Michigan State Housing Development Authority

(a component unit of the State of Michigan)

Financial Report

with Supplemental Information

June 30, 2010

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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, 2010 and 2009, 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, 2010 and 2009 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 25, 2010 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 25, 2010

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, 2010, 2009, and 2008:

Condensed Financial Information
(in thousands of dollars)

	2010	2009	2008
Assets			
Investments	$ 798,296	$ 634,251	$ 790,849
Loans receivable - Net	2,459,520	2,539,258	2,373,286
Other assets	697,828	473,389	480,775
Total assets	3,955,644	3,646,898	3,644,910
Liabilities			
Bonds payable	2,669,673	2,440,306	2,467,853
Other liabilities	592,328	522,126	496,631
Total liabilities	3,262,001	2,962,432	2,964,484
Net Assets			
Restricted	405,744	356,987	295,131
Unrestricted	287,899	327,479	385,295
Total net assets	**$ 693,643**	**$ 684,466**	**$ 680,426**

	2010	2009	2008
Revenue			
Net investment income	$ 66,036	$ 66,322	$ 69,875
Federal assistance programs revenue	536,464	474,613	458,951
Section 8 program administrative fees	16,084	14,158	14,388
Contract administration fees	8,826	8,713	8,253
Other income	16,434	9,197	13,905
Total revenue	643,844	573,003	565,372
Expenses			
Federal assistance programs expenses	536,464	474,613	458,951
Salaries and benefits	29,686	26,676	25,226
Other general operating expenses	31,117	29,852	22,732
Other expenses	15,995	14,380	10,004
Total expenses	613,262	545,521	516,913
Grants and Subsidies	21,405	23,442	20,337
Change in Net Assets	**$ 9,177**	**$ 4,040**	**$ 28,122**

Financial Analysis

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. Total assets increased from $3.64 billion at June 30, 2008 to $3.65 billion at June 30, 2009. This was an increase of approximately $2.0 million, or 0.01 percent.

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 the Authority's offered single-family mortgage rates being higher than conventional mortgage interest rates (net decrease of $39.7 million) and a reduction in the closing of multi-family mortgages (net decrease of $40.8 million). Net loans receivable increased from $2.37 billion at June 30, 2008 to $2.54 billion 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).

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. Bonds payable decreased from $2.47 billion at June 30, 2008 to $2.44 billion at June 30, 2009, a net decrease of approximately $27.5 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.

Escrow funds, which are recorded in other liabilities, 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. 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.

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, $168.1 million is designated by board resolution, represented by the Community Development Fund. The Authority's net assets totaled $684.5 million at June 30, 2009, equal to 18.8 percent of total assets and 23.1 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.

Operating Results

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. 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 $3.4 million. Results for the year ended June 30, 2009 were positively impacted by an increase of approximately $5.0 million. Currently, GASB Statement No. 31 has had a cumulative positive effect of $12.6 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, 2009 resulted in excess of revenue over expenses of $4.0 million, compared to prior year results of $28.1 million.

Net investment 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. This is due to lower loan balances. Investment interest income decreased $1.6 million from June 30, 2009 to June 30, 2010. Interest expense is lower than the prior year by $16.3 million due to unprecedented negative changes in the credit markets. The Authority's variable rate demand obligations (VRDOs) had begun to trade poorly in 2008 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. 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 noted above.

Total revenue increased from $573.0 million for the year ended June 30, 2009 to $643.8 million for the year ended June 30, 2010, a net increase of $70.8 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 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.

Total operating expenses increased from $545.5 million for the year ended June 30, 2009 to $613.2 million for the year ended June 30, 2010, a net increase of $67.7 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. 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.

Statement of Net Assets
(in thousands of dollars)

	June 30 2010	June 30 2009
Assets		
Cash and Cash Equivalents (Note 3)	$ 416,415	$ 278,134
Investments (Note 3)	798,296	634,251
Loans Receivable		
Multi-family mortgage loans	1,481,961	1,522,785
Single-family mortgage loans	1,014,249	1,053,989
Home improvement and moderate rehabilitation loans	10,220	9,431
Total (Note 4)	2,506,430	2,586,205
Accrued loan interest receivable	45,040	38,305
Allowance on loans receivable (Note 4)	(79,539)	(72,694)
Loan origination fees	(12,411)	(12,558)
Net loans receivable	2,459,520	2,539,258
Other Assets		
Unamortized bond financing costs	7,209	6,730
Real estate owned	76,378	50,311
Other (Note 14)	197,826	138,214
Total other assets	281,413	195,255
Total assets	**$ 3,955,644**	**$ 3,646,898**
Liabilities and Net Assets		
Liabilities		
Bonds payable (Notes 5, 6, and 14)	$ 2,669,673	$ 2,440,306
Accrued interest payable	13,007	14,205
Escrow funds	498,688	434,824
Deferred mortgage interest income (Note 7)	40,570	41,050
Other liabilities	40,063	32,047
Total liabilities	3,262,001	2,962,432
Net Assets		
Restricted (Note 11)	405,744	356,987
Unrestricted	287,899	327,479
Total net assets	693,643	684,466
Total liabilities and net assets	**$ 3,955,644**	**$ 3,646,898**

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 2010	Year Ended June 30 2009
Operating Revenue		
Investment income:		
Loan interest income	$ 152,960	$ 165,435
Investment interest income	19,622	21,228
Increase in fair value of investments - Including change in unrealized gains of $3,376 in 2010 and $4,959 in 2009	4,516	7,005
Total investment income	177,098	193,668
Less interest expense and debt financing costs	111,062	127,346
Net investment income	66,036	66,322
Other revenue:		
Federal assistance programs	536,464	474,613
Section 8 program administrative fees	16,084	14,158
Contract administration fees	8,826	8,713
Other income	16,434	9,197
Total other revenue	577,808	506,681
Total operating revenue	643,844	573,003
Operating Expenses		
Federal assistance programs	536,464	474,613
Salaries and benefits	29,686	26,676
Other general operating expenses	31,117	29,852
Loan servicing and insurance costs	2,714	2,749
Provision for possible losses on loans	13,281	11,631
Total operating expenses	613,262	545,521
Operating Income Before Nonoperating Expenses	30,582	27,482
Nonoperating Expenses - Grants and subsidies	(21,405)	(23,442)
Change in Net Assets	9,177	4,040
Net Assets - Beginning of year	684,466	680,426
Net Assets - End of year	**$ 693,643**	**$ 684,466**

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

Statement of Cash Flows
(in thousands of dollars)

	Year Ended June 30 2010	Year Ended June 30 2009
Cash Flows from Operating Activities		
Loan receipts	$ 282,924	$ 284,037
Other receipts	661,269	590,752
Loan disbursements	(94,615)	(331,031)
Payments to vendors	(69,505)	(68,348)
Payments to employees	(19,727)	(17,585)
Other disbursements	(608,291)	(566,347)
Net cash provided by (used in) operating activities	152,055	(108,522)
Cash Flows from Investing Activities		
Purchase of investments	(727,794)	(856,136)
Proceeds from sale and maturities of investments	608,502	1,053,096
Interest received on investments	16,555	20,791
Net cash (used in) provided by investing activities	(102,737)	217,751
Cash Flows from Noncapital Financing Activities		
Proceeds from issuance of bonds, less discounts	354,816	581,608
Principal repayments on bonds	(166,296)	(642,275)
Interest paid	(99,557)	(120,893)
Net cash provided by (used in) noncapital financing activities	88,963	(181,560)
Net Increase (Decrease) in Cash and Cash Equivalents	138,281	(72,331)
Cash and Cash Equivalents - Beginning of year	278,134	350,465
Cash and Cash Equivalents - End of year	**$ 416,415**	**$ 278,134**

(In thousands of dollars)

	Year Ended June 30 2010	Year Ended June 30 2009
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	$ 30,582	$ 27,482
Adjustments to reconcile operating income to net cash from operating activities:		
Amortization of deferred items - Net	3,207	1,529
Arbitrage rebate expense	(906)	(8,006)
Investment interest income	(24,138)	(28,233)
Increase in realized and unrealized gain on market value of investments	(59,658)	(47,283)
Interest expense on bonds	111,271	129,759
Provision for possible losses on loans	13,281	11,631
Grants and subsidies	(21,405)	(23,442)
Changes in assets and liabilities:		
Accrued loan interest receivable	(6,735)	(1,605)
Loans receivable	79,775	(172,407)
Other assets	(45,100)	(33,458)
Escrow funds	63,864	42,405
Other liabilities	8,017	(6,894)
Net cash provided by (used in) operating activities	**$ 152,055**	**$ (108,522)**

Noncash Financing and Investing Activities - During the years ended June 30, 2010 and 2009, the Authority foreclosed on various properties with mortgage values of approximately $49.9 million and $46.3 million, respectively. Additionally, to implement GASB Statement No. 53, bonds payable and deferred charges were both increased at June 30, 2010 and 2009 by $41,059 and $102,368, 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 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.

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.

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, 2010 and 2009 totaled $4,039,576 and $3,337,646, 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.

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.

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.

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.

Note 2 - Summary of Significant Accounting Policies (Continued)

Accounting Change - Effective July 1, 2009, the Authority implemented the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement requires derivative instruments (such as interest rate swap agreements) to be reported at fair value. In addition, for derivative instruments that qualify as effective hedges, changes in fair value will be reported as deferrals in the statement of net assets, while changes in the fair market value of the derivative instruments that do not qualify as effective hedges, including investment derivative instruments, will be reported as investment income.

This pronouncement was implemented by retrospectively applying its effect to prior periods. To implement this new pronouncement, bonds payable and deferred charges were both increased at June 30, 2009 by $102,368. Because all hedges are deemed to be effective hedges, there was no impact on the change in net assets for either 2009 or 2010.

Note 3 - Deposits and Investments

Cash, cash equivalents, and investments held by the Authority at June 30, 2010 and 2009 were as follows (in thousands of dollars):

	Cash and Cash Equivalents	Investments	Total
2010			
Deposits	$ -	$ 750	$ 750
Investments	416,415	797,546	1,213,961
Total	$ 416,415	$ 798,296	$ 1,214,711
2009			
Deposits	$ -	$ 620	$ 620
Investments	278,134	633,631	911,765
Total	$ 278,134	$ 634,251	$ 912,385

Note 3 - Deposits and Investments (Continued)

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.

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, 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. At June 30, 2009, the Authority had approximately $1,978,000 of bank deposits (certificates of deposit, checking, and savings accounts) and of that balance all was insured or collateralized. 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 $4,000 and $966,768 for the years ended June 30, 2010 and 2009, 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:

Type of Investment	Carrying Value (in thousands of dollars) 2010	2009	How Held
Investment agreements	$ 11,470	$ 11,114	Counterparty's trust dept.
U.S. government securities	267,771	220,433	Counterparty's trust dept.
Mortgage-backed securities	481,962	432,894	Counterparty's trust dept.
U.S. government agency securities	33,401	63,488	Counterparty's trust dept.
U.S. government money market funds	407,999	167,988	Counterparty's trust dept.
Michigan municipal securities	-	3,039	Counterparty's trust dept.

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

Type of Investment	Fair Value	Less than One Year	1-5 Years	6-10 Years	More Than 10 Years
2010					
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	-	-	-
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
U.S. government money market funds	167,988	167,988	-	-	-
Michigan municipal securities	3,039	-	-	-	3,039

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
2010			
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

Investment	Fair Value	Rating	Rating Organization
2009			
Investment agreements	$ 10,294	A+	S&P
Investment agreements	820	A	S&P
Investment agreements			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

Concentration of Credit Risk

The Authority has 17 percent and 9 percent of its investment portfolio invested in the securities of government-sponsored enterprises as of June 30, 2010 and 2009, 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 $512,376,000 and $463,876,000 at June 30, 2010 and 2009, 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):

	2010	2009
Loans receivable:		
FHA insured, VA, or Department of Agriculture guaranteed	$ 634,064	$ 650,481
Insured by private mortgage insurance companies	306,057	327,443
Uninsured	1,566,309	1,608,281
Total loans receivable	$ 2,506,430	$ 2,586,205

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

	2010	2009
Beginning balance	$ 72,694	$ 64,785
Provision for possible losses on loans	13,281	11,631
Write-offs of uncollectible losses - Net of recoveries	(6,436)	(3,722)
Ending balance	$ 79,539	$ 72,694

Note 5 - Bonds Payable

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

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

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 homeownership	-	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

Note 5 - Bonds Payable (Continued)

As of June 30, 2009

	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
Due within one year				$ 78,460

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

	2010	2009
Section 8 assisted mortgage revenue bonds -		
1983 Series I, 2010 to 2014, 10.875% *	$ 11,692	$ 14,176
Single-family Homeownership Revenue Bonds -		
2009 Series A, 2041, variable rate	350,000	-
Single-family mortgage revenue bonds:		
1997 Series D, 2019 to 2028, 5.65%	19,155	19,860
1998 Series B and C, 2010 to 2030, 4.80% to 5.20%	17,030	20,660
2000 Series A, 2016, variable rate	-	8,590
2001 Series A, 2011 to 2021, 4.80% to 5.35%	16,460	18,200
2002 Series A, 2020, variable rate	-	365
2003 Series B, 2010 to 2014, 3.50% to 4.30%	2,720	3,250
2003 Series C and D, 2030 to 2034, variable rate (Note 6)	26,670	28,970
2005 Series A, 2010 to 2014, 3.70% to 4.15%	6,290	19,485
2005 Series B and C, 2036, variable rate	-	100
2006 Series A, 2010 to 2030, 4.00% to 5.00%	32,110	37,015
2006 Series B and D, 2036, variable rate	-	100
2006 Series C, 2035, variable rate (Note 6)	60,150	61,090
2007 Series A, 2015 to 2039, 5.20% to 5.50%	9,005	12,275
2007 Series B and C, 2038 to 2039, variable rate (Note 6)	223,875	223,875
2007 Series D, E, F and G, 2038, variable rate (Note 6)	292,680	300,000
2009 Series A, B, and C, 2010 to 2022, 2.50% to 5.35%	111,180	122,835
2009 Series D, 2030, variable rate (Note 6)	104,420	104,420
Total single-family mortgage revenue bonds	921,745	981,090

Note 5 - Bonds Payable (Continued)

	2010	2009
Multi-family housing revenue bond -		
1988 Series A, 2010 to 2018, variable rate (Note 6)	$ 29,700	$ 32,000
Rental housing revenue bonds:		
1997 Series A, 2010 to 2033, 5.625% to 6.10%	18,370	23,045
1999 Series A, B, and C, 2010 to 2037, 4.45% to 5.30%	57,740	60,815
1999 Series D, 2014, variable rate	25	25
2000 Series A, 2035, variable rate (Note 6)	40,345	40,990
2001 Series A and B, 2011 to 2035, 3.875% to 6.35%	31,490	32,295
2001 Series C, 2023, variable rate	11,635	29,615
2002 Series A and B 2019 to 2037, variable rate (Note 6)	74,645	80,295
2003 Series A, 2023, variable rate	56,220	56,220
2003 Series B and D, 2015, variable rate	-	22,405
2003 Series C, 2010 to 2037, 6.25%	11,345	11,385
2004 Series B, 2010 to 2016, 3.25% to 4.15%	24,030	28,610
2005 Series B, 2010 to 2015, 3.35% to 3.95%	18,430	21,405
2005 Series A, 2040, variable rate (Note 6)	69,085	77,665
2006 Series A, 2040, variable rate (Note 6)	70,620	71,965
2006 Series B, 2010 to 2024, 3.60% to 4.45%	17,565	21,440
2006 Series C, 2041, variable rate (Note 6)	63,130	64,545
2006 Series D, 2010 to 2042, 4.20% to 5.20%	55,870	57,170
2007 Series A, 2042, variable rate (Note 6)	39,735	40,000
2007 Series B, 2010 to 2044, 3.90% to 4.95%	26,690	27,495
2007 Series C, 2042, variable rate (Note 6)	106,725	112,225
2007 Series D, 2010 to 2033, 3.70% to 5.40%	36,550	37,905
2008 Series A, C and D, 2023 to 2039, variable rate (Note 6)	191,425	195,990
2008 Series B and E, 2010 to 2043, 2.75% to 5.80%	47,355	52,585
2009 Series A, B-1 and B-2, 2010 to 2045, 2.00% to 6.00%	97,835	99,870
Total rental housing revenue bonds	1,166,860	1,265,960
Insured rental housing revenue bond -		
1998 Series A, 2010 to 2026, 6.84% to 6.89%	31,135	32,080
Multi-family revenue bond -		
1995 Series A, 2010 to 2030, 8.10% to 8.55%	28,940	29,585
Total revenue bonds	2,540,072	2,354,891
Off-market borrowings (Note 14)	24,398	21,197
Interest rate swaps (Note 14)	143,427	102,368
Deferred charges - Swap reassignment	(24,398)	(21,197)
Deferred charges - Bond discounts	(13,826)	(16,953)
Total	$ 2,669,673	$ 2,440,306

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
2011	$ 85,473	$ 95,938	$ 181,411
2012	92,877	92,797	185,674
2013	72,624	89,633	162,257
2014	68,712	86,673	155,385
2015	78,760	83,598	162,358
2016-2020	366,475	365,969	732,444
2021-2025	317,620	285,610	603,230
2026-2030	383,245	209,500	592,745
2031-2035	343,065	127,761	470,826
2036-2040	323,105	52,941	376,046
2041-2045	408,116	6,487	414,603
Total	$ 2,540,072	$ 1,496,907	$ 4,036,979

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 $93,145,000 and $577,860,000 during the years ended June 30, 2010 and 2009, respectively. Such bond retirements, in the aggregate, resulted in a net gain of $209,000 and a net gain of $2,412,000 for the years ended June 30, 2010 and 2009, 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, 2010, 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	$29,700	Merrill Lynch & Co.	Helaba	0.08%	0.260%	(7)	01/26/12
Single-family Mortgage Revenue Bonds							
2003 Series C	$22,100	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	$60,150	Barclays Capital Inc.	Barclays Bank PLC	0.07%	0.900%	(12)	06/23/11
2007 Series B	$205,000	Barclays Capital Inc.	GSEs	0.07%	0.500%	(9)	12/22/12
2007 Series C	$18,875	Barclays Capital Inc.	GSEs	0.07%	0.500%	(9)	12/22/12
2007 Series D	$42,680	Bank of America Securities LLC	Bank of America, N.A.	0.10%	1.250%	(11)	11/04/10
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.	GSEs	0.10%	0.500%	(9)	12/22/12
Rental Housing Revenue Bonds							
2000 Series A	$40,345	Goldman Sachs & Co.	JP Morgan	0.10%	1.350%	(3)	09/29/10
2002 Series A	$54,590	Goldman Sachs & Co.	Helaba	0.10%	0.500%	(2)	09/30/10
2002 Series B	$20,055	Goldman Sachs & Co.	Helaba	0.10%	0.500%	(2)	09/30/10
2005 Series A	$69,085	Merrill Lynch & Co.	DEPFA Bank	0.07%	0.080%	(4)	09/21/12
2006 Series A	$70,620	Merrill Lynch & Co.	BNP Paribas	0.09%	0.110%	(8)	03/15/13
2006 Series C	$63,130	Merrill Lynch & Co.	BNP Paribas	0.09%	0.110%	(8)	07/25/13
2007 Series A	$39,735	Merrill Lynch & Co.	BNP Paribas	0.09%	0.110%	(8)	04/26/17
2007 Series C	$106,725	Merrill Lynch & Co.	Bank of Nova Scotia	0.07%	0.200%	(5)	12/17/12
2008 Series A	$97,815	JPMorgan	JPMorgan	0.10%	1.350%	(3)	09/21/10
2008 Series C	$29,565	Merrill Lynch & Co.	Helaba	0.09%	0.500%	(2)	09/22/10
2008 Series D	$64,045	Merrill Lynch & Co.	Helaba	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, 2010.

(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, 2010.

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, 2010.

(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, 2010.

(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, 2010.

(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, 2010.

(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, 2010.

(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, 2010.

(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, 2010.

(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, 2010.

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, 2010, limited obligation bonds had been issued totaling approximately $787,268,000, of which 29 issues totaling $328,298,000 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 35.47 percent to 37.26 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 $4,577,000, $4,068,000, and $3,475,000 for the years ended June 30, 2010, 2009, and 2008, 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, 2010 ranged from 11.8 percent to 11.9 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 $2,495,000 and $2,360,000 for the years ended June 30, 2010 and 2009, respectively. The estimated minimum annual payments under this lease are as follows:

2011		$ 2,609,756
2012		2,724,785
2013		2,839,814
2014		2,954,843
2015		3,069,872
2016-2021		7,635,122
	Total	$ 21,834,192

Note 11 - Restricted Net Assets

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

	2010	2009
Pledged for payment of:		
All bond issues (capital reserve account)	$ 75,581	$ 63,948
Section 8 assisted mortgage revenue bonds	3,678	4,378
Single-family mortgage revenue bonds	151,683	129,959
Single-family homeownership revenue bonds	458	-
Multi-family 1988 housing revenue bonds	2,605	1,457
Rental housing revenue bonds	165,664	152,511
Insured rental housing revenue bonds	4,993	3,996
Multi-family revenue bonds	1,082	738
Total	$ 405,744	$ 356,987

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, 2010 and 2009, the Authority has commitments to issue multi-family mortgage loans in the amounts of $126,059,125 and $57,889,000, respectively, and single-family mortgage loans in the amounts of $15,313,000 and $3,352,000, 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 $643,000 and $702,000 for the years ended June 30, 2010 and 2009, 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, 2010 and 2009.

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 $729,000 and $328,000 for the years ended June 30, 2010 and 2009, 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 revenue and are also repayable upon repayment of the first mortgage loan. Disbursements under this program totaled $475,000 and $395,000 for the years ended June 30, 2010 and 2009, 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 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. 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.

The Authority is issuing the June 30, 2010 and 2009 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, 2010:

Associated Debt/Swap Agreement	Effective Date	Notional Amount as of June 30, 2010	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)	09/28/00	$ 40,345,000	10/01/20	70% of 1 M LIBOR	4.960%	NA	$ (9,909,028)	$ (9,909,028)	(5)(6)(7)
2002 Series A (1)	07/03/02	54,590,000	04/01/37	70% of 1 M LIBOR	4.560%	NA	(14,864,677)	(14,864,677)	(5)(6)
2002 Series B (1)	07/03/02	20,055,000	04/01/19	70% of 1 M LIBOR	3.535%	NA	(1,415,247)	(1,415,247)	(5)(6)
2005 Series A (3)	09/22/05	69,085,000	04/01/40	65% of 1 M LIBOR+0.23%	3.5135%	10/01/25	(7,416,253)	(7,416,253)	(5)(6)
2006 Series A (3)	03/16/06	70,620,000	10/01/40	65% of 3 M LIBOR+0.16%	3.5140%	04/01/26	(7,810,248)	(7,810,248)	(5)(6)
2006 Series C (3)	07/25/06	63,130,000	04/01/41	61% of 1 M LIBOR+0.40%	3.996%	10/01/26	(10,197,337)	(10,197,337)	(5)(6)
2007 Series A (3)	07/02/07	29,790,000	04/01/42	65% of 3 M LIBOR+0.16%	3.378%	04/01/27	(2,908,968)	(2,908,968)	(5)(6)
2007 Series C (3)	01/23/08	80,560,000	10/01/42	61% of 1 M LIBOR+0.40%	3.564%	10/01/22	(8,871,288)	(8,871,288)	(5)(6)
2008 Series A (1)(11)	04/01/01	33,985,000	04/01/23	SIFMA+0.10%	5.350%	NA	(6,882,136)	(2,279,457)	
2008 Series A (1)(11)	08/28/03	58,700,000	10/01/37	70% of 1 M LIBOR	4.197%	10/01/12	(7,780,798)	(3,669,004)	(5)(6)
2008 Series C (1)(11)	04/01/01	26,345,000	04/01/23	SIFMA	4.770%	NA	(2,989,900)	(857,620)	
2008 Series D (3)(11)	11/18/04	24,025,000	10/01/39	65% of 1 M LIBOR+0.23%	3.705%	10/01/24	(4,572,214)	(2,040,068)	(5)(6)
2008 Series D (3)(11)	11/18/04	40,020,000	10/01/39	65% of 3 M LIBOR+0.16%	3.597%	10/01/24	(3,674,327)	(3,134,697)	(5)(6)
Subtotal		611,250,000					(89,292,421)	(75,373,892)	
Single-family mortgage revenue bonds:									
2003 Series C (3)	11/19/03	$ 7,055,000	12/01/20	65% of 1 M LIBOR+0.23%	3.512%	12/01/13	$ (434,461)	$ (434,461)	(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	(933,353)	(933,353)	(5)(6)
2006 Series C (2)	12/01/06	50,645,000	06/01/33	Floating Rate (10)	4.417%	12/01/19	(8,787,352)	(8,787,352)	(5)(6)(7)
2007 Series B (2)	09/04/07	65,000,000	06/01/38	Floating Rate (10)	4.156%	06/01/17	(8,134,143)	(8,134,143)	(5)(6)
2007 Series B (2)	01/01/08	35,000,000	06/01/38	Floating Rate (10)	4.2524%	06/01/17	(4,670,305)	(4,670,305)	(5)(6)
2007 Series B (2)	01/02/08	35,000,000	06/01/38	Floating Rate (10)	4.4435%	06/01/17	(5,233,666)	(5,233,666)	(5)(6)
2007 Series B (2)	01/02/08	35,000,000	06/01/38	Floating Rate (10)	4.5032%	12/01/10	(2,868,236)	(2,868,236)	(5)(6)
2007 Series B (2)	01/02/08	35,000,000	06/01/38	Floating Rate (10)	4.3580%	12/01/10	(2,663,875)	(2,663,875)	(5)(6)
2007 Series C (2)	09/04/07	14,470,000	12/01/16	1 M LIBOR+0.05%	5.1650%	NA	(1,580,085)	(1,580,085)	(5)(6)
2007 Series D (2)	12/01/08	35,000,000	12/01/38	Floating Rate (10)	4.1156%	12/01/14	(3,992,852)	(3,992,852)	(5)(6)
2007 Series E (2)	06/02/08	35,000,000	12/01/38	Floating Rate (10)	4.0187%	12/01/17	(4,066,750)	(4,066,750)	(5)(6)
2007 Series E (2)	06/02/08	35,000,000	12/01/38	Floating Rate (10)	3.9270%	12/01/17	(3,762,168)	(3,762,168)	(5)(6)
2007 Series E (2)	06/02/08	55,000,000	12/01/38	Floating Rate (10)	3.8460%	12/01/17	(5,558,359)	(5,558,359)	(5)(6)
2007 Series F (2)	12/01/08	50,000,000	12/01/38	Floating Rate (10)	4.1647%	12/01/14	(5,914,939)	(5,914,939)	(5)(6)
2007 Series F (2)	12/01/08	35,000,000	12/01/38	Floating Rate (10)	4.3399%	12/01/14	(6,064,133)	(6,064,133)	(5)(6)
2009 Series D (2)(11)	10/05/05	13,635,000	12/01/25	Floating Rate (10)	4.1650%	12/01/10	(844,752)	(257,120)	(5)(6)
2009 Series D (2)(11)	10/05/05	20,870,000	06/01/30	Floating Rate (10)	4.0640%	12/01/14	(2,246,479)	(579,219)	(5)(6)
2009 Series D (2)(11)	04/01/07	69,915,000	06/01/30	Floating Rate (10)	4.5740%	12/01/12	(9,461,290)	(2,552,214)	(5)(6)
Subtotal		639,680,000					(77,217,198)	(68,053,230)	
Total interest rate swaps								(143,427,122)	
				Unamortized off-market borrowings				(24,398,118)	(12)
Total		$ 1,250,930,000					$ (166,509,619)	$ (167,825,240)	

(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, 2010.

(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, 2010.

(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. (MLES) or Merrill Lynch Derivative Products (MLDP). MLDP is rated AAA by S&P and Aa3 by Moody's as of June 30, 2010. 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.

Note 14 - Interest Rate Swaps (Continued)

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

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

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

(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%	$ (5,104,539)
2008 Series A	0.9410%	3.2560%	(4,473,978)
2008 Series D	0.4040%	3.3010%	(1,064,353)
2008 Series D	0.3310%	3.2660%	(1,365,215)
2008 Series C	1.9820%	2.7880%	(3,201,572)
Single-family mortgage revenue bonds:			
2009 Series D	0.7490%	3.4160%	(562,525)
2009 Series D	0.6490%	3.4150%	(1,300,699)
2009 Series D	1.3200%	3.2540%	(7,325,237)
			$ (24,398,118)

Note 14 - Interest Rate Swaps (Continued)

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

	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)	

	Changes in Fair Value		Fair Value at June 30, 2009		
	Classification	Amount	Classification	Amount	Notional
Cash flow hedges:					
Pay-fixed interest rate swaps (receive-variable)	Deferred charge	$ (47,250,530)	Bonds payable	$ (102,368,486)	$ 1,277,565,000
Off-market borrowings	Interest expense	-	Off-market borrowings	(21,196,546)	

Note 15 - Subsequent Events

Subsequent to year end, the Authority issued $118,840,000 of Rental Housing Revenue Bonds, 2010 Series A&B. The Series A bonds were issued as tax-exempt fixed-rate bonds with the purpose of funding 14 multi-family mortgage loans ($75,540,000) and to refund a portion of the Rental Housing Revenue Bond, 2007 Series C ($12,165,000). The Series B bonds were issued as federally taxable fixed-rate bonds for the purpose of refunding all outstanding ($31,135,000) Insured Rental Housing Revenue Bonds.

Other Supplemental Information

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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, 2010. 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 25, 2010

Michigan State Housing Development Authority

Statement of Net Assets Information
June 30, 2010
(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	$ 110	$ 79	$ 12,743	$ 350,177	$ 2,641	$ 12,247
Investments	7,042	-	55,914	56	5,326	134,818
Total cash and investments	7,152	79	68,657	350,233	7,967	147,065
Loans Receivable						
Multi-family mortgage loans:						
Construction in progress	-	-	-	-	-	79,949
Completed construction	5,415	-	-	-	22,748	1,129,424
Housing development loans	-	-	-	-	-	-
Single-family mortgage loans	-	-	1,011,057	-	-	-
Home improvement and moderate rehabilitation loans	-	3,325	-	-	-	-
Total	5,415	3,325	1,011,057	-	22,748	1,209,373
Accrued loan interest receivable	38	19	8,287	-	261	20,561
Allowance on loans receivable	-	(180)	(6,457)	-	(227)	(44,570)
Loan origination fees	(51)	-	(178)	-	-	(361)
Net loans receivable	5,402	3,164	1,012,709	-	22,782	1,185,003
Other Assets						
Unamortized bond financing costs	3	-	2,940	898	36	3,189
Real estate owned	-	-	33,507	-	5	38,140
Other	-	-	15,613	-	-	-
Interfund accounts	2,939	2,364	(61,256)	(873)	1,501	2,714
Total other assets	2,942	2,364	(9,196)	25	1,542	44,043
Total assets	**$ 15,496**	**$ 5,607**	**$ 1,072,170**	**$ 350,258**	**$ 32,291**	**$ 1,376,111**
Liabilities and Net Assets						
Liabilities						
Bonds payable	$ 11,818	$ -	$ 917,366	$ 349,623	$ 29,647	$ 1,158,160
Accrued interest payable	-	-	2,948	177	28	9,266
Escrow funds	-	-	-	-	-	485
Deferred mortgage interest income	-	-	-	-	-	40,570
Other liabilities	-	-	173	-	11	1,966
Total liabilities	11,818	-	920,487	349,800	29,686	1,210,447
Net Assets	3,678	5,607	151,683	458	2,605	165,664
Total liabilities and net assets	**$ 15,496**	**$ 5,607**	**$ 1,072,170**	**$ 350,258**	**$ 32,291**	**$ 1,376,111**

Statement of Net Assets Information (Continued)
June 30, 2010
(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	$ 102	$ 4,534	$ 644	$ (589)	$ 18,693	$ 15,034	$ 416,415
Investments	3,557	3,989	7,461	76,170	496,007	7,956	798,296
Total cash and investments	3,659	8,523	8,105	75,581	514,700	22,990	1,214,711
Loans Receivable							
Multi-family mortgage loans:							
Construction in progress	-	-	10,538	-	-	-	90,487
Completed construction	33,612	29,737	103,248	-	-	58,541	1,382,725
Housing development loans	-	-	-	-	-	8,749	8,749
Single-family mortgage loans	-	-	3,192	-	-	-	1,014,249
Home improvement and moderate rehabilitation loans	-	-	6,895	-	-	-	10,220
Total	33,612	29,737	123,873	-	-	67,290	2,506,430
Accrued loan interest receivable	1,857	2,682	4,053	-	-	7,282	45,040
Allowance on loans receivable	(3,422)	(2,096)	(22,398)	-	-	(189)	(79,539)
Loan origination fees	-	-	(11,821)	-	-	-	(12,411)
Net loans receivable	32,047	30,323	93,707	-	-	74,383	2,459,520
Other Assets							
Unamortized bond financing costs	87	56	-	-	-	-	7,209
Real estate owned	-	667	4,059	-	-	-	76,378
Other	-	-	164,672	-	-	17,541	197,826
Interfund accounts	21	(9,088)	(10,974)	-	86,006	(13,354)	-
Total other assets	108	(8,365)	157,757	-	86,006	4,187	281,413
Total assets	**$ 35,814**	**$ 30,481**	**$ 259,569**	**$ 75,581**	**$ 600,706**	**$ 101,560**	**$ 3,955,644**
Liabilities and Net Assets							
Liabilities							
Bonds payable	$ 30,643	$ 28,989	$ 143,427	$ -	$ -	$ -	$ 2,669,673
Accrued interest payable	178	410	-	-	-	-	13,007
Escrow funds	-	-	205	-	600,706	(102,708)	498,688
Deferred mortgage interest income	-	-	-	-	-	-	40,570
Other liabilities	-	-	24,886	-	-	13,027	40,063
Total liabilities	30,821	29,399	168,518	-	600,706	(89,681)	3,262,001
Net Assets	4,993	1,082	91,051	75,581	-	191,241	693,643
Total liabilities and net assets	**$ 35,814**	**$ 30,481**	**$ 259,569**	**$ 75,581**	**$ 600,706**	**$ 101,560**	**$ 3,955,644**

Michigan State Housing Development Authority

Statement of Revenue, Expenses, and Changes in Net Assets Information
Year Ended June 30, 2010
(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	$ 552	$ 202	$ 58,782	$ -	$ 1,329	$ 77,112
Investment interest income	178	-	1,957	233	1	1,126
Increase in fair value of investments - Including change in unrealized gains	(33)	-	162	-	(1)	684
Total investment income	697	202	60,901	233	1,329	78,922
Less interest expense and debt financing costs	1,411	-	48,301	195	348	55,748
Net investment income	(714)	202	12,600	38	981	23,174
Other revenue:						
Federal assistance programs	-	-	-	-	-	-
Section 8 program administrative fees	-	-	-	-	-	-
Contract administration fees	-	-	-	-	-	-
Other income	14	-	1	-	105	265
Total operating revenue	(700)	202	12,601	38	1,086	23,439
Operating Expenses						
Federal assistance programs	-	-	-	-	-	-
Salaries and benefits	-	-	-	-	-	-
Other general operating expenses	-	4	-	-	-	-
Loan servicing and insurance costs	-	215	953	-	-	-
Provision for possible losses on loans	-	103	6,090	-	(62)	286
Total operating expenses	-	322	7,043	-	(62)	286
Operating Income (Loss) Before Nonoperating Expenses	(700)	(120)	5,558	38	1,148	23,153
Nonoperating Expenses - Grants and subsidies	-	-	-	-	-	-
Change in Net Assets	(700)	(120)	5,558	38	1,148	23,153
Net Assets - Beginning of year	4,378	5,764	129,959	-	1,457	152,511
Transfers (to) from Other Funds for Payment of Operating Fund Expenses	-	-	-	-	-	(10,000)
Funding to Provide Additional Cash Flow and Payment of Bond Issuance Costs	-	(37)	16,166	420	-	-
Net Assets - End of year	**$ 3,678**	**$ 5,607**	**$ 151,683**	**$ 458**	**$ 2,605**	**$ 165,664**

Michigan State Housing Development Authority

Statement of Revenue, Expenses, and Changes in Net Assets Information (Continued)
Year Ended June 30, 2010
(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	$ 2,906	$ 2,695	$ 7,498	$ -	$ 1,884	$ 152,960
Investment interest income	42	150	443	8,032	7,460	19,622
Increase in fair value of investments - Including change in unrealized gains	57	(65)	231	3,601	(120)	4,516
Total investment income	3,005	2,780	8,172	11,633	9,224	177,098
Less interest expense and debt financing costs	2,244	2,562	253	-	-	111,062
Net investment income	761	218	7,919	11,633	9,224	66,036
Other revenue:						
Federal assistance programs	-	-	-	-	536,464	536,464
Section 8 program administrative fees	-	-	16,084	-	-	16,084
Contract administration fees	-	-	8,826	-	-	8,826
Other income	-	2	9,479	-	6,568	16,434
Total operating revenue	761	220	42,308	11,633	552,256	643,844
Operating Expenses						
Federal assistance programs	-	-	-	-	536,464	536,464
Salaries and benefits	-	-	29,686	-	-	29,686
Other general operating expenses	-	-	31,046	-	67	31,117
Loan servicing and insurance costs	-	-	1,546	-	-	2,714
Provision for possible losses on loans	(359)	(124)	7,347	-	-	13,281
Total operating expenses	(359)	(124)	69,625	-	536,531	613,262
Operating Income (Loss) Before Nonoperating Expenses	1,120	344	(27,317)	11,633	15,725	30,582
Nonoperating Expenses - Grants and subsidies	-	-	(1,865)	-	(19,540)	(21,405)
Change in Net Assets	1,120	344	(29,182)	11,633	(3,815)	9,177
Net Assets - Beginning of year	3,996	738	132,525	63,948	189,190	684,466
Transfers (to) from Other Funds for Payment of Operating Fund Expenses	(123)	-	10,123	-	-	-
Funding to Provide Additional Cash Flow and Payment of Bond Issuance Costs	-	-	(22,415)	-	5,866	-
Net Assets - End of year	**$ 4,993**	**$ 1,082**	**$ 91,051**	**$ 75,581**	**$ 191,241**	**$ 693,643**

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

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

To the 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, 2010 and 2009 and have issued our reports thereon dated October 25, 2010 and October 22, 2009, 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.

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 described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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. 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 deficiency, Item number 2010-1, described in the accompanying schedule of findings and questioned costs to be a material weakness.

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

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 deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies (Item numbers 2010-2 and 2010-3).

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 25, 2010.

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 25, 2010

Reference Number	Findings
2010-1	**Finding Description** - GASB No. 53 was not implemented by MSHDA prior to the commencement of the audit.

Finding Type - Material weakness

Criteria - GASB No. 53 implementation requires that effectiveness of derivative instruments is determined and the corresponding journal entries are recorded.

Condition - The Authority performed its own review of the interest rate swaps in conjunction with the requirements of GASB No. 53 after fieldwork began. Upon discovering that most of the Authority's swaps did not pass the consistent critical terms method, a third party was hired to evaluate the swaps using regression analysis. The swap specialist found eight swaps that would require an additional adjustment in the general ledger.

Context - The result of implementation was the recording of an additional $147 million and $102 million of bonds payable and other assets at June 30, 2010 and 2009, respectively. Implementation also resulted in the recording of $24 million and $21 million of off-market borrowings and deferred cost of refunding at June 30, 2010 and 2009, respectively.

Cause - The client believed that, due to statutory limitations imposed on their interest rate swaps allowing them only to enter into "integrated swaps," that all swaps held at June 30, 2010 and 2009 would be effective and not require any adjustments to the general ledger.

Effect - The delay in performing the analysis resulted in material audit entries and disclosures.

Recommendation - We recommend that the Authority begin to implement controls to evaluate the effectiveness of hedges on an annual basis and properly record changes to the financial statements. This would include gaining additional knowledge and understanding of GASB No. 53 to perform the analysis or to continue to hire a swap specialist to perform the analysis.

Views of Responsible Officials and Planned Corrective Actions - The implementation of GASB No. 53 proved to be more complicated than originally anticipated. During this fiscal year's implementation of GASB No. 53, Authority staff worked with hedge consultants, independent auditors, and the GASB Board itself in an effort to gain clarity on a very complicated rule. Authority staff believes that the experience gained during this audit and the continued utilization of a hedge consultant will result in an efficient future implementation of GASB No. 53.

Reference Number	Findings
2010-2	**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 reconciliations are performed on a several month lag and we were unable to view selected months for testing during interim fieldwork in July 2010.

Cause - The Authority implemented a new accounting system 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 conversion to an entirely new accounting system, the Authority was not able to run July 2009 financial statements until February 2010. This delay kept the Authority from producing records necessary to perform monthly bank and investment reconciliations on a timely basis. The first three to four months of the new fiscal year will be late; however, I anticipate that, going forward, the monthly performance and review of reconciliations will be completed within four to six weeks of month end for the 2011 fiscal year.

Reference Number	Findings
2010-3	**Finding Description** - Understated accrued interest receivable and accounts payable to HUD

Finding Type - Significant deficiency

Criteria - Interest receivable and the corresponding accounts payable to HUD on loans receivable should be tracked and recorded monthly in the general ledger.

Condition - There is not a control in place that would detect loans that are not properly accruing interest.

Context - During our audit, it was discovered that accrued interest on one of the HOME loans that was selected for testing had not been recorded for the past 10 years. During the testing in the prior year's audit, a similar error was discovered, albeit for a smaller amount. The HOME loans receivable are not due to MSHDA, rather they are collected on behalf of HUD, and all accrued interest is due back to HUD when the HOME loans are paid in full.

Cause - The HOME loans were not recorded on the books until recent years and all activity was tracked in excel prior to that. MSHDA has not completed a review to ensure that all terms are properly updated in the system.

Effect - An extrapolation of this error was applied to the entire HOME loan population in order to calculate the potential amount of unrecorded interest on the total multi-family loan portfolio. Our extrapolation resulted in an estimated adjustment exceeding $665,000.

Recommendation - We understand that this type of error is not likely to become material; however, we recommend that a control be established to ensure that the loan terms are properly updated in the system to ensure all activity is accounted for properly.

Views of Responsible Officials and Planned Corrective Actions - Authority staff will review the HOME loan portfolio to determine if accrued interest is not being recorded on any other loans. The loans in question are federal funds that are utilized to benefit multi-family development. These loans are typically due upon maturity or prepayment of the first loan. Accrued interest is not realized as income, but as an increase to a payable to HUD. Again, Authority staff will review this portfolio.