Minnesota Housing Finance Agency

2007 Financial Report

MINNESOTA HOUSING FINANCE AGENCY
Annual Financial Report as of and for the year ended June 30, 2007

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Commissioner's Report

In my 2006 report I foreshadowed the work the Agency would be undertaking to develop a strategy management system as a tool to update the Agency Strategic Plan and develop the 2008-2009 Affordable Housing Plan which serves as the Agency's program budget. This work allowed, and will continue to allow, the Agency to be clear about its strategy, its priorities, and its objectives, and have measures in place to track our progress. In June, after months of intense work, the Agency formally adopted an updated Strategic Plan including a strategy map, and balanced scorecard that aligns our financial, program, and policy objectives.

An important element of our strategy management was the review of Agency sustainable financial policies which resulted in a significant financial restructuring following the close of fiscal year 2007. This restructuring allows the Agency to be more focused about the resources necessary to support the Agency's sustainable lending functions and the resources that may be deployed to expand housing programs requiring deferred loans and grants. As a result of the restructuring and the Agency's strong financial performance, we identified significantly more internal resources to allocate to the 2008-2009 Affordable Housing Plan. In addition, the state's long-term and bi-partisan commitment to affordably house its citizens resulted in legislative approval of the Governor's request for Minnesota Housing to receive a 62% increase in state appropriated biennial budget to a total of $114 million. This included the largest base budget ever of almost $90 million. Consequently, Minnesota Housing proposed a $1.6 billion Affordable Housing Plan for 2008-2009, which is the largest ever and a $350 million increase over the current plan.

The Agency continues to make significant progress on the strategic priorities identified in our updated Strategic Plan:

- Finance new affordable housing opportunities;
- Preserve existing affordable housing;
- End long-term homelessness; and
- Increase emerging market homeownership.

Our progress on the Business Plan to End Long-Term Homelessness continues as we again exceeded production benchmarks (1,091 housing opportunities against a goal of 1,000). The Business Plan has been "recalibrated" to reflect the first three years of implementation and to guide the next phase of our work.

We continue to be actively involved in the Emerging Markets Homeownership Initiative (EMHI), the nonprofit organization established to coordinate implementation of the state-wide plan to increase minority homeownership, as well as increasing our own efforts to increase emerging market penetration with Minnesota Housing homeownership financing products.

A summary of overall program highlights are set forth in the annual program assessment report, which can be viewed on our web site at www.mnhousing.gov. In program year 2006 (beginning October 1, 2005 and ending September 30, 2006) the Agency provided more than $717 million in housing assistance, which reflects continued strong program demand. Homeownership programs within the Agency's Single Family Division experienced record volume, with the Agency providing $452.8 million in assistance to more than 16,000 homeowners and homebuyers. This accounts for the bulk of the increased assistance the Agency provided in this program year. Our Multifamily programs provided $264 million in assistance during the 2006 program year, providing assistance to sponsors or tenants of more than 41,000 units of affordable rental housing. As of the end of the 2007 fiscal year, the Agency oversaw a portfolio of more than 42,000 mortgages and deferred loans for homeownership, and home improvement and 314 first mortgage loans for rental housing as well as administering the federal tax credit program.

Key to our programmatic accomplishments and housing policy success is strong financial performance in fiscal year 2007 with General Reserve and bond fund net asset growth of $31 million to total net assets of $751 million. As pleased as we are with our performance this past year and the increased resources available under the Affordable Housing Plan, we know that there will be challenges to confront this coming year. As with many states, Minnesota is experiencing a dramatic increase in foreclosures of "sub-prime" adjustable rate/adjustable payment homeowner mortgages with projections that delinquencies and foreclosures will continue to increase. Minnesota Housing's primary loan programs offer fixed interest rate/fixed payment financing that has not exhibited the same high risk characteristics recently associated with some "sub-prime" variable or adjustable rate and adjustable payment loan products. Although the performance of our first mortgage homeownership portfolio remains very strong, this situation affects Minnesota families and communities, and Minnesota Housing has and will continue to play a role with other stakeholders to developing and implement appropriate responses. In addition, in August of 2007, Southeastern Minnesota experienced record rainfalls resulting in flash floods. Hundreds of homes have been destroyed or damaged and seven counties have been declared presidential disaster areas. Minnesota Housing is now working with affected communities and stakeholders to develop and implement a rebuilding plan.

I am confident that Minnesota Housing, our stakeholders and the broader community will confront successfully these and other challenges the coming year will bring. Our programmatic expertise, our policy leadership, and our financial strength provide us the capacity to advance our affordable housing mission and enhance Minnesota's quality of life.

Timothy E. Marx, Commissioner

Minnesota Housing

August 31, 2007

Independent Auditors' Report

To the Members of the
Minnesota Housing Finance Agency
St. Paul, Minnesota

We have audited the accompanying financial statements of the business-type activities and each major fund (General Reserve, Rental Housing, Residential Housing Finance, Single Family, State Appropriated, and Federal Appropriated) of Minnesota Housing Finance Agency (the Agency), a component unit of the State of Minnesota, as of and for the year ended June 30, 2007, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the Agency's 2006 financial statements and, in our report dated August 18, 2006, we expressed unqualified opinions on the respective financial statements of the business-type activities and each major fund.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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 each major fund (General Reserve, Rental Housing, Residential Housing Finance, Single Family, State Appropriated, and Federal Appropriated) of the Agency, as of June 30, 2007, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The introductory section and supplemental information is presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and supplemental information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

LarsonAllen LLP

LarsonAllen LLP

Minneapolis, Minnesota

September 26, 2007

MINNESOTA HOUSING FINANCE AGENCY
Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations is not audited. However, it is supplementary information required by accounting principles generally accepted in the United States of America. This discussion should be read in conjunction with the financial statements and notes thereto.

Introduction

The Minnesota Housing Finance Agency (Minnesota Housing or the Agency) was created in 1971 by the Minnesota legislature through the enactment of Minnesota Statutes, Chapter 462A, which has been amended from time to time. It was established to facilitate the construction and rehabilitation of housing in Minnesota for families of low- and moderate-income by providing for mortgage loans, development loans, and technical assistance to qualified housing sponsors. Minnesota Housing is a component unit of the State of Minnesota and receives appropriations from the state legislature, substantially all of which are used to make loans or grants under specified non-bond-financed programs. Minnesota Housing also receives funds appropriated by the federal government for similar purposes.

Minnesota Housing is authorized to issue bonds and other obligations to fulfill its corporate purposes up to a total outstanding amount of $3.0 billion. The bonds and other obligations are not a debt of the State of Minnesota or any political subdivision thereof.

Minnesota Housing operates two program divisions — Multifamily and Minnesota Homes — which offer housing programs with funding from the sale of tax-exempt and taxable bonds, state and federal appropriations, allocation of the Federal Low Income Housing Tax Credit, the Housing Trust Fund and Minnesota Housing's endowment funds and Alternative Loan Fund.

The members of Minnesota Housing (the Board) consist of six public members appointed by the Governor with the advice and consent of the state senate and one ex-officio member (the State Auditor).

Discussion of Financial Statements

The financial section consists of three parts — independent auditors' report, management's discussion and analysis (this section), and the basic financial statements. The basic financial statements include two kinds of statements that present different views of Minnesota Housing:

- The first two statements are Agency-wide financial statements that provide information about Minnesota Housing's overall financial position and results of operations. These statements, which are presented on the accrual basis, consist of the Statement of Net Assets and the Statement of Activities. Significant interfund transactions have been eliminated within the Agency-wide statements. Assets and revenues of the separate funds that comprise the Agency-wide financial statements are generally restricted as to use and the reader should not assume they may be used for any corporate purpose.

- The remaining statements are fund financial statements of Minnesota Housing's six proprietary funds, which are also presented on the accrual basis because of the similarity of their operations to that of business activities.

- The financial statements also include "Notes to Financial Statements" which provide more detailed explanations of certain information contained in the Agency-wide and fund financial statements.

- Additional supplementary information is presented following the Notes to Financial Statements for certain funds of Minnesota Housing, which have been established under the bond resolutions under which Minnesota Housing borrows funds for its programs. These funds consist of General Reserve and the bond funds, which are Rental Housing, Residential Housing Finance, and Single Family.

The basic financial statements also include comparative totals as of and for the year ended June 30, 2006. Although not required, these comparative totals are intended to facilitate an enhanced understanding of Minnesota

Housing's financial position and results of operations for the current fiscal year in comparison to the prior fiscal year.

Discussion of Individual Funds

During fiscal year 2007 Minnesota Housing maintained the Home Improvement Endowment Fund, Homeownership Endowment Fund, and Multifamily Endowment Fund (Endowment Funds) as sub-funds of the Residential Housing Finance Fund. Effective July 1, 2007 Minnesota Housing terminated these three Endowment Funds held under the Residential Housing Finance bond resolution and transferred the assets therein to the Housing Investment Fund and Housing Affordability Fund (also referred to as Pool 2 and Pool 3, respectively). By Board resolution, the Agency also changed its net asset requirements and investment guidelines for the Housing Endowment Fund (also referred to as Pool 1), Pool 2, and Pool 3, effective as of July 1, 2007. Please see Notes To Financial Statements, Subsequent Events for additional information.

General Reserve

The purposes of General Reserve are to maintain sufficient liquidity for Minnesota Housing operations, to hold escrowed funds and to maintain the Housing Endowment Fund (also referred to as Pool 1). On the Statement of Revenues and Expenses for General Reserve, only the costs of administering Minnesota Housing programs are captured. The fees earned are generally related to the administration of the federal low income housing tax credit program, administration of the federal Housing Assistance Payment program, and contract administration of the Section 8 program for developments not financed by Minnesota Housing.

Rental Housing

The majority of the developments with a first mortgage loan presently held in Rental Housing receive Section 8 payments under contracts that are for substantially the same length of time as the mortgage loans.

Inherent risks remain in these portfolios, especially in the multifamily developments without project-based tenant subsidies. Maintaining asset quality remains a high priority for Minnesota Housing, so this portfolio continues to receive a significant amount of Minnesota Housing staff attention.

All of Minnesota Housing's bond-financed multifamily loans are now financed in Rental Housing.

Funds in excess of bond resolution requirements may be budgeted for and used to redeem bonds, to fund housing programs and for Agency operations.

Residential Housing Finance

Included within Residential Housing Finance are the bonds issued and outstanding under the Residential Housing Finance bond resolution, the bond resolution restricted Home Improvement, Homeownership, and Multifamily Endowment Funds, and the restricted by covenant Alternative Loan Fund consisting of the Housing Investment Fund (Pool 2) and the Housing Affordability Fund (Pool 3).

Bonds issued to date were for the purpose of funding purchases of single family first mortgage loans and some related entry cost housing assistance loans, and home improvement unsecured or subordinated mortgage loans. The majority of the single family loans financed by these bond issues are insured by private mortgage insurance or the Federal Housing Administration (FHA), or guaranteed by the U.S. Department of Veterans Affairs (VA) or the U.S. Department of Agriculture Rural Development (RD).

This bond resolution is the principal source of financing for bond-financed homeownership programs. Minnesota Housing may also issue bonds for its home improvement loan program under this bond resolution although no bonds were issued to support home improvement lending during fiscal year 2007.

The Home Improvement Endowment Fund was the principal source of financing for Minnesota Housing's home improvement loan programs. Loan repayments were utilized to finance new loan activity for home improvement loan programs during fiscal year 2007.

The Homeownership Endowment Fund was a source of funding for bond sale contributions, entry cost housing assistance for first-time homebuyers, below-market interim financing during construction and/or rehabilitation of single family housing and for warehousing loans.

The Multifamily Endowment Fund was a principal source of funding for innovative multifamily programs that were not candidates for bond financing, such as non-profit capacity building and deferred, subordinated loans to support first mortgages.

The Housing Investment Fund (Pool 2) held in the Alternative Loan Fund is currently invested in amortizing interest-bearing multifamily and single family housing loans and may also be used to advance funds to retire high-rate debt and to warehouse loans.

The Housing Affordability Fund (Pool 3) held in the Alternative Loan Fund includes a housing administration contingency fund, consisting of cash, investments, and amortizing interest-bearing single family housing loans, for future administrative costs and other funds that may be used as a source of funding for bond sale contributions, multifamily first and subordinated mortgage loans, including zero-percent deferred loans, and other below-market rate loans with higher than ordinary risk factors. It may also be used to advance funds to retire high-rate debt and to warehouse loans.

Funds in excess of bond resolution requirements may be budgeted for and used to redeem bonds, to fund housing programs and for Agency operations.

Single Family

This fund was historically the principal source of financing for Minnesota Housing's bond-financed homeownership programs. Since fiscal year 2002 Minnesota Housing has utilized the Residential Housing Finance Fund as its principal source of financing for these programs because of the increased flexibility afforded by that bond resolution. Certain Single Family funds in excess of bond resolution requirements may be budgeted for and used for bond sale contributions in connection with bonds issued under the Residential Housing Finance bond resolution.

The majority of the loans in Single Family have either FHA insurance or a VA or RD guarantee.

Funds in excess of bond resolution requirements may be budgeted for and used to redeem bonds, to fund housing programs and for Agency operations.

State and Federal Appropriated Funds

The appropriated funds are maintained by Minnesota Housing for the purpose of receiving and disbursing monies legislatively appropriated by the state and federal government for housing. All of the appropriated funds' net assets are restricted by law for specified uses set forth in the state appropriations or federal contracts and are not pledged to support the bondholders or creditors of Minnesota Housing.

The State Appropriated fund was established to account for funds received from the state legislature, which are to be used for programs for low- to moderate-income persons and families in the form of low-interest loans, no-interest deferred loans, innovative development and other housing-related program costs.

The Federal Appropriated fund was established to account for funds received from the federal government which are to be used for programs for low- to moderate-income persons and families in the form of no-interest deferred loans, grants, support to other non-profit housing organizations and other housing-related program costs.

General Overview

Minnesota Housing financial statements are presented in combined "Agency-wide" form followed by "fund" financial statements presented for its major funds. The Agency defines the term "major funds" to include: General Reserve, Rental Housing, Residential Housing Finance, Single Family, State Appropriated, and Federal Appropriated. The combined Agency-wide financial statements are provided to display a comprehensive view of all Minnesota Housing funds as required by accounting principles generally accepted in the United States of America applicable to governmental entities under accounting standards promulgated from time to time by the Governmental Accounting Standards Board. The Agency-wide financial statements reflect totals of similar accounts of various funds. However, substantially all of the funds in these accounts are restricted as to use by Agency resolutions or legislation as further described below.

Assets and revenues of the bond funds are restricted to uses specifically set forth in their respective bond resolutions and are pledged for the primary benefit of the respective bondholders and swap counterparties. General Reserve is created under the Minnesota Housing bond resolutions as part of the pledge of the general obligation of Minnesota Housing. Minnesota Housing covenants in the bond resolutions that it will use the assets in General

Reserve only for administration and financing of programs in accordance with the policy and purpose of the Minnesota Housing enabling legislation, including reserves for the payment of bonds and notes and of loans made from the proceeds thereof, and shall accumulate and maintain therein such a balance of funds and investments as will be sufficient for the purpose.

Minnesota Housing has no taxing power and neither the State of Minnesota nor any political subdivision thereof is obligated to pay the principal of or interest on bonds or other obligations issued by Minnesota Housing. The state has pledged to and agreed with bondholders that it will not limit or alter the rights vested in Minnesota Housing to fulfill the terms of any agreements made with bondholders or in any way impair the rights and remedies of the bondholders.

Public funds directly appropriated to Minnesota Housing by the State of Minnesota or made available to Minnesota Housing from the federal government are restricted by law to specified uses set forth in the state appropriations or federal contracts. Assets and revenues of State Appropriated and Federal Appropriated funds are not pledged or available to support bonds or other obligations of Minnesota Housing or its general obligation pledge in respect thereof.

In addition to its audited annual financial statements, Minnesota Housing publishes unaudited quarterly disclosure reports for the Single Family and Residential Housing Finance bond resolutions and unaudited semiannual disclosure reports for the Rental Housing bond resolution. These disclosure reports can be found on Minnesota Housing's web site at www.mnhousing.gov.

MINNESOTA HOUSING FINANCE AGENCY
Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
Condensed Financial Information

Selected Elements From Statement of Net Assets (in $000's)

		Agency-wide Total			Combined General Reserve and Bond Funds			Combined State and Federal Appropriations Funds		
		6/30/07	6/30/06	Change	6/30/07	6/30/06	Change	6/30/07	6/30/06	Change
Assets	Cash and Investments	$ 1,260,244	$ 1,103,132	$ 157,112	$ 1,188,099	$ 990,408	$ 197,691	$ 72,145	$ 112,724	$ (40,579)
	Loans receivable, Net	2,091,381	1,805,094	286,287	2,059,822	1,776,736	283,086	31,559	28,358	3,201
	Interest Receivable	16,919	12,065	4,854	16,105	11,443	4,662	814	622	192
	Total Assets	3,394,421	2,942,903	451,518	3,289,465	2,800,117	489,348	104,956	142,786	(37,830)
Liabilities	Bonds Payable	2,398,988	1,946,091	452,897	2,398,988	1,946,091	452,897	-	-	-
	Interest Payable	47,593	38,086	9,507	47,593	38,086	9,507	-	-	-
	Funds Held for Others	81,404	82,368	(964)	79,404	80,555	(1,151)	2,000	1,813	187
	Total Liabilities	2,542,782	2,120,329	422,453	2,538,475	2,080,230	458,245	4,307	40,099	(35,792)
Net Assets	Restricted by Bond Resolution	423,358	406,548	16,810	423,358	406,548	16,810	-	-	-
	Restricted by Covenant	323,247	309,654	13,593	323,247	309,654	13,593	-	-	-
	Restricted by Law	100,649	102,687	(2,038)	-	-	-	100,649	102,687	(2,038)
	Total Net Assets	851,639	822,574	29,065	750,990	719,887	31,103	100,649	102,687	(2,038)

Selected Elements From Statement of Revenues, Expenses, and Changes in Net Assets (in $000's)

		Agency-wide Total			Combined General Reserve and Bond Funds			Combined State and Federal Appropriations Funds		
		2007	2006	Change	2007	2006	Change	2007	2006	Change
Revenues	Interest Earned	$ 165,200	$ 141,502	$ 23,698	$ 160,834	$ 137,954	$ 22,880	$ 4,366	$ 3,548	$ 818
	Appropriations Received	210,797	206,367	4,430	-	-	-	210,797	206,367	4,430
	Fees and Reimbursements	11,012	11,956	(944)	28,568	27,109	1,459	745	745	-
	Total Revenues (1)	406,367	369,777	36,590	189,997	159,440	30,557	216,370	210,337	6,033
Expenses	Interest Expense	101,349	87,115	14,234	101,349	87,115	14,234	-	-	-
	Appropriations Disbursed	186,690	181,598	5,092	-	-	-	186,690	181,598	5,092
	Fees and Reimbursements	5,938	5,961	(23)	20,524	18,697	1,827	3,715	3,162	553
	Payroll, Gen. & Admin.	24,469	23,492	977	23,433	22,556	877	1,036	936	100
	Loan Loss/Value Adjust's	40,555	33,494	7,061	13,588	8,377	5,211	26,967	25,117	1,850
	Total Expenses (1)	377,302	347,558	29,744	158,894	136,745	22,149	218,408	210,813	7,595
	Revenues over Expenses	29,065	22,219	6,846	31,103	22,695	8,408	(2,038)	(476)	(1,562)
	Beginning Net Assets	822,574	800,355	22,219	719,887	697,192	22,695	102,687	103,163	(476)
	Ending Net Assets	851,639	822,574	29,065	750,990	719,887	31,103	100,649	102,687	(2,038)

(1) Agency-wide totals include interfund amounts.

FINANCIAL HIGHLIGHTS

When reading the following financial highlights section referring to the General Reserve and bond funds, the reader is encouraged to review the Fund Financial Statements included as supplementary information in the 2007 Financial Report.

General Reserve and Bond Funds — Statement of Net Assets

In recent years, the type of assets in General Reserve and bond funds has been comparatively stable with loans receivable, investments, cash, cash equivalents, interest receivable, and unamortized bond issuance costs comprising the majority of assets. Equipment, fixtures, furniture, capitalized software costs, and other assets continue to be insignificant in relation to the total General Reserve and bond fund assets.

Loans receivable, net is the largest single category of bond fund assets. Loans are limited to housing-related lending for low- and moderate-income individuals and families. Loans receivable, net increased 16% to $2,060 million at June 30, 2007 as a result of new loan purchases and originations net of repayments, prepayments, and loss reserves. Amortizing homeownership loans at fixed interest rates, secured by first mortgages, continue to be the dominant loan product offered by Minnesota Housing (referred to as the homeownership portfolio). The majority of growth in loans receivable during fiscal year 2007 was attributed to the homeownership portfolio. The reserve for loan loss requirements of the homeownership loan portfolio increased due to the continued growth of the portfolio and an increase in homeownership loan delinquency rates as displayed in the following delinquency data. Minnesota Housing also has active amortizing and installment payment home improvement and rental rehabilitation loan programs which offer low interest and market rate loans that may be secured with second or subordinate mortgages, or may be unsecured (referred to as the home improvement loan portfolio). The reserve for loan loss requirements of the home improvement loan portfolio increased primarily as a result of increased loan delinquency rates also displayed in the following delinquency data. Amortizing multifamily loans at fixed interest rates, secured by first mortgages (referred to as the multifamily portfolio) exhibited very little change in the delinquency rate and the aggregate loan receivable balance. The reserve for loan loss requirements of the multifamily portfolio were relatively unchanged during fiscal year 2007. Minnesota Housing's primary loan programs offer fixed interest rate/fixed payment financing that has not exhibited the same high risk characteristics recently associated with some "sub-prime" variable or adjustable interest rate and adjustable payment loan products.

Homeownership Loan Portfolio Delinquency
Actual Loan Count

	June 30, 2007		June 30, 2006	
Current	17,088	96.5%	15,600	97.2%
60-89 days past due	247	1.4%	158	1.0%
90-119 days past due	115	0.6%	110	0.7%
120+ days past due	268	1.5%	186	1.1%
Total count	17,718		16,054	
Total past due	630	3.5%	454	2.8%

Home Improvement Loan Portfolio Delinquency
Actual Loan Count

	June 30, 2007		June 30, 2006	
Current	10,020	95.5%	10,351	97.1%
60-89 days past due	87	0.8%	47	0.4%
90-119 days past due	32	0.3%	18	0.2%
120+ days past due	352	3.4%	242	2.3%
Total count	10,491		10,658	
Total past due	471	4.5%	307	2.9%

Delinquency rates of the Minnesota Housing homeownership loan portfolio through June 2007 approximated the delinquency rates of similar loan data available from the Minnesota Mortgage Bankers Association.

Due to the unique program characteristics of the Minnesota home improvement loan portfolio, comparable delinquency data is not available from other sources.

Mortgage insurance claims receivable consist of non-performing homeownership loans that are FHA or VA insured. These loans are reclassified as claims receivable at the time the Agency files a claim. Mortgage insurance claims receivable increased 149% to $1.837 million at June 30, 2007 as a result of increased delinquency rates within the homeownership portfolio.

Real estate owned consists of homeownership loans that have been foreclosed and multifamily property carrying costs where the Agency is in the process of acquiring certain properties or the Agency has acquired title to the real property. Real estate owned increased 93% to $2.727 million at June 30, 2007 also as a result of increased delinquency concluding in foreclosure within the homeownership portfolio.

While there has been some increase in delinquency rates and foreclosures of the Agency's loans receivable during fiscal year 2007, as evident by increases in mortgage insurance claims and real estate owned, the combined total of mortgage insurance claims and real estate owned remains immaterial compared to total loans receivable at 6/30/07, being less than .22% of total net loans receivable. Management believes that reserves for loan losses are adequate to assure the proper valuation of the loan assets based on the current assessment of asset quality.

There are no loan assets in General Reserve.

Investments, cash, and cash equivalents are the next largest categories of assets and are carefully managed to assure adequate resources for future debt service requirements and liquidity needs. The combined investments, cash, and cash equivalents increased 20% to $1,188 million at June 30, 2007 primarily due to increased debt issuance.

Interest receivable on loans and investments is a function of the timing of interest payments and the general level of interest rates. Combined loan and investment interest receivable increased 41% to $16.105 million at June

30, 2007. The average balance of loans receivable and combined investments, cash and cash equivalents were higher in fiscal year 2007 than in the previous year.

Bonds payable, net is the largest single category of liabilities, resulting from debt issued to fund housing-related lending that supports Minnesota Housing's mission. Bonds payable increased 23% to $2,399 million at June 30, 2007 resulting from new debt issuance, redemptions, and bond maturities.

The companion category of interest payable increased 25% to $47.593 million at June 30, 2007 as a result of higher average cost of new bonds issued, including an increasing principal amount of taxable bonds, and higher average bonds payable outstanding during the fiscal year.

There is no debt issued in General Reserve. General Reserve does recognize a significant liability for funds held for others. These funds are routinely collected and held in escrow on behalf of multifamily borrowers pursuant to the loan documents and are used for future periodic payments of real property taxes, casualty insurance premiums, and certain operating expenditures. Funds held for others in General Reserve decreased 1% to $79.404 million at June 30, 2007 as multifamily escrow reserves decreased slightly.

Accounts payable and other liabilities decreased 16% to $12.999 million at June 30, 2007 primarily as a result of arbitrage liability payments made net of general and administrative expenses payable. The largest component of accounts payable continues to be arbitrage liability on tax-exempt bonds pursuant to federal law, which is payable to the United States Treasury and yield compliance liability. Minnesota Housing obtains from independent valuation specialists annual calculations of its arbitrage rebate liability.

Interfund payable/receivable exists primarily as a result of interfund borrowing and pending administrative and program reimbursements among funds. Most administrative expenses are paid from General Reserve, with the bond funds and appropriated funds owing an administrative reimbursement to General Reserve for the respective fund's contribution to those administrative expenses.

Net assets of General Reserve and bond funds are divided into two primary categories. Net Assets Restricted by Bond Resolution are pledged to the payment of bonds, subject to bond resolution requirements that authorize Minnesota Housing to withdraw funds in excess of the amounts required to be maintained under the bond resolutions. Net Assets Restricted by Covenant are subject to a covenant with bondholders that the Agency shall use the money in General Reserve only for the administration and financing of programs in accordance with the policy and purpose of the Minnesota Housing enabling legislation, including the creation of reserves for the payment of bonds and of loans made from the proceeds thereof, and shall accumulate and maintain therein such a balance of funds and investments as will be sufficient for the purpose. The Board of the Agency has established investment guidelines for these funds to provide financial security for the Agency's bondholders. Net assets increased 4% to $750.990 million at June 30, 2007 as a result of strong financial performance of the bond funds.

General Reserve and Bond Funds — Revenues Over Expenses

Revenues over expenses of General Reserve and bond funds increased 8% from fiscal year 2006 after considering the net effect of unrealized gains and losses that result from market valuation adjustments to certain investment assets. Ignoring the effects of unrealized gains and losses on investments, total revenues increased 15% while total expenses increased 16% compared to the prior year. Minnesota Housing experienced strong positive revenue growth during fiscal year 2007 from its business activities.

The largest revenue component, interest earned, increased significantly during the year. Combined interest revenues of General Reserve and bond funds from loans and investments increased 17% to $160.834 million compared to the prior year. Loan interest revenue increased 13% in fiscal year 2007 as new loan purchases and originations were made and net loans outstanding were higher throughout the year. Investment interest revenue increased 25% in fiscal year 2007 as investment yields increased and the average balance of investments, cash, and cash equivalents was higher compared to fiscal year 2006.

Administrative reimbursements to General Reserve from bond funds were $14.596 million in fiscal year 2007 compared to $12.776 million during the prior fiscal year. General Reserve also incurs overhead expenses to administer state appropriated housing programs. General Reserve received overhead reimbursements of $4.522 million from the State and Federal Appropriated funds to recover certain overhead expenses incurred during fiscal year 2007 compared to $3.954 million during the prior fiscal year. Overhead expenses of $1.111 million to administer state appropriated housing programs during fiscal year 2007 were not reimbursed as the investment earnings available for this use within the State Appropriated fund were insufficient.

Other fee income to General Reserve and bond funds decreased 9% to $9.450 million compared to the prior year. The primary components of other fee income continue to be federal low income housing tax credit program fees, Section 8 contract administration fees, federal Housing Assistance Payments administration fees, and various loan related fees.

Minnesota Housing recorded $.595 million of unrealized gains on investment securities during fiscal year 2007, compared to $5.623 million of unrealized losses during the prior year, for a combined change of $6.218 million. As investment securities acquired in prior periods at lower yields matured, the unrealized losses previously recognized to adjust them to lower market values were reversed.

Interest expense of the bond funds increased 16% to $101.349 million compared to the prior year as a result of higher interest rates and increasing debt outstanding during fiscal year 2007.

Combined expenses for loan administration, trustee fees and administrative reimbursements in the bond funds increased by 10% to $20.524 million compared to the prior year. It should be noted that $14.596 million of the total administrative reimbursement revenue in General Reserve were interfund charges of the bond funds which were eliminated for purposes of financial reporting in the Agency-wide financial statements.

Operating expenses increased in fiscal year 2007. Salaries, benefits, and other general operating expenses in General Reserve and bond funds increased 4% to $23.433 million compared to the prior year.

Reductions in carrying value of certain low interest rate deferred loans in the bond funds increased 57% to $10.062 million as valuation reductions of new deferred loans exceeded recoveries from existing deferred loans.

Provision for loan loss expense in the bond funds increased 81% to $3.526 million. The provision for loan loss expense for the homeownership loan portfolio has increased due to continued growth of the portfolio and increased loan delinquency rates. The provision for loan loss expense for the home improvement loan portfolio has increased primarily as a result of increased loan delinquency rates. The provision for loan loss expense for the multifamily loan portfolio was relatively unchanged. Please refer to the loans receivable comments in the Financial Highlights section of the Management’s Discussion and Analysis of Financial Condition and Results of Operations for more information regarding loan asset quality.

Non-operating transfers occur as a result of bond sale contributions related to new debt issues, the periodic transfer of assets to maintain the Housing Endowment Fund requirement, and periodic transfers from the bond funds of amounts in excess of bond resolution requirements.

Combined revenues over expenses including unrealized gains and losses for General Reserve and the bond funds increased $8.408 million to $31.103 million compared to the prior year. After considering the effects of $6.218 million of changes to unrealized gains and losses that adjust certain investment asset values to market conditions, the combined revenues over expenses increased 8% or $2.190 million during fiscal year 2007. This level of net revenues over expenses demonstrates improved financial performance of General Reserve and the bond funds during fiscal year 2007, primarily attributable to growth of the homeownership loan portfolio. Revenues over expenses in General Reserve that are in excess of the Housing Endowment Fund requirement are transferred periodically either to the Housing Investment Fund (Pool 2) or the Housing Affordability Fund (Pool 3) in the Residential Housing Finance Fund for use in housing programs.

Total combined net assets of General Reserve and bond funds increased 4% to $750.990 million as of June 30, 2007 as a result of revenues over expenses for fiscal year 2007. The net assets of each individual bond fund and General Reserve increased as a result of net revenues over expenses by fund and non-operating transfers of assets between funds.

State and Federal Appropriated Funds — Statement of Net Assets

Assets of the appropriated funds are derived from the appropriation of public funds by the State of Minnesota and funds made available to Minnesota Housing by the federal government for housing purposes. The public policy of housing preservation and development is a long-term commitment that ordinarily requires appropriations received in the current period to be expended over several future years of planned development. This timing difference is the primary reason for the presence of investments, cash, and cash equivalent assets in the appropriated funds and for the balance of net assets restricted by law.

Investments, cash, and cash equivalents are the largest category of assets in the appropriated funds. The June 30, 2007 combined balance decreased 36% to $72.145 million as a result of combined disbursements for programs, loans and expenses being greater than the combined appropriations received and revenues in the current year. The State Appropriated fund received its fiscal year 2007 appropriation of $35.235 million on June 30, 2006 which was recorded as deferred revenue (liability) since this amount could not be disbursed prior to July 1, 2006, causing the comparable cash balance to be substantially higher at the previous fiscal year end. This is the main component of the year-to-year decrease in cash and cash equivalents.

Certain state appropriations are expended as housing loans with below market interest rates, resulting in loans receivable. At June 30, 2007 State Appropriated fund loans receivable increased 11% to $31.559 million reflecting higher current year net loan program activity.

Interest receivable in appropriated funds is a function of the timing of interest payments and the general level of interest rates on investments. Interest receivable on appropriated funds at June 30, 2007 increased 31% to $.814 million primarily as a result of higher average investment yields.

There was no deferred revenue at fiscal year end 2007. Deferred revenue was recorded in the State Appropriated fund when it received its fiscal year 2007 appropriation of $35.235 million on June 30, 2006 since this amount could not be disbursed prior to July 1, 2006.

Accounts payable and other liabilities represent amounts payable for the U.S. Department of Housing and Urban Development (HUD) Section 236 interest reduction payments, HUD's share of savings from certain debt refinancing activities and accrued expenses for federal and state housing programs. The balance payable at June 30, 2007 was $1.798 million compared to $2.990 million at June 30, 2006. The decrease in accounts payable and other liabilities is largely attributable to decreases in accrued program disbursements payable.

For administrative convenience, certain State Appropriated fund loans are administered within the bond funds, resulting in an interfund receivable for the loan disbursement and servicing activities. Interfund payable occurs in the Federal Appropriated fund as a result of overhead expense and indirect cost recoveries due to Minnesota Housing. At June 30, 2007 the combined net interfund payable was $.509 million.

Funds held for others represent excess federal housing assistance payments received for the administration of the Section 8 program and the interest income earned on those unexpended funds. At June 30, 2007 the balance of funds held for the federal government was $2.000 million.

All of the net assets of the appropriated funds are restricted by law for use with housing programs only and are not pledged or available to support the bonds or other obligations of Minnesota Housing or its general obligation pledge in respect thereof. The combined net assets of the appropriated funds declined to $100.649 million as of June 30, 2007 compared to June 30, 2006, reflecting combined disbursements and expenses in excess of revenues during fiscal year 2007.

State and Federal Appropriated Funds — Revenues Over Expenses

State and Federal Appropriated funds are recorded as revenue in the period in which such appropriations are earned. Funds are spent for eligible program activities as defined by the various agreements between Minnesota Housing and the State of Minnesota or agencies of the federal government. Unexpended appropriations proceeds are invested and the interest income on the investments is recorded as it is earned, except for interest earned on certain unexpended federal appropriations, which is recorded as funds held for others. Similarly, interest income on certain State Appropriated fund loan receivables is recorded as it is earned.

The largest revenue category is appropriations received, and is a function of the fiscal, legislative, and political environment of the State of Minnesota and the federal government. The combined appropriations received increased from $206.367 million at June 30, 2006 to $210.797 at June 30, 2007. Federal appropriations received increased by $4.223 million while state appropriations received increased by $.207 million.

In a special session, the state legislature appropriated $18 million to the Agency in September 2007 (which will be recognized as revenue in fiscal year 2008) to provide disaster relief for households and communities affected by the August 2007 flood in southeastern Minnesota.

Interest income from investments increased throughout the year as investment yields in general were above the previous levels while the average balance of investment assets was similar to the prior year. The combined interest income increased 22% to $4.291 million at June 30, 2007.

Loan interest income from State Appropriations loan assets continues to be minimal at $.075 million as relatively few loans are interest bearing.

Private donations to support state housing programs in the amount of $.745 million were recognized as other income in the State Appropriated fund during the year ending June 30, 2007.

Unrealized gains on investments are recorded to reflect valuation adjustments to current market conditions for investments, and may be reversed over time as the investments are held. Combined unrealized gains of $.462 were recorded at June 30, 2007 compared to a $.323 million unrealized loss at June 30, 2006.

Administrative reimbursements to General Reserve of overhead expenses increased 19% to $3.705 million compared to the prior year. The Agency incurs the overhead expense in its General Reserve of administering certain State Appropriated fund programs. The General Reserve is reimbursed for these overhead expenses by the State Appropriated fund to the extent that investment earnings are sufficient. However, during fiscal year 2007 investment earnings in the State Appropriated fund were insufficient to fully reimburse $1.111 million of overhead expenses incurred by General Reserve.

Combined appropriations disbursed increased 3% to $186.690 million compared to the prior year, reflecting increased State Appropriations disbursed of $11.902 million and increased federal appropriations disbursed of $174.788 million to support housing policy objectives.

Increased expenditures of State Appropriated funds for below market and zero-percent interest rate loans resulted in greater reductions in carrying value of certain loans. Net reductions of carrying value increased 6% to $26.435 million compared to the prior year, as a result of making more fully reserved deferred loans for low- and moderate-income housing.

Other general operating expenses represent fees for professional and technical support to implement and administer certain state housing programs. Other general operating expense increased 11% to $1.036 million at June 30, 2007.

Combined expenditures exceeded combined revenues of the appropriated funds by $2.038 million at June 30, 2007, reflecting current year disbursements of appropriations that were received in prior years. Ultimately, the entire State and Federal Appropriated funds' net assets will be expended for housing.

Significant Long-Term Debt Activity

Minnesota Housing issues a significant amount of bonds, having outstanding at June 30, 2007 long-term bonds totaling $1,909.075 million and short-term bonds totaling $484.115 million. Bond proceeds and related revenues are held by a trustee, who is responsible for administration of bond resolution requirements including payment of debt service. At June 30, 2007, amounts held by the trustee in principal, interest and redemption accounts represented full funding of debt service requirements as of that date. The bond resolutions also require funding of debt service reserve accounts and may require funding of insurance reserve accounts. At June 30, 2007, amounts held by the trustee in such reserve accounts represented full funding of those requirements as of that date.

Minnesota Housing continually investigates and utilizes different financing and debt management techniques to achieve its goals of reducing interest expense and efficiently utilizing bonding authority while responding to changing capital markets. During the 2007 fiscal year, Minnesota Housing completed the issuance of 24 series of bonds and notes aggregating to $1,008.800 million. This is compared to the issuance of 18 series totaling $605.495 million the previous year. The increase in long-term debt is attributable to increased demand for Minnesota Housing's homeownership first-mortgage loans. Long-term bonds are issued as capital is needed for program purposes and as opportunities to economically refund older bonds occur. Short-term bonds are issued to preserve tax-exempt bonding authority for future program use.

A total of $560.095 million in principal payments and $87.321 million of interest payments were made during the year. Of the total principal payments, $162.380 million were made prior to the scheduled maturity date using a combination of optional and special redemption provisions.

Most of the bonds issued by Minnesota Housing bear interest that is not includable in gross income for federal and State of Minnesota income taxation, in accordance with requirements of the federal Internal Revenue Code and Treasury regulations governing either qualified mortgage bonds or bonds issued to provide qualified residential rental projects. Minnesota Housing's ability to issue tax-exempt debt is limited by its share of the state's allocation of private activity volume cap, which is established by Minnesota statutes. Minnesota Housing's ability to issue tax-exempt debt is also limited by a provision in the Internal Revenue Code (commonly known as the 10-year rule) that prohibits refunding of mortgage repayments and prepayments received more than ten years after the date of issuance of the bonds that financed such mortgage loans.

Purchases of homeownership first mortgage loans have increased annually since 2003 when the Agency replaced its seasonal lending program with a continual, year-round program. While most of the agency's bonds are tax-exempt, taxable bonds are increasingly issued to supplement limited tax-exempt authority in order to meet increased demand for mortgage loans. Taxable bonds may also be used to finance lending programs where federal tax-exempt bond restrictions are inconsistent with program goals. Variable-rate bonds and interest-rate swaps are an increasing component of Minnesota Housing's financings, enabling the Agency to provide below-market mortgage financing at fixed interest rates. Interest-rate swaps have generally been used to hedge the mismatch between fixed-rate loans and variable-rate bonds. (See Interest Rate Swaps under the notes to the financial statements for further discussion of interest-rate swaps and their risks.) Board policy governs the process Minnesota Housing follows to issue and manage bonds. State statute limits total outstanding debt of Minnesota Housing to $3.0 billion.

Both Standard and Poor's Ratings Services and Moody's Investors Service continue to affirm issuer ratings for Minnesota Housing of "AA+" and "Aa1," respectively. Minnesota Housing's bond ratings are separate from, and are not directly dependent on, ratings on debt issued by the State of Minnesota. Ongoing reporting to and communications with the bond rating agencies are priorities for the Agency as evidenced by frequent communications during the structuring of bond issues as well as periodic discussions with the rating agencies about such topics as the structure of the Agency's funds, changes to programs, financial performance and results of long-term financial studies.

Significant Factors That May Affect Financial Condition and/or Operations

Legislative Actions

The Governor recommended a 62% increase in state appropriations for Minnesota Housing and the Legislature largely adopted the recommendations in appropriating a total of $114.557 million to Minnesota Housing. Of that amount, $89.916 million is base funding; this compares to a base of $70.470 million for the previous biennium and is the highest base budget ever appropriated for Minnesota Housing, while $24.641 million in non-base funds were appropriated. The budget includes a restoration of the base for the entry cost assistance program, a doubling of the Family Homeless Prevention and Assistance program from $7.430 million to $14.930 million, funding for the preservation of public housing, and a $15 million non-base increase to the Economic Development and Housing Challenge program, the largest and most flexible of the state appropriated programs and a program that is used for new construction and rehabilitation of both owner occupied and rental housing. State appropriations are used for specific programs and are not available to pay for Minnesota Housing operations expenses or debt service. Changes in state and federal laws governing administration, funding objectives, housing policy, and fiscal policy pose a potential risk to Minnesota Housing's attainment of mission and financial objectives.

Additional Information

Questions and inquiries may be directed to either Mr. Mike LeVasseur or Ms. Sharon Spahn Bjostad at Minnesota Housing Finance Agency, 400 Sibley Street, Suite 300, St. Paul, MN 55101 (651-296-7608 or 800-657-3769 or if T.T.Y. 651-297-2361).

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Net Assets (in thousands)
As of June 30, 2007 (with comparative totals as of June 30, 2006)

	Agency-wide Total As Of June 30, 2007	Agency-wide Total As Of June 30, 2006
Assets		
Cash and cash equivalents	$ 783,102	$ 848,238
Investment securities	477,142	254,894
Loans receivable, net	2,091,381	1,805,094
Interest receivable on loans	9,979	8,295
Interest receivable on investments	6,940	3,770
Mortgage insurance claims receivable	1,837	738
Real estate owned	2,727	1,414
Unamortized bond issuance costs	15,206	13,794
Capital assets, net	4,385	3,685
Other assets	1,722	2,981
Total assets	$ 3,394,421	$ 2,942,903
Liabilities		
Bonds payable, net	$ 2,398,988	$ 1,946,091
Interest payable	47,593	38,086
Deferred revenue	-	35,235
Accounts payable and other liabilities	14,797	18,549
Funds held for others	81,404	82,368
Total liabilities	2,542,782	2,120,329
Commitments and contingencies		
Net Assets		
Restricted by bond resolution	423,358	406,548
Restricted by covenant	323,247	309,654
Restricted by law	100,649	102,687
Invested in capital assets	4,385	3,685
Total net assets	851,639	822,574
Total liabilities and net assets	$ 3,394,421	$ 2,942,903

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Activities (in thousands)
Year ended June 30, 2007 (with comparative totals for the year ended June 30, 2006)

		Agency-wide Total For The Year Ended June 30, 2007		Agency-wide Total For The Year Ended June 30, 2006
Revenues				
Interest earned on loans	$	110,905	$	97,863
Interest earned on investments		54,295		43,639
Appropriations received		210,797		206,367
Administrative reimbursement		817		832
Fees earned and other income		10,195		11,124
Unrealized gains (losses) on securities		1,057		(5,946)
Total revenues		388,066		353,879
Expenses				
Interest		101,349		87,115
Loan administration and trustee fees		5,938		5,961
Salaries and benefits		14,937		14,054
Other general operating		9,532		9,438
Appropriations disbursed		186,690		181,598
Reduction in carrying value of certain low interest rate deferred loans		36,497		31,390
Provision for loan losses		4,058		2,104
Total expenses		359,001		331,660
Revenues over expenses		29,065		22,219
Change in net assets		29,065		22,219
Net Assets				
Total net assets, beginning of year		822,574		800,355
Total net assets, end of year	$	851,639	$	822,574

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Net Assets (in thousands)
Proprietary Funds
As of June 30, 2007 (with comparative totals as of June 30, 2006)

		Bond Funds			Appropriated Funds			
	General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total As Of June 30, 2007	Total As Of June 30, 2006
Assets								
Cash and cash equivalents	$ 31,801	$ 51,936	$ 565,249	$ 115,549	$ 9,501	$ 9,066	$ 783,102	$ 848,238
Investment securities	90,639	3,922	325,211	3,792	49,193	4,385	477,142	254,894
Loans receivable, net	-	224,476	1,558,339	277,007	31,559	-	2,091,381	1,805,094
Interest receivable on loans	-	1,408	6,997	1,574	-	-	9,979	8,295
Interest receivable on investments	917	843	4,260	106	730	84	6,940	3,770
Mortgage insurance claims receivable	-	-	1,095	742	-	-	1,837	738
Real estate owned	-	-	2,217	510	-	-	2,727	1,414
Unamortized bond issuance costs	-	2,383	9,917	2,906	-	-	15,206	13,794
Capital assets, net	4,385	-	-	-	-	-	4,385	3,685
Other assets	1,259	4	20	1	245	193	1,722	2,981
Total assets	$ 129,001	$ 284,972	$ 2,473,305	$ 402,187	$ 91,228	$ 13,728	$ 3,394,421	$ 2,942,903
Liabilities								
Bonds payable, net	$ -	$ 191,691	$ 1,904,487	$ 302,810	$ -	$ -	$ 2,398,988	$ 1,946,091
Interest payable	-	3,700	35,850	8,043	-	-	47,593	38,086
Deferred revenue	-	-	-	-	-	-	-	35,235
Accounts payable and other liabilities	3,666	3,568	1,482	4,283	1,222	576	14,797	18,549
Interfund payable (receivable)	(79)	-	(24,450)	24,020	370	139	-	-
Funds held for others	79,404	-	-	-	-	2,000	81,404	82,368
Total liabilities	82,991	198,959	1,917,369	339,156	1,592	2,715	2,542,782	2,120,329
Commitments and contingencies								
Net Assets								
Restricted by bond resolution	-	86,013	274,314	63,031	-	-	423,358	406,548
Restricted by covenant	41,625	-	281,622	-	-	-	323,247	309,654
Restricted by law	-	-	-	-	89,636	11,013	100,649	102,687
Invested in capital assets	4,385	-	-	-	-	-	4,385	3,685
Total net assets	46,010	86,013	555,936	63,031	89,636	11,013	851,639	822,574
Total liabilities and net assets	$ 129,001	$ 284,972	$ 2,473,305	$ 402,187	$ 91,228	$ 13,728	$ 3,394,421	$ 2,942,903

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Revenues, Expenses and Changes in Net Assets (in thousands)
Proprietary Funds
Year ended June 30, 2007 (with comparative totals for the year ended June 30, 2006)

		Bond Funds			Appropriated Funds			
	General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total For The Year Ended June 30, 2007	Total For The Year Ended June 30, 2006
Revenues								
Interest earned on loans	$ -	$ 13,181	$ 78,214	$ 19,435	$ 75	$ -	$ 110,905	$ 97,863
Interest earned on investments	1,956	4,092	37,752	6,204	3,726	565	54,295	43,639
Appropriations received	-	-	-		36,256	174,541	210,797	206,367
Administrative reimbursement	19,118	-	-	-	-	-	19,118	16,730
Fees earned and other income	8,160	789	501	-	745	-	10,195	11,124
Unrealized gains (losses) on securities	226	586	(232)	15	441	21	1,057	(5,946)
Total revenues	29,460	18,648	116,235	25,654	41,243	175,127	406,367	369,777
Expenses								
Interest	-	10,773	70,648	19,928	-	-	101,349	87,115
Loan administration and trustee fees	-	176	4,696	1,056	10	-	5,938	5,961
Administrative reimbursement	-	1,819	10,192	2,585	3,705	-	18,301	15,898
Salaries and benefits	14,937	-	-	-	-	-	14,937	14,054
Other general operating	6,899	-	1,597	-	1,036	-	9,532	9,438
Appropriations disbursed	-	-	-	-	11,902	174,788	186,690	181,598
Reduction in carrying value of certain low interest rate deferred loans	-	25	10,037	-	26,435	-	36,497	31,390
Provision for loan losses	-	(85)	3,472	139	532	-	4,058	2,104
Total expenses	21,836	12,708	100,642	23,708	43,620	174,788	377,302	347,558
Revenues over (under) expenses	7,624	5,940	15,593	1,946	(2,377)	339	29,065	22,219
Other changes								
Non-operating transfer of assets between funds	(1,280)	197	1,083	-	-	-	-	-
Change in net assets	6,344	6,137	16,676	1,946	(2,377)	339	29,065	22,219
Net Assets								
Total net assets, beginning of year	39,666	79,876	539,260	61,085	92,013	10,674	822,574	800,355
Total net assets, end of year	$ 46,010	$ 86,013	$ 555,936	$ 63,031	$ 89,636	$ 11,013	$ 851,639	$ 822,574

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds
Year ended June 30, 2007 (with comparative totals for the year ended June 30, 2006)

		Bond Funds			Appropriated Funds			
	General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total For The Year Ended June 30, 2007	Total For The Year Ended June 30, 2006
Cash flows from operating activities								
Principal repayments on loans	$ -	$ 17,398	$ 99,149	$ 43,721	$ 5,619	$ -	$ 165,887	$ 204,051
Investment in loans	-	(9,384)	(463,814)	-	(31,476)	-	(504,674)	(502,583)
Interest received on loans	-	14,225	77,274	18,730	75	-	110,304	97,791
Deferred revenue	-	-	-	-	-	-	-	35,235
Other operating	-	-	(1,597)	-	(1,028)	-	(2,625)	(2,721)
Fees and other income received	8,285	789	450	-	745	-	10,269	10,682
Salaries, benefits and vendor payments	(20,617)	(209)	(6,450)	(1,061)	(43)	-	(28,380)	(25,976)
Appropriations received	-	-	-	-	1,021	175,185	176,206	205,462
Appropriations disbursed	-	-	-	-	(11,607)	(175,413)	(187,020)	(180,621)
Administrative reimbursement from funds	18,143	(1,837)	(9,631)	(2,578)	(3,211)	-	886	837
Interest transferred to funds held for others	(3,505)	-	-	-	-	(158)	(3,663)	(3,161)
Deposits into funds held for others	29,354	-	-	-	-	7,068	36,422	33,480
Disbursements made from funds held for others	(31,402)	-	-	-	-	(6,881)	(38,283)	(30,490)
Interfund transfers and other assets	(1,899)	-	218	(45)	334	-	(1,392)	(2,924)
Net cash provided (used) by operating activities	(1,641)	20,982	(304,401)	58,767	(39,571)	(199)	(266,063)	(160,938)
Cash flows from noncapital financing activities								
Proceeds from sale of bonds	-	9,480	1,005,160	-	-	-	1,014,640	608,615
Principal repayment on bonds	-	(19,055)	(479,895)	(61,145)	-	-	(560,095)	(691,510)
Interest paid on bonds and notes	-	(9,059)	(58,941)	(19,321)	-	-	(87,321)	(78,147)
Financing costs paid related to bonds issued	-	(145)	(4,820)	-	-	-	(4,965)	(4,298)
Interest paid/received between funds	-	(2,934)	4,449	(1,515)	-	-	-	-
Principal paid/received between funds	-	(18,643)	19,248	(605)	-	-	-	-
Premium paid on redemption of bonds	-	(48)	-	-	-	-	(48)	(236)
Agency contribution to program funds	-	197	(197)	-	-	-	-	-
Transfer of cash between funds	205	-	(205)	-	-	-	-	-
Net cash provided (used) by noncapital financing activities	205	(40,207)	484,799	(82,586)	-	-	362,211	(165,576)
Cash flows from investing activities								
Investment in real estate owned	-	-	(496)	(384)	-	-	(880)	(840)
Interest received on investments	4,992	4,006	30,235	5,255	2,566	697	47,751	39,752
Proceeds from sale of mortgage insurance claims/real estate owned	-	-	6,879	2,956	-	-	9,835	5,849
Proceeds from maturity, sale or transfer of investment securities	63,280	47,278	34,197	2,000	73,217	1,000	220,972	219,591
Purchase of investment securities	(47,827)	(11,251)	(312,825)	(1,996)	(61,188)	(3,875)	(438,962)	(157,225)
Purchase of loans between funds	-	(28,830)	34,358		(5,528)	-	-	-
Net cash provided (used) by investing activities	20,445	11,203	(207,652)	7,831	9,067	(2,178)	(161,284)	107,127
Net increase (decrease) in cash and cash equivalents	19,009	(8,022)	(27,254)	(15,988)	(30,504)	(2,377)	(65,136)	(219,387)
Cash and cash equivalents								
Beginning of year	12,792	59,958	592,503	131,537	40,005	11,443	848,238	1,067,625
End of year	$ 31,801	$ 51,936	$ 565,249	$ 115,549	$ 9,501	$ 9,066	$ 783,102	$ 848,238

See accompanying notes to financial statements.

(continued)

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds (continued)
Year ended June 30, 2007 (with comparative totals for the year ended June 30, 2006)

		Bond Funds			Appropriated Funds			
Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities:	**General Reserve**	**Rental Housing**	**Residential Housing Finance**	**Single Family**	**State Appropriated**	**Federal Appropriated**	**Total For The Year Ended June 30, 2007**	**Total For The Year Ended June 30, 2006**
Revenues over (under) expenses	$ 7,624	$ 5,940	$ 15,593	$ 1,946	$ (2,377)	$ 339	$ 29,065	$ 22,219
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:								
Amortization of premiums (discounts) and fees on loans	-	(61)	1,275	(796)	-	-	418	(306)
Depreciation	1,202	-	-	-	-	-	1,202	816
Realized losses (gains) on sale of securities, net	20	(563)	384	-	3	-	(156)	(663)
Unrealized losses (gains) on securities, net	(226)	(586)	232	(15)	(441)	(21)	(1,057)	5,946
Provision for loan losses	-	(85)	3,472	139	532	-	4,058	2,104
Reduction in carrying value of certain low interest rate and/or deferred loans	-	25	10,037	-	26,435	-	36,497	31,390
Capitalized interest on loans and real estate owned		(84)	(567)	(206)	-	-	(857)	(470)
Interest earned on investments	(1,976)	(3,606)	(36,623)	(6,531)	(3,729)	(565)	(53,030)	(46,356)
Interest expense on bonds and notes	-	10,773	70,648	19,928	-	-	101,349	87,115
Changes in assets and liabilities:								
Decrease (increase) in loans receivable, excluding loans transferred between funds	-	8,014	(364,665)	43,721	(25,857)	-	(338,787)	(298,532)
Decrease (increase) in interest receivable on loans	-	(217)	(1,648)	176	-	-	(1,689)	(772)
Increase (decrease) in arbitrage rebate liability	-	1,483	(1,513)	448	-	-	418	4,856
Increase (decrease) in deferred revenue	-	-	-	-	(35,235)	-	(35,235)	35,235
Interest transferred to funds held for others	(3,505)	-	-	-	-	(158)	(3,663)	(3,161)
Increase (decrease) in accounts payable	194	(33)	(1,785)	(5)	303	(278)	(1,604)	120
Increase (decrease) in interfund payable, affecting operating activities only	(922)	(19)	342	(38)	795	(347)	(189)	(374)
Increase (decrease) in funds held for others	(2,048)	-	-	-	-	187	(1,861)	2,990
Other	(2,004)	1	417	-	-	644	(942)	(3,095)
Total	(9,265)	15,042	(319,994)	56,821	(37,194)	(538)	(295,128)	(183,157)
Net cash provided (used) by operating activities	$ (1,641)	$ 20,982	$ (304,401)	$ 58,767	$ (39,571)	$ (199)	$ (266,063)	$ (160,938)

See accompanying notes to financial statements.

Nature of Business and Fund Structure

The Minnesota Housing Finance Agency (the Agency or Minnesota Housing) was created in 1971 by the Minnesota legislature through the enactment of Minnesota Statutes, Chapter 462A, which has been amended from time to time. The Agency was established to facilitate the construction and rehabilitation of housing in Minnesota for families of low- and moderate-income by providing for mortgage loans, development loans, and technical assistance to qualified housing sponsors. The Agency, as a special purpose agency engaged in business-type activities, is a component unit of the State of Minnesota, and is reflected as a proprietary fund in the state's comprehensive annual financial report. The Agency receives appropriations from the state legislature, substantially all of which are used to make loans or grants under specified non-bond-financed programs. The Agency also receives funds from the federal government or through other entities for similar purposes.

The Agency is authorized to issue bonds and other obligations to fulfill its corporate purposes up to a total outstanding amount of $3.0 billion. The bonds and other obligations are not a debt of the State of Minnesota or any political subdivision thereof.

The following describes the funds maintained by the Agency, which are included in this report, all of which conform with the authorizing legislation and bond resolutions:

General Reserve

General Reserve was established in fulfillment of the pledge by the Agency of its full faith and credit in its bond resolutions. Administrative costs of the Agency and multifamily development escrow receipts and related disbursements are recorded in this account. The net assets of General Reserve are available to support the following funds which are further described below: Rental Housing, Residential Housing Finance and Single Family.

Rental Housing

Bond proceeds for the multifamily housing programs are maintained under the Rental Housing bond resolution. Loans are generally secured by first mortgages on real property.

The Rental Housing bond resolution prescribes the accounting for bond proceeds, debt service requirements of the bond indebtedness, permitted investments, and eligible loans to be financed from the bond proceeds.

Residential Housing Finance

Included within Residential Housing Finance are the bonds issued and outstanding under the Residential Housing Finance Bonds resolution, the bond resolution restricted Home Improvement, Homeownership and Multifamily Endowment Funds, and the Alternative Loan Fund, which is restricted by a covenant with bondholders.

Bonds

The bonds outstanding were issued from time to time in various series to fund purchases of single family first mortgage loans and some related entry cost housing assistance loans, and home improvement unsecured or subordinated loans. Assets of the bonds issued and outstanding under the resolution and of the three endowment funds described below are pledged to the repayment of Residential Housing Finance bonds. (As of July 1, 2007, the three endowment funds were closed and their assets transferred to the Alternative Loan Fund, which is not pledged to the payment of the Residential Housing Finance bonds. For more information, see Subsequent Events below.)

Home Improvement Endowment Fund

This fund was a principal source of funding for home improvement loans. Home improvement loans in excess of $10.0 thousand are generally secured by a second mortgage while loans in a lesser principal amount could be unsecured. All loans purchased after April 2007 were secured.

Homeownership Endowment Fund

This fund was a source of funding for bond sale contributions, entry cost housing assistance programs for first-time homebuyers, below-market interim financing during construction and/or rehabilitation of single family housing and for warehousing loans.

Multifamily Endowment Fund

This fund was a source of funding for multifamily programs that are not candidates for bond financing such as non-profit capacity building and deferred, subordinated loans to support first mortgages.

Alternative Loan Fund

An Alternative Loan Fund has been established in Residential Housing Finance and residing therein are the subfunds, Housing Investment Fund (Pool 2) and Housing Affordability Fund (Pool 3). Funds deposited therein would otherwise be available to be transferred to General Reserve under the applicable bond resolution. The Alternative Loan Fund is not pledged to the payment of the Residential Housing Finance bonds or any other specific debt obligation of the Agency and, to the extent that funds are available therein, is available to honor the general obligation pledge of the Agency.

The Housing Investment Fund is currently invested in amortizing interest-bearing loans and investment securities and may also be used to advance funds to retire high-rate debt and to warehouse loans.

The Housing Affordability Fund included a reserve consisting of cash, investments and amortizing interest-bearing housing loans for future Agency administrative costs and other funds that may be used as a source of funding for bond sale contributions, multifamily first and subordinated mortgage loans including zero-percent deferred loans, and other below market-rate loans with higher than ordinary risk factors. It may also be used to advance funds to retire high-rate debt and to warehouse loans.

The Residential Housing Finance bond resolution prescribes the accounting for bond proceeds, debt service requirements of the bond indebtedness, permitted investments, and eligible loans to be financed from the bond proceeds.

Single Family

Bonds issued for homeownership programs have been issued under Single Family and Residential Housing Finance. The Agency generally expects to issue future bonds for homeownership programs under Residential Housing Finance. Loans are secured by first mortgages on real property.

The Single Family bond resolution prescribes the accounting for bond proceeds, debt service requirements of the bond indebtedness, permitted investments, and eligible loans to be financed from the bond proceeds.

State Appropriated

The State Appropriated fund was established to account for funds received from the state legislature which are to be used for programs for low- to moderate-income persons and families in the form of low-interest loans, no-interest deferred loans, innovative development and other housing-related program costs. The net assets of the State Appropriated fund are not pledged or available to support the bondholders or creditors of the Agency.

Federal Appropriated

The Federal Appropriated fund was established to account for funds received from the federal government which are to be used for programs for low- to moderate-income persons and families in the form of no-interest deferred loans, grants, support to other non-profit housing organizations and other housing-related program costs. The net assets of the Federal Appropriated fund are not pledged or available to support the bondholders or creditors of the Agency.

Summary of Significant Accounting Policies

The following is a summary of the more significant accounting policies.

Basis of Accounting

The Agency's financial statements have been prepared on the basis of the proprietary fund concept which pertains to financial activities that operate in a manner similar to private business enterprises and are financed through fees and charges assessed primarily to the users of the services.

Generally Accepted Accounting Principles

The Agency has adopted Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting.* The Agency has applied all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements, Accounting Principles Board (APB) opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Since the business of the Agency is essentially that of a financial institution having a business cycle greater than one year, the statement of net assets is not presented in a classified format.

New Accounting Pronouncements

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The approach followed in this Statement generally is consistent with the approach adopted in Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, with modifications to reflect differences between pension benefits and OPEB. Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses financial statement and disclosure requirements for reporting by administrators or trustees of OPEB plan assets or by employers or sponsors that include OPEB plan assets as trust or agency funds in their financial reports. GASB Statement No. 45 is effective for the Agency's fiscal year ending June 30, 2008. The Agency has not yet determined the effect that the adoption of this Statement will have on its financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.* This Statement establishes criteria that governments will use to ascertain whether the proceeds received from selling an interest in expected cash flows from collecting specific receivables or specific future revenues should be reported as revenue or as a liability. This Statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. GASB Statement No. 48 is effective for the Agency's fiscal year ending June 30, 2008. The adoption of this Statement will not affect the Agency's financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. It requires that when any one of five specified obligating events occurs, a government is required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. Obligating events include the following:

- The government is compelled to take pollution remediation action because of an imminent endangerment.
- The government violates a pollution prevention–related permit or license.
- The government is named, or evidence indicates that it will be named, by a regulator as a responsible party or potentially responsible party for remediation, or as a government responsible for sharing costs.
- The government is named, or evidence indicates that it will be named, in a lawsuit to compel participation in pollution remediation.
- The government commences or legally obligates itself to commence pollution remediation.

GASB Statement No. 49 is required to be effective for the Agency's fiscal year ending June 30, 2009. The adoption of this Statement will not affect the Agency's financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures*. This Statement amends GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, by requiring disclosure in the notes to the financial statements of pension plans and certain employer governments of the current funded status of the plan as of the most recent actuarial valuation date. It also requires governments that use the aggregate actuarial cost method to disclose the funded status and present a multi-year schedule of funding progress using the entry age actuarial cost method as a surrogate. In addition, it requires disclosure by governments participating in multi-employer cost-sharing pension plans of how the contractually required contribution rate is determined. GASB Statement No. 50 is effective for the Agency's fiscal year ending June 30, 2008. The adoption of this Statement will not affect the Agency's financial statements.

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. It requires that an intangible asset be recognized in the statement of net assets only if it is considered identifiable. Additionally, this Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated. It also provides guidance on recognizing internally generated computer software as an intangible asset. This Statement also establishes guidance on amortization of intangible assets. The provisions of this Statement generally are required to be applied retroactively. GASB Statement No. 51 is required to be effective for the Agency's fiscal year ending June 30, 2010. The adoption of this Statement will not affect the Agency's financial statements.

Cash and Cash Equivalents

Cash equivalents may include commercial paper, money market funds, repurchase agreements, investment agreements and any other investments, primarily US treasuries and agencies securities, which have 90 or less days remaining to maturity at the time of purchase.

Investment Securities

The Agency carries all investment securities at fair market value. Unrealized gains and losses on investment securities resulting from changes in market valuation are recorded as revenue. However, unrealized gains and losses on investments of multifamily development escrow funds resulting from changes in market valuation are recorded as funds held for others.

Loans Receivable, Net

Loans receivable are carried at their unpaid principal balances, net of an allowance for loan losses, unamortized premiums or discounts and fees.

The allowances for loan losses are established based on management's evaluation of the loan portfolio.

Generally, the Agency provides an allowance for loan losses for multifamily loans after considering the specific known risks: adequacy of collateral and projected cash flows; past experience; amount of federal or state rent subsidies, if any; the status and amount of past due payments, if any; the amount of deferred maintenance, if any; and current economic conditions.

For homeownership and home improvement loans, the Agency establishes varying amounts of reserves depending upon the number of delinquent loans, the number of days delinquent and the type of insurance coverage in force: Federal Housing Administration (FHA) insurance, Rural Development (RD) guarantee, Veterans Administration (VA) guarantee, private mortgage insurance and pool or self-insurance.

Actual losses incurred are charged against the allowance for loan losses; recoveries are added to the allowance for loan losses. Management believes the allowances for loan losses adequately reserve for probable losses inherent in the loan portfolios as of June 30, 2007.

Premiums, discounts or fees resulting from the purchase of homeownership mortgage loans at other than face value are amortized over the life of the loans using the effective interest method. Estimated loan prepayments are taken into account in determining the life of homeownership mortgage loans for purposes of such amortization. Premiums or discounts resulting from the purchase of home improvement loans are amortized straight-line over the average loan life. Premiums, discounts or fees resulting from the origination of multifamily development loans are amortized using the effective interest method over the term of the loan. The amount amortized is included in interest earned on loans.

Interest Receivable on Loans

The Agency accrues interest on its amortizing loans until they become 90 days or more delinquent in the case of multifamily loans, or until they become ’real estate owned’ (described below) for all other loans.

Mortgage Insurance Claims Receivable

Mortgages that are FHA insured or VA guaranteed, and for which insurance claims have been filed, are included in this category.

Real Estate Owned

Real estate acquired through foreclosure is recorded at the lower of the investment in the loan, or estimated fair market value less estimated selling costs. These properties may be RD guaranteed, uninsured or have private mortgage insurance.

Unamortized Bond Issuance Costs

Bond issuance costs are amortized using the effective interest method in the Single Family and Residential Housing Finance funds. In the Rental Housing fund, bond issuance costs are amortized using the bonds outstanding method due to the unpredictable nature of prepayments of multifamily loans.

Bonds Payable, Net

Bonds payable are carried at their unpaid principal balances, net of unamortized premiums, discounts and deferred gain or loss on refunding. Premiums and discounts are amortized using the effective interest method in the Residential Housing Finance fund. In the Rental Housing fund, deferred gain or loss on refunding is amortized using the bonds outstanding method due to the unpredictable nature of prepayments of multifamily loans.

Deferred Revenue

State appropriations revenues are approved by the State of Minnesota on a biennial basis, and are typically designated by the state for use by the Agency in specific fiscal years. Accordingly, deferred revenue was recorded in the State Appropriated fund in fiscal 2006 when it received its fiscal 2007 appropriation of $35.235 million on June 30, 2006.

Interfund Payable (Receivable)

Interfund payable (receivable) primarily reflects pending transfers of cash and assets between funds. The more significant activities that flow through this fund may include funds advanced for purposes of optionally redeeming bonds when economically advantageous, funds advanced for loan warehousing, administrative fees receivable and payable between funds, and certain mortgage payments received but not yet transferred to their respective funds.

Funds Held for Others

Funds held for others are primarily escrow amounts held by the Agency on behalf of multifamily housing developments where the Agency holds the first mortgages. These amounts are held under the terms of the related loans and federal regulations regarding subsidized housing. Investment income relating to these funds is credited directly to the escrow funds; it is not included in the investment income of General Reserve. Also included in funds held for others are unrealized gains and losses on investments of the multifamily housing development escrow funds and funds pending disbursement to HUD, such as Section 8 payments. In addition, investment income on unspent Section 8 funds is credited directly to Funds Held For Others and not included in the investment income of Federal Appropriated.

Restricted by Bond Resolution

Restricted by Bond Resolution Net Assets represents those assets restricted within the respective bond resolution due to the specific provisions of the bond resolutions.

Restricted by Covenant

Restricted by Covenant Net Assets represents those assets in General Reserve and those assets that would otherwise be available to be transferred to General Reserve under the applicable bond resolution. Under the Agency’s bond resolutions, the Agency covenants that it will use the assets in General Reserve only for the administration and financing of programs in accordance with the policy and purpose of the Minnesota Housing enabling legislation, including reserves for the payment of bonds and notes and of loans made from the proceeds thereof, and shall accumulate and maintain therein such balance of funds and investments as will be sufficient for the purpose. The Agency's Board is responsible for establishing the investment guidelines for these funds.

Restricted by Law

Undisbursed, recognized federal and state appropriations are classified as restricted by law.

Invested in Capital Assets

This represents the balance of capital assets, net of depreciation. No related debt exists.

Agency-wide Total

The Agency-wide Total columns reflect the totals of the similar accounts of the various funds. Since the assets of certain of the funds are restricted by either the related bond resolutions or legislation, the totaling of the accounts, including assets therein, is for convenience only and does not indicate that the combined assets are available in any manner other than that provided for in either the bond resolutions, Board resolutions or the legislation for the separate funds or groups of funds. The totals for fiscal year 2006 are for comparative purposes only.

Administrative Reimbursement

The largest source of funding for the Agency's administrative operations is a monthly transfer from each of the bond funds to General Reserve based on adjusted assets. Adjusted assets are defined as total assets plus the reserve for loan loss plus unearned discounts on loans minus the proceeds of short-term debt minus premiums on loans minus deferred bond issuance costs.

For programs funded by state appropriations, the Agency recovers the cost of administering the programs to the extent of interest earnings on the appropriations.

For programs funded by federal appropriations, the Agency recovers the cost of administering programs through an approved federal indirect cost recovery rate. Certain other direct costs are also recovered. Total direct and indirect costs recovered from the federal government in the amount of $.817 million are reflected as administrative reimbursement revenues in the General Reserve.

Administrative reimbursements in the amount of $18.301 million between the Agency's funds have been eliminated from the respective administrative reimbursement revenues and expenses line items for purposes of presentation in the Agency-wide statement of activities.

Fees Earned and Other Income

Fees earned and other income consists mainly of fees related to the financing and administration of Section 8 properties, including administration of a HUD-owned Section 8 portfolio, fees in connection with operating the Low Income Housing Tax Credits program, annual fees related to certain multifamily housing development loans, fees from the Low Income Rental Class program, private contributions restricted to use in the Agency's Homeownership Education, Counseling and Training Program, and fees for issuing and monitoring conduit bonds. Fees earned and other income is recorded as it is earned.

Reduction in Carrying Value of Certain Low Interest Rate Deferred Loans

The carrying value of certain Housing Affordability Fund loans, Endowment Fund loans and State Appropriated loans which are originated at interest rates ranging from 0%-5%, and for which repayment is deferred for up to 30 years, is written down to zero at the time of origination by providing for a Reduction in Carrying Value of Certain Low Interest Rate Deferred Loans because of the nature of these loans and the risk associated with them. Certain of these loans may be forgiven at maturity.

Other Changes

The Agency utilizes the Other Changes section of the Statement of Revenues, Expenses and Changes in Net Assets to describe various transfers between funds.

Non-operating Transfer of Assets Between Funds

Non-operating transfers occur as a result of bond sale contributions related to new debt issues, the annual transfer of assets to maintain the Housing Endowment Fund requirement, periodic transfers to bond funds to fulfill bond resolution requirements and periodic transfers from the bond funds of assets in excess of the bond resolution requirements.

Non-Cash Activities

Transfers from loans receivable to mortgage insurance claims receivable and real estate owned for fiscal year 2007 were $8.50 million and $2.80 million, for Residential Housing Finance and Single Family, respectively.

Use of Estimates

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

Related Party Transactions

The Alternative Loan Fund in Residential Housing Finance received final payment during fiscal 2007 on the outstanding advances made in fiscal year 1997 for the purpose of optionally redeeming bonds in Rental Housing. In addition to the Rental Housing advance, in fiscal year 2006 an advance was made to optionally redeem bonds in Single Family. The advances were made in order to take advantage of economically favorable conditions for redeeming the bonds. The advance to Single Family continues to be repaid according to the original debt repayment schedules. The advance is recorded in Interfund Payable (Receivable).

Reclassifications

Certain amounts in the comparative totals columns of the financial statements have been reclassified to conform with the current year presentation.

Income Taxes

The Agency, as a component unit of the State of Minnesota, is exempt from federal and state income taxes. Accordingly, no provision for income taxes is necessary.

Rebateable Arbitrage

Arbitrage earnings that are owed to the United States Treasury are recorded in Accounts Payable and based on estimated calculations performed by an independent valuation specialist on an ongoing basis. Also included in this category is yield compliance liability.

Cash, Cash Equivalents and Investment Securities

Permitted Agency investments include government obligations, commercial paper, repurchase agreements, money market funds, guaranteed investment contracts (i.e., investment agreements), corporate obligations, Minnesota municipal bonds and other investments consistent with requirements of safety and liquidity that do not violate applicable provisions of the bond resolutions, state law or Board policy.

Cash and Cash Equivalents are stated at cost which approximates market and are composed of the following at June 30, 2007 (in thousands):

Cash and Cash Equivalents

Funds	Deposits	Money Market Fund	Repurchase Agreements	Investment Agreements	Combined Totals
General Reserve	$ 546	$ -	$31,255	$ -	$ 31,801
Rental Housing	-	14,377	-	37,559	51,936
Residential Housing Finance	1,825	112,906	-	450,518	565,249
Single Family	1,089	12,371	-	102,089	115,549
State Appropriated	184	-	9,317	-	9,501
Federal Appropriated	2,013	7,053	-	-	9,066
Agency-wide Totals	$5,657	$146,707	$40,572	$590,166	$783,102

Deposits may consist of commercial paper (purchased within 90 days of maturity) for General Reserve, State Appropriated and Federal Appropriated and cash awaiting investment for the remainder of the funds. The commercial paper is held by the Agency's agent. Cash awaiting investment consists of interest earned on investments received too late on the last day of the fiscal year to be invested and loan servicer deposits in transit.

Repurchase agreements are collateralized at 102% of loan value with US treasury and agency securities with the collateral held by a third party custodial bank. Generally, repurchase agreements mature in one week or less.

Generally, investment agreements are uncollateralized, interest-bearing contracts with financial intermediaries with variable liquidity features, which require a one-day to two-week notice for deposits and/or withdrawals, and are invested in accordance with the restrictions specified in the various bond funds. As of June 30, 2007, all the investment agreement providers have a Standard & Poor's long-term credit rating of "AA–" or higher and a Moody's long-term credit rating of "Aa3" or higher. The individual investment agreements are unrated. Substantially all of the agreements contain "termination" clauses so that the Agency may withdraw funds early if credit ratings deteriorate below specified levels and remedial action is not taken. On July 23, 2007, the Agency was notified that the credit ratings for Depfa Bank plc were downgraded by Standard & Poor's Ratings Services from "AA-/A-1+" to "A+/A-1." As of June 30, 2007, the Agency had five investment agreements with Depfa Bank plc in Residential Housing Finance Bonds totaling $98.131 million. Please see Subsequent Events below for additional information.

Investment securities (comprising US Treasuries, US Agencies, certificates of deposit, commercial paper and corporate notes) are recorded at fair market value and were allocated to the following funds at June 30, 2007 (in thousands):

Investment Securities

Funds	Amortized Cost	Unrealized Appreciation (Depreciation) in Fair Market Value	Estimated Fair Market Value
General Reserve	$ 91,132	$ (493)	$ 90,639
Rental Housing	3,705	217	3,922
Residential Housing Finance	326,308	(1,097)	325,211
Single Family	3.638	154	3,792
State Appropriated	49,243	(50)	49,193
Federal Appropriated	4,372	13	4,385
Agency-wide Totals	$478,398	$(1,256)	$477,142

US treasury, US agency, corporate notes, commercial paper and certificates of deposit in General Reserve, State Appropriated and Federal Appropriated are held by the Agency's agent in the name of the State of Minnesota. US treasury and US agency securities in the remainder of the funds are held by the trustees under the Agency's bond resolutions in the Agency's name. US agency investments (Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Farm Credit Bank, and Resolution Funding Corporation) had a Standard & Poor's rating of "AAA" and a Moody's rating of "Aaa" as of June 30, 2007. Of the Agency's investments in corporate notes as of June 30, 2007, $7.076 million were rated "AA/Aa1," $8.303 million were rated "AA-/Aa2," $2.522 million were rated "AA-/Aa3," $3.229 million were rated "A+/Aa3," $6.958 million were rated "A/A2" and $7.953 million were rated "A/A3." The corporate notes rated "A/A3 as of June 30, 2007 were downgraded to "A-/Baa3" during August 2007. The issuer of the $3.800 million certificate of deposit had an issuer rating of "A+ /Aa2" as of June 30, 2007.

Examining the weighted average maturities of the Agency's debt securities can reveal information about interest rate risk. Cash, Cash Equivalents and Investment Securities (excluding unrealized depreciation of $1.256 million and net discounts of $2.339 million), along with the weighted average maturities as of June 30, 2007, consisted of the following (in thousands):

Cash, Cash Equivalents and Investment Securities

Type	Par Value	General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated
		Weighted Average Maturity, in Years					
Deposits	$ 2,669	-	-	-	-	-	-
Commercial paper	25,989	0.1	-	-	-	0.3	-
Money market fund	146,707	-	-	-	-	-	-
Repurchase agreements	40,572	-	-	-	-	-	-
Investment agreements	590,166	-	-	-	-	-	-
US Agencies	399,428	0.9	8.0	1.6	12.1	0.5	0.9
US Treasuries	18,385	-	-	12.9	-	-	10.4
Certificates of deposit	3,800	-	-	-	-	0.3	-
Corporate notes	36,123	0.8	-	-	-	0.7	-
Agency-wide Totals	$1,263,839						
Weighted Average Maturity		0.6	0.7	0.8	0.4	0.4	0.6

Investments in any one issuer, excluding investments issued or explicitly guaranteed by the U.S. Government, that represent 5 percent or more of the par value of total investments, as defined by GASB Statement No. 40, as of June 30, 2007 were as follows (in thousands):

Investment Issuer	Amount
Federal Home Loan Bank	$276,665
Wells Fargo, investment agreements	162,275
Rabobank, investment agreements	120,319
Depfa Bank plc, investment agreements	98,131
FSA Capital Management Services, investment agreements	59,174
Bayerische Landesbank, investment agreements	55,792

The Agency maintained certain deposits and investments throughout the year that were subject to custodial credit risk. As of June 30, 2007, those amounts subject to this risk consisted of the following (in thousands):

	Amount
Deposits not covered by depository insurance and uncollateralized (including $146,707 in a money market fund and $40,571 in repurchase agreements)	$189,947
Investment securities (which excludes investment agreements) uninsured, uncollateralized and not held in the Agency's name	333,121
Agency-wide Total	$523,068

Net realized gain on sale of investment securities of $.156 million is included in interest earned on investments.

Certain balances are required to be maintained under the various bond resolutions. These balances represent debt service and insurance reserves. The required balances at June 30, 2007 were as follows (in thousands):

Funds	Amount
Rental Housing	$20,606
Residential Housing Finance	42,072
Single Family	17,332
Totals	$80,010

Loans Receivable, Net

Loans receivable, net at June 30, 2007 consisted of (in thousands):

Funds	Outstanding Principal	Allowance for Loan Losses	Unamortized Premiums (Discounts) and Fees	Loans Receivable, Net
General Reserve	$ -	$ -	$ -	$ -
Rental Housing	234,564	(8,706)	(1,382)	224,476
Residential Housing Finance	1,566,850	(12,236)	3,725	1,558,339
Single Family	279,836	(89)	(2,740)	277,007
State Appropriated	32,704	(1,145)	-	31,559
Federal Appropriated	-	-	-	-
Agency-wide Totals	$2,113,954	$(22,176)	$ (397)	$2,091,381

Substantially all loans in the table above are secured by first or second mortgages on the real property financed. The majority of the loans in the Single Family fund and homeownership first mortgage loans in the Residential Housing Finance fund (see following table) have either FHA insurance or a VA or RD guarantee. Insurance minimizes, but does not completely eliminate, loan losses. Losses on mortgage loans in the Single Family fund are also secured by an insurance reserve fund established under the bond resolution therefor.

In addition to the loans in the table above, certain loans are originated at interest rates ranging from 0%-5% and repayment is deferred for up to 30 years. These loans are generally in either a second or more subordinate mortgage position or may be unsecured. Given the nature of these loans and the risk associated with them, at the time of origination they are fully reserved resulting in a net carrying value of zero. During the fiscal year ended June 30, 2007, the amount of these loans originated was $4.428 million in the Housing Affordability Fund, $3.274 million in the Homeownership Endowment Fund, $2.359 million in the Multifamily Endowment Fund and $29.668 million in State Appropriated. These loans are excluded from the tables above and below, as they are fully reserved.

Loans receivable, net in Residential Housing Finance at June 30, 2007 consist of a variety of loans as follows (in thousands):

Description	Net Outstanding Amount
Home Improvement Endowment Fund:	
Home Improvement loans, generally secured by a second mortgage	$ 121,977
Homeownership Endowment Fund:	
Homeownership, first mortgage loans	3,854
Other homeownership loans, generally secured by a second mortgage	17,830
Multifamily Endowment Fund:	
Multifamily, subordinated mortgage loans reserved at 100%	-
Residential Housing Finance Bonds:	
Homeownership, first mortgage loans	1,265,966
Other homeownership loans, generally secured by a second mortgage	2,423
Alternative Loan Fund, Housing Investment Fund (Pool 2):	
Homeownership, first mortgage loans	5,301
Multifamily, first mortgage loans	14,697
Alternative Loan Fund, Housing Affordability Fund (Pool 3):	
Multifamily, first mortgage loans	115,004
Multifamily, subordinated mortgage loans reserved at 100%	-
Homeownership, first mortgage loans	11,287
Residential Housing Finance Totals	$1,558,339

By statute, the Agency is limited to financing real estate located within the State of Minnesota. Collectibility depends on local economic conditions.

Other Assets

Other assets, including receivables, at June 30, 2007 consisted of the following (in thousands):

Funds	Receivables Due from the Federal Government	Other Assets and Receivables	Total
General Reserve	$1,249	$ 10	$1,259
Rental Housing	-	4	4
Residential Housing Finance	-	20	20
Single Family	-	1	1
State Appropriated	-	245	245
Federal Appropriated	193	-	193
Agency-wide Totals	$1,442	$280	$1,722

Bonds Payable, Net

Bonds payable, net at June 30, 2007 were as follows (in thousands):

Funds	Par Bonds Outstanding	Net Unamortized Premium and Deferred Fees	Net Unamortized Deferred Loss	Bonds Payable, Net
Rental Housing	$ 194,880	$ -	$(3,189)	$ 191,691
Single Family	302,810	-	-	302,810
Residential Housing Finance	1,895,500	8,987	-	1,904,487
Totals	$2,393,190	$8,987	$(3,189)	$2,398,988

Summary of bond activity from June 30, 2006 to June 30, 2007 (in thousands):

Funds	June 30, 2006 Par Bonds Outstanding	Par Issued	Par Repaid	June 30, 2007 Par Bonds Outstanding
Rental Housing	$ 204,455	$ 9,480	$ 19,055	$ 194,880
Single Family	363,955	-	61,145	302,810
Residential Housing Finance	1,376,075	999,320	479,895	1,895,500
Totals	$1,944,485	$1,008,800	$560,095	$2,393,190

Par bonds payable at June 30, 2007 were as follows (in thousands):

Series	Interest Rate	Final Maturity	Original Par	Par Bonds Outstanding as of June 30, 2007
Rental Housing Bonds				
1995 Series C-2	5.40% to 5.95%	2015	$ 38,210	$ 11,150
1995 Series D	5.45% to 6.00%	2022	234,590	12,450
1997 Series A	5.10% to 5.875%	2028	4,750	4,090
1998 Series A	5.375%	2028	5,505	5,505
1998 Series B	6.60%	2019	4,180	3,090
1998 Series C	4.50% to 5.20%	2029	2,865	2,490
1999 Series A	4.35% to 5.10%	2024	4,275	3,520
1999 Series B	5.20% to 6.15%	2025	3,160	2,420
2000 Series A	5.35% to 6.15%	2030	9,290	7,000

Series	Interest Rate	Final Maturity	Original Par	Par Bonds Outstanding as of June 30, 2007
2000 Series B	5.90%	2031	$ 5,150	$ 4,660
2001 Series A	4.50% to 5.35%	2033	4,800	4,485
2002 Series A	2.75% to 4.05%	2014	27,630	19,525
2003 Series A	4.55% to 4.95%	2045	12,770	12,495
2003 Series B	4.15% to 5.08%	2031	1,945	1,845
2003 Series C-1	4.35% to 5.20%	2034	2,095	2,020
2004 Series A	2.60% to 5.00%	2035	9,345	8,795
2004 Series B	4.00% to 4.85%	2035	3,215	3,140
2004 Series C	2.40% to 4.40%	2022	80,000	63,375
2005 Series A-1	4.25% to 4.85%	2035	1,725	1,710
2006 Series A-1	4.40% to 5.10%	2047	6,615	6,615
2006 Series B	4.89%	2037	5,020	5,020
2006 Series C-1	4.96%	2037	2,860	2,860
2006 Series C-2	4.21%	2007	1,200	1,200
2007 Series A-1	4.65%	2038	3,775	3,775
2007 Series A-2	3.95%	2008	1,645	1,645
			476,615	194,880
Residential Housing Finance Bonds				
1995 Series A	5.15% to 5.85%	2017	53,645	3,880
2002 Series A	4.75% to 5.30%	2019	14,035	4,460
2002 Series B	4.40% to 5.65%	2033	59,650	19,055
2002 Series A-1	4.20% to 4.90%	2019	6,860	6,730
2002 Series B-1	3.50% to 5.35%	2033	25,760	19,935
2002 Series E	4.30% to 5.00%	2020	12,805	9,870
2002 Series F	3.60% to 5.40%	2032	52,195	32,655
2002 Series H	3.88% to 4.93%	2012	20,000	20,000
2003 Series A	2.15% to 4.30%	2034	40,000	30,090
2003 Series B	Variable	2033	25,000	25,000
2003 Series I	2.80% to 5.25%	2035	25,000	17,320
2003 Series J	Variable	2033	25,000	23,605
2004 Series A	3.20% to 4.25%	2018	22,480	20,115
2004 Series B	2.35% to 5.00%	2033	94,620	71,675
2004 Series C	4.70%	2035	14,970	13,420
2004 Series E-1	4.10% to 4.60%	2016	5,110	4,715
2004 Series E-2	4.40% to 4.60%	2016	6,475	5,980
2004 Series F-1	3.20% to 4.50%	2012	4,600	1,625
2004 Series F-2	3.20% to 5.25%	2034	36,160	33,385
2004 Series G	Variable	2032	50,000	47,250
2005 Series A	2.60% to 4.125%	2018	14,575	13,865
2005 Series B	4.75% to 5.00%	2035	20,425	19,775
2005 Series C	Variable	2035	25,000	24,125
2005 Series G	4.25% to 4.30%	2018	8,950	8,930
2005 Series H	3.10% to 5.00%	2036	51,050	49,590
2005 Series I	Variable	2036	40,000	38,950
2005 Series J	3.625% to 4.00%	2015	11,890	11,730
2005 Series K	3.10% to 4.40%	2028	41,950	40,075
2005 Series L	4.75% to 5.00%	2036	48,165	46,920
2005 Series M	Variable	2036	60,000	58,550
2005 Series O	3.90% to 4.20%	2015	4,510	4,510

Series	Interest Rate	Final Maturity	Original Par	Par Bonds Outstanding as of June 30, 2007
2005 Series P	3.45% to 5.00%	2036	$ 65,490	$ 64,335
2006 Series A	3.30% to 4.00%	2016	13,150	13,150
2006 Series B	4.60% to 5.00%	2037	43,515	43,370
2006 Series C	Variable	2037	28,335	28,100
2006 Series F	3.45% to 4.25%	2016	11,015	10,820
2006 Series G	4.85% to 5.50%	2037	58,985	58,925
2006 Series H	5.85%	2036	15,000	14,900
2006 Series I	3.80% to 5.75%	2038	95,000	95,000
2006 Series J	6.00% to 6.51%	2038	45,000	45,000
2006 Series K	3.62%	2007	120,000	120,000
2006 Series L	3.45% to 3.95%	2016	6,740	6,740
2006 Series M	4.625% to 5.75%	2037	35,260	35,260
2006 Series N	5.23% to 5.76%	2037	18,000	18,000
2006 Series O	3.53%	2018	26,140	14,235
2006 Series P	3.58%	2029	131,340	78,040
2006 Series Q	3.53%	2018	12,230	12,230
2006 Series R	3.58%	2038	57,770	57,770
2007 Series A	3.65%	2008	36,000	36,000
2007 Series B	3.70%	2008	64,000	64,000
2007 Series C	3.45% to 3.95%	2017	12,515	12,515
2007 Series D	4.60% to 5.50%	2038	62,485	62,485
2007 Series E	Variable	2038	25,000	25,000
2007 Series F	3.68%	2008	22,010	22,010
2007 Series G	3.73%	2008	79,830	79,830
2007 Series H	3.65% to 3.95%	2017	12,230	12,230
2007 Series I	3.65% to 5.50%	2038	100,270	100,270
2007 Series J	Variable	2038	37,500	37,500
			2,155,690	1,895,500
Single Family Mortgage Bonds				
1992 Series D-2	5.85% to 5.95%	2017	26,740	4,660
1993 Series D	6.40%	2027	17,685	1,740
1993 Series F	6.25%	2020	9,500	815
1994 Series E	5.00% to 5.90%	2025	31,820	12,775
1994 Series T	5.65% to 6.125%	2017	16,420	1,170
1995 Series G	8.05%	2012	8,310	340
1995 Series H	6.40%	2027	19,240	1,905
1995 Series I	6.35%	2018	7,450	740
1995 Series M	5.20% to 5.875%	2017	32,025	4,785
1996 Series A	6.375%	2028	34,480	3,565
1996 Series B	6.35%	2019	7,990	1,815
1996 Series C	5.65% to 6.10%	2015	12,345	1,390
1996 Series D	5.60% to 6.00%	2017	23,580	1,610
1996 Series E	6.25%	2023	14,495	1,715
1996 Series F	6.30%	2028	18,275	2,165
1996 Series G	6.25%	2028	41,810	4,575
1996 Series H	6.00%	2021	13,865	1,520
1996 Series I	7.32% to 8.00%	2017	14,325	1,095
1996 Series J	5.60%	2021	915	150

Series	Interest Rate	Final Maturity	Original Par	Par Bonds Outstanding as of June 30, 2007
1996 Series K	4.70% to 5.40%	2017	$ 9,280	$ 1,695
1997 Series A	5.40% to 5.95%	2017	22,630	2,735
1997 Series B	6.20%	2021	9,180	1,840
1997 Series C	6.25%	2029	27,740	2,110
1997 Series D	5.80% to 5.85%	2021	15,885	3,785
1997 Series E	5.90%	2029	23,495	3,230
1997 Series F	7.25%	2007	11,620	65
1997 Series G	5.35% to 6.00%	2018	40,260	470
1997 Series I	5.50%	2017	9,730	2,860
1997 Series K	5.75%	2029	22,700	6,670
1997 Series L	6.80%	2007	9,550	75
1998 Series A	4.65% to 5.20%	2017	5,710	1,420
1998 Series B	4.85% to 5.50%	2029	17,030	2,820
1998 Series C	4.60% to 5.25%	2017	21,775	4,650
1998 Series E	5.40%	2030	30,500	10,195
1998 Series F-1	4.75% to 5.45%	2017	10,650	1,955
1998 Series G-1	5.60%	2022	6,150	1,735
1998 Series H-1	5.65%	2031	14,885	4,200
1998 Series F-2	4.90% to 5.70%	2017	11,385	3,490
1998 Series G-2	6.00%	2022	6,605	3,005
1998 Series H-2	6.05%	2031	15,965	7,280
1999 Series B	5.00% to 5.25%	2020	18,865	8,185
1999 Series C	4.60% to 4.90%	2024	21,960	1,210
1999 Series D	5.45%	2031	23,975	9,990
1999 Series H	5.30% to 5.80%	2021	16,350	4,975
1999 Series I	5.00% to 6.05%	2031	34,700	7,265
1999 Series J	5.00%	2017	4,745	2,725
1999 Series K	3.95% to 5.35%	2033	44,515	23,845
2000 Series A	5.25% to 5.85%	2020	18,650	7,740
2000 Series B	5.55%	2024	16,580	2,660
2000 Series C	6.10%	2032	30,320	11,290
2000 Series F	Variable	2031	20,000	15,155
2000 Series G	4.25% to 5.40%	2025	39,990	21,305
2000 Series H	4.40% to 5.50%	2023	32,475	11,825
2000 Series I	5.05% to 5.80%	2019	20,185	7,790
2000 Series J	5.40% to 5.90%	2030	29,720	12,880
2001 Series A	5.35% to 5.45%	2022	14,570	7,290
2001 Series B	4.55% to 5.675%	2030	34,855	12,555
2001 Series E	2.35% to 4.90%	2035	23,000	19,310
			1,139,450	302,810
Combined Totals			$3,771,755	$2,393,190

The Agency uses special and optional redemption provisions to retire certain bonds prior to their stated maturity from unexpended bond proceeds and revenues in excess of scheduled debt service resulting primarily from loan prepayments.

All bonds are subject to optional redemption after various dates at an amount equal to 100% to 102% of the unpaid principal and accrued interest as set forth in the applicable series resolution.

Annual debt service requirements to maturity for bonds outstanding as of June 30, 2007, are as follows (in thousands):

	Rental Housing Bonds		Residential Housing Finance Bonds	
Fiscal Year	Principal	Interest	Principal	Interest
2008	$ 12,080	$ 8,807	$ 506,660	$ 78,161
2009	13,145	8,381	22,630	64,469
2010	12,110	7,894	28,710	63,487
2011	12,720	7,391	24,715	62,428
2012	12,990	6,844	25,760	61,402
2013-2017	48,610	26,649	164,510	286,961
2018-2022	33,605	16,845	189,235	248,178
2023-2027	16,530	10,802	247,705	198,937
2028-2032	15,140	6,411	322,995	132,814
2033-2037	9,630	3,261	330,190	49,831
2038-2042	4,525	1,536	32,390	1,569
2043-2047	3,660	459	-	-
2048-2052	135	3	-	-
Totals	$194,880	$105,283	$1,895,500	$1,248,237

	Single Family Mortgage Bonds		Combined Totals	
Fiscal Year	Principal	Interest	Principal	Interest
2008	$ 6,735	$ 16,427	$ 525,475	$ 103,395
2009	7,030	16,386	42,805	89,236
2010	7,885	16,015	48,705	87,396
2011	9,215	15,605	46,650	85,424
2012	9,405	15,119	48,155	83,365
2013-2017	56,275	67,099	269,395	380,709
2018-2022	59,575	50,897	282,415	315,920
2023-2027	73,370	32,781	337,605	242,520
2028-2032	65,930	10,695	404,065	149,920
2033-2037	7,390	549	347,210	53,641
2038-2042	-	-	36,915	3,105
2043-2047	-	-	3,660	459
2048-2052	-	-	135	3
Totals	$302,810	$241,573	$2,393,190	$1,595,093

The principal due for convertible option bonds (COBs) is reflected in subsequent fiscal year columns of the table above based on the mandatory tender dates of those bonds. This presentation does not alter the expectation that these bonds will be remarketed long-term at or prior to their mandatory tender date. COBs are secured by investment contracts that are structured to provide liquidity at each debt service payment date. Such investment contracts are included in Cash and Cash Equivalents on the statement of net assets.

The principal due for short-term notes is reflected in the year of maturity of the individual notes. In contrast to COBs, bonds issued as short-term notes may not be remarketed. Notes are secured either by investment contracts structured to provide liquidity at each debt service payment date or by US Agency securities scheduled to mature at each debt service payment date in the amounts required at that date.

Residential Housing Finance Bonds 2003 Series B and J, 2004 Series G, 2005 Series C, I and M, 2006 Series C and 2007 Series E (Taxable) and J (Taxable) accrue interest at a rate that changes each week, determined by a remarketing agent based on market conditions. Future interest due for these series, as displayed above in the annual debt service requirements table, is based upon the rate in effect on June 30, 2007. As rates vary, variable rate bond interest payments will vary. The associated interest rate swaps are not included in the annual debt service requirements table. See the Swap Payments and Associated Debt table below to view those amounts.

The Single Family Bonds, 2000 Series F accrue interest at a variable rate that is recalculated each calendar month. The rate is the sum of the one-month LIBOR (London Interbank Offered Rate) plus 0.30% per annum provided that the rate may not exceed 11.00% per annum. Future interest due for this series, as displayed above in the annual debt service requirements table, is based upon the calculated rate in effect on June 30, 2007. As rates vary, variable rate bond interest payments on this series of bonds will vary.

The income and assets of each of the bond funds are pledged for the payment of principal and interest on the bonds issued, and to be issued, by the respective programs. The bond resolutions contain covenants that govern the respective programs financed thereby and require the Agency to maintain certain reserves and meet certain reporting requirements. The Agency believes that as of June 30, 2007, it is in compliance with those covenants in all material respects and the assets of all funds and accounts in the bond funds equaled or exceeded the requirements as established by the respective bond resolutions.

The Agency called certain bonds for redemption effective after June 30, 2007. These called bonds are described under Subsequent Events.

Interest Rate Swaps

Objective of Swaps

Since 2003 the Agency has entered into interest rate swap agreements in connection with its issuance of variable rate mortgage revenue bonds. The Agency has used swaps to create synthetic fixed rate debt at an interest rate lower than that achievable from long-term fixed rate bonds and to further the Agency's goal of lending to low- and moderate-income, first-time home buyers at below market, fixed interest rates.

Swap Payments and Associated Debt

Using rates as of June 30, 2007, debt service requirements of the Residential Housing Finance outstanding variable rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows (in thousands). As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year	Principal	Interest	Interest Rate Swaps, Net	Total
2008	$ 5,065	$ 11,467	$ 39	$ 16,571
2009	850	12,355	70	12,275
2010	890	12,303	102	13,295
2011	935	12,255	99	13.289
2012	985	12,204	92	13,281
2013-2017	8,870	60,091	312	69,273
2018-2022	36,655	56,031	375	93,061
2023-2027	78,875	44,517	(75)	123,317
2028-2032	102,035	27,207	(358)	128,884
2033-2037	66,820	8,458	(24)	75,254
2038-2042	6,100	325	3	6,428

Terms of Swaps

The terms of the swaps, including the fair values and the credit ratings of the three counterparties thereto as of June 30, 2007, are contained in the three tables below. The initial notional amounts of the swaps match the original principal amounts of the associated debt. The Agency's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in outstanding principal amounts of the associated bond series. With respect to the outstanding swaps, the Agency has also purchased the cumulative right, based upon a 300% PSA prepayment rate (The Standard Prepayment Model of The Securities Industry and Financial Markets Association and formerly the Public Securities Association) on the underlying mortgage loans, to further reduce the notional balances of the swaps as necessary to correspond to the outstanding principal amount of the associated bond series and, except for the 2003B, 2003J and 2004G swaps, the right to terminate the swaps at par at approximately the 10-year anniversary date of the swap. The Agency also has the right to terminate outstanding swaps in whole or in part at fair value at any time if it is not in default thereunder.

Counterparty A

Credit Rating: Aaa**/AA+***

Associated Bond Series	Notional Amount as of June 30, 2007	Effective Date	Maturity Date	Fixed Rate Payable	Variable Rate To Be Received	Fair Value as of June 30, 2007
RHFB 2003B	$ 25,000,000	July 23, 2003	January 1, 2033	3.532%	65% of 1 month LIBOR* plus 0.23% per annum	$1,789,281
RHFB 2003J	23,605,000	October 15, 2003	July 1, 2033	4.183%	65% of 1 month LIBOR* plus 0.23% per annum	(102,572)
RHFB 2005C	24,125,000	March 2, 2005	January 1, 2035	3.587%	64% of 1 month LIBOR* plus 0.28% per annum	634,774
RHFB 2006C	28,100,000	March 21, 2006	January 1, 2037	3.788%	64% of 1 month LIBOR* plus 0.29% per annum	406,882
Total Counterparty A	$100,830,000					$2,728,365

Counterparty B

Credit Rating: Aaa**/AA-***

Associated Bond Series	Notional Amount as of June 30, 2007	Effective Date	Maturity Date	Fixed Rate Payable	Variable Rate To Be Received	Fair Value as of June 30, 2007
RHFB 2004G	$ 47,250,000	July 22, 2004	January 1, 2032	4.165%	64% of 1 month LIBOR* plus 0.26% per annum	$ (299,817)
RHFB 2007E (Taxable)	25,000,000	March 7, 2007	July 1, 2038	5.738%	100% of 1 month LIBOR*	294,087
RHFB 2007J (Taxable)	37,500,000	May 17, 2007	July 1, 2038	5.665%	100% of 1 month LIBOR*	656,436
Total Counterparty B	$109,750,000					$ 650,706

Counterparty C

Credit Rating: Aaa**/AA+***

Associated Bond Series	Notional Amount as of June 30, 2007	Effective Date	Maturity Date	Fixed Rate Payable	Variable Rate To Be Received	Fair Value as of June 30, 2007
RHFB 2005I	$ 38,950,000	June 2, 2005	January 1, 2036	3.570%	64% of 1 month LIBOR* plus 0.28% per annum	$ 982,400
RHFB 2005M	58,550,000	August 4, 2005	January 1, 2036	3.373%	64% of 1 month LIBOR* plus 0.29% per annum	2,026,940
Total Counterparty C	$ 97,500,000					$3,009,340
Combined Totals	$308,080,000					$6,388,411

*London Interbank Offered Rate.

**Moody's Investors Service, Inc.

***Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies.

Swap Valuation

The fair values presented in the foregoing tables were estimated by the Agency's counterparties to the swaps and approximate the termination payments that would have been due had the swaps been terminated as of June 30, 2007. A positive fair value represents the amount due the Agency by the counterparty upon termination of the swap while a negative fair value represents the amount payable by the Agency.

Termination Risk

The swap contracts may be terminated by either party if the other party fails to perform under the terms of the contract or upon certain termination events. Upon termination, a payment is due to one party irrespective of causality based upon the fair value of the swap. The potential termination risks to the Agency are the liability for a termination payment to the counterparty or the inability to replace the swap upon favorable financial terms, in which event the variable rate bonds would no longer be hedged. To reduce the risk of termination, swap contracts limit counterparty terminations to the following Agency actions or events: payment default, other defaults that remain uncured for 30 days after notice, bankruptcy and insolvency.

Credit Risk

A swap potentially exposes the Agency to credit risk with the counterparty. The fair value of a swap represents the Agency's current credit exposure to the swap counterparty upon a termination event. As of June 30, 2007, the Agency did have a net credit risk exposure to each of its three counterparties because their respective combined swap positions had a positive net fair value, as set forth in the foregoing tables. The swap agreements contain varying collateral requirements based upon the Agency's and the counterparties' credit ratings and the fair values of the swaps. These bilateral requirements are established to mitigate potential credit risk exposure. As of June 30, 2007, neither the Agency nor any counterparty had been required to post collateral.

Amortization Risk

The Agency is subject to amortization risk because prepayments from the mortgage loan portfolio may cause the outstanding amount of variable rate bonds to decline faster than the amortization of the swap. To ameliorate amortization risk, call options were structured within most of the outstanding swaps to enable the Agency to manage the outstanding balances of variable rate bonds and notional swap amounts. Additionally, the Agency may terminate outstanding swaps in whole or in part at fair value at any time if it is not in default thereunder.

Basis Risk

The Agency has incurred the potential risk that the variable interest payments on its bonds will not equal the variable interest receipts payable by the counterparty under the associated swap. This basis risk exists because the variable rate the Agency pays on its bonds resets weekly, but the variable rate received on its swaps is based upon a specified percent of the one-month, taxable LIBOR rate, plus a specified spread if the swap relates to tax-exempt bonds. Basis risk will vary over time due to inter-market conditions. As of June 30, 2007, the interest rate on the Agency's variable rate tax-exempt debt ranged from 3.8% to 3.82% per annum while the variable interest rate on the associated swaps ranged from 3.66% to 3.69% per annum. As of June 30, 2007, the interest rate on the Agency's variable rate taxable debt was 5.32% per annum while the variable interest rate on the corresponding swap was 5.32% per annum. In order to reduce the cumulative effects of basis risk on the swaps relating to tax-exempt variable rate debt, the determination of the spread from one-month LIBOR payable by the counterparty under the swap has been based upon a regression analysis of the long-term relationship between one-month LIBOR and the tax-exempt variable rate BMA rate (which ordinarily would approximate the weekly variable rate on the Agency's tax-exempt variable rate bonds).

Tax Risk

The structure of the variable interest rate payments the Agency receives from its swap contracts relating to tax-exempt variable rate bonds are based upon the historical long-term relationship between taxable and tax-exempt short-term interest rates. Tax risk represents the risk that may arise due to a change in the tax code that may fundamentally alter this relationship. The Agency has chosen to assume this risk because it has not been economically favorable to transfer to the swap counterparties.

Conduit Debt Obligation

On December 21, 2005, the Agency issued tax-exempt bonds on a conduit basis for a certain Minnesota non-profit corporation. The proceeds of the bonds were used by the corporation to refinance certain HUD Section 202 elderly housing projects. The bonds were sold on a private placement basis. As of June 30, 2007, $32.6 million of the bonds were outstanding. Neither the Agency, the State of Minnesota, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

Accounts Payable and Other Liabilities

Accounts payable and other liabilities at June 30, 2007 consisted of the following (in thousands):

Funds	Arbitrage Rebate Payable to the Federal Government and Yield Compliance Liability	Accrued Salaries, Compensated Absences and Employee Benefits	Other Liabilities and Accounts Payable	Total
General Reserve	$ -	$2,508	$1,158	$ 3,666
Rental Housing	3,548	-	20	3,568
Residential Housing Finance	973	-	509	1,482
Single Family	4,221	-	62	4,283
State Appropriated	-	-	1,222	1,222
Federal Appropriated	-	-	576	576
Agency-wide Totals	$8,742	$2,508	$3,547	$14,797

The amount of arbitrage rebate and yield compliance payable that is not due within one year in Rental Housing is $3.500 million, in Residential Housing Finance is $.973 million and in Single Family is $4.004 million, for a total of $8.477 million.

Interfund Balances

Interfund balances displayed as Interfund Payable (Receivable) at June 30, 2007 consisted of the following (in thousands):

	Funds	Due from: General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total
Due to	General Reserve	$ -	$-	$ -	$ 7	$672	$139	$ 818
	Rental Housing	-	-	-	-	-	-	-
	Residential Housing Finance	739	-	-	23,858	-	-	24,597
	Single Family	-	-	-	-	-	-	-
	State Appropriated	-	-	147	155	-	-	302
	Federal Appropriated	-	-	-	-	-	-	-
	Agency-wide Totals	$739	$-	$147	$24,020	$672	$139	$25,717

The $23.858 million due Residential Housing Finance reflects advances made to Single Family in fiscal 2006 and accrued interest on those advances. The advances were made to take advantage of economically favorable conditions for optionally redeeming bonds in Single Family. Repayment of the advances is made according to the original debt repayment schedule. The portion that will not be repaid within one year is $22.465 million.

All remaining balances resulted from the time lag between the dates that (1) interfund goods or services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

Interfund transfers recorded in Interfund Payable (Receivable) for the year ended June 30, 2007 consisted of the following (in thousands):

	Funds	Transfer from: General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total
Transfer To	General Reserve-administrative reimbursement	$ -	$ 1,838	$9,631	$2,578	$3,211	$ 886	$18,144
	Rental Housing	-	-	-	-	-	-	-
	Residential Housing Finance	105	50,407	-	2,120	5,529	-	58,161
	Single Family	-	-	-	-	-	-	-
	State Appropriated	-	-	13	44	-	751	808
	Federal Appropriated	-	492	-	-	475	-	967
	Agency-wide Totals	$105	$52,737	$9,644	$4,742	$9,215	$1,637	$78,080

Interfund transfers recorded in Interfund Payable (Receivable) were used to pay off the $21.577 million owed on the interfund loan made from Residential Housing Finance to Rental Housing, to move loan payments that were deposited for administrative convenience in a fund not holding the loans, to make payments for administrative reimbursements due the General Reserve from the other funds, to pay for loans transferred between funds including $28.830 million of multifamily loans transferred from Residential Housing Finance to Rental Housing and $5.528 million of entry cost assistance loans transferred from Residential Housing Finance to State Appropriated, to move funds advanced by State Appropriated to Federal Appropriated for assistance to hurricane victims, and to move payments from Single Family to Residential Housing Finance due on outstanding loans between those funds.

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds for the year ended June 30, 2007, consisted of the following (in thousands):

	Funds	Transfer from General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total
Transfer To	General Reserve	$-	$-	$205	$-	$-	$-	$205
	Rental Housing	-	-	197	-	-	-	197
	Residential Housing Finance	-	-	-	-	-	-	-
	Single Family	-	-	-	-	-	-	-
	State Appropriated	-	-	-	-	-	-	-
	Federal Appropriated	-	-	-	-	-	-	-
	Agency-wide Totals	$-	$-	$402	$-	$-	$-	$402

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds normally result from bond sale contributions to new debt issues in other funds, the transfer of assets to maintain the Housing Endowment Fund requirement and periodic transfers from the bond funds of assets in excess of bond resolution requirements.

Net Assets

Restricted by Bond Resolution

Restricted by Bond Resolution Net Assets represents those funds restricted within the respective bond resolution due to the specific provisions of the bond resolutions.

Restricted by Covenant

In accordance with provisions of the respective bond resolutions, the Agency may transfer money from bond funds to General Reserve. The Agency has pledged to deposit in General Reserve any such funds transferred from the bond funds, except for any amounts as may be necessary to reimburse the state for money appropriated to restore a deficiency in any debt service reserve fund. The Agency further covenants that it will use the money in General Reserve only for the administration and financing of programs in accordance with the policy and purpose of the Minnesota Housing enabling legislation, including reserves for the payment of bonds and of loans made from the proceeds thereof, and will accumulate and maintain therein such a balance of funds and investments as will be sufficient for that purpose. All interfund transfers are approved by the Board of the Agency.

In order to provide financial security for the Agency's bondholders, and to provide additional resources for housing loans to help meet the housing needs of low- and moderate-income Minnesota residents, the Agency's Board adopted the investment guidelines in the following table. These guidelines are periodically evaluated in consideration of changes in the economy and in the Agency's specific risk profile.

The following table describes total net assets restricted by covenant, including the balances to be maintained according to the Agency's Board guidelines, as of June 30, 2007 (in thousands):

Net Assets — Restricted By Covenant	Certain Balances Maintained According to Agency's Board Guidelines	Unrealized Appreciation (Depreciation) in Fair Market Value of Investments	Mitigate Pool 1 and Pool 2 Unrealized Depreciation in Fair Market Value	Total Net Assets Restricted by Covenant
Housing Endowment Fund (Pool 1), General Reserve				
An amount equal to 2% of gross loans outstanding (excluding loans reserved 100% and appropriated loans) must be invested in short term, investment grade paper at market interest rates	$ 41,625	$ -	$ -	$ 41,625
Unrealized depreciation in fair market value of investments, excluding multifamily development escrow investments	-	(30)	30	-
Subtotal, Housing Endowment Fund (Pool 1), General Reserve	41,625	(30)	30	41,625
Housing Investment Fund (Pool 2), Residential Housing Finance				
An amount equal to 5% of bonds outstanding less the Housing Endowment Fund (Pool 1) is invested in intermediate- to long-term, investment grade housing loans, as defined by the Agency, at interest rates which could be up to 3% below market	78,035	-	-	78,035
Unrealized depreciation in fair market value of investments	-	(318)	318	-
Subtotal, Housing Investment Fund (Pool 2), Residential Housing Finance	78,035	(318)	318	78,035
Housing Affordability Fund (Pool 3), Residential Housing Finance				
Funds in excess of 5% of bonds may be used for administration of housing programs, contributions to bond issues, early bond redemptions, and low interest rate loans with higher than ordinary risk factors	204,277	-	-	204,277
Unrealized appreciation in fair market value of investments	-	(342)	(348)	(690)
Subtotal, Housing Affordability Fund (Pool 3), Residential Housing Finance	204,277	(342)	(348)	203,587
Agency-wide Total	$323,937	$(690)	$ -	$323,247

The Housing Endowment Fund (Pool 1) is maintained in the Restricted by Covenant Net Assets of General Reserve. The Housing Investment Fund (Pool 2) and the Housing Affordability Fund (Pool 3) are maintained in the Restricted by Covenant Net Assets of Residential Housing Finance fund.

The $323.247 million of net assets restricted by covenant are restricted by Minnesota Housing's enabling legislation.

By board resolution, the Agency changed its net asset requirements and investment guidelines for the Housing Endowment Fund (Pool 1), the Housing Investment Fund (Pool 2) and the Housing Affordability Fund (Pool 3), effective July 1, 2007. See the Subsequent Events paragraph below for additional information.

In connection with self-insuring certain single family loans, the Agency has covenanted with bondholders to maintain General Reserve net assets of at least 125% of the Single Family Mortgage bond resolution insurance reserve. The net assets requirement was $10.310 million at June 30, 2007. General Reserve net assets at June 30, 2007 were $46.010 million.

Restricted by Law

Undisbursed, recognized federal and state appropriations are classified as Net Assets Restricted by Law. The $89.636 million of net assets restricted by law in the State Appropriated fund as of June 30, 2007 are restricted by Minnesota Housing's enabling legislation.

Defined Benefit Pension Plan

The Agency contributes to the Minnesota State Retirement System (System), a multiple-employer public employee retirement system, which provides pension benefits for all permanent employees.

Employees who retire at "normal" retirement age or, for those hired on or before June 30, 1989, at an age where they qualify for the "Rule of 90" (i.e., at an age where age plus years of service equals or exceeds 90) are entitled to an unreduced monthly benefit payable for life. For those hired on or before June 30, 1989, normal retirement age is age 65, or age 62 with 30 years of service. For those hired after June 30, 1989, normal retirement age is the Social Security retirement age. The monthly benefit is calculated according to the "step formula" for anyone retiring under the Rule of 90. For those hired on or before June 30, 1989 and not retiring under the Rule of 90, the monthly benefit is calculated according to the step formula or the "level formula," whichever provides the largest benefit. For those hired after June 30, 1989, the monthly benefit is calculated according to the level formula. Under the step formula, an employee earns a 1.2% credit for each of the first 10 years of employment and a 1.7% credit for each year thereafter. The monthly benefit is then determined by applying the sum of these credits to the average monthly salary earned during the employee's five years of greatest earnings. Under the level formula the monthly benefit is computed just as it is under the step formula except that an employee earns a 1.7% credit for each year of employment, not just for those years beyond the first 10. A reduced benefit is available to those retiring at age 55 with at least three years of service. With 30 years of service, a reduced benefit is available at any age to those hired on or before June 30, 1989. The System also provides death and disability benefits. Benefits are established by Minnesota state law.

The statutory pension contribution rates for the employee and employer (as a percentage of salary) are as follows.

Effective Date	Employee	Employer
Through 6/30/07	4.00%	4.00%
07/01/07	4.25	4.25
07/01/08	4.50	4.50
07/01/09	4.75	4.75
07/01/10	5.00	5.00

The Agency's pension contribution to the System for the year ended June 30, 2007 was $489 thousand.

Details of the benefit plan are provided on a System-wide basis. The Agency portion is not separately determinable. The funding status of the System's benefit plan is summarized as follows.

Schedule of Funding Progress
(dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Actual Covered Payroll (Previous FY)	UAAL as a % of Covered Payroll
07/01/06	$8,486,756	$8,819,161	$332,405	96.23%	$2,016,588	16.48%
07/01/05	8,081,736	8,455,336	373,600	95.58	1,952,323	19.14
07/01/04	7,884,984	7,878,363	(6,621)	100.08	1,965,546	(0.34)

Schedule of Employer Contributions
(dollars in thousands)

Year Ended June 30	Actuarially Required Contribution Rate	Actual Covered Payroll	Actual Member Contributions	Annual Required Employer Contributions	Actual Employer Contributions*	Percent Contributed
2006	10.55%	$2,016,588	$85,379	$127,371	$82,645	64.88%
2005	9.33	1,952,323	83,101	99,051	80,312	81.08
2004	9.43	1,965,546	82,102	103,249	78,622	76.15

*This includes contributions from other sources (if applicable).

The information presented was as of July 1, 2006, which is the latest actuarial information available.

The above summarizes the defined benefit pension plan. Please refer to the July 1, 2006, Minnesota State Employees Retirement Fund Actuarial Valuation and Review for a more comprehensive description. The actuarial valuation and review can be obtained from the financial information page of the Minnesota State Retirement System web site at www.msrs.state.mn.us. The information contained in that web site is also available in alternative formats to individuals with disabilities. Please call 1-800-657-5757 or use the MN Relay Service at 1-800-627-3529.

Risk Management

Minnesota Housing is exposed to various insurable risks of loss related to tort; theft of, damage to, or destruction of assets; errors or omissions; and employer obligations. Minnesota Housing manages these risks through state of Minnesota insurance plans including the state of Minnesota Risk Management Fund, a self-insurance fund, and through purchased insurance coverage.

Property, casualty, liability, and crime coverage is provided by the Minnesota Risk Management Fund which may also purchase other insurance from qualified insurers for Minnesota Housing's needs. Minnesota Housing bears a $1,000 deductible per claim for the following coverage limits.

Type of coverage	Coverage Limit
Real and personal property loss	$ 5,060,215
Business interruption/loss of use/extra expense	40,000,000
Bodily injury and property damage per person	300,000
Bodily injury and property damage per occurrence	1,000,000
Faithful performance/commercial crime	11,000,000
Employee dishonesty	250,000

Minnesota Housing retains the risk of loss, although there have been no settlements or actual losses in excess of coverage in the last three years.

The Agency participates in the State Employee Group Insurance Plan, which provides life insurance and hospital, medical, and dental benefits coverage through provider organizations.

Minnesota Housing participates in the State of Minnesota Workers' Compensation Program. Annual premiums are assessed by the program based on average costs and claims. Minnesota Housing workers compensation costs and claims have been negligible during the last three years.

Commitments

As of June 30, 2007, the Agency had committed the following amounts for the purchase or origination of future loans or other housing assistance amounts (in thousands):

Funds	Amount
General Reserve	$ —
Rental Housing	1,935
Residential Housing Finance	188,358
Single Family	—
State Appropriated	47,228
Federal Appropriated	20,380
Agency-wide Totals	$257,901

Beginning with fiscal year 2007, the Agency elected to include in the above table the Board-approved selections of future loans or other housing assistance for multifamily housing projects. Previous to this fiscal year, selection amounts were not included in the table above until the Board approved a subsequent formal commitment. This change recognizes that multifamily developers typically proceed with their projects based upon their selection by the Board and, therefore, a selection is now treated like a de facto commitment although it is merely a reservation of funds. The Agency maintains the unilateral discretion to cancel any reservation of funds that has not been formally and legally committed.

The Agency has cancelable lease commitments for office facilities and parking through May 2009. Lease expense for the fiscal year ended June 30, 2007 was $1.097 million. Commitments for future minimum lease payments under cancelable leases for office facilities and parking are (in thousands):

	Fiscal Year		
	2008	2009	Total
Amount:	$1,138	$1,070	$2,208

The Agency has in place a $15 million revolving line of credit with Wells Fargo Bank, N.A. that expires on December 31, 2007. The line of credit agreement requires the Agency to maintain certain asset levels and meet certain reporting requirements. At June 30, 2007 there was no balance outstanding. The line of credit activity for the year ended June 30, 2007, is summarized as follows (in thousands):

Beginning Balance	Draws	Repayments	Ending Balance
$0	$0	$0	$0

The Agency is a party to various litigation arising in the ordinary course of business. While the ultimate effect of such actions cannot be predicted with certainty, the Agency expects that the outcome of these matters will not result in a material adverse effect on General Reserve's financial position or results of operations.

Subsequent Events

Board Approval of Bonds to be Issued

On July 19, 2007 the Board of the Agency approved a series resolution authorizing the issuance of $98.440 million bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Residential Housing Finance bonds, 2007 Series K were delivered on August 9, 2007.

On July 19, 2007 the Board of the Agency approved a series resolution authorizing the issuance of $105.000 million bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Residential Housing Finance bonds, 2007 Series L were delivered on August 9, 2007.

On July 19, 2007 the Board of the Agency approved a series resolution authorizing the issuance of $70.000 million bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Residential Housing Finance bonds, 2007 Series M were delivered on August 9, 2007.

Redemption of Bonds

The Agency called for early redemption subsequent to June 30, 2007 the following bonds (in millions):

Program Funds	Redemption Date	Par Value
Residential Housing Finance	July 1, 2007	$ 24.260
Single Family	July 1, 2007	23.465
Residential Housing Finance	August 13, 2007	137.275

Restructuring Fund Structure and Change in Investment Guidelines

By a Board resolution adopted on April 26, 2007, the Agency adopted certain amendments to the Residential Housing Finance Bond Resolution to become effective July 1, 2007. The purpose of the amendments is to permit the Agency to create a funds structure that clearly distinguishes the sustainable lending operation of the Agency from its mission-intensive efforts that do not result in net asset growth. The amendments would delete the Endowment Fund under the Residential Housing Finance Bond Resolution (and the three subfunds therein entitled the Home Improvement Endowment Fund, the Homeownership Endowment Fund and the Multifamily Endowment Fund) and authorize the transfer of the assets therein to the Alternative Loan Fund. The Endowment Fund was initially established to provide necessary capital to permit the issuance of Bonds under the Residential Housing Finance Bond Resolution. Other assets pledged to secure outstanding Bonds under that bond resolution now serve that purpose.

The Alternative Loan Fund is not pledged as security for outstanding Residential Housing Finance Bonds or other bonds of the Agency. The amendments to the Bond Resolution did not change the status of the Alternative Loan Fund, except as may otherwise be provided from time to time in a series resolution. The amendments were adopted pursuant to the provisions of the Residential Housing Finance Bond Resolution upon evidence from the rating agencies that the amendments would not result in a reduction of the ratings of the Residential Housing Finance Bonds or cause any such rating to be withdrawn.

By another Board resolution adopted April 26, 2007, the Agency changed its net asset requirements and investment guidelines for its General Reserve assets and Pool 2 and Pool 3, effective July 1, 2007. The new guidelines retain the liquidity reserve in the Housing Endowment Fund (Pool 1) but reduce its size to 1% of gross loans receivable (excluding loans credited to the Housing Affordability Fund (Pool 3)), and change the required size of the Housing Investment Fund (Pool 2) from the difference between 5% of the principal amount of bonds outstanding and the amount of Pool 1 to an amount that would cause the combined net assets in the General Reserve and trustee-held funds under bond resolutions (exclusive of Pool 3) to be the greater of $615 million or the combined net assets of the same funds for the immediately preceding fiscal year (Pool 2 to consist of amortizing interest-bearing housing loans or investment grade securities held in bond funds). Pool 3 is retained for its current six purposes (generally investment in investment grade securities and for deferred, zero percent and low interest-rate loans). Pool 1 and Pool 2 represent, with assets pledged to pay bonds of the Agency, the sustainable lending operation of the Agency, and Pool 3 represents the more mission-intensive operations of the Agency. As of July 1, 2007 the Agency is in compliance with the requirements of this Board resolution.

Downgrade of Investment Agreement Provider

On July 23, 2007, the Agency was notified that the credit ratings for Depfa Bank plc, an investment agreement provider to the Agency, were downgraded by Standard & Poor's Rating Services from "AA-/A-1+" to "A+/A-1." . As of June 30, 2007, the Agency had five investment agreements with Depfa Bank plc totaling $98.131 million. The Agency was not entitled to take any action under the terms of those agreements because the rating on the Agency's bonds was not adversely affected by the downgrade.

Floods in Southeastern Minnesota during August 2007

During August, 2007, seven counties in southeastern Minnesota were impacted by serious flooding. Efforts are underway by the Agency to determine the extent of the impact to its loan portfolio. The Agency believes its allowances for loan losses are adequate at this time. However, with that region in a state of economic recovery, the ultimate impact of the flooding may not be known for some time.

State legislation was adopted in September 2007 to provide relief for households and communities affected by the flood. $18 million was appropriated to Minnesota Housing to provide disaster relief in that region.

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
General Reserve and Bond Funds
Five Year Financial Summary (in thousands)
Fiscal Years 2003 – 2007

		2003	2004	2005	2006	2007
Loans Receivable, net (as of June 30)	Multifamily programs	$ 348,196	$ 362,870	$ 350,881	$ 350,661	$ 348,974
	Homeownership programs	1,009,937	932,777	1,061,556	1,302,544	1,588,871
	Home improvement programs	92,345	89,157	101,657	123,531	121,977
	Total	$1,450,478	$1,384,804	$1,514,094	$1,776,736	$2,059,822
Bonds Payable, net (1) (as of June 30)	Multifamily programs	$ 246,701	$ 216,928	$ 201,200	$ 200,744	$ 191,691
	Homeownership programs	1,579,978	1,607,661	1,794,886	1,725,347	2,187,297
	Home improvement programs	20,000	20,000	20,000	20,000	20,000
	Total	$1,846,679	$1,844,589	$2,016,086	$1,946,091	$2,398,988
Loans purchased or originated during fiscal year	Multifamily programs	$ 58,607	$ 50,509	$ 20,056	$ 29,534	$ 19,306
	Homeownership programs	145,748	216,109	305,899	393,866	424,436
	Home improvement programs	35,391	34,981	44,279	51,119	29,456
	Total	$239,746	$301,599	$370,234	$474,519	$473,198
Net Assets (as of June 30)	Total net assets	$648,459	$666,978	$697,192	$719,887	$750,990
	Percent of total assets	24.6%	25.2%	24.5%	25.7%	22.8%
Revenues over Expenses	Revenues over expenses for the fiscal year	$36,098	$18,519	$30,214	$22,695	$31,103

Notes:

(1) Amounts are net of unamortized bond issuance costs in 2003 through 2005.

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Net Assets (in thousands)
General Reserve and Bond Funds
As of June 30, 2007 (with comparative totals as of June 30, 2006)

		Bond Funds				
	General Reserve	Rental Housing	Residential Housing Finance	Single Family	General Reserve and Bond Funds Total As Of June 30, 2007	General Reserve and Bond Funds Total As Of June 30, 2006
Assets						
Cash and cash equivalents	$ 31,801	$ 51,936	$ 565,249	$ 115,549	$ 764,535	$ 796,790
Investment securities	90,639	3,922	325,211	3,792	423,564	193,618
Loans receivable, net	-	224,476	1,558,339	277,007	2,059,822	1,776,736
Interest receivable on loans	-	1,408	6,997	1,574	9,979	8,295
Interest receivable on investments	917	843	4,260	106	6,126	3,148
Mortgage insurance claims receivable	-	-	1,095	742	1,837	738
Real estate owned	-	-	2,217	510	2,727	1,414
Unamortized bond issuance costs	-	2,383	9,917	2,906	15,206	13,794
Capital assets, net	4,385	-	-	-	4,385	3,685
Other assets	1,259	4	20	1	1,284	1,899
Total assets	$ 129,001	$ 284,972	$ 2,473,305	$ 402,187	$ 3,289,465	$ 2,800,117
Liabilities						
Bonds payable, net	$ -	$ 191,691	$ 1,904,487	$ 302,810	$ 2,398,988	$ 1,946,091
Interest payable	-	3,700	35,850	8,043	47,593	38,086
Accounts payable and other liabilities	3,666	3,568	1,482	4,283	12,999	15,559
Interfund payable (receivable)	(79)	-	(24,450)	24,020	(509)	(61)
Funds held for others	79,404	-	-	-	79,404	80,555
Total liabilities	82,991	198,959	1,917,369	339,156	2,538,475	2,080,230
Commitments and contingencies						
Net Assets						
Restricted by bond resolution	-	86,013	274,314	63,031	423,358	406,548
Restricted by covenant	41,625	-	281,622	-	323,247	309,654
Invested in capital assets	4,385	-	-	-	4,385	3,685
Total net assets	46,010	86,013	555,936	63,031	750,990	719,887
Total liabilities and net assets	$ 129,001	$ 284,972	$ 2,473,305	$ 402,187	$ 3,289,465	$ 2,800,117

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Revenues, Expenses and Changes in Net Assets (in thousands)
General Reserve and Bond Funds
Year ended June 30, 2007 (with comparative totals for the year ended June 30, 2006)

	General Reserve	Bond Funds: Rental Housing	Bond Funds: Residential Housing Finance	Bond Funds: Single Family	General Reserve and Bond Funds Total For The Year Ended June 30, 2007	General Reserve and Bond Funds Total For The Year Ended June 30, 2006
Revenues						
Interest earned on loans	$ -	$ 13,181	$ 78,214	$ 19,435	$ 110,830	$ 97,843
Interest earned on investments	1,956	4,092	37,752	6,204	50,004	40,111
Administrative reimbursement	19,118	-	-	-	19,118	16,730
Fees earned and other income	8,160	789	501	-	9,450	10,379
Unrealized gains (losses) on securities	226	586	(232)	15	595	(5,623)
Total revenues	29,460	18,648	116,235	25,654	189,997	159,440
Expenses						
Interest	-	10,773	70,648	19,928	101,349	87,115
Loan administration and trustee fees	-	176	4,696	1,056	5,928	5,921
Administrative reimbursement	-	1,819	10,192	2,585	14,596	12,776
Salaries and benefits	14,937	-	-	-	14,937	14,054
Other general operating	6,899	-	1,597	-	8,496	8,502
Reduction in carrying value of certain low interest rate deferred loans	-	25	10,037	-	10,062	6,427
Provision for loan losses	-	(85)	3,472	139	3,526	1,950
Total expenses	21,836	12,708	100,642	23,708	158,894	136,745
Revenues over expenses	7,624	5,940	15,593	1,946	31,103	22,695
Other changes						
Non-operating transfer of assets between funds	(1,280)	197	1,083	-	-	-
Change in net assets	6,344	6,137	16,676	1,946	31,103	22,695
Net Assets						
Total net assets, beginning of year	39,666	79,876	539,260	61,085	719,887	697,192
Total net assets, end of year	$ 46,010	$ 86,013	$ 555,936	$ 63,031	$ 750,990	$ 719,887

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds
Year ended June 30, 2007 (with comparative totals for the year ended June 30, 2006)

		Bond Funds				
	General Reserve	Rental Housing	Residential Housing Finance	Single Family	Total For The Year Ended June 30, 2007	Total For The Year Ended June 30, 2006
Cash flows from operating activities						
Principal repayments on loans	$ -	$ 17,398	$ 99,149	$ 43,721	$ 160,268	$ 196,442
Investment in loans	-	(9,384)	(463,814)	-	(473,198)	(474,519)
Interest received on loans	-	14,225	77,274	18,730	110,229	97,771
Other operating	-	-	(1,597)	-	(1,597)	(1,777)
Fees and other income received	8,285	789	450	-	9,524	10,182
Salaries, benefits and vendor payments	(20,617)	(209)	(6,450)	(1,061)	(28,337)	(25,936)
Administrative reimbursement from funds	18,143	(1,837)	(9,631)	(2,578)	4,097	3,752
Interest transferred to funds held for others	(3,505)	-	-	-	(3,505)	(3,098)
Deposits into funds held for others	29,354	-	-	-	29,354	31,939
Disbursements made from funds held for others	(31,402)	-	-	-	(31,402)	(29,933)
Interfund transfers and other assets	(1,899)	-	218	(45)	(1,726)	(3,108)
Net cash provided (used) by operating activities	(1,641)	20,982	(304,401)	58,767	(226,293)	(198,285)
Cash flows from noncapital financing activities						
Proceeds from sale of bonds	-	9,480	1,005,160	-	1,014,640	608,615
Principal repayment on bonds	-	(19,055)	(479,895)	(61,145)	(560,095)	(691,510)
Interest paid on bonds and notes	-	(9,059)	(58,941)	(19,321)	(87,321)	(78,147)
Financing costs paid related to bonds issued	-	(145)	(4,820)	-	(4,965)	(4,298)
Interest paid/received between funds	-	(2,934)	4,449	(1,515)	-	-
Principal paid/received between funds	-	(18,643)	19,248	(605)	-	-
Premium paid on redemption of bonds	-	(48)	-	-	(48)	(236)
Agency contribution to program funds	-	197	(197)	-	-	-
Transfer of cash between funds	205	-	(205)	-	-	-
Net cash provided (used) by noncapital financing activities	205	(40,207)	484,799	(82,586)	362,211	(165,576)
Cash flows from investing activities						
Investment in real estate owned	-	-	(496)	(384)	(880)	(840)
Interest received on investments	4,992	4,006	30,235	5,255	44,488	37,257
Proceeds from sale of mortgage insurance claims/real estate owned	-	-	6,879	2,956	9,835	5,849
Proceeds from maturity, sale or transfer of investment securities	63,280	47,278	34,197	2,000	146,755	146,557
Purchase of investment securities	(47,827)	(11,251)	(312,825)	(1,996)	(373,899)	(87,920)
Purchase of loans between funds	-	(28,830)	34,358	-	5,528	2,859
Net cash provided (used) by investing activities	20,445	11,203	(207,652)	7,831	(168,173)	103,762
Net increase (decrease) in cash and cash equivalents	19,009	(8,022)	(27,254)	(15,988)	(32,255)	(260,099)
Cash and cash equivalents						
Beginning of year	12,792	59,958	592,503	131,537	796,790	1,056,889
End of year	$ 31,801	$ 51,936	$ 565,249	$ 115,549	$ 764,535	$ 796,790

(continued)

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds
Year ended June 30, 2007 (with comparative totals for the year ended June 30, 2006)

		Bond Funds				
	General Reserve	Rental Housing	Residential Housing Finance	Single Family	Total For The Year Ended June 30, 2007	Total For The Year Ended June 30, 2006
Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities						
Revenues over (under) expenses	$ 7,624	$ 5,940	$ 15,593	$ 1,946	$ 31,103	$ 22,695
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:						
Amortization of premiums (discounts) and fees on loans	-	(61)	1,275	(796)	418	(306)
Depreciation	1,202	-	-	-	1,202	816
Realized losses (gains) on sale of securities, net	20	(563)	384	-	(159)	(694)
Unrealized losses (gains) on securities, net	(226)	(586)	232	(15)	(595)	5,623
Provision for loan losses	-	(85)	3,472	139	3,526	1,950
Reduction in carrying value of certain low interest rate and/or deferred loans	-	25	10,037	-	10,062	6,427
Capitalized interest on loans and real estate owned		(84)	(567)	(206)	(857)	(470)
Interest earned on investments	(1,976)	(3,606)	(36,623)	(6,531)	(48,736)	(42,797)
Interest expense on bonds and notes	-	10,773	70,648	19,928	101,349	87,115
Changes in assets and liabilities:						
Decrease (increase) in loans receivable, excluding loans transferred between funds	-	8,014	(364,665)	43,721	(312,930)	(278,077)
Decrease (increase) in interest receivable on loans	-	(217)	(1,648)	176	(1,689)	(772)
Increase (decrease) in arbitrage rebate liability	-	1,483	(1,513)	448	418	4,856
Interest transferred to funds held for others	(3,505)	-	-	-	(3,505)	(3,098)
Increase (decrease) in accounts payable	194	(33)	(1,785)	(5)	(1,629)	235
Increase (decrease) in interfund payable, affecting operating activities only	(922)	(19)	342	(38)	(637)	(1,035)
Increase (decrease) in funds held for others	(2,048)	-	-	-	(2,048)	2,006
Other	(2,004)	1	417	-	(1,586)	(2,759)
Total	(9,265)	15,042	(319,994)	56,821	(257,396)	(220,980)
Net cash provided (used) by operating activities	$ (1,641)	$ 20,982	$ (304,401)	$ 58,767	$ (226,293)	$ (198,285)

Other Information

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RBC Capital Markets (RBC Dain Rauscher Inc.)

Certified Public Accountants
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