Michigan State Housing Development Authority

(a component unit of the State of Michigan)

Financial Report

with Supplemental Information

June 30, 2011

Michigan State Housing Development Authority

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

Independent Auditor's Report

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

We have audited the accompanying basic financial statements of the Michigan State Housing Development Authority (MSHDA or, the "Authority"), a component unit of the State of Michigan, as of and for the years ended June 30, 2011 and 2010 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, 2011 and 2010 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.

As explained in Note 1, the financial statements include a new component unit, Michigan Homeowner Assistance Nonprofit Housing Corporation, which is considered a discretely presented component unit of the Michigan State Housing Development Authority.

Management's discussion and analysis, as 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 Board of Directors and
Mr. Thomas H. McTavish, CPA
Auditor General, State of Michigan
Michigan State Housing Development Authority
Lansing, Michigan

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2011 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 26, 2011

The Michigan State Housing Development Authority (the "Authority") provides financial and technical assistance through public and private partnerships to create and preserve decent, affordable housing for low- and moderate-income Michigan residents. The Authority was created under the terms of Act 346, Public Acts of Michigan, 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, 2011, 2010, and 2009:

Condensed Financial Information
(in thousands of dollars)

	2011	2010	2009
Assets			
Investments	$ 876,901	$ 798,296	$ 634,251
Loans receivable - Net	2,396,618	2,459,520	2,539,258
Other assets	623,496	697,828	473,389
Total assets	3,897,015	3,955,644	3,646,898
Liabilities			
Bonds payable	2,592,572	2,669,673	2,440,306
Other liabilities	604,724	592,328	522,126
Total liabilities	3,197,296	3,262,001	2,962,432
Net Assets			
Restricted	423,830	405,744	356,987
Unrestricted	275,889	287,899	327,479
Total net assets	**$ 699,719**	**$ 693,643**	**$ 684,466**

	2011	2010	2009
Revenue			
Net investment income	$ 61,382	$ 66,036	$ 66,322
Federal assistance programs revenue	733,849	536,464	474,613
Section 8 program administrative fees	16,970	16,084	14,158
Contract administration fees	8,148	8,826	8,713
Other income	24,020	18,911	12,994
Total revenue	844,369	646,321	576,800
Expenses			
Federal assistance programs expenses	733,645	536,464	474,613
Salaries and benefits	31,740	29,686	26,676
Other general operating expenses	33,614	33,594	33,649
Other expenses	22,327	15,995	14,380
Total expenses	821,326	615,739	549,318
Grants and Subsidies	16,967	21,405	23,442
Change in Net Assets	**$ 6,076**	**$ 9,177**	**$ 4,040**

Financial Analysis

Total assets decreased from $3.96 billion at June 30, 2010 to $3.90 billion at June 30, 2011. This was a decrease of approximately $58.6 million, or 1.5 percent. Total assets increased from $3.65 billion at June 30, 2009 to $3.96 billion at June 30, 2010. This was an increase of approximately $308.7 million, or 8.5 percent.

Net loans receivable decreased from $2.46 billion at June 30, 2010 to $2.40 billion at June 30, 2011. Loans receivable fell due to the Authority's offered single-family mortgage rates being higher than conventional mortgage interest rates (net decrease of $30.6 million) and a reduction in the closing of multi-family mortgages (net decrease of $33.9 million). Net loans receivable decreased from $2.54 billion at June 30, 2009 to $2.46 billion at June 30, 2010. Loans receivable fell due to a net reduction in both single-family mortgages (decrease of $39.7 million) and multi-family mortgages (decrease of $39.9 million).

Bonds payable decreased from $2.67 billion at June 30, 2010 to $2.59 billion at June 30, 2011, a net decrease of approximately $77.1 million. Bonds payable increased from $2.44 billion at June 30, 2009 to $2.67 billion at June 30, 2010, a net increase of approximately $229.4 million. This increase was due primarily to the issuance of $350.0 million of Single-Family Homeownership Revenue Bonds, partially offset by the early redemption of $93.1 million and scheduled debt service of $73.2 million in bonds payable.

Escrow funds, which are recorded in other liabilities, increased by $28.9 million from a year earlier to $527.6 million at June 30, 2011 due to an increase in mortgage reserve balances. Escrow funds increased by $63.9 million from a year earlier to $498.7 million at June 30, 2010 due to an increase in mortgage balances and an unrealized gain on investments.

The Authority's net assets totaled $699.7 million at June 30, 2011, equal to 18.0 percent of total assets and 21.9 percent of total liabilities. A significant portion of net assets is restricted. At June 30, 2011, $423.8 million of net assets was pledged for payment against the various bond indentures. In addition, $224.9 million is designated by board resolution, represented by the Community Development Fund. The Authority's net assets totaled $693.6 million at June 30, 2010, equal to 17.5 percent of total assets and 21.3 percent of total liabilities. A significant portion of net assets is restricted. At June 30, 2010, $405.7 million of net assets was pledged for payment against the various bond indentures. In addition, $191.2 million is designated by board resolution, represented by the Community Development Fund.

Operating Results

Operations for the year ended June 30, 2011 resulted in excess of revenue over expenses of $6.1 million compared to prior year results of $9.2 million. Under Governmental Accounting Standards Board (GASB) Statement No. 31, the Authority is required to present investments at fair market value and reflect this adjustment in the statement of revenue, expenses, and changes in net assets. This presentation decreased revenue over expenses by approximately $3.0 million. Results for the year ended June 30, 2010 were positively impacted by an increase of approximately $3.4 million. Currently, GASB Statement No. 31 has had a cumulative positive effect of $9.6 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, 2010 resulted in excess of revenue over expenses of $9.2 million, compared to prior year results of $4.0 million.

Net investment income decreased from $66.0 million in 2010 to $61.4 million in 2011, a decrease of $4.6 million. Mortgage loan interest income is down $7.2 million in 2011 compared to 2010. This is due to lower loan balances. Investment interest income increased $3.0 million from June 30, 2010 to June 30, 2011. Interest expense is lower than the prior year by $7.1 million due to low rates on the Authority's variable rate debt. Net interest income decreased from $66.3 million in 2009 to $66.0 million in 2010, a decrease of $0.3 million. Mortgage loan interest income is down $12.5 million in 2010 compared to 2009. The Authority's variable rate demand obligations (VRDOs) had begun to trade poorly in 2009 due to the downgrade of a few bond insurers (e.g., FGIC, AMBAC, MBIA) and liquidity providers (e.g., Dexia, Fortis, Depfa) associated with the affected bonds. At times, these affected bonds have traded as high as 400 basis points higher than the Authority's VRDOs not backed by these downgraded entities. This had a very negative effect on the Authority's cost of capital. By the beginning of the 2010 fiscal year, the Authority had restructured the vast majority of the poorly trading debt and that resulted in the $16.3 million decrease of interest expense in 2010 as compared 2009.

Total revenue increased from $646.3 million for the year ended June 30, 2010 to $844.4 million for the year ended June 30, 2011, a net increase of $198.1 million. Total revenue increased due primarily to the increase of federal assistance program revenue of $197.4 million. Total revenue increased from $576.8 million for the year ended June 30, 2009 to $646.3 million for the year ended June 30, 2010, a net increase of $69.5 million. Total revenue increased due primarily to the increase of federal assistance program revenue of $61.9 million, an increase in Section 8 administrative fees of $1.9 million, and an increase in preservation fees of $4.3 million. Under the preservation program, the Authority receives a portion of excess reserves of multi-family developments upon mortgage maturity or prepayment. The preservation fees are realized based on the timing of the mortgage discharge.

Total operating expenses increased from $615.7 million for the year ended June 30, 2010 to $821.3 million for the year ended June 30, 2011, a net increase of $205.6 million. Total operating expenses increased due primarily to an increase in the federal assistance programs of $197.2 million. Total operating expenses increased from $549.3 million for the year ended June 30, 2009 to $615.7 million for the year ended June 30, 2010, a net increase of $66.4 million. Total operating expenses increased due primarily to an increase in the federal assistance programs of $61.9 million, an increase in the provision for possible losses on loans of $1.7 million, and an increase in salaries and wages of $3.0 million.

Statement of Net Assets
(in thousands of dollars)

	June 30 2011	June 30 2010
Assets		
Cash and Cash Equivalents (Note 3)	$ 350,782	$ 416,415
Investments (Note 3)	876,901	798,296
Loans Receivable		
Multi-family mortgage loans	1,446,168	1,480,045
Single-family mortgage loans	983,604	1,014,249
Home improvement and moderate rehabilitation loans	10,777	12,136
Total (Note 4)	2,440,549	2,506,430
Accrued loan interest receivable	40,353	45,040
Allowance on loans receivable (Note 4)	(72,460)	(79,539)
Loan origination fees	(11,824)	(12,411)
Net loans receivable	2,396,618	2,459,520
Other Assets		
Unamortized bond financing costs	6,969	7,209
Real estate owned (Note 4)	100,151	76,378
Other (Note 14)	165,594	197,826
Total other assets	272,714	281,413
Total assets	**$ 3,897,015**	**$ 3,955,644**
Liabilities and Net Assets		
Liabilities		
Bonds payable (Notes 5, 6, and 14)	$ 2,592,572	$ 2,669,673
Accrued interest payable	13,737	13,007
Escrow funds	527,552	498,688
Deferred mortgage interest income (Note 7)	41,095	40,570
Other liabilities	22,340	40,063
Total liabilities	3,197,296	3,262,001
Net Assets		
Restricted (Note 11)	423,830	405,744
Unrestricted	275,889	287,899
Total net assets	699,719	693,643
Total liabilities and net assets	**$ 3,897,015**	**$ 3,955,644**

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 2011	Year Ended June 30 2010
Operating Revenue		
Investment income:		
Loan interest income	$ 145,698	$ 152,960
Investment interest income	22,574	19,622
Increase in fair value of investments - Including change in unrealized (losses) gains of $(3,001) in 2011 and $3,376 in 2010	(3,001)	4,516
Total investment income	165,271	177,098
Less interest expense and debt financing costs	103,889	111,062
Net investment income	61,382	66,036
Other revenue:		
Federal assistance programs	733,849	536,464
Section 8 program administrative fees	16,970	16,084
Contract administration fees	8,148	8,826
Other income	24,020	18,911
Total other revenue	782,987	580,285
Total operating revenue	844,369	646,321
Operating Expenses		
Federal assistance programs	733,645	536,464
Salaries and benefits	31,740	29,686
Other general operating expenses	33,614	33,594
Loan servicing and insurance costs	3,033	2,714
Provision for possible losses on loans	19,294	13,281
Total operating expenses	821,326	615,739
Operating Income Before Nonoperating Expenses	23,043	30,582
Nonoperating Expenses - Grants and subsidies	(16,967)	(21,405)
Change in Net Assets	6,076	9,177
Net Assets - Beginning of year	693,643	684,466
Net Assets - End of year	**$ 699,719**	**$ 693,643**

Michigan State Housing Development Authority

Statement of Cash Flows
(in thousands of dollars)

	Year Ended June 30	
	2011	2010
Cash Flows from Operating Activities		
Loan receipts	$ 370,144	$ 282,924
Other receipts	904,043	661,269
Loan disbursements	(223,907)	(94,615)
Payments to vendors	(73,261)	(69,505)
Payments to employees	(19,690)	(19,727)
Other disbursements	(800,047)	(608,291)
Net cash provided by operating activities	157,282	152,055
Cash Flows from Investing Activities		
Purchase of investments	(1,026,830)	(727,794)
Proceeds from sale and maturities of investments	930,266	608,502
Interest received on investments	18,128	16,555
Net cash used in investing activities	(78,436)	(102,737)
Cash Flows from Noncapital Financing Activities		
Proceeds from issuance of bonds, less discounts	309,379	354,816
Principal repayments on bonds	(364,664)	(166,296)
Interest paid	(89,194)	(99,557)
Net cash (used in) provided by noncapital financing activities	(144,479)	88,963
Net (Decrease) Increase in Cash and Cash Equivalents	(65,633)	138,281
Cash and Cash Equivalents - Beginning of year	416,415	278,134
Cash and Cash Equivalents - End of year	**$ 350,782**	**$ 416,415**

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

	Year Ended June 30	
	2011	2010
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	$ 23,043	$ 30,582
Adjustments to reconcile operating income to net cash from operating activities:		
Amortization of deferred items - Net	2,060	3,207
Arbitrage rebate expense	1,658	(906)
Investment interest income	(19,574)	(24,138)
Increase in realized and unrealized gain on market value of investments	2,222	(59,658)
Interest expense on bonds	103,393	111,271
Provision for possible losses on loans	19,294	13,281
Grants and subsidies	(16,967)	(21,405)
Changes in assets and liabilities:		
Accrued loan interest receivable	4,687	(6,735)
Loans receivable	65,881	79,775
Other assets	(39,557)	(45,100)
Escrow funds	28,864	63,864
Other liabilities	(17,722)	8,017
Net cash provided by operating activities	**$ 157,282**	**$ 152,055**

Noncash Financing and Investing Activities - During the years ended June 30, 2011 and 2010, the Authority foreclosed on various properties with mortgage values of approximately $76.5 million and $49.9 million, respectively. Additionally, the adjustments for GASB Statement No. 53 resulted in a decrease in bonds payable and deferred charges at June 30, 2011 of $25,084 and an increase at June 30, 2010 of $41,059.

Statement of Net Assets - Michigan Homeowner Assistance Nonprofit Housing Corporation (a component unit of the Michigan State Housing Development Authority)
June 30, 2011
(in thousands of dollars)

Assets		
Cash and Cash Equivalents	$	23,699
Other Assets - Prepaid and other		1,077
Total assets	**$**	**24,776**
Liabilities and Net Assets		
Liabilities - Accounts payable	$	160
Net Assets - Restricted for Hardest Hit Program		24,616
Total liabilities and net assets	**$**	**24,776**

Statement of Revenue, Expenses, and Changes in Net Assets - Michigan Homeowner Assistance Nonprofit Housing Corporation (a component unit of the Michigan State Housing Development Authority)
Year Ended June 30, 2011
(in thousands of dollars)

Operating Revenue - Federal assistance programs	$	30,166
Operating Expenses		
Federal assistance programs		2,886
Marketing		646
Contracted services		1,794
Other operating expenses		224
Total operating expenses		5,550
Change in Net Assets		24,616
Net Assets - Beginning of year		-
Net Assets - End of year	**$**	**24,616**

Statement of Cash Flows - Michigan Homeowner Assistance Nonprofit Housing Corporation (a component unit of the Michigan State Housing Development Authority)
Year Ended June 30, 2011
(in thousands of dollars)

Cash Flows from Operating Activities		
Receipts of federal funds	$	30,166
Payments to grantees		(2,886)
Payments to suppliers		(1,787)
Payments to contractors		(1,794)
Net Increase in Cash and Cash Equivalents		23,699
Cash and Cash Equivalents - Beginning of year		-
Cash and Cash Equivalents - End of year	**$**	**23,699**
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	$	24,616
Adjustments to reconcile operating income to net cash from operating activities -		
Changes in assets and liabilities:		
Accounts payable		160
Prepaid expenses and other		(1,077)
Net cash provided by operating activities	**$**	**23,699**

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 revenue from mortgages, and (c) the creation of certain funds along with the accounting policies for such funds. The Authority is authorized by statute to have notes and bonds outstanding up to a total of $4.2 billion.

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

Note 2 - Summary of Significant Accounting Policies

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

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

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

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

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

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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

Real Estate Owned - The Authority acquires real estate through foreclosure proceeding and holds that property until which time it can be sold at a fair price.

Compensated Absences - Authority employees accrue vacation and sick leave in varying amounts for each biweekly period worked. Employees may accumulate, subject to certain limitations, vacation and sick leave and, upon retirement, termination, or death, may be compensated for certain accumulated amounts at their then current rates of pay. The Authority records an expense for all accumulated vacation and sick leave that the Authority would be required to pay if all employees terminated their employment. The compensated absences included in other liabilities at June 30, 2011 and 2010 totaled $3,424,850 and $4,039,576, respectively.

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

Restricted Assets - Substantially all of the assets of the Authority are pledged for payment against the various bond indentures. All of the net assets of the component unit are restricted for eligible federal program expenditures.

Federal Assistance Programs - The Authority administers various federal programs and initiatives in its efforts to create decent affordable housing for low- to moderate-income families.

- Section 8 Program - The Authority receives federal financial assistance through various housing and rental programs to provide rental subsidies and tenant vouchers.
- Stimulus Funds - The Authority is administering various federal funds in an effort to create jobs, eliminate blight, and provide equity to housing developments that would otherwise not be feasible.
- Hardest Hit Program - The component unit of the Authority, Michigan Homeowner Assistance Nonprofit Housing Corporation, administers grant funds under this program to prevent, reduce, and mitigate foreclosures.

Note 2 - Summary of Significant Accounting Policies (Continued)

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

Nonoperating Expenses - The nonoperating expenses are made up of non-federal non-repayable grants and subsidies that the Authority awards on a discretionary basis. The awards are based on the amount of available Authority funds, and are not related to the operating activities of the Authority.

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

Reclassification - Certain immaterial amounts were reclassified in the prior year column to conform with current year presentation. Reclassifications were to move certain federal revenue amounts that were netted against federal expenses into federal revenue and to reclassify certain amounts within the various types of loans receivable.

Note 3 - Deposits and Investments

Cash, cash equivalents, and investments held by the Authority at June 30, 2011 and 2010 were as follows (in thousands of dollars):

	MSHDA			Component Unit
	Cash and Cash Equivalents	Investments	Total	Cash and Cash Equivalents
2011				
Deposits	$ -	$ 1,005	$ 1,005	$ 401
Investments	350,782	875,896	1,226,678	23,298
Total	$ 350,782	$ 876,901	$ 1,227,683	$ 23,699
2010				
Deposits	$ -	$ 750	$ 750	$ -
Investments	416,415	797,546	1,213,961	-
Total	$ 416,415	$ 798,296	$ 1,214,711	$ -

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

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, 2011, the Authority had approximately $1,505,000 of bank deposits (certificates of deposit, checking, and savings accounts) and of that balance approximately $5,000 was uninsured and uncollateralized. The component unit does not have a deposit policy for custodial credit risk. At June 30, 2011, the component unit had approximately $401,000 of bank deposits (checking accounts) and of that balance approximately $149,137 was uninsured and uncollateralized. At June 30, 2010, the Authority had approximately $2,219,000 of bank deposits (certificates of deposit, checking, and savings accounts) and of that balance approximately $501,000 was uninsured and uncollateralized. The component unit began operations during the year ended June 30, 2011. 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 $35,000 and $4,000 for the years ended June 30, 2011 and 2010, respectively, collateralized with securities held by the Federal Reserve Bank or held in safekeeping for the Authority at a financial institution's trust department but not in the Authority's name. To also limit its risk, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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:

	Carrying Value (in thousands of dollars)		
Type of Investment	2011	2010	How Held
MSHDA			
Investment agreements	$ 11,373	$ 11,470	Counterparty's trust dept.
U.S. government securities	310,589	267,771	Counterparty's trust dept.
Mortgage-backed securities	536,475	481,962	Counterparty's trust dept.
U.S. government agency securities	12,225	33,401	Counterparty's trust dept.
U.S. government money market funds	348,572	407,999	Counterparty's trust dept.
Component Unit			
U.S. government money market funds	23,298	-	Counterparty's trust dept.

Note 3 - Deposits and Investments (Continued)

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

Type of Investment	Fair Value	Less than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
2011					
MSHDA					
Investment agreements	$ 11,373	$ 4,509	$ -	$ -	$ 6,864
U.S. government securities	310,589	185,104	76,058	34,465	14,962
Mortgage-backed securities	536,475	128	259	1,408	534,680
U.S. government agency securities	12,225	-	2,218	-	10,007
U.S. government money market funds	348,572	348,572	-	-	-
Component Unit					
U.S. government money market funds	23,298	23,298	-	-	-
2010					
MSHDA					
Investment agreements	$ 11,470	$ 4,606	$ -	$ -	$ 6,864
U.S. government securities	267,771	162,098	68,371	22,907	14,395
Mortgage-backed securities	482,515	111	504	1,625	480,275
U.S. government agency securities	33,401	-	-	2,238	31,163
U.S. government money market funds	407,999	407,999	-	-	-

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
2011			
MSHDA			
Investment agreements	$ 10,573	A+	S&P
Investment agreements	800	A	S&P
U.S. government securities	310,589	AA+	S&P
Mortgage-backed securities	536,202	AA+	S&P
Mortgage-backed securities	273	Not rated	-
U.S. government agency securities	12,225	AA+	S&P
U.S. government money market funds	348,572	Not rated	-
Component Unit			
U.S. government money market funds	23,298	Not rated	-

Investment	Fair Value	Rating	Rating Organization
2010			
MSHDA			
Investment agreements	$ 10,604	A+	S&P
Investment agreements	866	A	S&P
U.S. government securities	267,771	AAA	S&P
Mortgage-backed securities	468,787	AAA	S&P
Mortgage-backed securities	13,175	AA+	S&P
Mortgage-backed securities	553	Not rated	-
U.S. government agency securities	33,401	AAA	S&P
U.S. government money market funds	407,999	Not rated	-

Concentration of Credit Risk

The Authority has 7 and 17 percent of its investment portfolio invested in the securities of government-sponsored enterprises as of June 30, 2011 and 2010, 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.

Note 3 - Deposits and Investments (Continued)

Escrow Funds - Included in investments are funds held in trust for mortgagors with a carrying value of $573,678,000 and $512,376,000 at June 30, 2011 and 2010, respectively.

Note 4 - Loans Receivable

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

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

	2011	2010
Loans receivable:		
FHA insured, VA, or U.S. Department of Agriculture guaranteed	$ 630,635	$ 634,064
Insured by private mortgage insurance companies	277,468	306,057
Uninsured	1,532,446	1,566,309
Total loans receivable	$ 2,440,549	$ 2,506,430

The allowance for possible losses includes loans and real estate owned. A summary of the allowance for possible losses is as follows:

	2011	2010
Beginning balance	$ 79,539	$ 72,694
Provision for possible losses	19,294	13,281
Write-offs of uncollectible losses - Net of recoveries	(26,373)	(6,436)
Ending balance	$ 72,460	$ 79,539

Note 5 - Bonds Payable

The Authority issues revenue bonds to fund loans to finance multi-family housing developments and single-family housing units for persons of low and moderate income within the state of Michigan. Such bonds constitute a direct obligation of the Authority and are not a debt of the State of Michigan. Each bond issue is secured by the pledge of all repayments to the Authority of loans issued with the proceeds of the bond issue and all income earned by the Authority relating to those bonds. Interest on all bonds except capital appreciation bonds is payable semiannually. Capital appreciation bonds are bonds that are issued at a deep discount and for which all interest is accrued and paid at retirement. The Authority amortizes the discount using the interest method over the terms of the bonds. Capital appreciation bonds in the following 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 (in thousands of dollars):

As of June 30, 2011

	Beginning Balance	Additions	Payments	Ending Balance
Revenue bonds:				
Section 8 assisted mortgage	$ 11,692	$ 1,198	$ 3,960	$ 8,930
Single-family home ownership	350,000	134,725	60,220	424,505
Single-family mortgage	921,745	-	109,965	811,780
Multi-family housing	29,700	-	7,300	22,400
Rental housing	1,166,860	176,010	151,385	1,191,485
Insured rental housing	31,135	-	31,135	-
Multi-family	28,940	-	700	28,240
Total revenue bonds	$ 2,540,072	$ 311,933	$ 364,665	$ 2,487,340
Due within one year				$ 129,160

Note 5 - Bonds Payable (Continued)

As of June 30, 2010

	Beginning Balance	Additions	Payments	Ending Balance
Revenue bonds:				
Section 8 assisted mortgage	$ 14,176	$ 1,476	$ 3,960	$ 11,692
Single-family home ownership	-	350,000	-	350,000
Single-family mortgage	981,090	-	59,345	921,745
Multi-family housing	32,000	-	2,300	29,700
Rental housing	1,265,960	-	99,100	1,166,860
Insured rental housing	32,080	-	945	31,135
Multi-family	29,585	-	645	28,940
Total revenue bonds	$ 2,354,891	$ 351,476	$ 166,295	$ 2,540,072
Due within one year				$ 85,473

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

	2011	2010
Section 8 assisted mortgage revenue bonds -		
1983 Series I, 2012 to 2014, 10.875% *	$ 8,930	$ 11,692
Single-family homeownership revenue bonds:		
2009 Series A, 2041, variable rate	290,000	350,000
2009 Series A-1/2010 Series A, B, and C, 2011 to 2041, 0.90% to 5.50%	134,505	-
Total single-family homeownership revenue bonds	424,505	350,000
Single-family mortgage revenue bonds:		
1997 Series D, 2019 to 2028, 5.65%	-	19,155
1998 Series B and C, 2026 to 2030, 5.20%	11,305	17,030
2001 Series A, 2011 to 2021, 4.80% to 5.35%	-	16,460
2003 Series B, 2011 to 2014, 3.80% to 4.30%	2,160	2,720
2003 Series C, 2029 to 2030, variable rate (Note 6)	19,100	26,670
2005 Series A, 2011 to 2014, 3.85% to 4.15%	5,060	6,290
2006 Series A, 2011 to 2030, 4.25% to 5.00%	27,275	32,110
2006 Series C, 2035, variable rate (Note 6)	59,190	60,150
2007 Series A, 2015 to 2039, 5.20% to 5.50%	-	9,005
2007 Series B and C, 2038 to 2039, variable rate (Note 6)	217,035	223,875
2007 Series D, E, F, and G, 2038, variable rate (Note 6)	273,000	292,680
2009 Series A, B, and C, 2011 to 2022, 3.20% to 5.35%	93,235	111,180
2009 Series D, 2030, variable rate (Note 6)	104,420	104,420
Total single-family mortgage revenue bonds	811,780	921,745

Note 5 - Bonds Payable (Continued)

		2011		2010
Multi-family housing revenue bond -				
1988 Series A, 2011 to 2018, variable rate (Note 6)	$	22,400	$	29,700
Rental housing revenue bonds:				
1997 Series A, 2011 to 2033, 5.70% to 6.10%		17,695		18,370
1999 Series A, B, and C, 2011 to 2037, 4.55% to 5.30%		24,050		57,740
1999 Series D, 2014, variable rate		25		25
2000 Series A, 2035, variable rate (Note 6)		39,665		40,345
2001 Series A and B, 2012 to 2035, 4.00% to 6.35%		21,405		31,490
2001 Series C, 2023, variable rate		-		11,635
2002 Series A and B 2019 to 2037, variable rate (Note 6)		68,890		74,645
2003 Series A, 2023, variable rate		51,930		56,220
2003 Series C, 2011 to 2037, 6.25%		11,300		11,345
2004 Series B, 2011 to 2016, 3.40% to 4.15%		13,730		24,030
2005 Series B, 2011 to 2015, 3.50% to 3.95%		15,350		18,430
2005 Series A, 2040, variable rate (Note 6)		67,905		69,085
2006 Series A, 2040, variable rate (Note 6)		69,235		70,620
2006 Series B, 2011 to 2015, 3.70% to 4.05%		7,480		17,565
2006 Series C, 2041, variable rate (Note 6)		61,630		63,130
2006 Series D, 2011 to 2042, 4.30% to 5.20%		51,560		55,870
2007 Series A, 2042, variable rate (Note 6)		39,170		39,735
2007 Series B, 2011 to 2044, 3.95% to 4.95%		26,300		26,690
2007 Series C, 2042, variable rate (Note 6)		91,920		106,725
2007 Series D, 2011 to 2033, 3.75% to 5.40%		35,100		36,550
2008 Series A, C, and D, 2023 to 2039, variable rate (Note 6)		186,615		191,425
2008 Series B and E, 2011 to 2043, 3.25% to 5.70%		37,915		47,355
2009 Series A, B-1, and B-2, 2011 to 2045, 2.75% to 6.00%		85,300		97,835
2010 Series A and B, 2011 to 2046, 1.25% to 5.25%		110,145		-
2011 Series A, B, and C, 2011 to 2041, 0.82% to 6.05%		57,170		-
Total rental housing revenue bonds		1,191,485		1,166,860
Insured rental housing revenue bond -				
1998 Series A, 2011 to 2026, 6.84% to 6.89%		-		31,135
Multi-family revenue bond -				
1995 Series A, 2011 to 2030, 8.30% to 8.55%		28,240		28,940
Total revenue bonds		2,487,340		2,540,072
Off-market borrowings (Note 14)		20,731		24,398
Interest rate swaps (Note 14)		118,344		143,427
Deferred charges - Swap reassignment		(20,731)		(24,398)
Deferred charges - Bond discounts		(13,112)		(13,826)
Total	$	2,592,572	$	2,669,673

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
2012	$ 129,160	$ 93,357	$ 222,517
2013	77,585	90,022	167,607
2014	72,416	87,237	159,653
2015	79,260	84,362	163,622
2016	80,120	81,174	161,294
2017-2021	340,940	361,106	702,046
2022-2026	306,370	292,628	598,998
2027-2031	380,820	215,981	596,801
2032-2036	351,920	135,619	487,539
2037-2041	270,645	61,975	332,620
2042-2047	398,104	6,585	404,689
Total	$ 2,487,340	$ 1,510,046	$ 3,997,386

Early Retirement of Debt - Under provisions of the Authority's bond issues, the Authority is able to retire bonds, without the payment of call premiums, prior to their maturity dates from the proceeds of loan prepayments and foreclosures and, for certain bonds, from excess program revenue. Bonds retired pursuant to such provisions total $271,465,000 and $93,145,000 during the years ended June 30, 2011 and 2010, respectively. Such bond retirements, in the aggregate, resulted in a net gain of $496,000 and $209,000 for the years ended June 30, 2011 and 2010, respectively.

Note 6 - Demand Bonds

The following table summarizes the demand bonds outstanding at June 30, 2011, 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	$22,400	Merrill Lynch & Co.	Heleba	0.08%	0.260%	(7)	09/01/11
Single-family Mortgage Revenue Bonds							
2003 Series C	$19,100	Merrill Lynch & Co.	Dexia Credit Local	0.08%	0.1075%	(6)	11/25/11
2006 Series C	$59,190	Barclays Capital Inc.	Barclays Bank PLC	0.07%	0.900%	(12)	06/21/13
2007 Series B	$199,260	Barclays Capital Inc.	GSEs	0.07%	0.750%	(9)	12/22/12
2007 Series C	$17,775	Barclays Capital Inc.	GSEs	0.07%	0.750%	(9)	12/22/12
2007 Series D	$35,000	Bank of America Securities LLC	Bank of America, N.A.	0.10%	0.950%	(11)	11/02/11
2007 Series E	$125,000	Barclays Capital Inc.	KBC Bank N.V.	0.07%	0.195%	(10)	12/10/12
2007 Series F	$85,000	Barclays Capital Inc.	Bank of Nova Scotia	0.07%	0.195%	(5)	12/10/12
2007 Series G	$28,000	Barclays Capital Inc.	Bank of Nova Scotia	0.07%	0.195%	(5)	12/10/12
2009 Series D	$104,420	Barclays Capital Inc.	GSEs	0.10%	0.750%	(9)	12/22/12
Rental Housing Revenue Bonds							
2000 Series A	$39,665	Goldman Sachs & Co.	JPMorgan	0.10%	0.925%	(3)	09/28/12
2002 Series A	$53,540	Goldman Sachs & Co.	Bank of America, N.A.	0.10%	0.950%	(11)	04/19/12
2002 Series B	$15,350	Goldman Sachs & Co.	Heleba	0.10%	0.700%	(2)	09/01/11
2005 Series A	$67,905	Merrill Lynch & Co.	DEPFA Bank	0.07%	0.080%	(4)	09/21/12
2006 Series A	$69,235	Merrill Lynch & Co.	BNP Paribas	0.09%	0.110%	(8)	03/15/13
2006 Series C	$61,630	Merrill Lynch & Co.	BNP Paribas	0.09%	0.110%	(8)	07/25/13
2007 Series A	$39,170	Merrill Lynch & Co.	BNP Paribas	0.09%	0.110%	(8)	04/26/17
2007 Series C	$91,920	Merrill Lynch & Co.	Bank of Nova Scotia	0.07%	0.200%	(5)	12/17/12
2008 Series A	$96,265	JPMorgan	JPMorgan	0.10%	0.925%	(3)	09/28/12
2008 Series C	$27,590	Merrill Lynch & Co.	Heleba	0.09%	0.700%	(2)	09/01/11
2008 Series D	$62,760	Merrill Lynch & Co.	Heleba	0.09%	0.700%	(2)	09/01/11

(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, the federal funds rate plus 0.50, or 14 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 will amortize in 20 equal quarterly installments. The Authority is required to pay Helaba an annual liquidity fee per annum on the amount of bonds outstanding plus interest for 34 days at a rate of 14 percent. Standard & Poor's rating on Helaba is "A/A-1" at June 30, 2011. Subsequent to year end, the Helaba agreements expired and Bank of Tokyo entered into an agreement to be the new liquidity provider.

(3) While JPMorgan is holding the bonds, they will bear interest at the higher of the bank's prime rate plus 1.0 percent, the federal funds rate plus 0.50, or 8.50 percent per annum. Once the bank becomes the owner of the bonds, the bonds will be subject to a mandatory redemption 91 days after the bank becomes the holder of the bonds and will amortize in six equal semiannual installments. The Authority is required to pay the bank an annual liquidity fee per annum on the amount of bonds outstanding plus interest for 34 days at a rate of 14 percent. Standard & Poor's rating on JPMorgan is "AA-/A-1+" at June 30, 2011.

Note 6 - Demand Bonds (Continued)

(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 or 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 business day of April or October following the 91st day after DEPFA Bank purchased the bonds and will amortize in equal semiannual principal installments until the 7th anniversary of such purchase date. The Authority shall pay DEPFA Bank a liquidity fee per annum on outstanding bonds plus 184 days' interest at 12 percent based on a 365-day year. Standard & Poor's rating on DEPFA is "BBB/A-2" at June 30, 2011.

(5) While The Bank of Nova Scotia (Scotia) is holding the bonds, they will bear interest at the higher of the rate Scotia announces as a rate equivalent to a United States dollar-denominated loan or the federal funds rate plus 0.50 percent per annum. Once Scotia becomes the owner of the bonds and has held such bonds for 181 days, the bonds become subject to mandatory redemption over a three-year period with principal payable in 12 equal quarterly installments. The Authority shall pay Scotia a liquidity fee per annum on outstanding bonds plus 184 days interest at 12 percent, based on a 365-day year. Standard & Poor's rating on the Bank of Nova Scotia is "AA-/A-1+" at June 30, 2011.

(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 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 will amortize over 14 equal semiannual installments. The Authority is required to pay Dexia an annual liquidity fee 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. Standard & Poor's rating on Dexia is "A/A-1" at June 30, 2011. On September 1, 2011, the Authority refunded the Single-Family 2011 Mortgage Revenue Bonds, 2003 Series C thereby eliminating all exposure to Dexia Credit local.

(7) 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 liquidity fee for the letter of credit 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, 2012. Standard & Poor's rating on Helaba is "A/A-1" at June 30, 2011.

(8) While BNP Paribas Bank is holding the bonds, they will bear interest at the greater of BNP Paribas Bank's prime rate or the federal funds rate plus 0.50 percent per annum. The Authority agrees to cause the mandatory redemption of bonds outstanding, in 10 equal installments each April and October commencing on the first such date to occur following the 91st day after BNP Paribas Bank becomes the bond holder. The Authority is required to pay BNP Paribas Bank an annual liquidity fee per annum on bonds outstanding plus 184 days of interest at 12 percent, based on a 365-day year. Standard & Poor's rating on BNP Paribas Bank is "AA/A-1+" at June 30, 2011.

(9) While the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation (GSEs) are holding the bonds, they will bear interest at JPMorgan's base or prime rate plus 1 percent per annum. The Authority shall pay GSEs a liquidity fee per annum of 0.50 percent the first year, 0.75 percent the second year, and 1 percent the third year.

Note 6 - Demand Bonds (Continued)

(10) While KBC Bank N.V. is holding the bonds, they will bear interest at the higher of the prime rate or the federal funds rate plus 0.50 percent per annum. Once KBC Bank N.V. becomes the owner of the bonds and has held such bonds for 181 days, the bonds become subject to mandatory redemption over a three-year period with principal payable in 12 equal quarterly installments. The Authority shall pay KBC Bank N.V. a liquidity fee per annum on outstanding bonds plus 184 days of interest at 12 percent, based on a 365-day year. Standard & Poor's rating on KBC Bank is "A/A-1" at June 30, 2011.

(11) While Bank of America, N.A. is holding the bonds, they will bear interest at the higher of the prime rate plus 2.00 percent, the federal funds rate plus 3.00 percent, or the SIFMA rate plus 4.00 percent per annum. Once Bank of America becomes the owner of the bonds and has held such bonds for 61 days, the bonds become subject to mandatory redemption over a three-year period with principal payable in six equal semiannual installments. The Authority shall pay Bank of America a liquidity fee per annum on outstanding bonds plus 184 days of interest at 12 percent, based on a 365-day year. Standard & Poor's rating on Bank of America, N.A. is "A+/A-1" at June 30, 2011.

(12) While Barclays Bank PLC is holding the bonds, they will bear interest at the higher of the prime rate plus 5.00 percent, the federal funds rate plus 5.00 percent, or LIBOR plus 5.00 percent per annum. Once Barclays becomes the owner of the bonds and has held such bonds for 90 days, the bonds become subject to mandatory redemption in full on the third-year anniversary of the first purchase date. The Authority shall pay Barclays a liquidity fee per annum on outstanding bonds plus 186 days of interest at 12 percent, based on a 365-day year. Standard & Poor's rating on Barclays Bank PLC is "AA-/A-1+" at June 30, 2011.

Note 7 - Deferred Mortgage Interest Income

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

Note 8 - Limited Obligation Bonds

The Act, as amended, authorizes the Authority to issue limited obligation bonds to finance multi-family housing. Such bonds are not general obligations of the Authority and the Authority has no liability for this debt. Such bonds are secured solely by revenue and property derived from or obtained in connection with the housing projects. Thus, with the exception of limited obligation bond financing fees, transactions related to these bonds are not reflected in the Authority's financial statements. At June 30, 2011, limited obligation bonds had been issued totaling approximately $787,268,000, of which 32 issues totaling $355,238,000 have been retired.

Note 9 - Other Employee Benefits

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

Funding Policy - Plan members are not required to make contributions. The Authority is required to contribute an actuarially determined rate for the defined benefit plan that ranged from 37.26 to 41.10 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 $5,058,000, $4,577,000, and $4,068,000 for the years ended June 30, 2011, 2010, and 2009, 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 cost-sharing multi-employer postemployment benefit plan. The cost of retiree healthcare benefits is an allocation calculated by the State of Michigan and funded on a pay-as-you-go basis. The contributions paid to this plan for the year ended June 30, 2011 ranged from 11.9 to 13.4 percent of payroll. Employees hired on or before March 30, 1997, who participate in either the defined benefit plan or the defined contribution plan and meet certain vesting and other requirements, will receive the full amount of healthcare benefits from the State of Michigan. For employees who were hired after March 30, 1997, the State will pay up to 90 percent of healthcare benefits for employees who meet certain vesting and other requirements.

Note 10 - Operating Lease

The Authority leases its office building in Lansing, Michigan under an agreement that expires February 28, 2021. The lease is subject to an annual adjustment equal to 60 percent of the increase or decrease in the U.S. Department of Labor's Bureau of Labor Statistics Consumer Price Index. Expense incurred related to the operating lease was approximately $3,123,000 and $2,495,000 for the years ended June 30, 2011 and 2010, respectively. The estimated minimum annual payments under this lease are as follows:

2012		$ 3,267,457
2013		3,411,475
2014		3,555,493
2015		3,699,511
2016		3,843,530
2017-2021		21,377,921
	Total	$ 39,155,387

Note 11 - Restricted Net Assets

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

	2011	2010
Pledged for payment of:		
All bond issues (capital reserve account)	$ 79,857	$ 75,581
Section 8 assisted mortgage revenue bonds	5,979	3,678
Single-family mortgage revenue bonds	160,024	151,683
Single-family home ownership revenue bonds	1,057	458
Multi-family 1988 housing revenue bonds	2,779	2,605
Rental housing revenue bonds	172,759	165,664
Insured rental housing revenue bonds	-	4,993
Multi-family revenue bonds	1,375	1,082
Total	$ 423,830	$ 405,744

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.

The Authority is currently involved in a counterclaim which was filed in conjunction with adversary proceedings filed by the Authority against Lehman Brothers Holdings Inc., surrounding the termination of interest rate swap agreements. If the case were to be resolved in an unfavorable manner, the Authority could lose approximately $32,410,000 (such amount reflecting the $23,054,593 counterclaim plus interest accrued from November 5, 2008 to June 30, 2011 of approximately $9,355,000) plus any additional interest that accrues until the date of the final settlement. The Authority is self-insured for any potential loss amounts. There have been no case deadlines set, and the outcome cannot be predicted at this time.

Note 13 - Commitments

As of June 30, 2011 and 2010, the Authority has commitments to issue multi-family mortgage loans in the amounts of $49,203,750 and $126,059,125, respectively, and single-family mortgage loans in the amounts of $9,690,000 and $15,313,000, 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 $649,000 and $643,000 for the years ended June 30, 2011 and 2010, respectively.

In addition, the Authority makes available up to approximately $1,000,000 per year for up to 30 years to subsidize rents in a similar fashion for 20 percent of the units in certain other developments financed or to be financed under its multi-family mortgage lending program. Under this program, the Authority is entitled to receive a portion of any excess cash flow generated by the developments as well as a share of the profits from the sale of the developments and is able to reduce the rent subsidies if the interest rates being charged by the Authority on the related mortgage loans are below certain preset levels. Subsidy repayment did not exceed subsidy disbursements for the years ended June 30, 2011 and 2010.

In conjunction with a multi-family taxable bond lending program, the Authority is making available annually to certain developments financed under the program an amount equal to 400 times the number of units in such developments (subject to a one-year advance notice of termination) for the purpose of subsidizing rents so that some of the units in such developments can be made available to very low-income tenants. Under certain circumstances, after 15 years or more, the owners of the developments will be required to repay without interest up to 100 percent of the subsidies provided by the Authority. The Authority has not established a maximum amount that it will make available under this program. Net subsidy disbursements under this program totaled $144,000 and $729,000 for the years ended June 30, 2011 and 2010, respectively.

Note 13 - Commitments (Continued)

The Authority also makes available interest-free loans of up to $25,000 annually to developments that incur increased operating costs because of their small size (less than 100 rental units) and up to $25,000 annually for developments that incur increased security costs due to their location. The loans are repayable from excess development revenue and are also repayable upon repayment of the first mortgage loan. Disbursements, net of reimbursements, under this program totaled ($81,000) and $475,000 for the years ended June 30, 2011 and 2010, respectively.

Finally, the Authority is giving housing subsidy payments from Authority funds to participants in the Housing Choice Voucher Program. These payments are used to assist tenants paying their rents. Disbursements under this program were $2,000 and $0 for the years ended June 30, 2011 and 2010, respectively.

Grants and Subsidies

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

Note 14 - Interest Rate Swaps

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

Note 14 - Interest Rate Swaps (Continued)

The Authority is issuing the June 30, 2011 and 2010 financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 53. This standard is used to determine whether a derivative instrument will result in an effective hedge. Changes in the market value of effective hedges are recognized in the year to which they relate. Effective hedge changes do not affect investment income, but are reported as deferrals in the statement of net assets. Derivatives that are not deemed effective would be reported at fair market value and recognized as investments. All of the Authority's derivative instruments (swaps) are effective hedges.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Note 14 - Interest Rate Swaps (Continued)

The following summarizes the interest rate swap contracts at June 30, 2011:

Associated Debt/Swap Agreement	Effective Date	Notional Amount as of June 30, 2011	Termination Date	Rate	Fixed Rate	Optional Termination Date/Without Payment (9)	Market (Payment)/ to Terminate Swap	GASB 53 Presentation in Statement of Net Assets	Type of Risk Associated With Swap Contract (4)(8)
Rental housing revenue bonds:									
2000 Series A (1)	09/25/00	$ 39,665,000	10/01/20	70% of 1 M LIBOR	4.960%	NA	$ (8,769,703)	$ (8,769,703)	(5)(6)(7)
2002 Series A (1)	07/03/02	53,540,000	04/01/37	70% of 1 M LIBOR	4.560%	NA	(12,638,854)	(12,638,854)	(5)(6)
2002 Series B (1)	07/03/02	15,350,000	04/01/19	70% of 1 M LIBOR	3.535%	NA	(1,066,892)	(1,066,892)	(5)(6)
2005 Series A (3)	09/22/05	67,905,000	04/01/40	65% of 1 M LIBOR+0.23%	3.5135%	10/01/25	(5,447,888)	(5,447,888)	(5)(6)
2006 Series A (3)	03/16/06	69,235,000	10/01/40	65% of 3 M LIBOR+0.16%	3.5140%	04/01/26	(5,914,114)	(5,914,114)	(5)(6)
2006 Series C (3)	07/25/06	61,630,000	04/01/41	61% of 1 M LIBOR+0.40%	3.996%	10/01/26	(8,244,574)	(8,244,574)	(5)(6)
2007 Series A (3)	07/02/07	29,365,000	04/01/42	65% of 3 M LIBOR+0.16%	3.378%	04/01/27	(2,071,595)	(2,071,595)	(5)(6)
2007 Series C (3)	01/23/08	79,495,000	10/01/42	61% of 1 M LIBOR+0.40%	3.564%	10/01/22	(6,474,851)	(6,474,851)	(5)(6)
2008 Series A (1)(11)	04/01/01	32,370,000	04/01/23	SIFMA+0.10%	5.350%	NA	(6,260,071)	(2,117,192)	
2008 Series A (1)(11)	08/28/03	56,210,000	10/01/37	70% of 1 M LIBOR	4.197%	10/01/17	(6,687,508)	(2,597,174)	(5)(6)
2008 Series C (1)(11)	04/01/01	22,825,000	04/01/23	SIFMA	4.770%	NA	(3,157,299)	(741,713)	
2008 Series D (3)(11)	11/18/04	23,540,000	10/01/39	65% of 1 M LIBOR+0.23%	3.705%	10/01/24	(2,312,341)	(1,308,246)	(5)(6)
2008 Series D (3)(11)	11/18/04	39,220,000	10/01/39	65% of 3 M LIBOR+0.16%	3.597%	10/01/24	(3,503,764)	(2,140,693)	(5)(6)
Subtotal		590,350,000					(72,549,454)	(59,533,489)	
Single-family mortgage revenue bonds:									
2003 Series C (3)	11/19/03	6,010,000	12/01/20	65% of 1 M LIBOR+0.23%	3.512%	12/01/13	(321,779)	(321,779)	(5)(6)(7)
2003 Series C (3)	11/19/03	13,090,000	06/01/30	65% of 1 M LIBOR+0.23%	4.347%	12/01/06	(813,600)	(813,600)	(5)(6)
2006 Series C (2)	12/01/06	50,645,000	06/01/33	Floating Rate (10)	4.417%	12/01/19	(7,869,212)	(7,869,212)	(5)(6)(7)
2007 Series B (2)	09/04/07	65,000,000	06/01/38	Floating Rate (10)	4.156%	06/01/17	(7,167,323)	(7,167,323)	(5)(6)
2007 Series B (2)	01/01/08	35,000,000	06/01/38	Floating Rate (10)	4.2524%	06/01/17	(4,138,627)	(4,138,627)	(5)(6)
2007 Series B (2)	01/02/08	35,000,000	06/01/38	Floating Rate (10)	4.4435%	06/01/17	(4,674,155)	(4,674,155)	(5)(6)
2007 Series B (2)	01/02/08	26,250,000	06/01/38	Floating Rate (10)	4.5032%	12/01/10	(2,232,040)	(2,232,040)	(5)(6)
2007 Series B (2)	01/02/08	26,250,000	06/01/38	Floating Rate (10)	4.3580%	12/01/10	(2,065,845)	(2,065,845)	(5)(6)
2007 Series C (2)	09/04/07	11,740,000	12/01/16	Floating Rate (10)	5.1650%	NA	(1,215,341)	(1,215,341)	(5)(6)
2007 Series D (2)	12/01/08	35,000,000	12/01/38	Floating Rate (10)	4.1156%	12/01/14	(3,498,736)	(3,498,736)	(5)(6)
2007 Series E (2)	06/02/08	35,000,000	12/01/38	Floating Rate (10)	4.0187%	12/01/17	(3,534,163)	(3,534,163)	(5)(6)
2007 Series E (2)	06/02/08	35,000,000	12/01/38	Floating Rate (10)	3.9270%	12/01/17	(3,248,570)	(3,248,570)	(5)(6)
2007 Series E (2)	06/02/08	55,000,000	12/01/38	Floating Rate (10)	3.8460%	12/01/17	(4,846,213)	(4,846,213)	(5)(6)
2007 Series F (2)	12/01/08	50,000,000	12/01/38	Floating Rate (10)	4.1647%	12/01/14	(5,195,740)	(5,195,740)	(5)(6)
2007 Series F (2)	12/01/08	35,000,000	12/01/38	Floating Rate (10)	4.3399%	12/01/14	(5,311,140)	(5,311,140)	(5)(6)
2009 Series D (2)(11)	10/05/05	10,225,000	12/01/25	Floating Rate (10)	4.1650%	12/01/10	(586,134)	(252,852)	(5)(6)
2009 Series D (2)(11)	10/05/05	20,870,000	06/01/30	Floating Rate (10)	4.0640%	12/01/14	(1,962,393)	(400,004)	(5)(6)
2009 Series D (2)(11)	04/01/07	69,915,000	06/01/30	Floating Rate (10)	4.5740%	12/01/12	(8,132,637)	(2,024,693)	(5)(6)
Subtotal		614,995,000					(66,813,648)	(58,810,033)	
				Total interest rate swaps				(118,343,522)	
				Unamortized off-market borrowings				(20,730,764)	(12)
Total		$ 1,205,345,000					$ (139,363,102)	$ (139,074,286)	

(1) Counterparty risk is the risk that the swap counterparty will not fulfill its obligations set forth under the terms and conditions of the swap contract. The counterparty associated with these bonds is Goldman Sachs Mitsui Marine Derivative Products, L.P. (GSMMDP). GSMMDP is currently rated AAA negative outlook by S&P and Aa1 by Moody's as of June 30, 2011.

(2) Counterparty risk is the risk that the swap counterparty will not fulfill its obligations set forth under the terms and conditions of the swap contract. The counterparty associated with these bonds is Barclays Bank PLC (Barclays). Barclays is currently rated AA- negative outlook by S&P and Aa3 by Moody's as of June 30, 2011.

(3) Counterparty risk is the risk that the swap counterparty will not fulfill its obligations set forth under the terms and conditions of the swap contract. The counterparty associated with these bonds is Merrill Lynch Capital Services, Inc. (MLCS) or Merrill Lynch Derivative Products (MLDP). MLDP is rated AAA by S&P and Aa3 by Moody's as of June 30, 2011. MLCS is not rated by Moody's or S&P. MLCS's obligations under each agreement are guaranteed by Merrill Lynch & Co., Inc. (MLCO), which has a rating of A by S&P and A2 by Moody's with one negative outlook.

(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.

Note 14 - Interest Rate Swaps (Continued)

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

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

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

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

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

(10) The Authority may enter into interest rate swap agreements whereby the floating rate is one of the following: the Authority's cost of funds, a percentage of the BMA Municipal Swap Index plus an increment, a percentage of the Securities Industry and Financial Markets Association (SIFMA) Index plus an increment, or the London InterBank Offered Rate (LIBOR) plus an increment. The rate the Authority receives may switch between these indexes based on predetermined trigger events.

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

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

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

(12) Table of off-market borrowings:

	Off-market Borrowing Rate	On-market Borrowing rate	Unamortized Off-market Borrowing Balance
Rental housing revenue bonds:			
2008 Series A	1.9200%	3.4330%	$ (3,791,500)
2008 Series A	0.9410%	3.2560%	(3,852,820)
2008 Series D	0.4040%	3.3010%	(961,854)
2008 Series D	0.3310%	3.2660%	(1,238,416)
2008 Series C	1.9820%	2.7880%	(2,321,929)
Single-family mortgage revenue bonds:			
2009 Series D	0.7490%	3.4160%	(519,178)
2009 Series D	0.6490%	3.4150%	(1,244,984)
2009 Series D	1.3200%	3.2540%	(6,800,083)
			$ (20,730,764)

Note 14 - Interest Rate Swaps (Continued)

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

	Changes in Fair Value		Fair Value at June 30, 2011		
	Classification	Amount	Classification	Amount	Notional
Cash flow hedges:					
Pay-fixed interest rate swaps (receive-variable)	Deferred charge	$ 25,083,600	Bonds payable	$ (118,343,522)	$ 1,205,345,000
Off-market borrowings	Interest expense	-	Off-market borrowings	(20,730,764)	-

	Changes in Fair Value		Fair Value at June 30, 2010		
	Classification	Amount	Classification	Amount	Notional
Cash flow hedges:					
Pay-fixed interest rate swaps (receive-variable)	Deferred charge	$ (41,058,636)	Bonds payable	$ (143,427,122)	$ 1,250,930,000
Off-market borrowings	Interest expense	-	Off-market borrowings	(24,398,118)	-

Note 15 - Upcoming Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus*. This pronouncement, which is an amendment to Statement 14 and Statement 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the statement also clarifies the reporting of equity interests in legally separate organizations. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted, during the Authority's 2013 fiscal year.

In December 2010, the GASB issue Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB statements and interpretations, APB opinions, and accounting research bulletins of the AICPA Committee on Accounting Procedure. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted, during the Authority's 2012 fiscal year.

Note 15 - Upcoming Accounting Pronouncements (Continued)

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement will be effective for the Authority's fiscal year ended June 30, 2013. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

Note 16 - Subsequent Events

Subsequent to year end, the Authority issued $89,100,000 of Single-family Homeownership Revenue Bonds, 2011 Series A and 2009 Series A-2 & A-3. The closing for these bonds took place on July 26, 2011. The 2011 Series A ($35,640,000) and 2009 Series A-2 ($34,360,000) tax-exempt fixed rate bonds were issued to fund the purchase of single-family mortgages. The 2009 A-3 ($19,100.000) tax-exempt fixed rate bonds were issued to refund all of the Single-family Mortgage Revenue Bonds, 2003 Series C on September 1, 2011.

On September 1, 2011, a Direct Pay Letter of Credit (LOC), with Helaba, for the Multi-family Housing Revenue Bonds, 1988 Series A (1988A) expired. Rather than seek a new LOC provider, the Authority elected to convert the 1988A Bonds to a fixed rate mode. The fixed rate conversion date is November 1, 2011.

Other Supplemental Information

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

Independent Auditor's Report on Other Supplemental Information

To the Board of Directors and
Mr. Thomas H. McTavish, CPA
Auditor General, State of Michigan
Michigan State Housing Development Authority
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, 2011. 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 the purpose 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 26, 2011

Michigan State Housing Development Authority

Statement of Net Assets Information
June 30, 2011
(in thousands of dollars)

	Activities					
	Section 8 Assisted Mortgage Revenue Bonds	Home Improvement Program Bonds	Single-family Mortgage Revenue Bonds	Single-family Homeownership Revenue Bonds	Multi-family Housing Revenue Bonds	Rental Housing Revenue Bonds
Assets						
Cash and Investments						
Cash and cash equivalents	$ 153	$ 83	$ 10,899	$ 293,819	$ 1,941	$ 15,097
Investments	8,048	-	64,647	20,489	601	121,568
Total cash and investments	8,201	83	75,546	314,308	2,542	136,665
Loans Receivable						
Multi-family mortgage loans:						
Construction in progress	-	-	-	-	-	73,589
Completed construction	4,931	-	-	-	21,557	1,164,734
Housing development loans	-	-	-	-	-	-
Single-family mortgage loans	-	-	873,769	107,187	-	-
Home improvement and moderate rehabilitation loans	-	3,200	-	-	-	-
Total	4,931	3,200	873,769	107,187	21,557	1,238,323
Accrued loan interest receivable	36	16	6,406	558	256	17,514
Allowance on loans receivable	-	(169)	(14,213)	(1,331)	(216)	(42,985)
Loan origination fees	(40)	-	(146)	-	-	(285)
Net loans receivable	4,927	3,047	865,816	106,414	21,597	1,212,567
Other Assets						
Unamortized bond financing costs	2	-	2,515	1,215	17	3,168
Real estate owned	-	-	37,233	3,110	5	55,738
Other	-	-	77,442	279	-	59,533
Interfund accounts	1,853	2,283	(28,925)	291	1,020	4
Total other assets	1,855	2,283	88,265	4,895	1,042	118,443
Total assets	**$ 14,983**	**$ 5,413**	**$ 1,029,627**	**$ 425,617**	**$ 25,181**	**$ 1,467,675**
Liabilities and Net Assets						
Liabilities						
Bonds payable	$ 9,004	$ -	$ 866,769	$ 423,585	$ 22,375	$ 1,242,546
Accrued interest payable	-	-	2,729	975	16	9,616
Escrow funds	-	-	-	-	-	758
Deferred mortgage interest income	-	-	-	-	-	41,095
Other liabilities	-	-	105	-	11	901
Total liabilities	9,004	-	869,603	424,560	22,402	1,294,916
Net Assets	5,979	5,413	160,024	1,057	2,779	172,759
Total liabilities and net assets	**$ 14,983**	**$ 5,413**	**$ 1,029,627**	**$ 425,617**	**$ 25,181**	**$ 1,467,675**

Statement of Net Assets Information (Continued)
June 30, 2011
(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	$ -	$ 5,083	$ 2,489	$ (1,291)	$ 20,035	$ 2,474	$ 350,782
Investments	-	3,999	7,527	81,148	556,740	12,134	876,901
Total cash and investments	-	9,082	10,016	79,857	576,775	14,608	1,227,683
Loans Receivable							
Multi-family mortgage loans:							
Construction in progress	-	-	17,502	-	-	-	91,091
Completed construction	-	25,773	73,339	-	-	58,831	1,349,165
Housing development loans	-	-	-	-	-	5,912	5,912
Single-family mortgage loans	-	-	2,648	-	-	-	983,604
Home improvement and moderate rehabilitation loans	-	-	7,577	-	-	-	10,777
Total	-	25,773	101,066	-	-	64,743	2,440,549
Accrued loan interest receivable	-	2,641	4,551	-	-	8,375	40,353
Allowance on loans receivable	-	(1,804)	(11,553)	-	-	(189)	(72,460)
Loan origination fees	-	-	(11,353)	-	-	-	(11,824)
Net loans receivable	-	26,610	82,711	-	-	72,929	2,396,618
Other Assets							
Unamortized bond financing costs	-	52	-	-	-	-	6,969
Real estate owned	-	685	3,380	-	-	-	100,151
Other	-	-	17,872	-	-	10,468	165,594
Interfund accounts	-	(6,360)	(48,875)	-	80,895	(2,186)	-
Total other assets	-	(5,623)	(27,623)	-	80,895	8,282	272,714
Total assets	**$ -**	**$ 30,069**	**$ 65,104**	**$ 79,857**	**$ 657,670**	**$ 95,819**	**$ 3,897,015**
Liabilities and Net Assets							
Liabilities							
Bonds payable	$ -	$ 28,293	$ -	$ -	$ -	$ -	$ 2,592,572
Accrued interest payable	-	401	-	-	-	-	13,737
Escrow funds	-	-	362	-	657,670	(131,238)	527,552
Deferred mortgage interest income	-	-	-	-	-	-	41,095
Other liabilities	-	-	19,245	-	-	2,078	22,340
Total liabilities	-	28,694	19,607	-	657,670	(129,160)	3,197,296
Net Assets	-	1,375	45,497	79,857	-	224,979	699,719
Total liabilities and net assets	**$ -**	**$ 30,069**	**$ 65,104**	**$ 79,857**	**$ 657,670**	**$ 95,819**	**$ 3,897,015**

Michigan State Housing Development Authority

Statement of Revenue, Expenses, and Changes in Net Assets Information
Year Ended June 30, 2011
(in thousands of dollars)

	Activities					
	Section 8 Assisted Mortgage Revenue Bonds	Home Improvement Program Bonds	Single-family Mortgage Revenue Bonds	Single-family Homeownership Revenue Bonds	Multi-family Housing Revenue Bonds	Rental Housing Revenue Bonds
Operating Revenue						
Investment income:						
Loan interest income	$ 459	$ 224	$ 54,671	$ 1,532	$ 1,054	$ 74,374
Investment interest income	187	-	1,029	420	2	2,834
(Decrease) increase in fair value of investments - Including change in unrealized (losses) gains	(89)	-	(302)	6	1	(456)
Total investment income	557	224	55,398	1,958	1,057	76,752
Less interest expense and debt financing costs	1,146	-	40,258	3,511	294	55,320
Net investment income	(589)	224	15,140	(1,553)	763	21,432
Other revenue:						
Federal assistance programs	-	-	-	-	-	-
Section 8 program administrative fees	-	-	-	-	-	-
Contract administration fees	-	-	-	-	-	-
Other income	-	-	2	-	-	403
Total operating revenue	(589)	224	15,142	(1,553)	763	21,835
Operating Expenses						
Federal assistance programs	-	-	-	-	-	-
Salaries and benefits	-	-	-	-	-	-
Other general operating expenses	-	4	-	-	-	-
Loan servicing and insurance costs	-	208	1,036	189	-	-
Provision for possible losses on loans	-	206	15,742	1,663	(11)	14,352
Total operating expenses	-	418	16,778	1,852	(11)	14,352
Operating (Loss) Income Before Nonoperating Expenses	(589)	(194)	(1,636)	(3,405)	774	7,483
Nonoperating Expenses - Grants and subsidies	-	-	-	-	-	-
Change in Net Assets	(589)	(194)	(1,636)	(3,405)	774	7,483
Net Assets - Beginning of year	3,678	5,607	151,683	458	2,605	165,664
Transfers from (to) Other Funds for Payment of Operating Fund Expenses	2,890	-	9,977	2,004	-	312
Funding to Provide Additional Cash Flow and Payment of Bond Issuance Costs	-	-	-	2,000	(600)	(700)
Net Assets - End of year	**$ 5,979**	**$ 5,413**	**$ 160,024**	**$ 1,057**	**$ 2,779**	**$ 172,759**

Michigan State Housing Development Authority

Statement of Revenue, Expenses, and Changes in Net Assets Information (Continued)
Year Ended June 30, 2011
(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	$ 717	$ 2,399	$ 8,365	$ -	$ 1,903	$ 145,698
Investment interest income	19	143	445	6,117	11,378	22,574
(Decrease) increase in fair value of investments - Including change in unrealized (losses) gains	(46)	(132)	(143)	(1,841)	1	(3,001)
Total investment income	690	2,410	8,667	4,276	13,282	165,271
Less interest expense and debt financing costs	574	2,504	282	-	-	103,889
Net investment income	116	(94)	8,385	4,276	13,282	61,382
Other revenue:						
Federal assistance programs	-	-	-	-	733,849	733,849
Section 8 program administrative fees	-	-	16,970	-	-	16,970
Contract administration fees	-	-	8,148	-	-	8,148
Other income	-	95	11,410	-	12,110	24,020
Total operating revenue	116	1	44,913	4,276	759,241	844,369
Operating Expenses						
Federal assistance programs	-	-	-	-	733,645	733,645
Salaries and benefits	-	-	31,740	-	-	31,740
Other general operating expenses	-	-	33,599	-	11	33,614
Loan servicing and insurance costs	-	-	1,600	-	-	3,033
Provision for possible losses on loans	(3,422)	(292)	(8,965)	-	21	19,294
Total operating expenses	(3,422)	(292)	57,974	-	733,677	821,326
Operating (Loss) Income Before Nonoperating Expenses	3,538	293	(13,061)	4,276	25,564	23,043
Nonoperating Expenses - Grants and subsidies	-	-	(989)	-	(15,978)	(16,967)
Change in Net Assets	3,538	293	(14,050)	4,276	9,586	6,076
Net Assets - Beginning of year	4,993	1,082	91,051	75,581	191,241	693,643
Transfers from (to) Other Funds for Payment of Operating Fund Expenses	(3,118)	-	(16,217)	-	4,152	-
Funding to Provide Additional Cash Flow and Payment of Bond Issuance Costs	(5,413)	-	(15,287)	-	20,000	-
Net Assets - End of year	**$ -**	**$ 1,375**	**$ 45,497**	**$ 79,857**	**$ 224,979**	**$ 699,719**

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*

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 Board of Directors and
Mr. Thomas H. McTavish, CPA
Auditor General, State of Michigan
Michigan State Housing Development Authority
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, 2011 and 2010 and have issued our reports thereon dated October 26, 2011 and October 25, 2010, 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 in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

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

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the following deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness (Item number 2011-1).

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency (Item number 2011-2).

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*.

We also noted certain matters that we have reported to management of the Authority in a separate letter dated October 26, 2011.

The Michigan State Housing Development Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Michigan State Housing Development Authority's response and, accordingly, we express no opinion on it.

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 26, 2011

Reference Number	Findings
2011-1	**Finding Description** - Understatement of component unit revenue and net assets

Finding Type - Material weakness

Criteria - GASB No. 33 requires that, in a voluntary nonexchange transaction, federal grant revenue received in advance be recorded as revenue in the year received if certain eligibility requirements are met and that resulting net assets are restricted for expenditures of the specific grant program.

Condition - The component unit, Michigan Homeowner Assistance Nonprofit Housing Corporation, recorded unspent grant advances as deferred revenue, despite having met all eligibility requirements, rather than revenue for year ended June 30, 2011.

Context - The component unit is a new entity in the current year and the implications of GASB No. 33 were not considered by management when recording the grant activity.

Cause - The individuals involved in financial management for both MSHDA and the component unit have not had prior experience in the application of GASB No. 33 and had no knowledge that it applied to their circumstances.

Effect - The net income and restricted net assets were understated by approximately $24.6 million for the year ended June 30, 2011.

Recommendation - As advances continue to come into the component unit, they should be recorded as revenue and restricted net assets at that time, assuming they meet all the eligibility requirements under GASB No. 33 for voluntary nonexchange transactions.

Views of Responsible Officials and Planned Corrective Actions - Management felt that indicating the Michigan Homeowners Assistance Nonprofit Corporation had net income and net assets was misleading. This nonprofit is essentially a conduit to administer federal funds. Management did not anticipate having $24 plus million on hand and therefore hoped that our accounting for these funds wouldn't be deemed a material misstatement. While the Authority believes that recognizing these funds as income may be misleading to some readers of MSHDA's Financial Statements, going forward the advances will be properly recorded as revenue at the time of receipt.

Reference Number	Findings
2011-2	**Finding Description** - Lack of timeliness of reconciliation preparation

Finding Type - Significant deficiency

Criteria - Good business practices require reconciliations to be completed by the end of the following month to ensure activity is properly recorded and reconciled.

Condition - Though the timeliness improved from the prior year, the monthly bank and loans receivable reconciliation was not performed by the end of the following month, which is the best practice surrounding reconciliations.

Context - The reconciliations are performed on a several-month lag and corrections of errors found during the reconciliation process are several months after the error has occurred.

Cause - There was a large influx of federal grant monies during the year that required a large investment of time from financial staff, resulting in the reconciliation process falling behind.

Effect - The delay in performing reconciliations can lead to errors in the general ledger that may not be discovered on a timely basis.

Recommendation - Internal control procedures should be enforced to ensure that reconciliations are completed within a month following the statement-end date.

Views of Responsible Officials and Planned Corrective Actions - Due to the implementation of a new mortgage servicing system and the administration and disbursement of the federal stimulus funds, the Authority was unable to sufficiently improve the timeliness of the monthly bank reconciliations. With the mortgage servicing system fully implemented and the procedures in place to administer the federal funds, the Authority anticipates that after the first quarter, bank reconciliations will be reviewed within four to six weeks of month end for the 2012 fiscal year.