Michigan State Housing Development Authority

(a component unit of the State of Michigan)

Financial Report

with Supplemental Information

June 30, 2009

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 (the "Authority"), a component unit of the State of Michigan, as of and for the years ended June 30, 2009 and 2008, 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, 2009 and 2008 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.

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 22, 2009 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 22, 2009

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, 2009, 2008, and 2007:

Condensed Financial Information
(in thousands of dollars)

	2009	2008	2007
Assets			
Investments	$ 634,251	$ 790,849	$ 553,626
Loans receivable - Net	2,539,258	2,373,286	2,138,174
Other assets	371,021	409,893	187,794
Total assets	3,544,530	3,574,028	2,879,594
Liabilities			
Bonds payable	2,337,938	2,396,971	1,785,202
Other liabilities	522,126	496,631	442,088
Total liabilities	2,860,064	2,893,602	2,227,290
Net Assets			
Restricted	356,987	295,131	266,612
Unrestricted	327,479	385,295	385,692
Total net assets	**$ 684,466**	**$ 680,426**	**$ 652,304**

	2009	2008	2007
Revenue			
Net investment income	$ 66,322	$ 69,875	$ 62,796
Federal assistance programs revenue	474,613	458,951	414,460
Section 8 program administrative fees	14,158	14,388	13,154
Contract administration fees	8,713	8,253	7,678
Other income	9,197	13,905	20,478
Total revenue	573,003	565,372	518,566
Expenses			
Federal assistance programs expenses	474,613	458,951	414,460
Salaries and benefits	26,676	25,226	23,718
Other general operating expenses	29,852	22,732	22,010
Other expenses	14,380	10,004	11,406
Total expenses	545,521	516,913	471,594
Grants and Subsidies	23,442	20,337	14,674
Change in Net Assets	**$ 4,040**	**$ 28,122**	**$ 32,298**

Financial Analysis

Total assets decreased from $3.57 billion at June 30, 2008 to $3.54 billion at June 30, 2009. This was a decrease of approximately $29.5 million, or 0.8 percent. Total assets increased from $2.88 billion at June 30, 2007 to $3.57 billion at June 30, 2008. This was an increase of approximately $694.4 million, or 24.1 percent.

Net loans receivable increased from $2,373.3 million at June 30, 2008 to $2,539.3 million at June 30, 2009. Loans receivable grew due to increased funding of single-family mortgages (net increase of $198.4 million), partially offset by a decrease in multi-family mortgages (net decrease of $26.0 million). Net loans receivable increased from $2,138.2 million at June 30, 2007 to $2,373.3 million at June 30, 2008. Loans receivable increased due to a single-family mortgage loan balance increase of $219.3 million and a multi-family mortgage loan increase of $16.9 million.

Bonds payable decreased from $2,397.0 million at June 30, 2008 to $2,337.9 million at June 30, 2009, a net decrease of approximately $59.1 million. This decrease was due primarily to the early redemption of $577.8 million and scheduled debt service of $64.2 million in bonds payable. This reduction of outstanding debt was offset by the issuance of $355.7 million of Rental Housing Revenue Bonds and $227.3 million of Single-Family Mortgage Revenue Bonds. Bonds payable increased from $1,785.2 million at June 30, 2007 to $2,397.0 million at June 30, 2008, a net increase of approximately $611.8 million. This increase was primarily due to the Authority issuing $162.2 million of Rental Housing Revenue Bonds and $629.2 million of Single-Family Mortgage Revenue Bonds during the fiscal year, while bond calls and scheduled debt service totaled $179.6 million.

Escrow funds, which are recorded in other liabilities, increased by $42.4 million from a year earlier to $434.8 million at June 30, 2009 due to an increase in mortgage balances and an unrealized gain on investments. Escrow funds increased by $47.4 million to $392.4 million at June 30, 2008 from a year earlier, due to an increase in multi-family loans.

The Authority's net assets totaled $684.5 million at June 30, 2009, equal to 19.3 percent of total assets and 23.9 percent of total liabilities. A significant portion of net assets is restricted. At June 30, 2009, $357.0 million of net assets was pledged for payment against the various bond indentures. In addition, $158.3 million is designated by board resolution, represented by the Community Development Fund. The Authority's net assets totaled $680.4 million at June 30, 2008, equal to 19.0 percent of total assets and 23.5 percent of total liabilities. At June 30, 2008, $295.1 million of net assets was pledged for payment against the various bond indentures. In addition, $148.0 million is designated by board resolution, represented by the Community Development Fund.

Operating Results

Operations for the year ended June 30, 2009 resulted in excess of revenues over expenses of $4.0 million compared to prior year results of $28.1 million. Under the Governmental Accounting Standards Board (GASB) Statement No. 31, the Authority is required to present investments at fair market value and reflect this adjustment in the statement of revenue, expenses, and changes in net assets. This presentation increased revenue over expenses by approximately $5.0 million. Results for the year ended June 30, 2008 were positively impacted by an increase of approximately $6.2 million. Currently, GASB No. 31 has had a cumulative positive effect of $9.2 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, 2008 resulted in excess of revenues over expenses of $28.1 million, compared to prior year results of $32.3 million.

Net investment income decreased from $69.9 million in 2008 to $66.3 million in 2009, a decrease of $3.6 million. Mortgage loan interest income is up $20.8 million in 2009 compared to 2008. This is due to higher loan balances and the reversal of $10.1 million of deferred mortgage interest income related to the retirement of various Rental Housing Revenue Bonds. Investment interest income decreased $6.8 million from June 30, 2008 to June 30, 2009. Interest expense is higher than the prior year by $18.3 million due to unprecedented negative changes in the credit markets. The Authority's variable rate demand obligations (VRDOs) had begun to trade poorly 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. Net investment income increased from $62.8 million in 2007 to $69.9 million in 2008, an increase of $7.1 million.

Total revenue increased from $565.4 million for the year ended June 30, 2008 to $573.0 million for the year ended June 30, 2009, a net increase of $7.6 million. Total revenue increased due primarily to the increase of federal assistance program revenue of $15.7 million, partially offset by a decrease in net investment income of $3.6 million and a decrease in preservation fees of $4.4 million. Under the preservation program, the Authority receives a portion of excess reserves of multi-family developments and the developments' owners. Based on an agreement, the owners are permitted to borrow a portion of the excess revenue if they preserve the developments for occupancy by low-income families. The preservation fees are realized based on the timing of the agreements. Total revenue increased from $518.6 million for the year ended June 30, 2007 to $565.4 million for the year ended June 30, 2008, a net increase of $46.8 million. Total revenue increased due primarily to the increase of federal assistance program revenue of $44.5 million and the increase of net interest income of $7.1 million, which were partially offset by a decrease in preservation fees of $7.5 million.

Total operating expenses increased from $516.9 million for the year ended June 30, 2008 to $545.5 million for the year ended June 30, 2009, a net increase of $28.6 million. Total operating expenses increased due primarily to an increase in the federal assistance programs of $15.7 million, an increase in the provision for possible losses on loans of $4.0 million, and various other smaller operating expenses. Total operating expenses increased from $471.6 million for the year ended June 30, 2007 to $517.0 million for the year ended June 30, 2008, a net increase of $45.4 million. Total operating expenses increased due primarily to an increase in federal assistance programs of $44.5 million.

Michigan State Housing Development Authority

Statement of Net Assets
(in thousands of dollars)

	June 30 2009	June 30 2008
Assets		
Cash and Cash Equivalents (Note 3)	$ 278,134	$ 350,465
Investments (Note 3)	634,251	790,849
Loans Receivable		
Multi-family mortgage loans	1,522,785	1,549,785
Single-family mortgage loans	1,053,989	855,552
Home improvement and moderate rehabilitation loans	9,431	8,461
Total (Note 4)	2,586,205	2,413,798
Accrued loan interest receivable	38,305	36,700
Allowance on loans receivable (Note 4)	(72,694)	(64,785)
Loan origination fees	(12,558)	(12,427)
Net loans receivable	2,539,258	2,373,286
Other Assets		
Unamortized bond financing costs	6,730	5,234
Real estate owned	50,311	24,595
Other	35,846	29,599
Total other assets	92,887	59,428
Total assets	**$ 3,544,530**	**$ 3,574,028**
Liabilities and Net Assets		
Liabilities		
Bonds payable (Notes 5 and 6)	$ 2,337,938	$ 2,396,971
Accrued interest payable	14,205	14,096
Escrow funds	434,824	392,419
Deferred mortgage interest income (Note 7)	41,050	51,175
Other liabilities	32,047	38,941
Total liabilities	2,860,064	2,893,602
Net Assets		
Restricted (Note 11)	356,987	295,131
Unrestricted	327,479	385,295
Total net assets	684,466	680,426
Total liabilities and net assets	**$ 3,544,530**	**$ 3,574,028**

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	
	2009	2008
Operating Revenue		
Investment income:		
Loan interest income	$ 165,435	$ 144,671
Investment interest income	21,228	28,057
Increase in fair value of investments - Including change in unrealized gains of $4,959 in 2009 and $6,195 in 2008	7,005	6,202
Total investment income	193,668	178,930
Less interest expense and debt financing costs	127,346	109,055
Net investment income	66,322	69,875
Other revenue:		
Federal assistance programs	474,613	458,951
Section 8 program administrative fees	14,158	14,388
Contract administration fees	8,713	8,253
Other income	9,197	13,905
Total other revenue	506,681	495,497
Total operating revenue	573,003	565,372
Operating Expenses		
Federal assistance programs	474,613	458,951
Salaries and benefits	26,676	25,226
Other general operating expenses	29,852	22,732
Loan servicing and insurance costs	2,749	2,402
Provision for possible losses on loans	11,631	7,602
Total operating expenses	545,521	516,913
Operating Income Before Nonoperating Expenses	27,482	48,459
Nonoperating Expenses - Grants and subsidies	(23,442)	(20,337)
Change in Net Assets	4,040	28,122
Net Assets - Beginning of year	680,426	652,304
Net Assets - End of year	**$ 684,466**	**$ 680,426**

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

Michigan State Housing Development Authority

Statement of Cash Flows
(in thousands of dollars)

	Year Ended June 30	
	2009	2008
Cash Flows from Operating Activities		
Loan receipts	$ 284,037	$ 310,257
Other receipts	590,752	597,215
Loan disbursements	(331,031)	(427,062)
Payments to vendors	(68,348)	(67,508)
Payments to employees	(17,585)	(16,556)
Other disbursements	(566,347)	(544,136)
Net cash used in operating activities	(108,522)	(147,790)
Cash Flows from Investing Activities		
Purchase of investments	(856,136)	(900,932)
Proceeds from sale and maturities of investments	1,054,660	730,522
Interest received on investments	19,227	18,546
Net cash provided by (used in) investing activities	217,751	(151,864)
Cash Flows from Noncapital Financing Activities		
Proceeds from issuance of bonds, less discounts	581,608	790,793
Principal repayments on bonds	(642,275)	(180,419)
Interest paid	(120,893)	(99,068)
Net cash (used in) provided by noncapital financing activities	(181,560)	511,306
Net (Decrease) Increase in Cash and Cash Equivalents	(72,331)	211,652
Cash and Cash Equivalents - Beginning of year	350,465	138,813
Cash and Cash Equivalents - End of year	**$ 278,134**	**$ 350,465**

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

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

	Year Ended June 30	
	2009	2008
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	$ 27,482	$ 48,459
Adjustments to reconcile operating income to net cash from operating activities:		
Amortization of deferred items - Net	1,529	1,192
Arbitrage rebate expense	(8,006)	3,035
Investment interest income	(28,233)	(34,259)
Increase in realized and unrealized gain on market value of investments	(47,283)	(64,507)
Interest expense on bonds	129,759	108,498
Provision for possible losses on loans	11,631	7,602
Grants and subsidies	(23,442)	(20,337)
Changes in assets and liabilities:		
Accrued loan interest receivable	(1,605)	(5,348)
Loans receivable	(172,407)	(236,195)
Other assets	(33,458)	(10,447)
Escrow funds	42,405	47,394
Other liabilities	(6,894)	7,123
Net cash used in operating activities	**$ (108,522)**	**$ (147,790)**

Noncash Financing and Investing Activities - During the years ended June 30, 2009 and 2008, the Authority foreclosed on various properties with mortgage values of approximately $50.3 million and $29.5 million, respectively.

Note 1 - Authorizing Legislation

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

Note 2 - Summary of Significant Accounting Policies

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

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

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

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

Compensated Absences - Authority employees accrue vacation and sick leave in varying amounts for each biweekly period worked. Employees may accumulate, subject to certain limitations, vacation and sick leave and, upon retirement, termination, or death, may be compensated for certain accumulated amounts at their then current rates of pay. The Authority records an expense for all accumulated vacation and sick leave that the Authority would be required to pay if all employees terminated their employment. The compensated absences included in other liabilities at June 30, 2009 and 2008 totaled $3,337,646 and $3,263,299, respectively.

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

Note 3 - Deposits and Investments

Cash, cash equivalents, and investments held by the Authority at June 30, 2009 and 2008 were as follows (in thousands of dollars):

	Cash and Cash Equivalents	Investments	Total
2009			
Deposits and government money market funds	$ 167,988	$ 620	$ 168,608
Investments	110,146	633,631	743,777
Total	$ 278,134	$ 634,251	$ 912,385
2008			
Deposits and government money market funds	$ 334,119	$ 1,250	$ 335,369
Investments	16,346	789,599	805,945
Total	$ 350,465	$ 790,849	$ 1,141,314

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, 2009, the Authority had approximately $172,511,000 of bank deposits (certificates of deposit, checking and savings accounts, and government money market funds) and of that balance $170,536,000 was uninsured and uncollateralized. At June 30, 2008, the Authority had approximately $336,526,000 of bank deposits (certificates of deposit, checking and savings accounts, and government money market funds) and of that balance $332,585,000 was uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. To limit its risk, the Authority has deposits that are uninsured but collateralized. There are deposits of $966,768 and $3,384,328 for the years ended June 30, 2009 and 2008, 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.

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	2009	2008	How Held
Investment agreements	$ 11,114	$ 15,073	Counterparty's trust dept.
U.S. government securities	220,433	117,749	Counterparty's trust dept.
Mortgage-backed securities	432,894	337,148	Counterparty's trust dept.
U.S. government agency securities	63,488	320,142	Counterparty's trust dept.
Michigan municipal securities	3,039	-	Counterparty's trust dept.

Note 3 - Deposits and Investments (Continued)

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

Type of Investment	Fair Value	Less than One Year	1-5 Years	6-10 Years	More Than 10 Years
2009					
Investment agreements	$ 11,114	$ 4,251	$ -	$ -	$ 6,863
U.S. government securities	220,433	145,988	33,656	19,128	21,661
Mortgage-backed securities	433,815	125	894	588	432,208
U.S. government agency securities	63,488	-	-	2,104	61,384
Michigan municipal securities	3,039	-	-	-	3,039
2008					
Investment agreements	15,073	6,685	-	-	8,388
U.S. government securities	117,749	68,132	9,668	19,299	20,650
Mortgage-backed securities	338,574	3	1,203	631	336,737
U.S. government agency securities	320,142	135,379	-	14,814	169,949

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
2009			
Investment agreements	$ 10,294	A+	S&P
Investment agreements	820	A	S&P
U.S. government securities	220,433	AAA	S&P
Mortgage-backed securities	420,066	AAA	S&P
Mortgage-backed securities	12,828	AA+	S&P
Mortgage-backed securities	921	Not rated	-
U.S. government agency securities	63,488	AAA	S&P
Michigan municipal securities	3,039	AA+	S&P

Note 3 - Deposits and Investments (Continued)

Investment	Fair Value	Rating	Rating Organization
2008			
Investment agreements	$ 13,100	AA-	S&P
Investment agreements	1,973	A	S&P
U.S. government securities	117,749	AAA	S&P
Mortgage-backed securities	337,148	AAA	S&P
Mortgage-backed securities	1,426	Not rated	-
U.S. government agency securities	320,142	AAA	S&P

Concentration of Credit Risk

The Authority has 9 percent and 40 percent of its investment portfolio invested in the securities of government-sponsored enterprises as of June 30, 2009 and 2008, respectively. These include securities issued by the Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Corporation. Excluding U.S. government securities, no other issuer represents over 5 percent of the Authority's investment portfolio.

Escrow Funds - Included in investments are funds held in trust for mortgagors with a carrying value of $463,876,000 and $490,377,000 at June 30, 2009 and 2008, 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.

Note 4 - Loans Receivable (Continued)

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

	2009	2008
Loans receivable:		
FHA insured, VA, or Department of Agriculture guaranteed	$ 650,481	$ 516,248
Insured by private mortgage insurance companies	327,443	281,049
Uninsured	1,608,281	1,616,501
Total loans receivable	$ 2,586,205	$ 2,413,798

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

	2009	2008
Beginning balance	$ 64,785	$ 58,818
Provision for possible losses on loans	11,631	7,602
Write-offs of uncollectible losses - Net of recoveries	(3,722)	(1,635)
Ending balance	$ 72,694	$ 64,785

Note 5 - Bonds Payable

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

Note 5 - Bonds Payable (Continued)

Changes in bonds are as follows (in thousands of dollars):

	Beginning Balance	Additions	Payments	Ending Balance
Revenue bonds:				
Section 8 assisted mortgage	$ 16,384	$ 1,752	$ 3,960	$ 14,176
Single-family mortgage	1,060,085	227,255	306,250	981,090
Multi-family housing	34,100	-	2,100	32,000
Rental housing	1,238,730	355,715	328,485	1,265,960
Insured rental housing	32,965	-	885	32,080
Multi-family	30,180	-	595	29,585
Total revenue bonds	2,412,444	$ 584,722	$ 642,275	2,354,891
Less deferred amounts	15,473			16,953
Total bonds - Net	$ 2,396,971			$ 2,337,938
Due within one year				$ 78,460

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

	2009	2008
Section 8 assisted mortgage revenue bonds -		
1983 Series I, 2010 to 2014, 10.875% *	$ 14,176	$ 16,384
Single-family mortgage revenue bonds:		
1997 Series D, 2018 to 2028, 5.65%	19,860	19,860
1998 Series B and C, 2009 to 2030, 4.70% to 5.20%	20,660	23,330
1999 Series B-2, 2024 variable rate	-	7,800
2000 Series A, 2016, variable rate	8,590	27,710
2000 Series C, 2020, variable rate	-	450
2001 Series A, 2009 to 2021, 4.70% to 5.35%	18,200	20,170
2002 Series A, 2020, variable rate	365	11,700
2003 Series B, 2009 to 2014, 3.25% to 4.30%	3,250	3,755
2003 Series C and D, 2030 to 2034, variable rate (Note 6)	28,970	28,970
2005 Series A, 2009 to 2030, 3.50% to 3.90%	19,485	22,635
2005 Series B and C, 2036, variable rate	100	52,965
2006 Series A, 2009 to 2030, 4.00% to 5.00%	37,015	38,895
2006 Series B and D, 2036, variable rate	100	99,620
2006 Series C, 2035, variable rate (Note 6)	61,090	73,190
2007 Series A, 2009 to 2039, 5.20% to 5.50%	12,275	19,035
2007 Series B and C, 2038 to 2039, variable rate (Note 6)	223,875	225,000
2007 Series D, E, F and G, 2038, variable rate (Note 6)	300,000	385,000
2009 Series A, B, and C, 2009 to 2022, 2.50% to 5.35%	122,835	-
2009 Series D, 2030, variable rate (Note 6)	104,420	-
Total single-family mortgage revenue bonds	981,090	1,060,085

Note 5 - Bonds Payable (Continued)

	2009	2008
Multi-family housing revenue bond -		
1988 Series A, 2011 to 2019, variable rate (Note 6)	$ 32,000	$ 34,100
Rental housing revenue bonds:		
1997 Series A, 2009 to 2033, 5.50% to 6.10%	23,045	23,635
1999 Series A, B, and C, 2009 to 2037, 4.35% to 5.30%	60,815	63,485
1999 Series D, 2014, variable rate	25	25
2000 Series A , 2035, variable rate (Note 6)	40,990	41,600
2001 Series A and B, 2010 to 2035, 3.50% to 6.35%	32,295	67,765
2001 Series C, 2010 to 2023, variable rate	29,615	32,655
2002 Series A and B, 2019 to 2037, variable rate (Note 6)	80,295	85,730
2003 Series A, 2023, variable rate	56,220	56,220
2003 Series B and D, 2015, variable rate	22,405	95,980
2003 Series C, 2009 to 2037, 6.25%	11,385	43,235
2004 Series B, 2009 to 2016, 3.00% to 4.15%	28,610	33,085
2004 Series A and C, 2020 to 2039, variable rate	-	111,405
2005 Series B, 2009 to 2015, 3.20% to 3.95%	21,405	24,285
2005 Series A and C, 2020 to 2040, variable rate (Note 6)	77,665	79,190
2006 Series A, 2040, variable rate (Note 6)	71,965	73,265
2006 Series B, 2009 to 2024, 3.55% to 4.45%	21,440	25,180
2006 Series C, 2041, variable rate (Note 6)	64,545	65,875
2006 Series D, 2009 to 2042, 4.10% to 5.20%	57,170	62,045
2007 Series A, 2042, variable rate (Note 6)	40,000	40,000
2007 Series B, 2009 to 2044, 3.80% to 4.95%	27,495	51,825
2007 Series C, 2042, variable rate (Note 6)	112,225	113,325
2007 Series D, 2009 to 2033, 3.65% to 5.40%	37,905	48,920
2008 Series A, C and D, 2023 to 2039, variable rate (Note 6)	195,990	-
2008 Series B and E, 2009 to 2043, 2.50% to 5.80%	52,585	-
2009 Series A, B-1 and B-2, 2009 to 2045, 1.50% to 6.00%	99,870	-
Total rental housing revenue bonds	1,265,960	1,238,730
Insured rental housing revenue bond -		
1998 Series A, 2009 to 2026, 6.84% to 6.89%	32,080	32,965
Multi-family revenue bond -		
1995 Series A, 2009 to 2030, 8.10% to 8.55%	29,585	30,180
Total revenue bonds	2,354,891	2,412,444
Less deferred amounts	16,953	15,473
Total	$ 2,337,938	$ 2,396,971

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
2010	$ 78,460	$ 96,781	$ 175,241
2011	88,801	93,970	182,771
2012	98,991	90,779	189,770
2013	78,506	87,452	165,958
2014	74,028	84,345	158,373
2015-2019	408,885	369,270	778,155
2020-2024	342,880	283,362	626,242
2025-2029	369,215	210,473	579,688
2030-2034	358,975	131,749	490,724
2035-2039	369,050	63,352	432,402
2040-2044	82,895	8,641	91,536
2045-2046	4,205	275	4,480
Total	$ 2,354,891	$ 1,520,449	$ 3,875,340

Early Retirement of Debt - Under provisions of the Authority's bond issues, the Authority is able to retire bonds, without the payment of call premiums, prior to their maturity dates from the proceeds of loan prepayments and foreclosures and, for certain bonds, from excess program revenues. Bonds retired pursuant to such provisions total $577,860,000 and $134,819,000 during the years ended June 30, 2009 and 2008, respectively. Such bond retirements, in the aggregate, resulted in a net gain of $2,412,000 and a net loss of $499,000 for the years ended June 30, 2009 and 2008, respectively. These losses represent the net write-off of related bond issuance costs and are recorded in interest expense and debt financing costs in the statement of revenue, expenses, and changes in net assets.

Note 6 - Demand Bonds

The following table summarizes the demand bonds outstanding at June 30, 2009, 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	$32,000	Merrill Lynch & Co.	Helaba	0.08%	0.260%	(7)	12/31/15
Single-family Mortgage Revenue Bonds							
2003 Series C	$24,400	Merrill Lynch & Co.	Dexia Credit Local	0.08%	0.1075%	(6)	11/25/11
2003 Series D	$4,570	Merrill Lynch & Co.	Dexia Credit Local	0.08%	0.1075%	(6)	11/25/11
2006 Series C	$61,090	Barclays Capital Inc.	Barclays Bank PLC	0.07%	0.950%	(12)	06/23/10
2007 Series B	$205,000	Barclays Capital Inc.	DEPFA Bank	0.07%	0.080%	(9)	07/11/14
2007 Series C	$18,875	Barclays Capital Inc.	DEPFA Bank	0.07%	0.080%	(9)	07/11/14
2007 Series D	$50,000	Bank of America Securities LLC	Bank of America, N.A.	0.10%	0.600%	(11)	11/04/09
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	$40,000	Barclays Capital Inc.	Bank of Nova Scotia	0.07%	0.195%	(5)	12/10/12
2009 Series D	$104,420	Barclays Capital Inc.	Barclays Bank PLC	0.10%	0.950%	(12)	06/23/10
Rental Housing Revenue Bonds							
2000 Series A	$40,990	Goldman Sachs & Co.	JP Morgan	0.10%	0.600%	(3)	09/29/09
2002 Series A	$55,600	Goldman Sachs & Co.	Helaba	0.10%	0.500%	(2)	09/30/10
2002 Series B	$24,695	Goldman Sachs & Co.	Helaba	0.10%	0.500%	(2)	09/30/10
2005 Series A	$70,200	Merrill Lynch & Co.	DEPFA Bank	0.07%	0.080%	(4)	09/21/12
2005 Series C	$7,465	Merrill Lynch & Co.	DEPFA Bank	0.07%	0.080%	(4)	09/21/12
2006 Series A	$71,965	Merrill Lynch & Co.	Fortis Bank	0.09%	0.110%	(8)	03/15/13
2006 Series C	$64,545	Merrill Lynch & Co.	Fortis Bank	0.09%	0.110%	(8)	07/25/13
2007 Series A	$40,000	Merrill Lynch & Co.	Fortis Bank	0.09%	0.110%	(8)	04/26/17
2007 Series C	$112,225	Merrill Lynch & Co.	Bank of Nova Scotia	0.07%	0.200%	(5)	12/17/12
2008 Series A	$99,300	JPMorgan	JPMorgan	0.10%	0.600%	(3)	09/21/09
2008 Series C	$31,435	Merrill Lynch & Co.	HELEBA	0.09%	0.500%	(2)	09/22/10
2008 Series D	$65,255	Merrill Lynch & Co.	HELEBA	0.09%	0.500%	(2)	09/22/10

(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 percent 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, 2009.

(3) While JP Morgan 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 percent 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 JP Morgan is "AA-/A-1+" at June 30, 2009.

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 (tax-exempt bonds) and 15 percent (taxable bonds), based on a 365-day year. On June 30, 2009, $63,125,000 of outstanding Rental Housing Revenue Bonds, 2005 Series A bonds was held in bank bond form by DEPFA. Standard & Poor's rating on DEPFA is "BBB/A-2" at June 30, 2009.

(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, 2009.

(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, 2009.

(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, 2009.

(8) While Fortis Bank is holding the bonds, they will bear interest at the greater of Fortis Bank's prime rate or the federal funds rate plus 0.50 percent per annum. The Authority agrees to cause the mandatory redemption of bonds outstanding, in 10 equal installments each April and October commencing on the first such date to occur following the 91st day after Fortis Bank becomes the bond holder. The Authority is required to pay Fortis Bank an annual 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 Fortis Bank is "AA-/A-1+" at June 30, 2009.

(9) 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, the base rate. Once the bonds have been held by DEPFA Bank for 91 days, they will bear interest at the base rate plus 1.15 percent. 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 the immediately succeeding April or October following the 91st day DEPFA purchased the bonds. The bonds will amortize in equal semiannual principal installments until the seventh 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 (tax-exempt bonds) and 15 percent (taxable bonds), based on a 365-day year. On June 30, 2009, $205,000,000 of outstanding Single-Family Mortgage Revenue Bonds, 2007 Series B bonds was held in bank bond form by DEPFA. Standard & Poor's rating on DEPFA is "BBB/A-2" at June 30, 2009.

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, 2009.

(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, 2009.

(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, 2009.

Note 7 - Deferred Mortgage Interest Income

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

Note 8 - Limited Obligation Bonds

The Act, as amended, authorizes the Authority to issue limited obligation bonds to finance multi-family housing. Such bonds are not general obligations of the Authority and the Authority has no liability for this debt. Such bonds are secured solely by revenues and property derived from or obtained in connection with the housing projects. Thus, with the exception of limited obligation bond financing fees, transactions related to these bonds are not reflected in the Authority's financial statements. At June 30, 2009, limited obligation bonds had been issued totaling approximately $787,268,000, of which 28 issues totaling $319,378,000 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 supplementary information for the system. The report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Funding Policy - Plan members are not required to make contributions. The Authority is required to contribute an actuarially determined rate for the defined benefit plan that ranged from 25.05 percent to 35.47 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 $4,068,000, $3,475,000, and $3,508,000 for the years ended June 30, 2009, 2008, and 2007, respectively, and are recorded in salaries and benefits expense.

Note 9 - Other Employee Benefits (Continued)

Postemployment Benefits - In addition, the Authority participates in the State of Michigan's postemployment benefits. The cost of retiree 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, 2009 ranged from 1.35 percent to 11.80 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 $2,360,000 and $2,230,000 for the years ended June 30, 2009 and 2008, respectively. The estimated minimum annual payments under this lease are as follows:

2010		$ 2,470,160
2011		2,579,036
2012		2,687,912
2013		2,796,789
2014		2,905,665
2015-2019		16,161,466
2020-2021		7,226,719
	Total	$ 36,827,747

Note 11 - Restricted Net Assets

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

	2009	2008
Pledged for payment of:		
All bond issues (capital reserve account)	$ 63,948	$ 53,982
Section 8 assisted mortgage revenue bonds	4,378	5,168
Single-family mortgage revenue bonds	129,959	101,373
Multi-family 1988 housing revenue bonds	1,457	654
Rental housing revenue bonds	152,511	130,239
Insured rental housing revenue bonds	3,996	3,575
Multi-family revenue bonds	738	140
Total	$ 356,987	$ 295,131

Note 12 - Contingencies

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

Note 13 - Commitments

As of June 30, 2009 and 2008, the Authority has commitments to issue multi-family mortgage loans in the amounts of $57,889,000 and $107,638,000, respectively, and single-family mortgage loans in the amounts of $3,352,000 and $114,557,000, 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 $702,000 and $680,000 for the years ended June 30, 2009 and 2008, respectively.

Note 13 - Commitments (Continued)

In addition, the Authority makes available up to approximately $1,000,000 per year for up to 30 years to subsidize rents in a similar fashion for 20 percent of the units in certain other developments financed or to be financed under its multi-family mortgage lending program. Under this program, the Authority is entitled to receive a portion of any excess cash flow generated by the developments as well as a share of the profits from the sale of the developments and is able to reduce the rent subsidies if the interest rates being charged by the Authority on the related mortgage loans are below certain preset levels. Subsidy repayment did not exceed subsidy disbursements for the years ended June 30, 2009 and 2008.

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 $328,000 and $777,000 for the years ended June 30, 2009 and 2008, respectively.

Finally, the Authority also makes available interest-free loans of up to $25,000 annually to developments that incur increased operating costs because of their small size (less than 100 rental units) and up to $25,000 annually for developments that incur increased security costs due to their location. The loans are repayable from excess development revenues and are also repayable upon repayment of the first mortgage loan. Disbursements under this program totaled $395,000 and $489,000 for the years ended June 30, 2009 and 2008, respectively.

Grants and Subsidies

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

Note 14 - Off-balance-sheet Financial Instruments

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

The following summarizes the interest rate swap contracts at June 30, 2009:

Associated Debt/Swap Agreement	Notional Amount as of June 30, 2009	Termination Date	Rate	Fixed Rate	Optional Termination Date/Without Payment (9)	Market (Payment)/ to Terminate Swap	Type of Risk Associated With Swap Contract (4)(8)
Rental housing revenue bonds:							
2000 Series A (1)	$ 40,990,000	10/01/20	70% of 1 M LIBOR	4.960%	NA	$ (8,351,313)	(5)(6)(7)
2001 Series C (1)	29,615,000	04/01/23	SIFMA	4.770%	NA	(3,209,813)	
2002 Series A (1)	55,600,000	04/01/37	70% of 1 M LIBOR	4.560%	NA	(12,126,961)	(5)(6)
2002 Series B (1)	24,695,000	04/01/19	70% of 1 M LIBOR	3.535%	NA	(1,393,003)	(5)(6)
2005 Series A (3)	70,200,000	04/01/40	65% of 1 M LIBOR+0.23%	3.5135%	10/01/25	(4,312,839)	(5)(6)
2006 Series A (3)	71,965,000	10/01/40	65% of 3 M LIBOR+0.16%	3.5140%	04/01/26	(4,759,129)	(5)(6)
2006 Series C (3)	64,545,000	04/01/41	61% of 1 M LIBOR+0.40%	3.996%	10/01/26	(7,618,204)	(5)(6)
2007 Series A (3)	30,000,000	04/01/42	65% of 3 M LIBOR+0.16%	3.378%	04/01/27	(1,575,259)	(5)(6)
2007 Series C (3)	84,525,000	10/01/42	61% of 1 M LIBOR+0.40%	3.564%	10/01/22	(5,501,666)	(5)(6)
2008 Series A (1)	35,485,000	04/01/23	SIFMA+0.10%	5.350%	NA	(5,736,480)	
2008 Series A (1)	61,085,000	10/01/37	70% of 1 M LIBOR	4.197%	10/01/12	(6,313,095)	(5)(6)
2008 Series D (3)	24,480,000	10/01/39	65% of 1 M LIBOR+0.23%	3.705%	10/01/24	(1,999,593)	(5)(6)
2008 Series D (3)	40,775,000	10/01/39	65% of 3 M LIBOR+0.16%	3.597%	10/01/24	(2,941,386)	(5)(6)
Subtotal	633,960,000					(65,838,741)	
Single-family mortgage revenue bonds:							
2003 Series C (3)	8,170,000	12/01/20	65% of 1 M LIBOR+0.23%	3.512%	12/01/13	$ (391,732)	(5)(6)(7)
2003 Series C (3)	13,090,000	06/01/30	65% of 1 M LIBOR+0.23%	4.347%	12/01/06	(698,481)	(5)(6)
2006 Series C (2)	50,645,000	06/01/33	Floating Rate (10)	4.417%	12/01/19	(6,815,204)	(5)(6)(7)
2007 Series B (2)	65,000,000	06/01/38	Floating Rate (10)	4.156%	06/01/17	(5,799,977)	(5)(6)
2007 Series C (2)	17,280,000	12/01/16	Floating Rate (10)	5.165%	NA	(1,516,298)	(5)(6)
2007 Series B (2)	35,000,000	06/01/38	Floating Rate (10)	4.2524%	06/01/17	(3,430,184)	(5)(6)
2007 Series B (2)	35,000,000	06/01/38	Floating Rate (10)	4.4435%	06/01/17	(4,029,317)	(5)(6)
2007 Series B (2)	35,000,000	06/01/38	Floating Rate (10)	4.5032%	12/01/10	(2,465,253)	(5)(6)
2007 Series B (2)	35,000,000	06/01/38	Floating Rate (10)	4.3580%	12/01/10	(2,175,745)	(5)(6)
2007 Series D (2)	35,000,000	12/01/38	Floating Rate (10)	4.1156%	12/01/14	(2,805,489)	(5)(6)
2007 Series E (2)	35,000,000	12/01/38	Floating Rate (10)	4.0187%	12/01/17	(2,765,387)	(5)(6)
2007 Series E (2)	35,000,000	12/01/38	Floating Rate (10)	3.9270%	12/01/17	(2,455,712)	(5)(6)
2007 Series E (2)	55,000,000	12/01/38	Floating Rate (10)	3.8460%	12/01/17	(3,573,942)	(5)(6)
2007 Series F (2)	50,000,000	12/01/38	Floating Rate (10)	4.1647%	12/01/14	(4,227,947)	(5)(6)
2007 Series F (2)	35,000,000	12/01/38	Floating Rate (10)	4.3399%	12/01/14	(4,659,123)	(5)(6)
2009 Series D (2)	13,635,000	12/01/25	Floating Rate (10)	4.1650%	12/01/10	(725,531)	(5)(6)
2009 Series D (2)	20,870,000	06/01/30	Floating Rate (10)	4.0640%	12/01/14	(1,498,993)	(5)(6)
2009 Series D (2)	69,915,000	06/01/30	Floating Rate (10)	4.5740%	12/01/12	(7,728,783)	(5)(6)
Subtotal	643,605,000					(57,763,098)	
Total	$ 1,277,565,000					$ (123,601,839)	

Note 14 - Off-balance-sheet Financial Instruments (Continued)

(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, 2009.

(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, 2009.

(3) Counterparty risk is the risk that the swap counterpart will not fulfill its obligations set forth under the terms and conditions of the swap contract. The counterparty associated with these bonds is Merrill Lynch Capital Services, Inc. (MLES) or Merrill Lynch Derivative Products (MLDP). MLDP is rated AAA by S&P and Aa1 by Moody's as of June 30, 2009. MLES is not rated by Moody's or S&P.

(4) Termination risk is the risk that the swap could be terminated by the counterparty due to any of several events, which may include an Authority or counterparty ratings downgrade, covenant violation by either party, bankruptcy of either party, swap payment default by either party, and default events as defined in the Authority's bond indentures. All contracts have this risk.

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

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

(10) The Authority may enter into interest rate swap agreements where the floating rate is one of the following: the Authority's cost of funds, a percentage of 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.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 53, *Accounting and Financial Reporting for Derivative Instruments*. The new pronouncement provides a comprehensive framework for the measurement, recognition, and disclosure of derivative instrument transactions in the financial statements. The new rules will cause the financial statements to report a fair value for certain derivative investments that have in the past only been disclosed in the notes. This new requirement will change how MSHDA reports its interest rate swap agreements in the financial statements. The new pronouncement is effective for the year ending June 30, 2010.

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

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, 2009. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplemental information listed in the table of contents is presented for purpose of additional analysis and is not a required part of the basic financial statements of 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 22, 2009

Michigan State Housing Development Authority

Statement of Net Assets Information
June 30, 2009
(in thousands of dollars)

	Activities				
	Section 8 Assisted Mortgage Revenue Bonds	Home Improvement Program Bonds	Single-family Mortgage Revenue Bonds	Multi-family Housing Revenue Bonds	Rental Housing Revenue Bonds
Assets					
Cash and Investments					
Cash and cash equivalents	$ 368	$ 57	$ 29,443	$ 3,448	$ 182,556
Investments	8,455	-	44,124	-	44,944
Total cash and investments	8,823	57	73,567	3,448	227,500
Loans Receivable					
Multi-family mortgage loans:					
Construction in progress	-	-	-	-	78,670
Completed construction	6,462	-	-	28,834	1,180,038
Housing development loans	-	-	-	-	-
Single-family mortgage loans	-	34	1,042,571	-	-
Home improvement and moderate rehabilitation loans	-	2,874	-	-	-
Total	6,462	2,908	1,042,571	28,834	1,258,708
Accrued loan interest receivable	48	16	7,203	229	16,638
Allowance on loans receivable	-	(165)	(6,262)	(289)	(44,284)
Loan origination fees	(63)	-	(208)	-	(447)
Net loans receivable	6,447	2,759	1,043,304	28,774	1,230,615
Other Assets					
Unamortized bond financing costs	4	-	3,038	48	3,483
Real estate owned	-	2	20,466	2	27,096
Other	-	2	13,224	-	-
Interfund accounts	3,473	2,944	(43,645)	1,140	(28,959)
Total other assets	3,477	2,948	(6,917)	1,190	1,620
Total assets	**$ 18,747**	**$ 5,764**	**$ 1,109,954**	**$ 33,412**	**$ 1,459,735**
Liabilities and Net Assets					
Liabilities					
Bonds payable	$ 14,369	$ -	$ 975,655	$ 31,929	$ 1,254,822
Accrued interest payable	-	-	3,645	15	9,943
Escrow funds	-	-	-	-	384
Deferred mortgage interest income	-	-	-	-	41,050
Other liabilities	-	-	695	11	1,025
Total liabilities	14,369	-	979,995	31,955	1,307,224
Net Assets	4,378	5,764	129,959	1,457	152,511
Total liabilities and net assets	**$ 18,747**	**$ 5,764**	**$ 1,109,954**	**$ 33,412**	**$ 1,459,735**

Michigan State Housing Development Authority

Statement of Net Assets Information (Continued)
June 30, 2009
(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	$ 231	$ 3,884	$ 26,510	$ 2,044	$ 13,640	$ 15,953	$ 278,134
Investments	3,417	3,905	7,642	61,904	452,247	7,613	634,251
Total cash and investments	3,648	7,789	34,152	63,948	465,887	23,566	912,385
Loans Receivable							
Multi-family mortgage loans:							
Construction in progress	-	-	9,337	-	-	-	88,007
Completed construction	34,202	30,286	88,322	-	-	58,164	1,426,308
Housing development loans	-	-	-	-	-	8,470	8,470
Single-family mortgage loans	-	-	11,384	-	-	-	1,053,989
Home improvement and moderate rehabilitation loans	-	-	6,557	-	-	-	9,431
Total	34,202	30,286	115,600	-	-	66,634	2,586,205
Accrued loan interest receivable	1,545	2,512	3,906	-	-	6,208	38,305
Allowance on loans receivable	(3,781)	(2,220)	(15,504)	-	-	(189)	(72,694)
Loan origination fees	-	-	(11,840)	-	-	-	(12,558)
Net loans receivable	31,966	30,578	92,162	-	-	72,653	2,539,258
Other Assets							
Unamortized bond financing costs	96	61	-	-	-	-	6,730
Real estate owned	-	778	1,967	-	-	-	50,311
Other	-	-	20,524	-	-	2,096	35,846
Interfund accounts	5	(8,422)	1,104	-	61,769	10,591	-
Total other assets	101	(7,583)	23,595	-	61,769	12,687	92,887
Total assets	**$ 35,715**	**$ 30,784**	**$ 149,909**	**$ 63,948**	**$ 527,656**	**$ 108,906**	**$ 3,544,530**
Liabilities and Net Assets							
Liabilities							
Bonds payable	$ 31,536	$ 29,627	$ -	$ -	$ -	$ -	$ 2,337,938
Accrued interest payable	183	419	-	-	-	-	14,205
Escrow funds	-	-	174	-	527,656	(93,390)	434,824
Deferred mortgage interest income	-	-	-	-	-	-	41,050
Other liabilities	-	-	17,210	-	-	13,106	32,047
Total liabilities	31,719	30,046	17,384	-	527,656	(80,284)	2,860,064
Net Assets	3,996	738	132,525	63,948	-	189,190	684,466
Total liabilities and net assets	**$ 35,715**	**$ 30,784**	**$ 149,909**	**$ 63,948**	**$ 527,656**	**$ 108,906**	**$ 3,544,530**

Statement of Revenue, Expenses, and Changes in Net Assets Information
Year Ended June 30, 2009
(in thousands of dollars)

	Activities				
	Section 8 Assisted Mortgage Revenue Bonds	Home Improvement Program Bonds	Single-family Mortgage Revenue Bonds	Multi-family Housing Revenue Bonds	Rental Housing Revenue Bonds
Operating Revenue					
Investment income:					
Loan interest income	$ 609	$ 166	$ 57,049	$ 1,406	$ 88,751
Investment interest income	248	1	4,053	19	2,423
Increase in fair value of investments - Including change in unrealized gains	37	-	702	-	2,700
Total investment income	894	167	61,804	1,425	93,874
Less interest expense and debt financing costs	1,684	-	53,374	643	66,250
Net investment income	(790)	167	8,430	782	27,624
Other revenue:					
Federal assistance programs	-	-	-	-	-
Section 8 program administrative fees	-	-	-	-	-
Contract administration fees	-	-	-	-	-
Other income	-	-	10	-	78
Total operating revenue	(790)	167	8,440	782	27,702
Operating Expenses					
Federal assistance programs	-	-	-	-	-
Salaries and benefits	-	-	-	-	-
Other general operating expenses	-	-	-	-	-
Loan servicing and insurance costs	-	194	852	-	-
Provision for possible losses on loans	-	39	5,312	(21)	6,314
Total operating expenses	-	233	6,164	(21)	6,314
Operating Income (Loss) Before Nonoperating Expenses	(790)	(66)	2,276	803	21,388
Nonoperating Expenses - Grants and subsidies	-	-	-	-	-
Change in Net Assets	(790)	(66)	2,276	803	21,388
Net Assets - Beginning of year	5,168	5,830	101,373	654	130,239
Transfers (to) from Other Funds for Payment of Operating Fund Expenses	-	-	-	-	(1,585)
Funding to Provide Additional Cash Flow and Payment of Bond Issuance Costs	-	-	26,310	-	2,469
Net Assets - End of year	**$ 4,378**	**$ 5,764**	**$ 129,959**	**$ 1,457**	**$ 152,511**

Michigan State Housing Development Authority

Statement of Revenue, Expenses, and Changes in Net Assets Information (Continued)
Year Ended June 30, 2009
(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	$ 2,962	$ 2,751	$ 9,243	$ -	$ 2,498	$ 165,435
Investment interest income	54	184	1,423	6,589	6,234	21,228
Increase in fair value of investments - Including change in unrealized gains	(34)	108	115	3,377	-	7,005
Total investment income	2,982	3,043	10,781	9,966	8,732	193,668
Less interest expense and debt financing costs	2,311	2,615	469	-	-	127,346
Net investment income	671	428	10,312	9,966	8,732	66,322
Other revenue:						
Federal assistance programs	-	-	474,613	-	-	474,613
Section 8 program administrative fees	-	-	14,158	-	-	14,158
Contract administration fees	-	-	8,713	-	-	8,713
Other income	1	-	5,034	-	4,074	9,197
Total operating revenue	672	428	512,830	9,966	12,806	573,003
Operating Expenses						
Federal assistance programs	-	-	474,613	-	-	474,613
Salaries and benefits	-	-	26,676	-	-	26,676
Other general operating expenses	-	-	29,852	-	-	29,852
Loan servicing and insurance costs	-	-	1,703	-	-	2,749
Provision for possible losses on loans	251	(170)	(283)	-	189	11,631
Total operating expenses	251	(170)	532,561	-	189	545,521
Operating Income (Loss) Before Nonoperating Expenses	421	598	(19,731)	9,966	12,617	27,482
Nonoperating Expenses - Grants and subsidies	-	-	(1,475)	-	(21,967)	(23,442)
Change in Net Assets	421	598	(21,206)	9,966	(9,350)	4,040
Net Assets - Beginning of year	3,575	140	166,125	53,982	213,340	680,426
Transfers (to) from Other Funds for Payment of Operating Fund Expenses	-	-	1,585	-	-	-
Funding to Provide Additional Cash Flow and Payment of Bond Issuance Costs	-	-	(13,979)	-	(14,800)	-
Net Assets - End of year	**$ 3,996**	**$ 738**	**$ 132,525**	**$ 63,948**	**$ 189,190**	**$ 684,466**

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*

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

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, 2009 and 2008 and have issued our reports thereon dated October 22, 2009 and October 22, 2008, respectively. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Authority's internal control over financial reporting 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.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the control deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

The Michigan State Housing Development Authority's response to the finding 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 22, 2009

Reference Number	Findings
2009-1	**Finding Description** - Lack of timeliness of reconciliation preparation

Finding Type - Significant deficiency

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

Condition - The monthly bank and loans receivable reconciliations were not performed in a timely manner, which would typically be by the end of the following month.

Context - The Authority reconciles various accounts on a several-month lag. During interim testing in July 2009, the bank and investment reconciliations had only been completed through December 2008 and February 2009, respectively. The multi-family reconciliation in February 2009 was only partially completed.

Cause - The client is aware of the delay in the reconciliation process; however, the Authority's internal control procedures do not require the reconciliations to be completed by a specified deadline.

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 - In response to Plante & Moran, PLLC's finding, "lack of timeliness of reconciliation preparation," the finance division of the Michigan State Housing Development Authority acknowledges this as an issue that needs to be improved. The Authority is in the process of implementing a new accounting system. The design and preparation for this move began in late 2008, with pieces of the general ledger and payables systems migrating during 2009. The implementation will continue throughout the remainder of 2009 and into 2010.

We believe that once the new system is in place, we will get accounts reconciled by the end of each following month.