment income:		
Loan interest income	$ 125,253	$ 118,875
Investment interest income	18,356	23,159
Increase (decrease) in fair value of investments, including change in unrealized losses of $2,975 in 2005 and $8,468 in 2004	413	(7,592)
Subtotal	144,022	134,442
Less interest expense and debt financing costs	77,773	78,699
Net investment income	66,249	55,743
Other Revenue		
Federal assistance programs	381,733	348,447
Section 8 Program administrative fees	10,461	10,438
Contract administration fees	7,602	7,030
Other income	18,902	33,599
Total other revenue	418,698	399,514
Total operating revenue	484,947	455,257
Operating Expenses		
Federal assistance programs	381,733	348,447
Salaries and benefits	17,907	16,515
Other general operating expenses	18,957	18,922
Loan servicing and insurance costs	2,542	3,749
Provision for possible losses on loans	4,508	876
Total operating expenses	425,647	388,509
Operating Income Before Nonoperating Expenses	59,300	66,748
Nonoperating Expenses - Grants and subsidies	(15,655)	(14,748)
Change in Net Assets	43,645	52,000
Net Assets - Beginning of year	552,734	500,734
Net Assets - End of year	**$ 596,379**	**$ 552,734**

See Notes to Financial Statements.

Statement of Cash Flows
Year Ended June 30, 2005 and 2004
(In thousands of dollars)

	2005	2004
Cash Flows from Operating Activities		
Loan receipts	$ 283,442	$ 325,458
Other receipts	500,631	520,266
Loan disbursements	(169,521)	(222,282)
Payments to vendors	(51,154)	(50,132)
Payments to employees	(12,796)	(11,371)
Other disbursements	(430,126)	(470,456)
Net cash provided by operating activities	120,476	91,483
Cash Flows from Investing Activities		
Purchase of investments	(911,981)	(1,005,472)
Proceeds from sale and maturities of investments	870,846	1,021,870
Interest received on investments	13,079	15,856
Net cash provided by (used in) investing activities	(28,056)	32,254
Cash Flows from Noncapital Financing Activities		
Proceeds from issuance of bonds	292,965	274,182
Principal repayments on bonds	(358,265)	(309,370)
Interest paid	(75,983)	(70,556)
Net cash used in noncapital financing activities	(141,283)	(105,744)
Net Increase (Decrease) in Cash and Cash Equivalents	(48,863)	17,993
Cash and Cash Equivalents - Beginning of year	162,199	144,206
Cash and Cash Equivalents - End of year	**$ 113,336**	**$ 162,199**

See Notes to Financial Statements.

Statement of Cash Flows (Continued)
Year Ended June 30, 2005 and 2004
(In thousands of dollars)

	2005	2004
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	$ 59,300	$ 66,748
Adjustments to reconcile operating income to net cash from operating activities:		
Amortization of deferred items - Net	(15,866)	(18,964)
Arbitrage rebate expense	(324)	4,954
Investment interest income	(18,769)	(15,567)
Decrease in realized and unrealized gain on market value of investments	2,975	8,468
Interest expense on bonds	76,716	77,166
Provision for possible losses on loans	4,508	876
Grants and subsidies	(15,655)	(14,748)
Changes in assets and liabilities:		
Accrued loan interest receivable	(2,785)	(1,550)
Loans receivable	1,748	(2,667)
Other assets	18,483	(410)
Escrow funds	21,650	(12,462)
Other liabilities	(11,505)	(361)
Net cash provided by operating activities	**$ 120,476**	**$ 91,483**

Non Cash Financing and Investing Activities - During the years ended June 30, 2005 and 2004, the Authority foreclosed on various properties with mortgage values of approximately $12.2 million and $12.9 million, respectively.

See Notes to Financial Statements.

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, 2005, 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 two 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, 2005 and 2004, were $2,642,000 and $2,256,000, 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

During the year ended June 30, 2005, the Authority adopted GASB No. 40, *Deposit and Investment Risk Disclosures.* The modified disclosures required by GASB No. 40 are reflected below. June 30, 2004 information continues to be presented under GASB No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.*

Note 3 - Deposits and Investments (Continued)

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

	Cash and Cash Equivalents	Investments	Total
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.

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 year end, 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 their risk, the Authority has deposits that are uninsured but collateralized. There are deposits of $6,232,907 collateralized with securities held by the pledging financial institution's trust department but not in the depositor-government's name. To also limit their 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.

Note 3 - Deposits and Investments (Continued)

Custodial Credit Risk of Investments

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

Type of Investment	Carrying Value (in thousands of dollars)	How Held
Investment agreements	$ 30,970	Counterparty's trust dept
U.S. Government securities	367,423	Counterparty's trust dept
Mortgage-backed securities	212,412	Counterparty's trust dept
U.S. Government agency securities	161,975	Counterparty's trust dept

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
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
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 35 percent of its investment portfolio invested in the securities of the government sponsored enterprises. 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 five percent of the Authority's investment portfolio.

Escrow Funds - Included in investments are funds held in trust for mortgagors with a carrying value of $432,321,000 and $409,541,000 at June 30, 2005 and 2004, respectively.

Michigan Broadband Authority - The Authority has committed to invest up to $50.0 million to assist the Broadband Authority with operations. As of June 30, 2005, approximately $18.3 million has been distributed and an allowance has been recorded to reflect the carrying value of $9,421,000, which is included in investments.

Note 3 - Deposits and Investments (Continued)

Cash, cash equivalents, and investments held by the Authority at June 30, 2004 were as follows (in thousands of dollars):

	Cash and Cash Equivalents	Investments	Total
Deposits	$ (1,938)	$ 450	$ (1,488)
Government money market funds	90,482	-	90,482
Investments	73,655	677,647	751,302
Total	$ 162,199	$ 678,097	$ 840,296

Deposits - At June 30, 2004, the carrying amount of the Authority's bank deposits including Government Money Market Funds, was $88,994,000 and the bank balance was $93,503,000. Of the bank balance, $480,000 was covered by federal depository insurance, $2,540,000 was collateralized, and $0 was uninsured and uncollateralized.

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.

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, 2004. 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 its trust department or agent, but not in the Authority's name. Not categorized includes certain other investments, such as repurchase agreements and investment agreements, as they are not evidenced by securities that exist in physical or book entry form.

Note 3 - Deposits and Investments (Continued)

	GASB Category				
	1	2	3	Not Categorized	Carrying Amount
U.S. Government securities	$ 265,557	$ -	$ -	$ -	$ 265,557
Mortgage-backed securities	172,866	1,490	10,282	-	184,638
U.S. Government agency securities	-	-	197,940	-	197,940
Noncategorized investments	-	-	-	29,962	29,962
Total investments	$ 438,423	$ 1,490	$ 208,222	$ 29,962	$ 678,097

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):

	2005	2004
Loans receivable:		
FHA insured, VA, or Department of Agriculture guaranteed	$ 361,618	$ 391,964
Insured by private mortgage insurance companies	74,232	70,445
Uninsured	1,405,937	1,381,126
Total loans receivable	$ 1,841,787	$ 1,843,535

Note 4 - Loans Receivable (Continued)

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

	2005	2004
Beginning balance	$ 42,900	$ 43,000
Provision for possible losses on loans	4,508	876
Write-offs of uncollectible losses, net of recoveries	(1,258)	(976)
Ending balance	$ 46,150	$ 42,900

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 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 contains cross-default provisions which permit the acceleration of the maturity of all such bonds, as well as certain other remedies, in the event of a default by the Authority in the payment of principal or interest on any bond of the Authority.

Note 5 - Bonds Payable (Continued)

Changes in bonds are as follows:

	Beginning Balance	Additions	Payments	Ending Balance
Revenue bonds:				
Single-family insured mortgage	$ 7,420	$ -	$ 7,420	$ -
Section 8 assisted mortgage	11,211	1,252	-	12,463
Single-family mortgage	567,040	96,390	149,495	513,935
Multi-family housing	46,300	-	1,600	44,700
Rental housing	996,910	197,835	198,625	996,120
Insured rental housing	36,000	-	685	35,315
Multi-family	32,145	-	440	31,705
Total revenue bonds	1,697,026	$ 295,477	$ 358,265	1,634,238
Less deferred amounts	(14,516)			(13,084)
Total bonds - Net	$ 1,682,510			$ 1,621,154
Due within one year				$ 192,590

Note 5 - Bonds Payable (Continued)

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

	2005	2004
Single-Family Insured Mortgage Bonds -		
1978 Series A	$ -	$ 7,420
Section 8 Assisted Mortgage Bonds -		
1983 Series I, 2009 to 2014, 10.875% *	12,463	11,211
Single-Family Mortgage Bonds:		
1995 Series C and D	-	16,215
1996 Series A, B, and C, 2011 to 2027, 5.90% to 6.05%	73,190	73,190
1996 Series D and E	-	14,065
1997 Series A	-	18,315
1997 Series C, D, and E, 2017 to 2028, 5.65% to 6.87% including $2,575 at a variable rate	30,360	39,970
1998 Series B and C, 2005 to 2030, 4.30% to 5.20%	39,740	49,350
1999 Series A	-	2,365
1999 Series B-1	-	2,530
1999 Series B-2, 2024 variable rate (Note 6)	11,425	12,850
2000 Series A, 2016, variable rate (Note 6)	27,710	27,710
2000 Series C, 2020, variable rate (Note 6)	20,060	23,040
2001 Series A, 2005 to 2032, 4.20% to 5.55%	73,265	89,670
2002 Series A, 2020, variable rate (Note 6)	15,000	15,000
2002 Series B, 2005 to 2030, 3.25% to 5.50%	4,945	7,615
2002 Series C, 2030, variable rate (Note 6)	20,000	20,000
2002 Series D	-	41,375
2003 Series B, 2005 to 2014, 1.80% to 4.30%	4,695	16,295
2003 Series C, 2030, variable rate (Note 6)	26,760	26,820
2003 Series D, 2034, variable rate (Note 6)	19,730	20,000
2004 Collateralized Note	147,055	50,665
Total Single-Family Mortgage Bonds	513,935	567,040

Note 5 - Bonds Payable (Continued)

	2005	2004
Multi-Family Housing Bonds -		
1988 Series A, 2005 to 2019, variable rate (Note 6)	$ 44,700	$ 46,300
Rental Housing Bonds:		
1994 Series B	-	71,685
1995 Series A and B, 2005 to 2015, 5.45% to 6.15%	49,995	60,930
1997 Series A, 2005 to 2033, 5.20% to 6.10%	77,615	79,140
1997 Series B, 2005 to 2009, variable rate (Note 6)	21,365	25,895
1999 Series A, B, and C, 2005 to 2037, 3.95% to 5.30%	78,540	86,530
1999 Series D, 2014, variable rate	25	25
2000 Series A and B, 2024 and 2035, variable rate (Note 6)	76,100	78,125
2001 Series A, B, and C, 2023 to 2035, variable rate	129,490	134,710
2002 Series A, B, and C, 2019 to 2037, variable rate (Note 6)	100,835	175,590
2003 Series A, 2023, variable rate	115,655	122,840
2003 Series B, C and D, 2018 to 2037, variable rate	153,335	161,440
2004 Series B, 2005 to 2019, 1.90% to 4.20%	57,240	-
2004 Series A and C, 2020 to 2039, variable rate (Note 6)	135,925	-
Total Rental Housing Bonds	996,120	996,910
Insured Rental Housing Bonds -		
1998 Series A, 2005 to 2026, 6.325% to 6.89%	35,315	36,000
Multi-Family Bonds -		
1995 Series A, 2005 to 2030, 8.10% to 8.55%	31,705	32,145
Total Revenue Bonds	1,634,238	1,697,026
Less deferred amounts	13,084	14,516
Total	$ 1,621,154	$ 1,682,510

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
2006	$ 192,590	$ 70,638	$ 263,228
2007	53,565	67,900	121,465
2008	57,965	65,485	123,450
2009	60,818	63,065	123,883
2010	59,451	60,606	120,057
2011-2015	334,529	259,136	593,665
2016-2020	315,125	183,346	498,471
2021-2025	194,950	114,272	309,222
2026-2030	199,790	64,124	263,914
2031-2035	116,555	22,122	138,677
2036-2040	48,900	3,121	52,021
Total	$ 1,634,238	$ 973,815	$ 2,608,053

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 $132,570,000 and $194,130,000 during the years ended June 30, 2005 and 2004, respectively. Such bond retirements, in the aggregate, resulted in a net loss of $1,082,000 and $1,533,000 for the years ended June 30, 2005 and 2004, 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, 2005, 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	$44,700	Merrill Lynch & Co.	Helaba	0.08%	0.260% (10)	12/31/15
Single-Family Mortgage Revenue Bonds						
1999 Series B-2	$11,425	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	$20,060	Lehman Brothers	JP Morgan	0.10%	0.140% (7)	06/01/10
2002 Series A	$15,000	Lehman Brothers	Dexia Credit Local	0.10%	0.170% (5)	05/25/07
2002 Series C	$20,000	Lehman Brothers	Dexia Credit Local	0.10%	0.170% (6)	05/25/07
2003 Series C	$26,760	Merrill Lynch & Co.	Dexia Credit Local	0.08%	0.175% (8)	11/25/06
2003 Series D	$19,730	Merrill Lynch & Co.	Dexia Credit Local	0.08%	0.175% (8)	11/25/06
Rental Housing Revenue Bonds						
1997 Series B	$21,365	Goldman Sachs & Co.	Helaba	0.10%	0.250% (4)	03/12/08
2000 Series A	$43,660	Goldman Sachs & Co.	Morgan Guaranty Trust	0.10%	0.200% (3)	09/28/05
2000 Series B	$32,440	Goldman Sachs & Co.	Morgan Guaranty Trust	0.10%	0.200% (3)	09/28/05
2002 Series A	$59,200	Goldman Sachs & Co.	Helaba	0.10%	0.150% (2)	12/31/15 (9)
2002 Series B	$41,635	Goldman Sachs & Co.	Helaba	0.10%	0.150% (2)	12/31/15 (9)
2004 Series A	$69,280	Merrill Lynch & Co.	West LB	0.07%	0.140% (2)	12/29/15
2004 Series C	$66,645	Merrill Lynch & Co.	West LB	0.07%	0.140% (2)	12/29/15

(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.

(3) While the Bank 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 six and twelve months after the Bank becomes the holder of the bonds and is amortized in 10 equal semi-annual installments. The Authority is required to pay the Bank an annual commitment fee of 0.20 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)

(4) 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 12 percent. The Authority is required to pay Helaba an annual commitment fee for the letter of credit of 0.25 percent per annum of the amount of the outstanding bonds plus interest for 211 days at 12 percent per annum.

(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 is 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 is 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 semi-annual 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, 2006, January 26, 2009, and January 26, 2012.

(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, 2006, January 26, 2009, and January 26, 2012.

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. The mortgage interest income that was deferred, net of amortization, was $150,000 and $8,355,000 for the years ended June 30, 2005 and 2004, respectively.

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, 2005, limited obligation bonds had been issued totaling approximately $659,248,000 of which 14 issues totaling $131,033,000 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 that cover 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 or by calling (517) 322-6262.

Note 9 - Other Employee Benefits (Continued)

Funding Policy - Plan members are not required to make contributions: The Authority is required to contribute an actuarially determined rate for the defined benefit plan 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 post-employment benefits as described below, were $2,283,000 and $2,199,000 for the years ended June 30, 2005 and 2004, respectively, and are recorded in salaries and benefits expense.

Postemployment Benefits - In addition, the Authority participates in the State of Michigan's postemployment benefits. The cost of retiree healthcare benefits is an allocation calculated by the State of Michigan and funded on a pay-as-you-go basis. The contributions paid to this plan for the year ended June 30, 2005, were 12.50 percent of payroll. Employees hired on or before March 30, 1997, who participate in either the defined benefit plan or the defined contribution plan and meet certain vesting and other requirements, will receive the full amount of healthcare benefits from the State of Michigan. For employees who were hired after March 30, 1997, the State will pay up to 90 percent of healthcare benefits for employees who meet certain vesting and other requirements.

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 as of June 30, 2005 was $2,041,900. The estimated minimum annual payments under this lease are as follows:

2006	$ 2,103,200
2007	2,164,500
2008	2,225,800
2009	2,287,100
2010	2,348,400
2011-2015	12,661,500
2016-2020	14,194,000
2021	2,015,133
Total	$ 39,999,633

Note 11 - Restricted Net Assets

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

	2005	2004
Pledged for payment of:		
All bond issues (Capital Reserve Capital Account)	$ 48,343	$ 42,188
Single-Family Insured Mortgage Revenue Bonds	-	3,927
Section 8 Assisted Mortgage Revenue Bonds	9,930	11,164
Single-Family Mortgage Revenue Bonds	71,744	64,941
Home Improvement Program Bonds	-	6,336
Multi-Family 1988 Housing Revenue Bonds	1,586	1,197
Rental Housing Revenue Bonds	128,492	123,530
Insured Rental Housing Revenue Bonds	6,632	6,468
Multi-Family Revenue Bonds	1,320	1,521
Total	$ 268,047	$ 261,272

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, 2005 and 2004, the Authority has commitments to issue multi-family mortgage loans in the amounts of $78,454,000 and $77,418,000, respectively, and single-family mortgage loans in the amounts of $15,593,000 and $7,728,000, 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 $1,060,000 and $751,000 for the years ended June 30, 2005 and 2004, respectively.

In addition, the Authority makes available up to approximately $1,000,000 per year for up to 30 years to subsidize rents in a similar fashion for 20 percent of the units in certain other developments financed or to be financed under its multi-family mortgage lending program. Under this program, the Authority is entitled to receive a portion of any excess cash flow generated by the developments as well as a share of the profits from the sale of the developments and is able to reduce the rent subsidies if the interest rates being charged by the Authority on the related mortgage loans are below certain preset levels. Subsidy repayments exceeded subsidy disbursements by $26,000 and $20,000 for the years ended June 30, 2005 and 2004, respectively.

Note 13 - Commitments (Continued)

In conjunction with a multi-family taxable bond lending program, the Authority is making available annually to certain developments financed under the program an amount equal to 400 times the number of units in such developments (subject to a one year advance notice of termination) for the purpose of subsidizing rents so that some of the units in such developments can be made available to very low income tenants. Under certain circumstances, after 15 years or more, the owners of the developments will be required to repay without interest up to 100 percent of the subsidies provided by the Authority. The Authority has not established a maximum amount that it will make available under this program. Subsidy disbursements under this program totaled $984,000 and $901,000 for the years ended June 30, 2005 and 2004, 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 $442,000 and $457,000 for the years ended June 30, 2005 and 2004, respectively.

Grants and Subsidies

Disbursements under these programs are included in grants and subsidies 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.

Note 14 - Subsequent Events

Subsequent to year end, the Authority issued $113,360,000 of Rental Housing Revenue Bonds, 2005 Series A, B, and C. The Series A Bonds, in the amount of $73,245,000, were issued to finance new multi-family developments and fund Section 236 preservation agreements. The Series B Bonds were issued to refund $31,105,000 of the Rental Housing Revenue Bonds, 1995 Series B. The 1995 Series B Bonds were called on November 1, 2005. The Series C Bonds were issued to refund $9,010,000 of the Rental Housing Revenue Bonds, 1997 Series B. The 1997 Series B Bonds were called on November 1, 2005.

Subsequent to year end, the Authority issued $80,000,000 of Single-Family Mortgage Revenue Bonds, 2005 Series A, B, and C. Series A, B, and C were all issued to fund $78,100,000 of new single-family mortgage loans and to make available $1,900,000 of down-payment assistance loans.

Note 15 - 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 15 - Off Balance Sheet Financial Instruments (Continued)

The following summarizes the interest rate swap contracts at June 30, 2005:

Associated Debt/Swap Agreement	Notional Amount as of June 30, 2005	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)	$ 43,660,000	10/01/20	70% of 1 M LIBOR	4.960%	Current	$ (6,517,194)	(5)(6)(7)
2001 Series B (1)	40,485,000	04/01/23	Actual Bond Rate	5.530%	Current	(4,793,351)	
2001 Series C (1)	40,545,000	04/01/23	Actual Bond Rate	4.770%	Current	(2,652,338)	
2002 Series A (1)	59,200,000	04/01/27	70% of 1 M LIBOR	4.560%	Current	(7,989,172)	(5)(6)
2002 Series B (1)	41,635,000	04/01/19	70% of 1 M LIBOR	3.535%	Current	(469,799)	(5)(6)
2003 Series B (1)	77,455,000	10/01/37	70% of 1 M LIBOR	4.197%	Current/ 10/01/17	(4,284,123)	(5)(6)
2003 Series C (1)	23,700,000	10/01/37	Floating Rate (10)	3.808%	Current/ 10/01/23	(857,992)	(5)(6)
2004 Series A (3)	25,990,000	10/01/39	Floating Rate (11)	3.705%	Current/ 10/01/24	(1,293,784)	(5)(6)
2004 Series A (3)	43,290,000	10/01/39	Floating Rate (12)	4.275%	Current/ 10/01/24	(1,957,920)	(5)(6)
Subtotal	395,960,000					(30,815,673)	
Single-Family Mortgage:							
Revenue Bonds:							
1999 Series B-2 (2)	12,850,000	12/01/18	Actual Bond Rate	5.489%	Current	(1,765,268)	(6)(7)
2000 Series A (2)	13,750,000	12/01/16	Actual Bond Rate	5.439%	Current	(2,769,258)	(6)
2000 Series C (2)	16,855,000	12/01/08	Actual Bond Rate	7.696%	Current	(1,103,282)	(7)
2002 Series A (2)	15,000,000	06/01/20	Actual Bond Rate	3.860%	Current	(637,049)	(6)
2003 Series C (3)	11,715,000	12/01/20	Floating Rate (11)	3.512%	Current/ 12/01/13	(288,289)	(5)(6)(7)
2003 Series C (3)	15,045,000	06/01/30	Floating Rate (11)	4.347%	Current/ 12/01/06	(680,515)	(5)(6)(7)
Subtotal	85,215,000					(7,243,661)	
Total	$ 481,175,000					$ (38,059,334)	

(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 AA+ by S&P as of June 30, 2005.

(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, 2005.

(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). MLCS is rated AAA by Moody's and AAA by S&P as of June 30, 2005.

(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.

Note 15 - Off Balance Sheet Financial Instruments (Continued)

(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) 1-month USD-LIBOR-BBA, and b) the greater of i)1-month USD-LIBOR-BBA times 68 percent, and ii) 1-month USD-LIBOR-BBA times 58 percent plus .42 percent.

(11) The Floating Rate is the sum of 65 percent of the USD-LIBOR-BBA and 0.23 percent.

(12) The Floating Rate is the sum of BMA Municipal Bond Index and 0.05 percent.

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Michigan State Housing Development Authority
Lansing, Michigan
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, 2005. 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 purposes of additional analysis and is not a required part of the basic financial statements of the 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 21, 2005

Other Supplemental Data

Statement of Net Assets Information (in thousands of dollars)
June 30, 2005

	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
Assets						
Cash and cash equivalents	$ 102	$ -	$ 446	$ 14,880	$ 5,292	$ 54,559
Investments	13,977	-	-	161,232	11	53,813
Total cash and investments	14,079	-	446	176,112	5,303	108,372
Loans Receivable						
Multi-family mortgage loans:						
Construction-in-progress	-	-	-	-	-	102,325
Completed construction	8,880	-	-	-	41,106	985,267
Single-family mortgage loans	-	-	277	432,516	-	-
Home improvement and moderate rehabilitation loans	-	-	3,210	-	-	-
Subtotal	8,880	-	3,487	432,516	41,106	1,087,592
Accrued loan interest receivable	68	-	13	3,509	153	12,173
Allowance on loans receivable	-	-	(180)	(430)	(400)	(28,200)
Loan origination	(125)	-	-	(406)	-	(890)
Loans receivable, net	8,823	-	3,320	435,189	40,859	1,070,675
Other Assets						
Unamortized bond financing costs	11	-	-	1,182	90	2,213
Real estate owned	-	-	-	5,066	-	2,182
Other assets	-	(5)	137	1,309	-	-
Interfund accounts	-	1,010	2,151	(33,162)	-	1,128
Total other assets	11	1,005	2,288	(25,605)	90	5,523
Total assets	**$ 22,913**	**$ 1,005**	**$ 6,054**	**$ 585,696**	**$ 46,252**	**$ 1,184,570**
Liabilities and Net Assets						
Liabilities						
Bonds payable	$ 12,983	$ -	$ -	$ 511,851	$ 44,571	$ 985,536
Accrued interest payable	-	-	-	1,953	84	6,633
Escrow funds	-	-	-	-	-	445
Deferred mortgage interest income	-	-	-	-	-	56,485
Other liabilities	-	-	-	148	11	6,979
Total liabilities	12,983	-	-	513,952	44,666	1,056,078
Net Assets	9,930	1,005	6,054	71,744	1,586	128,492
Total liabilities and net assets	**$ 22,913**	**$ 1,005**	**$ 6,054**	**$ 585,696**	**$ 46,252**	**$ 1,184,570**

Michigan State Housing Development Authority

Statement of Net Assets Information (in thousands of dollars) (Continued)
June 30, 2005

	Activities						
	Insured Rental Housing Revenue Bonds	Multi-Family Revenue Bonds	General Operating	Capital Reserve	Mortgage Escrow and Reserve	Other	Combined
Assets							
Cash and cash equivalents	$ 873	$ 2,410	$ 7,050	$ 4,441	$ 15,794	$ 7,489	$ 113,336
Investments	2,944	3,178	40,603	43,902	417,553	3,068	740,281
Total cash and investments	3,817	5,588	47,653	48,343	433,347	10,557	853,617
Loans Receivable							
Multi-family mortgage loans:							
Construction-in-progress	-	-	15,232	-	-	-	117,557
Completed construction	39,778	32,489	119,072	-	-	46,260	1,272,852
Single-family mortgage loans	-	-	8,265	-	-	-	441,058
Home improvement and moderate rehabilitation loans	-	-	7,110	-	-	-	10,320
Subtotal	39,778	32,489	149,679	-	-	46,260	1,841,787
Accrued loan interest receivable	473	190	2,508	-	-	1,249	20,336
Allowance on loans receivable	(2,800)	(1,500)	(12,640)	-	-	-	(46,150)
Loan origination	-	-	(8,988)	-	-	-	(10,409)
Loans receivable, net	37,451	31,179	130,559	-	-	47,509	1,805,564
Other Assets							
Unamortized bond financing costs	133	80	-	-	-	-	3,709
Real estate owned	-	-	(56)	-	-	-	7,192
Other assets	-	-	28,233	-	-	1,414	31,088
Interfund accounts	(49)	(3,383)	9,992	-	14,141	8,172	-
Total other assets	84	(3,303)	38,169	-	14,141	9,586	41,989
Total assets	**$ 41,352**	**$ 33,464**	**$ 216,381**	**$ 48,343**	**$ 447,488**	**$ 67,652**	**$ 2,701,170**
Liabilities and Net Assets							
Liabilities							
Bonds payable	$ 34,517	$ 31,696	$ -	$ -	$ -	$ -	$ 1,621,154
Accrued interest payable	203	448	-	-	-	-	9,321
Escrow funds	-	-	321	-	447,488	(58,538)	389,716
Deferred mortgage interest income	-	-	-	-	-	-	56,485
Other	-	-	12,913	-	-	8,064	28,115
Total liabilities	34,720	32,144	13,234	-	447,488	(50,474)	2,104,791
Net Assets	6,632	1,320	203,147	48,343	-	118,126	596,379
Total liabilities and net assets	**$ 41,352**	**$ 33,464**	**$ 216,381**	**$ 48,343**	**$ 447,488**	**$ 67,652**	**$ 2,701,170**

Michigan State Housing Development Authority

Statement of Revenue and Expenses and Changes in Net Assets Information (in thousands of dollars) June 30, 2005

	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
Investment Income						
Loan interest income	$ 818	$ 352	$ 194	$ 27,675	$ 1,991	$ 75,279
Investment interest income	584	134	2	4,798	95	2,792
(Decrease) increase in fair value of investments	(151)	63	-	(1,143)	-	1,722
Subtotal	1,251	549	196	31,330	2,086	79,793
Less interest expense and debt financing costs	1,218	520	-	26,233	1,006	43,366
Net investment income	33	29	196	5,097	1,080	36,427
Other Revenue						
Federal assistance programs	-	-	-	-	-	-
Section 8 program administrative fees	-	-	-	-	-	-
Contract administration fees	-	-	-	-	-	-
Other income	-	-	-	33	-	167
Total operating revenue	33	29	196	5,130	1,080	36,594
Operating Expenses						
Federal assistance programs	-	-	-	-	-	-
Salaries and benefits	-	-	-	-	-	-
Other general operating expenses	-	-	-	-	-	-
Loan servicing and insurance costs	-	2	219	274	-	-
Provision for possible losses on loans	-	-	259	857	-	3,502
Total operating expenses	-	2	478	1,131	-	3,502
Operating Income (Loss) Before Grants and Subsidies	33	27	(282)	3,999	1,080	33,092
Grants and Subsidies	-	-	-	-	-	-
Change in Net Assets	33	27	(282)	3,999	1,080	33,092
Net Assets - Beginning of year	11,164	3,927	6,336	64,941	1,197	123,530
Transfers (To) From Other Funds for						
Payment of operating fund expenses	(1,267)	-	-	-	(691)	(29,330)
Funding to provide additional cash flow and payment of bond issuance costs	-	(2,949)	-	2,804	-	1,200
Net Assets - End of year	**$ 9,930**	**$ 1,005**	**$ 6,054**	**$ 71,744**	**$ 1,586**	**$ 128,492**

Michigan State Housing Development Authority

Statement of Revenue and Expenses and Changes in Net Assets Information (in thousands of dollars) (Continued) June 30, 2005

	Activities						
	Insured Rental Housing Revenue Bonds	Multi-Family Revenue Bonds	General Operating	Capital Reserve	Mortgage Escrow and Reserve	Other	Combined
Investment Income							
Loan interest income	$ 3,386	$ 2,675	$ 11,142	$ -	$ -	$ 1,741	$ 125,253
Investment interest income	113	248	1,765	4,290	-	3,535	18,356
(Decrease) increase in fair value of investments	-	(121)	(1,822)	1,865	-	-	413
Subtotal	3,499	2,802	11,085	6,155	-	5,276	144,022
Less interest expense and debt financing costs	2,535	2,802	93	-	-	-	77,773
Net investment income	964	-	10,992	6,155	-	5,276	66,249
Other Revenue							
Federal assistance programs	-	-	381,733	-	-	-	381,733
Section 8 program administrative fees	-	-	10,461	-	-	-	10,461
Contract administration fees	-	-	7,602	-	-	-	7,602
Other income	-	-	9,111	-	-	9,591	18,902
Total operating revenue	964	-	419,899	6,155	-	14,867	484,947
Operating Expenses							
Federal assistance programs	-	-	381,733	-	-	-	381,733
Salaries and benefits	-	-	17,907	-	-	-	17,907
Other general operating expenses	-	-	18,957	-	-	-	18,957
Loan servicing and insurance costs	-	-	2,047	-	-	-	2,542
Provision for possible losses on loans	400	201	(711)	-	-	-	4,508
Total operating expenses	400	201	419,933	-	-	-	425,647
Operating Income (Loss) Before Grants and Subsidies	564	(201)	(34)	6,155	-	14,867	59,300
Grants and Subsidies	-	-	(2,645)	-	-	(13,010)	(15,655)
Change in Net Assets	564	(201)	(2,679)	6,155	-	1,857	43,645
Net Assets - Beginning of year	6,468	1,521	187,193	42,188	-	104,269	552,734
Transfers (To) From Other Funds for							
Payment of operating fund expenses	(400)	-	31,688	-	-	-	-
Funding to provide additional cash flow and payment of bond issuance costs	-	-	(13,055)	-	-	12,000	-
Net Assets - End of year	**$ 6,632**	**$ 1,320**	**$ 203,147**	**$ 48,343**	**$ -**	**$ 118,126**	**$ 596,379**

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*

Michigan State Housing Development Authority
Lansing, Michigan
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 (the Authority), a component unit of the State of Michigan, as of and for the years ended June 30, 2005 and 2004, and have issued our reports thereon dated October 21, 2005 and October 21, 2004, 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 21, 2005.

Michigan State Housing Development Authority
Lansing, Michigan
and
Mr. Thomas H. McTavish, CPA
Auditor General
State of 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 the 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 21, 2005