Michigan State Housing Development Authority

(a component unit of the State of Michigan)

Financial Report

with Supplemental Information

June 30, 2014

Contents

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

Independent Auditor's Report

To the Board of Directors and
Mr. Doug A. Ringler, CPA, CIA
Auditor General, State of Michigan
Michigan State Housing Development Authority
Lansing, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units 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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Michigan State Housing Development Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors and
Mr. Doug A. Ringler, CPA, CIA
Auditor General, State of Michigan
Michigan State Housing Development Authority

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units as of June 30, 2014 and 2013 and the respective changes in its financial position and, where applicable, cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 15 to the basic financial statements, the Authority adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, as of June 30, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Michigan State Housing Development Authority's basic financial statements. The other supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

To the Board of Directors and
Mr. Doug A. Ringler, CPA, CIA
Auditor General, State of Michigan
Michigan State Housing Development Authority

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2014 on our consideration of the Michigan State Housing Development Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Michigan State Housing Development Authority's internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 24, 2014

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 of 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 net position, revenue, expenses, changes in net position, and cash flows. The following is a condensed summary of financial information as of and for the years ended June 30, 2014, 2013, and 2012:

Condensed Financial Information

(in thousands of dollars)

	2014	2013	2012
Assets			
Investments	$ 1,000,948	$ 979,839	$ 1,029,170
Loans receivable - Net	2,173,968	2,218,427	2,344,110
Other assets	147,237	215,890	357,088
Total assets	3,322,153	3,414,156	3,730,368
Accumulated Decrease in Fair Value of Hedging Derivatives	129,799	138,334	203,862
Deferred Outflow of Resources - Deferred charges on refunding - Reassigned swaps	13,568	17,668	19,175
Total assets, hedging derivatives, and deferred outflows	**$ 3,465,520**	**$ 3,570,158**	**$ 3,953,405**
Liabilities			
Bonds payable	$ 2,020,095	$ 2,116,725	$ 2,362,301
Hedging derivatives	129,799	138,566	204,560
Other liabilities	556,189	571,281	649,911
Total liabilities	2,706,083	2,826,572	3,216,772
Deferred Inflows of Resources - Loan origination fees	11,749	12,130	12,285
Net Position			
Restricted for bond repayment	471,554	457,083	448,789
Unrestricted	276,134	274,373	275,559
Total net position	747,688	731,456	724,348
Total liabilities, deferred inflows, and net position	**$ 3,465,520**	**$ 3,570,158**	**$ 3,953,405**

	2014	2013	2012
Operating Revenue			
Net investment income	$ 43,071	$ 59,088	$ 67,422
Federal and state assistance programs revenue	520,975	653,916	751,649
Section 8 program administrative fees	13,676	13,383	16,012
Contract administration fees	6,998	6,205	8,957
Other income	33,523	25,190	36,811
Total revenue	618,243	757,782	880,851
Operating Expenses			
Federal and state assistance programs expenses	521,011	652,074	752,222
Salaries and benefits	36,293	35,401	33,273
Other general operating expenses	30,907	33,588	28,916
Other expenses	4,901	15,964	28,223
Total expenses	593,112	737,027	842,634
Nonoperating Expenses - Grants and subsidies	8,899	13,647	13,589
Change in Net Position	**$ 16,232**	**$ 7,108**	**$ 24,628**

Financial Analysis

Total assets and deferred outflows decreased from $3.57 billion at June 30, 2013 to $3.47 billion at June 30, 2014. This was a decrease of approximately $105 million, or 2.9 percent. Total assets and deferred outflows decreased from $3.95 billion at June 30, 2012 to $3.57 billion at June 30, 2013. This was a decrease of approximately $376 million, or 9.5 percent.

Net loans receivable decreased from $2.22 billion at June 30, 2013 to $2.17 billion at June 30, 2014. Loans receivable fell due to a reduction in the closing of multi-family mortgages (net decrease of $66.7 million), partially offset by an increase in the closing of single-family mortgages (net increase of $15.6 million).

Net loans receivable decreased from $2.34 billion at June 30, 2012 to $2.22 billion at June 30, 2013. Loans receivable fell due to the Authority's offered single-family mortgage rates being higher than conventional mortgage interest rates (net decrease of $75.7 million) and a reduction in the closing of multi-family mortgages (net decrease of $64.2 million).

Bonds payable decreased from $2.1 billion at June 30, 2013 to $2.0 billion at June 30, 2014, a net decrease of approximately $97 million. Bonds payable decreased from $2.4 billion at June 30, 2012 to $2.1 billion at June 30, 2013, a net decrease of approximately $246 million. The decrease in bonds outstanding for the year ended June 30, 2014 was due primarily to the early redemption of $88.6 million and scheduled maturities of $83.8 million; this was partially offset by the issuance of $77.7 million of Rental Housing Revenue Bonds, 2014 Series A. The decrease in bonds outstanding for the year ended June 30, 2013 was due primarily to the early redemption of $391.5 million of various bonds and scheduled debt service of $88.8 million; this was partially offset by the issuance of $72.1 million of Rental Housing Revenue Bonds, 2012 Series D and E, and $166.5 million of Single-Family Homeownership Revenue Bonds, 2009 Series A-5, A-6, and A-7.

Escrow funds, which are recorded in other liabilities, decreased by $22 million from a year earlier to $473.8 million at June 30, 2014 due to a decrease in mortgage reserve balances. Escrow funds decreased by $69 million from a year earlier to $496.0 million at June 30, 2013 due to a decrease in mortgage reserve balances.

The Authority's net position totaled $747.7 million at June 30, 2014, equal to 22.5 percent of total assets and 27.6 percent of total liabilities. A significant portion of net position is restricted. At June 30, 2014, $471.5 million of net position was pledged for payment against the various bond indentures. In addition, $263 million is designated by board resolution, represented by the Community Development Fund.

The Authority's net position totaled $731.5 million at June 30, 2013, equal to 21.4 percent of total assets and 25.9 percent of total liabilities. A significant portion of net position is restricted. At June 30, 2013, $457 million of net position was pledged for payment against the various bond indentures. In addition, $255 million is designated by board resolution, represented by the Community Development Fund.

Operating Results

Operations for the year ended June 30, 2014 resulted in excess revenue over expenses of $16.2 million, compared to prior year results of $7.1 million. Operations for the year ended June 30, 2013 resulted in excess of revenue over expenses of $7.1 million, compared to prior year results of $24.6 million. Under Governmental Accounting Standards Board (GASB) Statement No. 31, the Authority is required to present investments at fair market value and reflect this adjustment in the statement of revenue, expenses, and changes in net position. This presentation decreased revenue over expenses by approximately $364,000. Results for the year ended June 30, 2013 were negatively impacted by a decrease of approximately $10.0 million. Currently, GASB Statement No. 31 has had a cumulative positive effect of $5.3 million on the Authority's net position; however, the Authority generally intends to hold these securities to maturity.

Net investment income decreased from $59.1 million in 2013 to $43.1 million in 2014, a decrease of $16.0 million. Net investment income was negatively impacted by the implementation of GASB Statement No. 65 entirely in the June 30, 2014 fiscal year ($5.9 million).

Total revenue decreased from $757.8 million for the year ended June 30, 2013 to $618.2 million for the year ended June 30, 2014, a net decrease of $139.5 million. Total revenue decreased due primarily to the decrease in federal and state assistance program revenue of $113.2 million. Total revenue decreased from $880.9 million for the year ended June 30, 2012 to $757.8 million for the year ended June 30, 2013, a net decrease of $123.1 million. Total revenue decreased due primarily to the decrease in federal assistance program revenue of $143.2 million and an increase in state assistance programs of $42.8 million.

Total operating expenses decreased from $737.0 million for the year ended June 30, 2013 to $593.1 million for the year ended June 30, 2014, a net decrease of $144.0 million. Total operating expenses decreased due primarily to a decrease in the federal and state assistance programs of $111.4 million. Total operating expenses decreased from $842.6 million for the year ended June 30, 2012 to $737.0 million for the year ended June 30, 2013, a net decrease of $105.6 million. Total operating expenses decreased due primarily to a decrease in the federal and state assistance programs of $100.1 million.

Michigan State Housing Development Authority

Statement of Net Position
(in thousands of dollars)

	June 30 2014	June 30 2013
Assets, Hedging Derivatives, and Deferred Outflows		
Cash and Cash Equivalents (Note 3)	$ 76,704	$ 128,939
Investments (Note 3)	1,000,948	979,839
Loans Receivable (Note 4)		
Multi-family mortgage loans	1,288,184	1,350,936
Single-family mortgage loans	869,862	860,106
Home improvement and moderate rehabilitation loans	7,397	8,479
Total	2,165,443	2,219,521
Accrued loan interest receivable	50,013	44,953
Allowance on loans receivable (Note 4)	(41,488)	(46,047)
Net loans receivable	2,173,968	2,218,427
Other Assets		
Unamortized bond financing costs (Note 15)	-	6,729
Real estate owned - Net	34,724	38,375
Other	35,809	41,847
Total other assets	70,533	86,951
Total assets	3,322,153	3,414,156
Accumulated Decrease in Fair Value of Hedging Derivatives (Note 14)	129,799	138,334
Deferred Outflows of Resources - Deferred charges on refunding - Reassigned swaps (Note 14)	13,568	17,668
Total assets, hedging derivatives, and deferred outflows	**$ 3,465,520**	**$ 3,570,158**
Liabilities, Deferred Inflows, and Net Position		
Liabilities		
Bonds payable (Notes 5 and 6)	$ 2,020,095	$ 2,116,725
Hedging derivatives (Note 14)	129,799	138,566
Accrued interest payable	10,903	11,808
Escrow funds	473,845	495,962
Unamortized mortgage interest income (Note 7)	27,240	24,610
Other liabilities	44,201	38,901
Total liabilities	2,706,083	2,826,572
Deferred Inflows of Resources - Loan origination fees	11,749	12,130
Net Position		
Restricted for bond repayment (Note 11)	471,554	457,083
Unrestricted	276,134	274,373
Total net position	747,688	731,456
Total liabilities, deferred inflows, and net position	**$ 3,465,520**	**$ 3,570,158**

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 Position
(in thousands of dollars)

	Year Ended June 30	
	2014	2013
Operating Revenue		
Investment income:		
Loan interest income	$ 122,809	$ 144,443
Investment interest income	18,279	23,221
Decrease in fair value of investments - Including change in unrealized losses of $364 in 2014 and $10,042 in 2013	(99)	(9,572)
Total investment income	140,989	158,092
Less interest expense and debt financing costs (Note 15)	97,918	99,004
Net investment income	43,071	59,088
Other revenue:		
Federal and state assistance programs	520,975	653,916
Section 8 program administrative fees	13,676	13,383
Contract administration fees	6,998	6,205
Other income	33,523	25,190
Total other revenue	575,172	698,694
Total operating revenue	618,243	757,782
Operating Expenses		
Federal and state assistance programs	521,011	652,074
Salaries and benefits	36,293	35,401
Other general operating expenses	30,907	33,588
Loan servicing and insurance costs	3,396	2,479
Provision for possible losses on loans	1,505	13,485
Total operating expenses	593,112	737,027
Operating Income - Before nonoperating expenses	25,131	20,755
Nonoperating Expenses - Grants and subsidies	(8,899)	(13,647)
Change in Net Position	16,232	7,108
Net Position - Beginning of year	731,456	724,348
Net Position - End of year	**$ 747,688**	**$ 731,456**

Michigan State Housing Development Authority

Statement of Cash Flows
(in thousands of dollars)

	Year Ended June 30 2014	Year Ended June 30 2013
Cash Flows from Operating Activities		
Loan receipts	$ 318,807	$ 392,739
Other receipts	665,507	791,749
Loan disbursements	(175,238)	(164,523)
Payments to vendors	(75,989)	(73,931)
Payments to employees	(19,919)	(20,738)
Other disbursements	(575,749)	(742,141)
Net cash provided by operating activities	137,419	183,155
Cash Flows from Investing Activities		
Purchase of investments	(841,062)	(966,874)
Proceeds from sale and maturities of investments	809,358	963,920
Interest received on investments	15,385	22,696
Net cash (used in) provided by investing activities	(16,319)	19,742
Cash Flows from Noncapital Financing Activities		
Proceeds from issuance of bonds - Less discounts	77,307	235,330
Principal repayments on bonds	(172,355)	(480,246)
Interest paid	(78,287)	(85,771)
Net cash used in noncapital financing activities	(173,335)	(330,687)
Net Decrease in Cash and Cash Equivalents	(52,235)	(127,790)
Cash and Cash Equivalents - Beginning of year	128,939	256,729
Cash and Cash Equivalents - End of year	**$ 76,704**	**$ 128,939**

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

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

	Year Ended June 30	
	2014	2013
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	$ 25,131	$ 20,755
Adjustments to reconcile operating income to net cash from operating activities:		
Amortization of deferred items - Net	7,762	1,602
Arbitrage rebate expense	2,125	(12,556)
Investment interest income	(18,279)	(23,221)
(Decrease) increase in realized and unrealized gain on market value of investments	(5,176)	11,431
Interest expense on bonds and debt financing expense	98,211	99,998
Provision for possible losses on loans	1,505	13,485
Grants and subsidies	(8,899)	(13,647)
Changes in assets and liabilities:		
Accrued loan interest receivable	(5,060)	(1,457)
Loans receivable	54,078	141,008
Other assets	16,418	1,648
Escrow funds	(22,117)	(69,064)
Other liabilities	(8,280)	13,173
Net cash provided by operating activities	**$ 137,419**	**$ 183,155**

Noncash Financing and Investing Activities - During the years ended June 30, 2014 and 2013, the Authority foreclosed on various properties with mortgage values of approximately $13.0 million and $51.3 million, respectively.

Michigan State Housing Development Authority

Statement of Net Position - Discretely Presented Component Units
(in thousands of dollars)

	June 30		
	2014		2013
	Michigan Homeowner Assistance Nonprofit Housing Corporation	Michigan Community Development Corporation	Michigan Homeowner Assistance Nonprofit Housing Corporation
Assets			
Cash and Cash Equivalents	$ 19,079	$ 349	$ 10,695
Other Assets - Prepaid and other	378	6	2,221
Total assets	**$ 19,457**	**$ 355**	**$ 12,916**
Liabilities and Net Position			
Liabilities - Accounts payable and other	$ 871	860	$ 481
Net Position			
Restricted for Hardest Hit Program	18,586	-	12,435
Unrestricted	-	(505)	-
Total net position	18,586	(505)	12,435
Total liabilities and net position	**$ 19,457**	**$ 355**	**$ 12,916**

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 Position
Discretely Presented Component Units
(in thousands of dollars)

	Year Ended June 30		
	2014		2013
	Michigan Homeowner Assistance Nonprofit Housing Corporation	Michigan Community Development Corporation	Michigan Homeowner Assistance Nonprofit Housing Corporation
Operating Revenue			
Hardest Hit Program	$ 94,626	-	$ 62,492
Other	-	$ 100	-
Operating Expenses			
Program	80,398	-	60,671
Marketing	2,286	178	2,350
Contracted services	3,925	-	3,033
Other operating expenses	1,866	427	1,734
Total operating expenses	88,475	605	67,788
Change in Net Position	6,151	(505)	(5,296)
Net Position - Beginning of year	12,435	-	17,731
Net Position - End of year	**$ 18,586**	**$ (505)**	**$ 12,435**

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

Michigan State Housing Development Authority

Statement of Cash Flows - Discretely Presented Component Units
(in thousands of dollars)

	Year Ended June 30		
	2014		2013
	Michigan Homeowner Assistance Nonprofit Housing Corporation	Michigan Community Development Corporation	Michigan Homeowner Assistance Nonprofit Housing Corporation
Cash Flows from Operating Activities			
Receipts of donations	$ -	$ 100	$ -
Receipts of federal funds	94,626	-	62,492
Payments to grantees	(80,398)	-	(60,671)
Payments to suppliers	(1,919)	(551)	(4,334)
Payments to contractors	(3,925)	-	(3,033)
Net cash provided by (used in) operating activities	8,384	(451)	(5,546)
Cash Flows from Noncapital Financing Activities - Receipts from primary government	-	800	-
Net Increase (Decrease) in Cash and Cash Equivalents	8,384	349	(5,546)
Cash and Cash Equivalents - Beginning of year	10,695	-	16,241
Cash and Cash Equivalents - End of year	**$ 19,079**	**$ 349**	**$ 10,695**
Reconciliation of Change in Net Position to Net Cash from Operating Activities			
Change in net position	$ 6,151	$ (505)	$ (5,296)
Adjustments to reconcile operating income (loss) to net cash used in operating activities - Changes in assets and liabilities:			
Accounts payable	390	60	238
Prepaid expenses and other	1,843	(6)	(488)
Net cash provided by (used in) operating activities	**$ 8,384**	**$ (451)**	**$ (5,546)**

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

Note 1 - Authorizing Legislation and Reporting Entity

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

Component Units

Although blended component units are legal separate entities, in substance, they are part of the Authority's operations. Each discretely presented component unit is reported in a separate column in the component unit financial statements which follow the Authority's financial statements to emphasize that it is legally separate from the Authority.

Blended Component Units:

MMIF Fund Management, LLC (MMIF Fund Management) - Pursuant to the provisions of Public Act 346 of 1966, the Authority is empowered to establish limited liability companies. The Authority created this single-member limited liability company through which the Authority will make its investment to the Michigan Mezzanine Investment Fund, LP (MMIF) once this is established. The Authority has the sole power to select a fund manager to provide day-to-day managerial and administrative services to the fund. MMIF Fund Management is considered a blended component unit of the Authority.

MMIF Fund Management has $92,000 in assets, $301,000 in liabilities ($300,000 of which is owed to the Authority), ($209,000) in net position, and $209,000 in operating expenses and operating loss.

Note 1 - Authorizing Legislation and Reporting Entity (Continued)

Discretely Presented Component Units:

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

Michigan Community Development Corporation - The Authority, jointly with the Michigan Land Bank Authority, established an entity to carry out community development programs and functions throughout Michigan. The entity, Michigan Community Development Corporation (MCDC), was created on March 1, 2014, pursuant to the Urban Cooperation Act. The Authority is responsible for appointing, removing, and replacing four of the five members that make up the board of directors and can do so at will for any cause or without cause. The Authority's board of directors is not substantially the same as MCDC's. MCDC is considered a discretely presented component unit of the Michigan State Housing Development Authority.

Note 2 - Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies used by the Authority:

Accounting and Reporting Principles - The Authority follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Government Accounting Standards Board. The Authority follows the business-type activities reporting requirements of GASB Statement No. 34, which provides a comprehensive one-line look at the Authority's financial activities.

Note 2 - Summary of Significant Accounting Policies (Continued)

Basis of Accounting - Proprietary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Report Presentation - This report includes the fund-based statements of the Authority. In accordance with government accounting principles, a government-wide presentation with program and general revenues is not applicable to special purpose governments engaged only in business-type activities. The Authority presents all funds and blended component units in a single-column presentation.

Specific Balances and Transactions

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

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

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

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

Real Estate Owned - The Authority acquires real estate through foreclosure proceedings and holds that property until which time it can be sold at a fair price. These properties are valued at the lower of cost or fair market value.

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, 2014 and 2013 totaled $3,359,513 and $3,610,851, respectively.

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

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.

Restricted Net Position - Portions of the net position of the Authority are pledged for payment against the various bond indentures. All of the net position of the component unit is restricted for eligible federal program expenditures. When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the Authority's policy is generally to first apply restricted resources.

Federal and State Assistance Programs - The Authority administers various federal and state 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.

Note 2 - Summary of Significant Accounting Policies (Continued)

- Stimulus Funds - The Authority is administering various federal funds in an effort to create jobs, eliminate blight, and provide equity to housing developments that would otherwise not be feasible.
- Hardest Hit Program - A component unit of the Authority, Michigan Homeowner Assistance Nonprofit Housing Corporation administers funds under this program to prevent, reduce, and mitigate foreclosures.
- State Assistance Programs - Pursuant to PA 296 of 2012, the Authority received national foreclosure settlement funds through the State of Michigan's Homeowner's Protection Fund to provide foreclosure counseling and legal aid to homeowners, blight elimination, a home affordable refinance program, down payment assistance to homebuyers, and housing and community development.

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority has two items that qualifies for reporting in this category. The deferred outflows of resources relate to deferred charges on refunding - reassigned swaps and the accumulated decrease in the fair value of hedging derivatives.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has one item that qualifies for reporting in this category. The deferred inflow of resources relates to loan origination fees.

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 position.

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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

Reclassification - Certain immaterial amounts were reclassified in the prior year column to conform with current year presentation.

Note 3 - Deposits and Investments

Cash, cash equivalents, and investments held by the Authority at June 30, 2014 and 2013 were as follows (in thousands of dollars):

	MSHDA			Component Units
	Cash and Cash Equivalents	Investments	Total	Cash and Cash Equivalents
2014				
Deposits	$ 4,918	$ 1,018	$ 5,936	$ 6,024
Investments	71,786	999,930	1,071,716	13,404
Total	$ 76,704	$ 1,000,948	$ 1,077,652	$ 19,428
2013				
Deposits	$ 244	$ 1,015	$ 1,259	$ 3,246
Investments	128,695	978,824	1,107,519	7,449
Total	$ 128,939	$ 979,839	$ 1,108,778	$ 10,695

Note 3 - Deposits and Investments (Continued)

The Authority has designated 10 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, and 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, 2014, the Authority had approximately $7,701,000 of bank deposits (certificates of deposit, checking, and savings accounts) and of that balance approximately $209,000 was uninsured and uncollateralized. In addition, the Authority had $69,545,000 of government money market funds. The component units do not have a deposit policy for custodial credit risk. At June 30, 2014, the component units had approximately $5,766,000 of bank deposits (checking accounts) and of that balance approximately $5,425,000 was uninsured and uncollateralized.

At June 30, 2013, the Authority had approximately $4,991,000 of bank deposits (certificates of deposit, checking, and savings accounts) and of that balance approximately $12,000 was uninsured and uncollateralized. In addition, the Authority had $129,422,000 of government money market funds. The component units do not have a deposit policy for custodial credit risk. At June 30, 2013, the component units had approximately $3,246,000 of bank deposits (checking accounts) and of that balance approximately $2,996,000 was uninsured and uncollateralized.

Note 3 - Deposits and Investments (Continued)

The Authority believes that due to the dollar amounts of cash deposits and the limits of the FDIC insurance, it is impractical to insure all deposits. At June 30, 2014, there was $5,608,000 of deposits which were 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. At June 30, 2013, there was $3,497,000 of deposits which were collateralized with securities held by the Federal Reserve Bank or held in safekeeping for the Authority at a financial institution's trust department but not in the Authority's name. To also limit its risk, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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

	Carrying Value (in thousands of dollars)		
Type of Investment	2014	2013	How Held
MSHDA			
Investment agreements	$ 241	$ 273	Counterparty's trust dept.
U.S. government securities	467,864	516,905	Counterparty's trust dept.
Mortgage-backed securities	525,621	455,508	Counterparty's trust dept.
U.S. government agency securities	5,814	3,923	Counterparty's trust dept.
U.S. government money market funds	69,545	129,422	Counterparty's trust dept.
Component Units			
U.S. government money market funds	13,404	7,449	Counterparty's trust dept.

Note 3 - Deposits and Investments (Continued)

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

Type of Investment	Fair Value	Less than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
2014					
MSHDA					
Investment agreements	$ 241	$ 241	$ -	$ -	$ -
U.S. government securities	467,864	155,210	219,856	65,863	26,935
Mortgage-backed securities	525,621	5	117	204	525,295
U.S. government agency securities	5,814	2,055	-	-	3,759
U.S. government money market funds	69,545	69,545	-	-	-
Component Units					
U.S. government money market funds	13,404	13,404	-	-	-

Type of Investment	Fair Value	Less than One Year	1-5 Years	6-10 Years	More Than 10 Years
2013					
MSHDA					
Investment agreements	$ 273	$ 273	$ -	$ -	$ -
U.S. government securities	516,905	218,100	193,295	82,345	23,165
Mortgage-backed securities	455,508	58	38	136	455,276
U.S. government agency securities	3,923	2,193	-	-	1,730
U.S. government money market funds	129,422	129,422	-	-	-
Component Unit					
U.S. government money market funds	7,449	7,449	-	-	-

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
2014			
MSHDA			
Investment agreements	$ 241	A	S&P
U.S. government securities	467,864	AA+	S&P
Mortgage-backed securities	525,616	AA+	S&P
Mortgage-backed securities	5	Not rated	-
U.S. government agency securities	5,814	AA+	S&P
U.S. government money market funds	69,545	Not rated	-
Component Units			
U.S. government money market funds	13,404	Not rated	-

Investment	Fair Value	Rating	Rating Organization
2013			
MSHDA			
Investment agreements	$ 273	A	S&P
U.S. government securities	516,905	AA+	S&P
Mortgage-backed securities	455,491	AA+	S&P
Mortgage-backed securities	17	Not rated	-
U.S. government agency securities	3,923	AA+	S&P
U.S. government money market funds	129,422	Not rated	-
Component Unit			
U.S. government money market funds	7,449	Not rated	-

Note 3 - Deposits and Investments (Continued)

Concentration of Credit Risk

The Authority has 12 and 9 percent of its investment portfolio invested in the securities of government-sponsored enterprises as of June 30, 2014 and 2013, respectively. These include securities issued by the Federal Home Loan Banks, the 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 $597,525,000 and $584,189,000 at June 30, 2014 and 2013, 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):

	2014	2013
Loans receivable:		
FHA insured, VA, or U.S. Department of Agriculture guaranteed	$ 625,941	$ 587,562
Insured by private mortgage insurance companies	165,611	195,190
Uninsured	1,373,891	1,436,769
Total loans receivable	$ 2,165,443	$ 2,219,521

Note 4 - Loans Receivable (Continued)

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

	2014	2013
Beginning balance	$ 46,047	$ 60,041
Provision for possible losses	1,505	13,485
Write-offs of uncollectible losses - Net of recoveries	(6,064)	(27,479)
Ending balance	$ 41,488	$ 46,047

Note 5 - Bonds Payable

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

Note 5 - Bonds Payable (Continued)

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

As of June 30, 2014

	Beginning Balance	Additions	Payments	Ending Balance
Revenue bonds:				
Section 8 assisted mortgage	$ 2,448	$ 202	$ 2,650	$ -
Single-family home ownership	429,565	-	23,280	406,285
Single-family mortgage	573,575	-	36,840	536,735
Multi-family housing	9,425	-	1,740	7,685
Rental housing	1,072,845	77,735	106,955	1,043,625
Multi-family	26,665	-	890	25,775
Total revenue bonds	$ 2,114,523	$ 77,937	$ 172,355	$ 2,020,105
Due within one year				$ 87,665

As of June 30, 2013

	Beginning Balance	Additions	Payments	Ending Balance
Revenue bonds:				
Section 8 assisted mortgage	$ 5,859	$ 600	$ 4,011	$ 2,448
Single-family home ownership	449,095	166,540	186,070	429,565
Single-family mortgage	730,640	-	157,065	573,575
Multi-family housing	14,595	-	5,170	9,425
Rental housing	1,127,790	72,165	127,110	1,072,845
Multi-family	27,485	-	820	26,665
Total revenue bonds	$ 2,355,464	$ 239,305	$ 480,246	$ 2,114,523
Due within one year				$ 85,658

Note 5 - Bonds Payable (Continued)

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

	2014	2013
Section 8 Assisted Mortgage Revenue Bonds -		
1983 Series I, 2014, 10.875% *	$ -	$ 2,448
Single-family Homeownership Revenue Bonds:		
2009 Series A-1/2010 Series A, B, and C, 2014 to 2041, 2.30% to 5.50%	112,310	119,870
2009 Series A-2 & A-3/2011 Series A, 2014 to 2041, 1.70% to 5.00%	67,575	74,655
2009 Series A-4, 2015 to 2041, 2.67%	66,710	69,320
2009 Series A-5, A-6 & A-7, 2014 to 2041, 2.66%	159,690	165,720
Total Single-family Homeownership Revenue Bonds	406,285	429,565
Single-family Mortgage Revenue Bonds:		
2006 Series C, 2035, variable rate (Note 6)	50,600	51,050
2007 Series B and C, 2038 to 2039, variable rate (Note 6)	145,445	145,445
2007 Series D, E, and F, 2038, variable rate (Note 6)	245,000	245,000
2009 Series A, 2014 to 2019, 4.45% to 5.00%	12,840	43,230
2009 Series D, 2030, variable rate (Note 6)	77,850	77,850
2012 Series A, 2014, variable rate	5,000	11,000
Total Single-family Mortgage Revenue Bonds	536,735	573,575

Note 5 - Bonds Payable (Continued)

	2014	2013
Multi-family Housing Revenue Bonds -		
1988 Series A, 2014 to 2017, 4.50%	$ 7,685	$ 9,425
Rental Housing Revenue Bonds:		
1999 Series A, 2021 to 2029, 5.15%	18,685	21,220
1999 Series D, 2014, variable rate	25	25
2000 Series A, 2035, variable rate (Note 6)	37,410	38,200
2002 Series A, 2037, variable rate (Note 6)	50,075	51,285
2003 Series A, 2023, variable rate	28,830	35,330
2004 Series B, 2014 to 2015, 3.80% to 3.90%	2,295	3,345
2005 Series A, 2040, variable rate (Note 6)	64,215	65,475
2005 Series B, 2014, 4.00%	625	5,785
2006 Series A, 2040, variable rate (Note 6)	65,095	66,520
2006 Series C, 2041, variable rate (Note 6)	58,105	59,170
2006 Series D, 2014 to 2042, 4.70% to 5.20%	42,720	46,000
2007 Series A, 2042, variable rate (Note 6)	37,310	37,955
2007 Series B, 2014 to 2044, 4.10% to 4.95%	24,480	25,545
2007 Series C, 2042, variable rate (Note 6)	88,135	89,435
2007 Series D, 2014 to 2017, 4.125% to 4.50%	7,190	23,760
2008 Series A, C, and D, 2023 to 2039, variable rate (Note 6)	169,070	176,240
2008 Series B and E, 2014 to 2018, 3.875% to 5.00%	4,520	24,780
2009 Series A, B-1, and B-2, 2014 to 2039, 3.625% to 5.70%	38,500	44,755
2010 Series A and B, 2014 to 2046, 1.85% to 5.25%	62,320	70,085
2011 Series A, B, and C, 2014 to 2041, 2.25% to 6.05%	29,255	38,350
2012 Series A, B, and C, 2014 to 2046, 1.00% to 5.622%	69,005	77,720
2012 Series D and E, 2014 to 2048, 0.75% to 4.50%	68,025	71,865
2014 Series A, 2015 to 2050, 0.25% to 4.875%	77,735	-
Total Rental Housing Revenue Bonds	1,043,625	1,072,845
Multi-family revenue bond -		
1995 Series A, 2014 to 2030, 8.30% to 8.55%	25,775	26,665
Total revenue bonds	2,020,105	2,114,523
Off-market borrowings (Note 14)	13,568	17,668
Deferred charges - Bond discounts	(13,578)	(15,466)
Total	$ 2,020,095	$ 2,116,725

A portion of the bonds indicated with an asterisk (*) above are 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. These bonds were paid off during the 2013-2014 fiscal year.

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 Years Ending	Principal	Interest	Total
2015	$ 87,665	$ 78,294	$ 165,959
2016	59,260	76,133	135,393
2017	77,065	73,790	150,855
2018	62,285	71,429	133,714
2019	54,990	69,222	124,212
2020-2024	266,085	316,277	582,362
2025-2029	372,205	253,121	625,326
2030-2034	423,845	168,535	592,380
2035-2039	425,205	82,079	507,284
2040-2044	153,610	20,226	173,836
2045-2051	37,890	5,499	43,389
Total	$ 2,020,105	$ 1,214,605	$ 3,234,710

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 $88,555,000 and $391,455,000 during the years ended June 30, 2014 and 2013, respectively. Such bond retirements, in the aggregate, resulted in a net loss of $291,000 and a net gain of $992,000 for the years ended June 30, 2014 and 2013, respectively.

Note 6 - Demand Bonds

The following table summarizes the demand bonds outstanding at June 30, 2014, which are included in the bonds payable disclosed in Note 5:

Debt Associated	Bonds Outstanding (in thousands)	Remarketing Agent	Liquidity or Irrevocable Letter of Credit Provider	Remarketing Fee (1)	Liquidity/ LOC Fee		Expiration Date of Agreement
Single-family Mortgage Revenue Bonds							
2006 Series C	$50,600	Barclays Capital Inc.	Barclays Bank PLC	0.07%	0.600%	(8)	06/19/15
2007 Series B	$135,000	Barclays Capital Inc.	FHLB of Topeka	0.07%	0.500%	(6)	09/11/15
2007 Series C	$10,445	Barclays Capital Inc.	FHLB of Topeka	0.07%	0.500%	(6)	09/11/15
2007 Series D	$35,000	Barclays Capital Inc.	Barclays Bank PLC	0.07%	0.600%	(8)	08/28/15
2007 Series E	$125,000	Morgan Stanley	Bank of Tokyo	0.10%	0.850%	(2)	07/01/15
2007 Series F	$85,000	PNC Bank	PNC Bank	0.10%	0.800%	(4)	10/16/15
2009 Series D	$77,850	Barclays Capital Inc.	FHLB of Topeka	0.07%	0.500%	(6)	09/11/15
Rental Housing Revenue Bonds							
2000 Series A	$37,410	JPMorgan	JPMorgan Chase Bank, N.A.	0.10%	0.520%	(3)	05/15/17
2002 Series A	$50,075	Merrill Lynch & Co.	Bank of America, N.A.	0.09%	0.650%	(7)	04/19/16
2005 Series A	$64,215	Merrill Lynch & Co.	Bank of Tokyo	0.07%	0.850%	(2)	11/14/14
2006 Series A	$65,095	Barclays Bank PLC	Barclays Bank PLC	0.09%	0.800%	(8)	03/06/15
2006 Series C	$58,105	Merrill Lynch & Co.	Bank of America, N.A.	0.09%	0.650%	(7)	07/15/16
2007 Series A	$37,310	Merrill Lynch & Co.	BNP Paribas	0.09%	0.110%	(5)	04/26/17
2007 Series C	$88,135	JPMorgan	JPMorgan Chase Bank, N.A.	0.10%	0.520%	(3)	05/15/17
2008 Series A	$91,200	JPMorgan	JPMorgan Chase Bank, N.A.	0.10%	0.520%	(3)	05/15/17
2008 Series C	$19,420	Morgan Stanley	Bank of Tokyo	0.10%	0.850%	(2)	08/20/19
2008 Series D	$58,450	Morgan Stanley	Bank of Tokyo	0.10%	0.850%	(2)	08/20/19

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

(2) While the Bank of Tokyo-Mitsubishi UFJ, LTD (Bank of Tokyo) is holding the bonds, they will bear interest at the higher of the Bank of Tokyo's prime rate plus 3.00 percent, the federal funds rate plus 5.00 percent, or 8.00 percent per annum. Once the Bank of Tokyo becomes the owner of the bonds, the bonds will be subject to a mandatory redemption that begins 91 days after the Bank of Tokyo becomes the holder of the bonds and will amortize in 16 equal quarterly installments. The Authority is required to pay the Bank of Tokyo 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 the Bank of Tokyo-Mitsubishi UFJ, LTD is "A+/A-1" at June 30, 2014. The Authority has extended the Rental Housing Revenue Bonds 2008 Series C and D facilities through August 20, 2019. Subsequent to June 30, 2014, effective September 29, 2014, the Authority extended the Rental Housing Revenue Bonds 2005 Series A facilities. The new expiration date for this agreement is November 12, 2019.

(3) While JPMorgan is holding the bonds, they will bear interest at the higher of the bank's prime rate plus 1.0 percent, the federal funds rate plus 0.50, or 8.50 percent per annum. Once the bank becomes the owner of the bonds, the bonds will be subject to a mandatory redemption 91 days after the bank becomes the holder of the bonds and will amortize in six equal semiannual installments. The Authority is required to pay the bank an annual liquidity fee per annum on the amount of bonds outstanding plus interest for 34 days at a rate of 14 percent. Standard & Poor's rating on JPMorgan is "A+/A-1" at June 30, 2014.

Note 6 - Demand Bonds (Continued)

(4) While PNC Bank, National Association (PNC) is holding the bonds, they will bear interest at the higher of the prime rate, federal funds rate plus 0.50 percent, or daily LIBOR plus 1.0 percent. Once PNC becomes the owner of the bonds and the bonds have been held for 181 days, the bonds become subject to mandatory redemption over 12 equal quarterly installments. The Authority shall pay PNC a liquidity fee of 80 basis points per annum on outstanding bonds plus 184 days of interest at 12 percent, based on a 365-day year. Standard & Poor's rating on PNC Bank, National Association is "A/A-1" at June 30, 2014.

(5) 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 "A+/A-1" at June 30, 2014.

(6) While the Federal Home Loan Bank of Topeka (FHLBT) is holding the bonds, they will bear interest at one-month LIBOR plus 3.00 percent per annum. Once FHLBT becomes the owner of the bonds and has held such bonds for 91 days, the bonds become subject to mandatory redemption over a five-year period with principal payable in 10 equal semiannual installments. The Authority shall pay the FHLBT 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 of the FHLBT is "AA+/A-1+" at June 30, 2014.

(7) While Bank of America, N.A. (Bank of America) is holding the bonds, they will bear interest at the higher of the prime rate plus 1.50 percent, the federal funds rate plus 3.00 percent, or 7.50 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, 2014.

(8) While Barclays Bank PLC (Barclays) 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 "A/A-1" at June 30, 2014.

Note 7 - Unamortized 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 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, 2014, limited obligation bonds had been issued totaling approximately $855,347,000, of which 50 issues totaling $513,177,000 have been retired. At June 30, 2013, limited obligation bonds had been issued totaling approximately $801,572,000, of which 44 issues totaling $455,387,000 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.

Note 9 - Other Employee Benefits (Continued)

Funding Policy - Plan members are not required to make contributions. The Authority is required to contribute an actuarially determined rate for the defined benefit plan that ranged from 49.5 to 52.2 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 $10,269,000, $9,219,000, and $6,042,000 for the years ended June 30, 2014, 2013, and 2012, respectively, and are recorded in salaries and benefits expense.

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, 2014 ranged from 46.2 percent to 51.0 percent of payroll. Employees hired on or before March 30, 1997 who participate in either the defined benefit plan or the defined contribution plan and meet certain vesting and other requirements will receive the full amount of healthcare benefits from the State of Michigan. For employees who were hired after March 30, 1997, the State will pay up to 90 percent of healthcare benefits for employees who meet certain vesting and other requirements.

Note 10 - Operating Lease

The Authority leases its office building in Lansing, Michigan under an agreement that expires February 28, 2021. The lease is subject to an annual adjustment equal to 60 percent of the increase or decrease in the U.S. Department of Labor's Bureau of Labor Statistics Consumer Price Index. Expense incurred related to the operating lease was approximately $3,372,000 and $3,584,000 for the years ended June 30, 2014 and 2013, respectively. The estimated minimum annual payments under this lease are as follows:

Years	Amount
2015	$ 3,406,015
2016	3,440,405
2017	3,474,796
2018	3,509,186
2019	3,543,577
2020-2021	5,986,206
Total	$ 23,360,185

Note 11 - Restricted Net Position

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

	2014	2013
Pledged for payment of:		
All bond issues (capital reserve account)	$ 89,936	$ 87,501
Section 8 Assisted Mortgage Revenue Bonds	2,726	2,571
Single-family Mortgage Revenue Bonds	133,512	141,407
Single-family Home Ownership Revenue Bonds	306	879
Multi-family 1988 Housing Revenue Bonds	1,460	3,571
Rental Housing Revenue Bonds	242,681	221,027
Multi-family Revenue Bonds	933	127
Total	$ 471,554	$ 457,083

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 12 - Contingencies (Continued)

The Authority is currently involved in a counterclaim which was filed in conjunction with adversary proceedings filed by the Authority against Lehman Brothers Holdings Inc. (Lehman) surrounding the termination of interest rate swap agreements. If the case were resolved in an unfavorable manner, the Authority could lose approximately $78,378,608 (such amount reflecting the $27,741,646 counterclaim plus interest accrued from November 5, 2008 through June 30, 2014 of approximately $50,636,992), plus any interest that accrues until the date of the final settlement. In December 2013, the Authority won a motion for partial summary judgment; however, Lehman still has an opportunity to appeal. The Authority is self-insured for any potential loss amounts.

Note 13 - Commitments

As of June 30, 2014 and 2013, the Authority has commitments to issue multi-family mortgage loans in the amounts of $56,505,000 and $64,960,000, respectively, and single-family mortgage loans in the amounts of $13,740,000 and $11,629,000, 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 $442,000 and $539,000 for the years ended June 30, 2014 and 2013, respectively.

In addition, the Authority makes available up to approximately $1,000,000 per year for up to 30 years to subsidize rents in a similar fashion for 20 percent of the units in certain other developments financed or to be financed under its multi-family mortgage lending program. Under this program, the Authority is entitled to receive a portion of any excess cash flow generated by the developments as well as a share of the profits from the sale of the developments and is able to reduce the rent subsidies if the interest rates being charged by the Authority on the related mortgage loans are below certain preset levels. Subsidy repayment did not exceed subsidy disbursements for the years ended June 30, 2014 and 2013.

Note 13 - Commitments (Continued)

In conjunction with a multi-family taxable bond lending program, the Authority is making available annually to certain developments financed under the program an amount equal to 400 times the number of units in such developments (subject to a one-year advance notice of termination) for the purpose of subsidizing rents so that some of the units in such developments can be made available to very low-income tenants. Under certain circumstances, after 15 years or more, the owners of the developments will be required to repay without interest up to 100 percent of the subsidies provided by the Authority. The Authority has not established a maximum amount that it will make available under this program. Net subsidy disbursements under this program totaled $586,000 and $651,000 for the years ended June 30, 2014 and 2013, respectively.

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. As of June 30, 2014, reimbursements exceeded disbursements under this program by $599,000. As of June 30, 2013, disbursements, net of reimbursements, under this program totaled $225,000.

Grants and Subsidies

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

Note 14 - Interest Rate Swaps

In connection with the issuance of various debt, the Authority has entered into interest rate swap contracts. To date, the interest rate swap contracts have all been the type whereby the Authority pays a fixed rate and receives a variable rate. No amount of compensation was paid or received at the time the contracts were executed. Interest rate swap agreements are important tools that the Authority utilizes to accomplish its goals. The Authority entered into the agreements in connection with 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, 2014 and 2013 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 position. Derivatives that are not deemed effective would be reported at fair market value and recognized as investments.

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, 2014:

Associated Debt/Swap Agreement	Effective Date	Notional Amount as of June 30, 2014	Termination Date	Rate	Fixed Rate	Optional Termination Date/Without Payment (9)	Market (Payment)/ to Terminate Swap	GASB No. 53 Presentation in Statement of Net Position	Type of Risk Associated With Swap Contract (4)(8)
Rental housing revenue bonds (effective hedges):									
2000 Series A (1)	09/25/00	$ 37,410,000	10/01/20	70% of 1 M LIBOR	4.960%	N.A.	$ (7,730,130)	$ (7,730,130)	(5)(6)(7)
2002 Series A (1)	07/03/02	50,075,000	04/01/37	70% of 1 M LIBOR	4.560%	N.A.	(14,374,419)	(14,374,419)	(5)(6)
2005 Series A (3)	09/22/05	64,215,000	04/01/40	65% of 1 M LIBOR+0.23%	3.514%	10/01/25	(8,729,386)	(8,729,386)	(5)(6)
2006 Series A (3)	03/16/06	65,095,000	10/01/40	65% of 3 M LIBOR+0.16%	3.514%	04/01/26	(8,934,203)	(8,934,203)	(5)(6)
2006 Series C (3)	07/25/06	58,105,000	04/01/41	61% of 1 M LIBOR+0.40%	3.996%	10/01/26	(10,756,067)	(10,756,067)	(5)(6)
2007 Series A (3)	07/02/07	27,970,000	04/01/42	65% of 3 M LIBOR+0.16%	3.378%	04/01/27	(3,594,115)	(3,594,115)	(5)(6)
2007 Series C (3)	01/23/08	76,310,000	10/01/42	61% of 1 M LIBOR+0.40%	3.564%	10/01/22	(10,631,080)	(10,631,080)	(5)(6)
2008 Series A (1)(10)	04/01/01	26,750,000	04/01/23	SIFMA + 0.10%	5.350%	N.A.	(5,139,279)	(2,475,588)	(5)(6)
2008 Series A (1)(10)	08/28/03	48,105,000	10/01/37	70% of 1 M LIBOR	4.197%	10/01/17	(4,840,625)	(2,831,834)	(5)(6)
2008 Series D (3)(10)	11/18/04	21,925,000	10/01/39	65% of 1 M LIBOR+0.23%	3.705%	10/01/24	(3,103,926)	(2,165,491)	(5)(6)
2008 Series D (3)(10)	11/18/04	36,525,000	10/01/39	65% of 3 M LIBOR+0.16%	3.597%	10/01/24	(4,762,937)	(3,508,553)	(5)(6)
2008 Series C (1)(10)	04/01/01	14,935,000	04/01/23	SIFMA	4.770%	N.A.	(2,381,830)	(970,981)	(5)(6)
Subtotal		$ 527,420,000					$ (84,977,997)	$ (76,701,847)	
Single-family mortgage revenue bonds (effective hedges):									
2006 Series C (2)	12/01/06	$ 50,645,000	06/01/33	Floating Rate (10)	4.417%	12/01/19	$ (8,093,507)	$ (8,093,507)	(5)(6)(7)
2007 Series B (2)	09/04/07	65,000,000	06/01/38	Floating Rate (10)	4.156%	06/01/17	(7,224,046)	(7,224,046)	(5)(6)
2007 Series C (2)	09/04/07	4,690,000	12/01/16	Floating Rate (10)	5.165%	N.A.	(319,635)	(319,635)	(5)(7)
2007 Series B (2)	01/01/08	35,000,000	06/01/38	Floating Rate (10)	4.252%	06/01/17	(4,039,022)	(4,039,022)	(5)(6)
2007 Series B (2)	01/02/08	35,000,000	06/01/38	Floating Rate (10)	4.444%	06/01/17	(4,330,271)	(4,330,271)	(5)(6)
2007 Series D (2)	12/01/08	35,000,000	12/01/38	Floating Rate (10)	4.116%	12/01/14	(2,976,502)	(2,976,502)	(5)(6)
2007 Series E (2)	06/02/08	35,000,000	12/01/38	Floating Rate (10)	4.019%	12/01/17	(3,939,006)	(3,939,006)	(5)(6)
2007 Series E (2)	06/02/08	35,000,000	12/01/38	Floating Rate (10)	3.927%	12/01/17	(3,760,785)	(3,760,785)	(5)(6)
2007 Series E (2)	06/02/08	55,000,000	12/01/38	Floating Rate (10)	3.846%	12/01/17	(5,291,585)	(5,291,585)	(5)(6)
2007 Series F (2)	12/01/08	50,000,000	12/01/38	Floating Rate (10)	4.165%	12/01/14	(4,361,004)	(4,361,004)	(5)(6)
2007 Series F (2)	12/01/08	35,000,000	12/01/38	Floating Rate (10)	4.340%	12/01/14	(5,292,394)	(5,292,394)	(5)(6)
2009 Series D (2)(10)	10/05/05	20,870,000	06/01/30	Floating Rate (10)	4.064%	12/01/14	(1,874,647)	(794,445)	(5)(6)
2009 Series D (2)(10)	04/01/07	43,345,000	06/01/30	Floating Rate (10)	4.574%	12/01/16	(5,675,033)	(2,675,106)	(5)(6)
Subtotal		$ 499,550,000					(57,177,437)	(53,097,308)	
Total interest rate swaps		$ 1,026,970,000					$ (142,155,434)	(129,799,155)	(12)
				Unamortized off-market borrowings				(13,567,801)	(11)
Total swaps								$ (143,366,956)	

(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 Aa2 by Moody's as of June 30, 2014.

(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 A negative outlook by S&P and A2 by Moody's as of June 30, 2014.

(3) Counterparty risk is the risk that the swap counterparty will not fulfill its obligations set forth under the terms and conditions of the swap contract. The counterparty associated with these bonds is Merrill Lynch Capital Services, Inc. (MLCS) or Merrill Lynch Derivative Products (MLDP). MLDP is rated A+ negative outlook by S&P and Aa3 by Moody's as of June 30, 2014. MLCS is not rated by Moody's or S&P. MLCS's obligations under each agreement are guaranteed by Merrill Lynch & Co., Inc. (MLCO), which has a rating of A- negative outlook by S&P and Baa2 by Moody's as of June 30, 2014.

Note 14 - Interest Rate Swaps (Continued)

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

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

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

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

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

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

(10) 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 seven swaps' "on-market" components 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.

(11) 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%	$ (2,395,753)
2008 Series A	0.9410%	3.2560%	(3,185,863)
2008 Series D	0.4040%	3.3010%	(844,379)
2008 Series D	0.3310%	3.2660%	(1,092,139)
2008 Series C	1.9820%	2.7880%	(1,331,851)
Single-family Mortgage			
Revenue Bonds:			
2009 Series D	0.6490%	3.4150%	(1,138,899)
2009 Series D	1.3200%	3.2540%	(3,578,917)
Total			$ (13,567,801)

(12) Cumulative decrease in fair market value of hedging derivatives is a deferred outflow of resources per GASB Statement No. 53.

Note 14 - Interest Rate Swaps (Continued)

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

	Changes in Fair Value		Fair Value at June 30, 2014		
	Classification	Amount	Classification	Amount	Notional
Cash flow hedges:					
Pay-fixed interest rate swaps (receive-variable)	Deferred charge	$ 8,767,220	Bonds payable	$ (129,799,155)	$ 1,026,970,000
Off-market borrowings	Interest expense	-	Off-market borrowings	(13,567,801)	-

	Changes in Fair Value		Fair Value at June 30, 2013		
	Classification	Amount	Classification	Amount	Notional
Cash flow hedges:					
Pay-fixed interest rate swaps (receive-variable)	Deferred charge	$ 65,993,868	Bonds payable	$ (138,566,375)	$ 1,062,510,000
Off-market borrowings	Interest expense	-	Off-market borrowings	(17,667,648)	-

Note 15 - Change in Accounting

During the current year, the Authority adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this Statement is to establish standards that reclassify certain items that were previously reported as assets and liabilities and instead to classify them as deferred inflows of resources, deferred outflows of resources, or as outflows of resources.

The Authority elected to expense the unamortized bond financing costs in fiscal year 2014, which was the first year GASB Statement NO. 65 was applicable, due to the insignificance of the amount. As a result of implementing this statement, the following assets and liabilities have been reclassified, as indicated (in thousands of dollars):

Item	As of June 30, 2014	As of June 30, 2013	Prior Reporting Classification/Treatment	New Classification After Adoption of GASB Statement No. 65
Bond financing costs	$ 6,729	$ -	Asset	Outflow of resources (an expense)
Deferred loan origination fees	11,749	12,130	Liability	Deferred inflow of resources
Deferred charges on refunding - Reassigned swaps	13,568	17,668	Adjustment to bond payable liability	Deferred outflow of resources

Note 16 - Upcoming Accounting Pronouncements

In June 2012, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, was issued by the Governmental Accounting Standards Board. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information. For the Authority, this standard will be adopted for the year ending June 30, 2015.

In January 2013, the Governmental Accounting Standards Board issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. Until now, governments had been accounting for mergers, acquisitions, and transfers of operations by analogizing to accounting and financial reporting guidance intended for the business environment. This statement provides specific accounting and financial reporting guidance for combinations in the governmental environment. This statement also requires that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. GASB Statement No. 69 is required to be adopted for years beginning after December 15, 2013. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted, during the Authority's 2014-2015 fiscal year.

Other Supplemental Information

	Section 8 Assisted Mortgage Revenue Bonds	Single-family Mortgage Revenue Bonds	Single-family Homeownership Revenue Bonds	Multi-family Housing Revenue Bonds	Rental Housing Revenue Bonds
	Activities				
Assets, Hedging Derivatives, and Deferred Outflows					
Cash and Investments					
Cash and cash equivalents	$ 147	$ 6,419	$ 4,190	$ 17	$ 13,043
Investments	68	66,130	52,929	1,200	173,480
Total cash and investments	215	72,549	57,119	1,217	186,523
Loans Receivable					
Multi-family mortgage loans:					
Construction in progress	-	-	-	-	66,780
Completed construction	3,569	-	-	7,979	1,009,082
Housing development loans	-	-	-	-	-
Single-family mortgage loans	-	487,290	358,552	-	-
Home improvement and moderate rehabilitation loans	-	-	-	-	-
Total	3,569	487,290	358,552	7,979	1,075,862
Accrued loan interest receivable	26	3,416	1,811	33	22,251
Allowance on loans receivable	-	(9,304)	(14,068)	(80)	(9,022)
Net loans receivable	3,595	481,402	346,295	7,932	1,089,091
Other Assets					
Real estate owned	-	4,133	4,557	-	25,179
Other	-	9,141	2,547	-	-
Interfund accounts	(1,064)	99,299	(2,068)	-	13,808
Total other assets	(1,064)	112,573	5,036	-	38,987
Total assets	2,746	666,524	408,450	9,149	1,314,601
Accumulated Decrease in Fair Value of Hedging Derivatives	-	53,097	-	-	76,702
Deferred Outflow of Resources - Deferred charges on refunding - Reassigned swaps	-	4,718	-	-	8,850
Total assets, deferred outflows, and hedging derivatives	**$ 2,746**	**$ 724,339**	**$ 408,450**	**$ 9,149**	**$ 1,400,153**
Liabilities, Deferred Inflows, and Net Position					
Liabilities					
Bonds payable	$ -	$ 535,847	$ 405,518	$ 7,637	$ 1,045,264
Hedging derivatives	-	53,097	-	-	76,702
Accrued interest payable	-	1,769	1,072	41	7,654
Escrow funds	-	-	-	-	467
Deferred mortgage interest income	-	-	-	-	27,240
Other liabilities	-	32	1,554	11	-
Total liabilities	-	590,745	408,144	7,689	1,157,327
Deferred Inflows of Resources - Loan origination fees	20	82	-	-	145
Net Position	2,726	133,512	306	1,460	242,681
Total liabilities, deferred inflows, and net position	**$ 2,746**	**$ 724,339**	**$ 408,450**	**$ 9,149**	**$ 1,400,153**

Statement of Net Position Information
June 30, 2014
(in thousands of dollars)

Activities					
Multi-family Revenue Bonds	General Operating	Capital Reserve	Mortgage Escrow and Reserve	Other	Combined
$ 3,380	$ 31	$ 456	$ 40,732	$ 8,289	$ 76,704
3,373	14,048	89,480	599,140	1,100	1,000,948
6,753	14,079	89,936	639,872	9,389	1,077,652
-	21,437	-	-	-	88,217
20,117	62,727	-	-	90,404	1,193,878
-	-	-	-	6,089	6,089
-	24,020	-	-	-	869,862
-	7,397	-	-	-	7,397
20,117	115,581	-	-	96,493	2,165,443
2,647	6,697	-	-	13,132	50,013
(461)	(8,364)	-	-	(189)	(41,488)
22,303	113,914	-	-	109,436	2,173,968
781	74	-	-	-	34,724
-	17,669	-	-	6,452	35,809
(2,708)	(85,336)	-	(6,986)	(14,945)	-
(1,927)	(67,593)	-	(6,986)	(8,493)	70,533
27,129	60,400	89,936	632,886	110,332	3,322,153
-	-	-	-	-	129,799
-	-	-	-	-	13,568
$ 27,129	**$ 60,400**	**$ 89,936**	**$ 632,886**	**$ 110,332**	**$ 3,465,520**
$ 25,829	$ -	$ -	$ -	$ -	$ 2,020,095
-	-	-	-	-	129,799
367	-	-	-	-	10,903
-	599	-	632,886	(160,107)	473,845
-	-	-	-	-	27,240
-	35,063	-	-	7,541	44,201
26,196	35,662	-	632,886	(152,566)	2,706,083
-	11,502	-	-	-	11,749
933	13,236	89,936	-	262,898	747,688
$ 27,129	**$ 60,400**	**$ 89,936**	**$ 632,886**	**$ 110,332**	**$ 3,465,520**

	Section 8 Assisted Mortgage Revenue Bonds	Single-family Mortgage Revenue Bonds	Single-family Homeownership Revenue Bonds	Multi-family Housing Revenue Bonds	Rental Housing Revenue Bonds
	Activities				
Operating Revenue					
Investment income:					
Loan interest income	$ 338	$ 27,228	$ 16,180	$ 403	$ 63,839
Investment interest income	13	2,551	660	1	1,915
(Decrease) increase in fair value of investments - inlcuding change in unrealized (losses) gains	(3)	24	(91)	(1)	363
Total investment income	348	29,803	16,749	403	66,117
Less interest expense and debt financing costs	193	29,946	15,517	292	49,331
Net investment income (loss)	155	(143)	1,232	111	16,786
Other revenue:					
Federal and state assistance programs	-	-	-	-	-
Section 8 program administrative fees	-	-	-	-	-
Contract administration fees	-	-	-	-	-
Other income	-	467	-	-	3,824
Total operating revenue	155	324	1,232	111	20,610
Operating Expenses					
Federal and state assistance programs	-	-	-	-	-
Salaries and benefits	-	-	-	-	-
Other general operating expenses	-	-	-	-	-
Loan servicing and insurance costs	-	962	609	-	-
Provision for possible losses on loans	-	10,550	2,686	(11)	(11,044)
Total operating expenses	-	11,512	3,295	(11)	(11,044)
Operating Income (Loss) - Before nonoperating expenses	155	(11,188)	(2,063)	122	31,654
Nonoperating Expenses - Grants and subsidies	-	-	-	-	-
Change in Net Position	155	(11,188)	(2,063)	122	31,654
Net Position - Beginning of year	2,571	141,407	879	3,571	221,027
Transfers to Other Funds for Payment of Operating Fund Expenses	-	-	-	(2,233)	(10,000)
Funding to Provide Additional Cash Flow and Payment of Bond Issuance Costs	-	3,293	1,490	-	-
Net Position - End of year	**$ 2,726**	**$ 133,512**	**$ 306**	**$ 1,460**	**$ 242,681**

Statement of Revenue, Expenses, and Changes in Net Position Information
Year Ended June 30, 2014
(in thousands of dollars)

Activities					
Multi-family Revenue Bonds	General Operating	Capital Reserve	Mortgage Escrow and Reserve	Other	Combined
$ 1,985	$ 9,621	$ -	$ -	$ 3,215	$ 122,809
14	187	2,674	-	10,264	18,279
-	(152)	(239)	-	-	(99)
1,999	9,656	2,435	-	13,479	140,989
2,335	304	-	-	-	97,918
(336)	9,352	2,435	-	13,479	43,071
-	-	-	-	520,975	520,975
-	13,676	-	-	-	13,676
-	6,699	-	-	299	6,998
15	13,256	-	-	15,961	33,523
(321)	42,983	2,435	-	550,714	618,243
-	-	-	-	521,011	521,011
-	36,276	-	-	17	36,293
-	30,939	-	-	(32)	30,907
-	1,825	-	-	-	3,396
(1,127)	451	-	-	-	1,505
(1,127)	69,491	-	-	520,996	593,112
806	(26,508)	2,435	-	29,718	25,131
-	(1)	-	-	(8,898)	(8,899)
806	(26,509)	2,435	-	20,820	16,232
127	19,295	87,501	-	255,078	731,456
-	12,233	-	-	-	-
-	8,217	-	-	(13,000)	-
$ 933	**$ 13,236**	**$ 89,936**	**$ -**	**$ 262,898**	**$ 747,688**

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

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

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

Independent Auditor's Report

To Management, the Board of Directors, and
Mr. Doug A. Ringler, CPA, CIA
Auditor General, State of Michigan
Michigan State Housing Development Authority

We have audited, in accordance with the 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, the financial statements of the business-type activities and the discretely presented component units of the Michigan State Housing Development Authority (the "Authority"), a component unit of the State of Michigan, as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Michigan State Housing Development Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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. 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.

To Management, the Board of Directors, and
Mr. Doug A. Ringler, CPA, CIA
Auditor General, State of Michigan
Michigan State Housing Development Authority

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control described in the accompanying schedule of findings and questioned costs as Finding 2014-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Michigan State Housing Development Authority's financial statements are free from 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 audit 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*.

Authority's Response to Findings

The Michigan State Housing Development Authority's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Michigan State Housing Development Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

October 24, 2014

Reference Number	Finding
2014-001	**Finding Type** - Significant deficiency

Criteria - Good business practices require the general ledger to be complete and free of misstatements before financial statement audits begin.

Condition - Since the audit and year-end close were performed simultaneously, the audit team identified adjustments and the Authority provided the audit team with several client-prepared journal entries.

Context - We understand the Authority had a significant amount of activity related to operations, especially near year end. Consequently, the Authority was performing its year-end close process during the start of the audit fieldwork.

Cause - There is a high level of operational activity performed at year end with limited staff.

Effect - There were several adjustments made by the Authority after fieldwork began and many were identified by the Authority's staff; however, there were several immaterial adjustments identified by the auditors.

Recommendation - We recommend delaying the audit until after the year-end close process. Due to the strict deadline on issuing the audit, it is important that the trial balance and supporting schedules are ready to audit at the beginning of fieldwork.

Views of Responsible Officials and Planned Corrective Actions - The Authority agrees that the audit fieldwork should not begin until after the year-end closing process. A number of general ledger changes related to federal reporting requirements were being contemplated during the year-end closing process. When the Authority has the ability to control the federal reporting requirements, it will address them prior to the year-end closing process.

Reference Number	Finding
2013-001	**Finding Type** - Significant deficiency

Criteria - Good business practices require the general ledger to be complete and free of misstatements before financial statement audits begin.

Condition - Since the audit and year-end close were performed simultaneously, the audit team identified adjustments and the Authority provided the audit team with several client-prepared journal entries.

Context - We understand the Authority had a significant amount of activity related to operations, especially near year end. Consequently, the Authority was performing its year-end close process during the start of the audit fieldwork.

Cause - There is a high level of operational activity performed at year end with limited staff.

Effect - There were several adjustments made by the Authority after fieldwork began and many were identified by the Authority's staff; however, there were several immaterial adjustments identified by the auditors.

Recommendation - We recommend delaying the audit until after the year-end close process. Due to the strict deadline on issuing the audit, it is important that the trial balance and supporting schedules are ready to audit at the beginning of fieldwork.

Views of Responsible Officials and Planned Corrective Actions - The Authority agrees that the audit fieldwork should not begin until after the year-end closing process. A number of general ledger changes related to federal reporting requirements were being contemplated during the year-end closing process. When the Authority has the ability to control the federal reporting requirements, it will address them prior to the year-end closing process.