MINNESOTA HOUSING FINANCE AGENCY
Annual Financial Report as of and for the year ended June 30, 2006

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MINNESOTA HOUSING FINANCE AGENCY
Commissioner's Report

In my 2005 report I reflected that the strength of an organization can, in part, be determined by its ability to anticipate challenges, understand them, and turn them into opportunities. I am pleased to report that in 2006 the Agency again demonstrated its strength as an organization. Our intensive efforts last year to complete the Risk Based Capital Study laid a foundation for the Agency's two-year Affordable Housing Plan or program budget and for our Mission Sustainability Project. The purpose of the Mission Sustainability Project is to respond both financially and programmatically to the findings of the Risk Based Capital Study, which indicates that being more efficient and strategic with Agency generated financial resources will provide both long-term program and financial sustainability. Substantial work has been completed on the homeownership and home improvement programs, and work continues on our multifamily programs and on a comprehensive review of our financial policies.

As this important work of Mission Sustainability was initiated, the Agency continued its strong record of financial performance, operational soundness, and policy and programmatic impact.

As with last year, net assets in the bond funds and General Reserve increased as net volume in our mortgage revenue bond program grew significantly resulting from continued robust homeownership lending and lower mortgage loan prepayments in the existing portfolio. Net assets of the State Appropriated fund decreased slightly as expected due to spending down appropriations accumulated from prior years.

Operationally, the Agency strengthened its management by establishing and filling the position of Director of Operations and filling key positions in finance, research, and communications. The Director of Operations will allow greater priority to be given to completing important technology projects. Together, these changes will allow greater management capacity to be focused on important financial and program analysis related to the ongoing Mission Sustainability Project. In addition, the Agency has a new brand and logo which was launched with a new ad campaign for its homeownership products.

From a program and policy perspective, the Agency continues to make progress on each of its strategic goals:

- Ending long-term homelessness;
- Increase minority homeownership;
- Preserve strategically the existing affordable housing stock;
- Increase housing choices for low- and moderate-income workers; and
- Establish Minnesota Housing as a housing partner of choice.

The 2005 State Legislature appropriated the largest amount of General Obligation bond proceeds ever appropriated to Minnesota Housing. This $17.5 million appropriation for permanent supportive housing was part of the State's plan to end long-term homelessness. An additional $2 million was appropriated for transitional housing.

The Agency's continued efforts to end long-term homelessness exceed established production benchmarks (665 housing opportunities against a goal of 600) and received an award from the National Council of State Housing Agencies (NCSHA). Agency efforts leveraged additional resources from state, federal, and private sources with capital, operating and services funding. Of particular note is the $5 million grant announced by the Frey Foundation to support the state's plan.

The Emerging Markets Homeownership Initiative moved from a conceptual stage to implementation with the hiring of an Executive Director and the work of creating pilot projects to implement initiative strategies has begun. Buoyed by the broad-based industry and community commitment to the goal of 40,000 new minority households by 2012, the initiative is now an independent non-profit 501(c)(3) corporation. Minnesota Housing and others continue to support this initiative.

Advancement of the other strategic goals is reflected and detailed in the program assessment completed by the Agency. During this program year (October 1, 2004 through September 30, 2005), the Agency fulfilled our mission of providing decent, safe and affordable housing for stronger communities and served nearly 58,000 households. To highlight a few areas: Of those households served, excluding those living in Section 8 project-based housing, 41% had annual incomes under $20,000. Among tenants of Section 8 housing, 89% had incomes below $20,000 in 2005.

Financially, the Agency provided more than $637 million in housing assistance, an increase of over $100 million from last year which reflects continued strong program demand. Homeownership programs within the Agency's Single Family Division were strong and experienced high volume, with the Agency providing $398.8 million in assistance to more than 16,400 homeowners and homebuyers. This accounts for the bulk of the increased assistance the Agency provided in this program year.

Our Multifamily programs provided $238.5 million in assistance during the 2005 program year, providing assistance to sponsors or tenants of more than 41,500 units of affordable rental housing.

As of the end of the 2006 fiscal year, the agency oversaw a portfolio of more than 41,000 mortgages and deferred loans for homeownership, and home improvement and 310 first mortgage loans for rental housing as well as administering the federal tax credit program. NCSHA presented their Annual Award for Program Excellence to Minnesota Housing for our Watchlist: An Electronic Property Loan Risk Analysis Tool — in the category of Rental Housing, Multifamily Management. This multifamily rental property portfolio tool provides an innovative solution to asset management — an electronic property loan risk analysis tool that allows Agency staff to assess each project objectively and compare properties.

Continued changes in the housing and financial markets and the funding and policy environment affecting affordable housing will affect the Agency and those we serve in the coming year. During this time, the Agency will begin the process of updating its strategic plan and preparing a new Affordable Housing Plan. I am confident that the plans we will prepare and execute will continue and enhance the Agency's financial, operational, and programmatic strengths to the benefit of all of our stakeholders.

Timothy E. Marx, Commissioner
Minnesota Housing
August 18, 2006

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, 2006, 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 2005 financial statements and, in our report dated August 15, 2005, 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, 2006, 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.

As described in the notes to the financial statements, the Agency changed its method of disclosing interest rate risk on investments in debt securities.

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.

Larson, Allen, Weishair Co., LLP

LARSON, ALLEN, WEISHAIR & CO., LLP

Minneapolis, Minnesota
August 18, 2006

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 an Act of the Minnesota legislature. 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 to be used for construction and rehabilitation of housing. 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 by law 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 Tax Credit, Minnesota's Housing Trust Fund and Minnesota Housing's endowment funds and Alternative Loan Fund.

The members of Minnesota Housing (hereinafter referred to as the Board) consist of six members appointed at large by the Governor 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 in any aggregate manner.
- 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, 2005. 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 Financial Statements (continued)

During fiscal year 2006 the Agency began reporting its unamortized bond issuance costs as an asset in the Statement of Net Assets, where previously the Agency had reported these costs as a reduction to bonds payable. Accounting literature supports both reporting methods but has resulted in somewhat inconsistent presentation of financial reports among similar entities. The Agency reclassified its unamortized bond issuance costs as an asset, presenting this information in a manner that is more consistent with the prevalent trend. The reclassification of this item has no impact on Agency revenues, expenses or net assets. Consequently the Agency does not believe that the reclassification of this item is material to the financial statement presentation.

Discussion of Individual Funds

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 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 loans 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 new bond-financed multifamily loans are financed in Rental Housing.

Residential Housing Finance

Included within Residential Housing Finance are the bonds issued and outstanding under the 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 (also referred to as Pool 2) and Housing Affordability Fund (also referred to as Pool 3).

Bonds issued to date were for the purpose of funding purchases of single family first mortgage loans and their related entry cost housing assistance loans, and home improvement subordinated mortgage loans. The majority of the single family loans held under 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 in this fund although no bonds were issued to support home improvement lending during fiscal year 2006.

The Home Improvement Endowment Fund continues to be 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 2006.

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

Discussion of Individual Funds (continued)

The Housing Investment Fund is currently invested in investment grade multifamily and single family housing loans, as defined by Minnesota Housing, and may also be used to advance funds to retire high rate debt and to warehouse loans.

The Housing Affordability Fund includes a housing administration contingency fund, consisting of cash and investment grade single family housing loans, as defined by Minnesota Housing, 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.

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 Bonds resolution.

The majority of the loans in Single Family have either FHA insurance or a VA or RD guarantee. Delinquency and foreclosure rates continue to track with the Minnesota Mortgage Bankers Association averages.

In addition to the uses described above, funds in excess of bond resolution requirements for each bond resolution described above are 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

The following discussion is organized with two primary users in mind. The first primary user may be characterized with a focus on financial information particularly relevant from the perspective of bondholders and creditors of Minnesota Housing. The second primary user may be characterized with a focus on financial information particularly relevant to public funds appropriations, and the public policies those funds support.

The Agency defines the term "major funds" to include: General Reserve, Rental Housing, Residential Housing Finance, Single Family, State Appropriated, and Federal Appropriated.

Minnesota Housing financial statements are presented in combined "Agency-wide" form followed by "fund" financial statements presented for its major funds. 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. The

General Overview (continued)

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 described in their respective bond resolutions and are pledged for the primary benefit of the respective bondholders and creditors. 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 subdivision thereof is obligated to pay the principal or interest on debt and bonds 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 to support the debt or general obligations of Minnesota Housing.

In addition to its audited annual financial statements, Minnesota Housing publishes quarterly disclosure reports for the Single Family and Residential Housing Finance bond resolutions, and semi-annual disclosure reports for the Rental Housing bond resolution. These disclosure reports can be found on Minnesota Housing's web site at www.mhfa.state.mn.us.

Condensed Financial Information

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

		Agency-wide Total			Combined General Reserve and Bond Funds	
		2006	2005	Change	2006	2005
Assets	Cash and Investments	$1,103,132	$1,389,770	$(286,638)	$ 990,408	$1,314,505
	Loans receivable, Net	1,805,094	1,542,662	262,432	1,776,736	1,514,094
	Interest Receivable	12,065	11,151	914	11,443	10,826
	Total Assets	2,942,903	2,963,918	(21,015)	2,800,117	2,859,014
Liabilities	Bonds Payable	1,946,091	2,029,828	(83,737)	1,946,091	2,029,828
	Interest Payable	38,086	35,959	2,127	38,086	35,959
	Funds Held for Others	82,368	80,457	1,911	80,555	79,628
	Total Liabilities	2,120,329	2,163,563	(43,234)	2,080,230	2,161,822
Net Assets	Restricted by Bond Resolution	406,548	400,831	5,717	406,548	400,831
	Restricted by Covenant	309,654	293,597	16,057	309,654	293,597
	Restricted by Law	102,687	103,163	(476)	—	—
	Total Net Assets	822,574	800,355	22,219	719,887	697,192

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

		Agency-wide Total			Combined General Reserve and Bond Funds	
		2006	2005	Change	2006	2005
Revenues	Interest Earned	$141,502	$127,327	$14,175	$137,954	$125,342
	Appropriations Received	205,553	195,611	9,942	—	—
	Fees and Reimbursements	11,956	10,930	1,026	27,109	26,624
	Total Revenues(1)	368,963	352,642	16,321	159,440	154,240
Expenses	Interest Expense	87,115	79,863	7,252	87,115	79,863
	Appropriations Disbursed	180,784	173,842	6,942	—	—
	Fees and Reimbursements	5,961	5,297	664	18,697	17,451
	Payroll, Gen. & Admin.	23,492	20,842	2,650	22,556	19,817
	Loan Loss/Value Adjust's	33,494	37,087	(3,593)	8,377	6,895
	Total Expenses(1)	346,744	333,375	13,369	136,745	124,026
	Revenues over Expenses	22,219	19,267	2,952	22,695	30,214
	Beginning Net Assets	800,355	781,088	19,267	697,192	666,978
	Ending Net Assets	822,574	800,355	22,219	719,887	697,192

(1) Agency-wide totals include interfund amounts.

	Combined State and Federal Appropriations Funds		
Change	2006	2005	Change
$(324,097)	$112,724	$ 75,265	$37,459
262,642	28,358	28,568	(210)
617	622	325	297
(58,897)	142,786	104,904	37,882
(83,737)	—	—	—
2,127	—	—	—
927	1,813	829	984
(81,592)	40,099	1,741	38,358
5,717	—	—	—
16,057	—	—	—
—	102,687	103,163	(476)
22,695	102,687	103,163	(476)

	Combined State and Federal Appropriations Funds		
Change	2006	2005	Change
$12,612	$ 3,548	$ 1,985	$ 1,563
—	205,553	195,611	9,942
485	745	750	(5)
5,200	209,523	198,402	11,121
7,252	—	—	—
—	180,784	173,842	6,942
1,246	3,162	4,290	(1,128)
2,739	936	1,025	(89)
1,482	25,117	30,192	(5,075)
12,719	209,999	209,349	650
(7,519)	(476)	(10,947)	10,471
30,214	103,163	114,110	(10,947)
22,695	102,687	103,163	(476)

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 2006 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, and interest receivable comprising the majority of assets. During fiscal year 2006 the Agency began reporting its unamortized bond issuance costs as an asset in the Statement of Net Assets, where previously the Agency had reported these costs as a reduction to bonds outstanding liabilities. Additional information regarding this reclassification is provided within the Management's Discussion and Analysis of this report in the "Discussion of Financial Statements" section. 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 that supports a public mission objective. Loans receivable, net increased 17% to $1,777 million at June 30, 2006 as a result of new loan purchases and originations net of repayments, prepayments, and loss reserves. 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 decreased 25% to $990.408 million at June 30, 2006 primarily due to increases in loan assets and reductions of bond liabilities at fiscal year end.

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 6% to $11.443 million at June 30, 2006.

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 decreased 4% to $1,946 million at June 30, 2006 resulting from new debt issuance, redemptions, and bond maturities.

The companion category of interest payable increased 6% to $38.086 million at June 30, 2006 as a result of higher average cost of new bonds issued. During the fiscal year $291.940 million of short term debt (convertible option bonds and notes) at relatively low interest rates were redeemed and re-issued as longer term debt at higher interest rates.

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 increased 1% to $80.555 million at June 30, 2006 as multifamily escrow reserves increased slightly.

Accounts payable and other liabilities decreased 1% to $15.559 million at June 30, 2006 primarily as a result of arbitrage liability payments made net of higher levels 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. Minnesota Housing obtains from independent valuation specialists annual calculations of its arbitrage rebate liability.

Interfund payable/receivable exists primarily as a result of pending administrative and program reimbursements among funds. Most administrative expenses are paid from General Reserve, with

General Reserve and Bond Funds — Statement of Net Assets (continued)

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 (including the Alternative Loan Fund) 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 ensure that funds are preserved to provide financial security for the Agency's bondholders as covenanted in the bond resolutions. Net assets increased 3% to $719.887 million at June 30, 2006 as a result of consistent financial performance of the bond funds.

General Reserve and Bond Funds — Revenues Over Expenses

Revenues over expenses of General Reserve and bond funds remained almost unchanged in fiscal year 2006, increasing slightly from fiscal year 2005 after considering the net effect of unrealized gains and losses that result from market valuation adjustments to certain investment assets. Ignoring the affects of unrealized gains and losses on investments, both total revenues and total expenses increased compared to the prior year. Offsetting some of the unfavorable effects of interest expense increases was the favorable effect of interest revenue increases.

The largest revenue component, interest earned, increased during the year as yields on loans and investments increased to higher levels. Combined interest revenues of General Reserve and bond funds from loans and investments increased 10% to $137.954 million compared to the prior year. Loan interest increased in fiscal year 2006 as new loan purchases and originations were made at higher rates compared to the prior year and net loans outstanding were higher throughout the year. Investment interest earned increased in fiscal year 2006 as investment yields increased even though the average balance of investments, cash, and cash equivalents was lower compared to fiscal year 2005.

Administrative reimbursements to General Reserve from bond funds were $12.776 million in fiscal year 2006 compared to $12.193 million during the prior fiscal year. General Reserve also received overhead reimbursements of $3.954 million from the State and Federal Appropriated funds to recover certain overhead expenses incurred to administer state and federal housing programs during fiscal year 2006 compared to $5.026 million during the prior fiscal year. Overhead expenses of $.854 million to administer state appropriated housing programs during fiscal year 2006 were not reimbursed as the investment earnings available for this use within the State Appropriated fund were insufficient. General Reserve incurs overhead expenses to administer state appropriated housing programs.

Other fee income to General Reserve and bond funds increased 10% to $10.379 million compared to the prior year. The primary components of other fee income continue to be federal housing tax credit program fees, Section 8 contract administration fees, federal Housing Assistance Payments administration fees, and various loan related fees.

Minnesota Housing recorded $5.623 million of unrealized losses on investment securities during fiscal year 2006, compared to $2.274 million of unrealized gains during the prior year, for a net decrease of $7.897 million. As investment yields were generally rising during the year, investment securities acquired in prior periods at lower yield rates were adjusted to lower market values resulting in unrealized losses.

General Reserve and Bond Funds — Revenues Over Expenses (continued)

Interest expense of the bond funds increased 9% to $87.115 million compared to the prior year as a result of higher interest rates and increasing long-term debt.

Combined expenses for loan administration, trustee fees and administrative reimbursements in the bond funds increased by 7% to $18.697 million compared to the prior year. It should be noted that $12.776 million of the total administrative reimbursement revenue in General Reserve was interfund charges of the bond funds which were eliminated for purposes of financial reporting in the Agency-wide financial statements.

Salaries, benefits, and other general operating expenses in General Reserve and bond funds increased 14% to $22.556 million compared to the prior year as operating expenses continue to increase. Much of the other general operating expense increase is attributable to increased housing program expenditures rather than Agency administrative expenses.

Reductions in carrying value of certain low interest rate deferred loans in the bond funds increased by $.689 million to $6.427 million as valuation reductions of new deferred loans exceeded recoveries from existing deferred loans.

Provision for loan loss expense in the bond funds increased 69% to $1.950 million, consistent with strong growth in the homeownership loan portfolio.

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 decreased $7.519 million to $22.695 million compared to the prior year. After considering the non-operating effects of $7.897 million of unrealized gains and losses that adjust certain investment asset values to market conditions, the combined revenues over expenses are consistent with the prior year performance. This level of net revenues over expenses remains comparable within the range of performance of General Reserve and the bond funds in recent years. Revenues over expenses in General Reserve that are in excess of the Housing Endowment Fund requirement are transferred periodically to the Housing Investment and/or Housing Affordability Fund in the Residential Housing Finance Fund for use in housing programs.

Total combined net assets of General Reserve and bond funds have increased 3% to $719.887 million as a result of revenues over expenses for fiscal year 2006. The net assets of General Reserve, Rental Housing, and Residential Housing Finance have increased while net assets of Single Family have decreased 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 related policy purposes. The public policy of housing preservation and development is a long-term commitment that commonly 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, 2006 combined balance increased 50% to $112.724 million as a result of combined disbursements for programs, loans and expenses being less 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 may not be disbursed prior to July 1, 2006. This is the main component of the year-to-year increase in cash and cash equivalents.

State and Federal Appropriated Funds — Statement of Net Assets (continued)

Certain state appropriations are expended as housing loans with below market interest rates, resulting in loans receivable. At June 30, 2006 State Appropriated Fund loans receivable decreased 1% to $28.358 million reflecting lower 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, 2006 increased 91% to $.622 million primarily as a result of higher average investment yields and balances.

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 may not be disbursed prior to July 1, 2006.

Accounts payable and other liabilities represent amounts payable for HUD Section 236 interest reduction payments, Section 8 FA/FAF savings and accrued expenses for federal and state housing programs. The balance payable at June 30, 2006 was $2.990 million compared to $1.512 million at June 30, 2005. The increase in accounts payable and other liabilities is largely attributable to increases in accrued program activity.

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, 2006 the combined net interfund payable was $.061 million.

Funds held for others represent excess federal housing assistance payments received for the administration of the Section 8 program, HUD's share of savings from certain debt refinancing activities, and the interest income earned on those unexpended funds. At June 30, 2006 the balance of funds held for the federal government was $1.813 million.

All of the net assets of the Appropriated Funds are restricted by law for use with housing programs only and are not pledged to support the bondholders or creditors of Minnesota Housing. The combined net assets of the Appropriated Funds declined to $102.687 million as of June 30, 2006 compared to the prior period, reflecting combined disbursements and expenses in excess of revenues during fiscal year 2006.

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 $195.611 million at June 30, 2005 to $205.553 at June 30, 2006. Federal appropriations received increased by $8.964 million while state appropriations received increased by $.978 million.

Interest income from investments increased throughout the year as investment yields in general were above the previous historically low levels while the average balance of investment assets was similar to the prior year. The combined interest income increased 84% to $3.528 million at June 30, 2006.

Loan interest income from State Appropriations loan assets continues to be minimal at $.020 million as relatively few loans are interest bearing.

State and Federal Appropriated Funds — Revenues Over Expenses (continued)

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, 2006.

Unrealized losses 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 losses increased from a $.056 million unrealized gain at June 30, 2005 to an unrealized loss of $.323 million at June 30, 2006.

Administrative reimbursements to General Reserve of overhead expenses decreased 26% to $3.122 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 2006 investment earnings in the State Appropriated fund became insufficient to fully reimburse all the overhead expenses incurred by General Reserve.

Combined appropriations disbursed increased 4% to $180.784 million compared to prior year, reflecting reduced State Appropriations disbursed of $11.492 million and increased federal appropriations disbursed of $169.292 million to support housing policy objectives.

Reduced expenditures of State Appropriated Funds for below market and zero-percent interest rate loans resulted in less reductions in carrying value of certain loans. Net reductions of carrying value decreased 17% to $24.963 million compared to the prior year, as a result of making fewer 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 decreased 10% to $.936 million at June 30, 2006.

Combined expenditures exceeded combined revenues of the Appropriated Funds by $.476 million at June 30, 2006, 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 is a significant debt issuer, having outstanding at June 30, 2006 long-term debt totaling $1,578.226 million and short-term debt totaling $367.865 million. Minnesota Housing bond funds are held by a trustee, who ensures that bond resolution requirements are met, including payments of debt service. At June 30, 2006, amounts held by the trustee in principal, interest and redemption accounts represented full funding of debt service requirements to that date. Bond resolutions also require funding of debt service reserve accounts and may require funding of insurance reserve accounts. At June 30, 2006, amounts held by the trustee in such reserve and revenue accounts represented full funding of those requirements to that date.

Most of the debt issued by Minnesota Housing is tax-exempt and is issued under the Internal Revenue Code and Treasury regulations governing either mortgage revenue bonds or 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 set in Minnesota law. Minnesota Housing's ability to issue tax-exempt debt is also limited by the federal rule (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 moved from a seasonal to a continual, year-round homeownership loan purchase program. To meet increased demand for mortgage financing and to supplement tax-exempt bonding authority, the Agency began issuing limited amounts of taxable debt. Variable-rate debt is also an increasing component of Minnesota Housing's financings enabling it to provide below-market,

Significant Long-term Debt Activity (continued)

fixed-rate financing. Interest-rate swaps have generally been used to hedge the potential mismatch between fixed-rate loan assets and variable-rate debt liabilities. (See Interest Rate Swaps under the notes to the financial statements for further discussion of interest-rate swaps and their risks.) Taxable debt is also used to finance lending programs where federal tax-exempt bond restrictions are inconsistent with program requirements. Increased purchase volume also increased the ratio of long-term to short-term debt, which increased the cost of debt to the Agency despite the fact that total debt outstanding declined. Board policy governs the process Minnesota Housing follows to issue and manage debt. State statute limits total outstanding debt 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. In addition to ongoing reporting to and communications with the bond rating services, periodically Minnesota Housing prepares a comprehensive study of the creditworthiness and financial strength of its funds (excluding the appropriated funds). Information obtained from the analysis is presented to the bond rating services and is used by Minnesota Housing staff to make decisions about management of assets and debt.

Minnesota Housing continually investigates and utilizes available debt management techniques to achieve its goals of reducing interest expense and efficiently utilizing its bonding authority. During the year, Minnesota Housing completed the issuance/remarketing of 18 series of bonds aggregating to $605 million. This is compared to the combined issuance and remarketing of 25 series totaling $799 million the previous year. In recent years, Minnesota Housing has retired high rate debt when it became optionally redeemable and resources were available. Bonds are issued as capital is needed for program purposes, as opportunities for economic refundings occur, and for preservation of bonding authority.

A total of $692 million in principal payments and $78 million of interest payments were made during the year. Of the total principal payments, $176 million was retired prior to the scheduled maturity date using a combination of optional and special redemption provisions.

Conduit Debt Issue

On December 21, 2005, the Agency issued tax-exempt bonds on a conduit basis for a certain Minnesota non-profit corporation. The proceeds of those bonds were used by that non-profit corporation to refinance certain HUD Section 202 elderly housing projects. The bonds were sold on a private placement basis. As of June 30, 2006, $33.1 million of those 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. The Agency's trustee is not the trustee for this series of bonds.

Significant Topics Which Affect Financial Condition and/or Operations

Legislative Actions

Having adopted a biennial budget the previous year, the focus of the Minnesota Legislature during the 2006 session was a major capital investment bill. Seventeen and one-half million dollars ($17.5 million) was appropriated for permanent supportive housing as part of the State's plan to end long-term homelessness. An additional $2 million was appropriated for transitional housing. The appropriations were the largest amount of General Obligation bond proceeds ever appropriated to MHFA. These monies must be used to fund the capital costs of publicly owned housing. State appropriations are used for specific programs and are not available to pay for MHFA operations or debt service. Changes in state and federal laws, governing administration, funding objectives, housing policy, and fiscal policy pose a potential risk to MHFA's attainment of mission and financial objectives.

Significant Topics Which Affect Financial Condition and/or Operations (continued)

Pandemic Influenza

The Agency is participating with the State of Minnesota in preparing a business continuation plan to be implemented in the event of a pandemic influenza outbreak. A key objective of the business continuation plan will be to protect the health and safety of Agency employees while minimizing any negative impact to business partners and disruption of vital Agency functions.

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).

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MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Net Assets (in thousands)
June 30, 2006 (with comparative totals for June 30, 2005)

		2006 Agency-wide Total	2005 Agency-wide Total
Assets	Cash and cash equivalents	$ 848,238	$1,067,625
	Investment securities	254,894	322,145
	Loans receivable, net	1,805,094	1,542,662
	Interest receivable on loans	8,295	7,523
	Interest receivable on investments	3,770	3,628
	Mortgage insurance claims receivable	738	922
	Real estate owned	1,414	905
	Unamortized bond issuance costs	13,794	13,742
	Capital assets, net	3,685	2,764
	Other assets	2,981	2,002
	Total assets	$2,942,903	$2,963,918
Liabilities	Bonds payable, net	$1,946,091	$2,029,828
	Interest payable	38,086	35,959
	Deferred revenue	35,235	—
	Accounts payable and other liabilities	18,549	17,319
	Funds held for others	82,368	80,457
	Total liabilities	2,120,329	2,163,563
	Commitments and contingencies		
Net Assets	Restricted by bond resolution	406,548	400,831
	Restricted by covenant	309,654	293,597
	Restricted by law	102,687	103,163
	Invested in capital assets	3,685	2,764
	Total net assets	822,574	800,355
	Total liabilities and net assets	$2,942,903	$2,963,918

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Activities (in thousands)
Year ended June 30, 2006 (with comparative totals for the year ended June 30, 2005)

		2006 Agency-wide Total	2005 Agency-wide Total
Revenues	Interest earned on loans	$ 97,863	$ 90,344
	Interest earned on investments	43,639	36,983
	Appropriations received	205,553	195,611
	Administrative reimbursement	832	775
	Fees earned and other income	11,124	10,155
	Unrealized gains (losses) on securities	(5,946)	2,330
	Total revenues	353,065	336,198
Expenses	Interest	87,115	79,863
	Loan administration and trustee fees	5,961	5,297
	Salaries and benefits	14,054	13,693
	Other general operating	9,438	7,149
	Appropriations disbursed	180,784	173,842
	Reduction in carrying value of certain low interest rate deferred loans	31,390	35,815
	Provision for loan losses	2,104	1,272
	Total expenses	330,846	316,931
	Revenues over expenses	22,219	19,267
	Change in net assets	22,219	19,267
Net Assets	Total net assets, beginning of year	800,355	781,088
	Total net assets, end of year	$822,574	$800,355

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Net Assets (in thousands)
Proprietary Funds
June 30, 2006 (with comparative totals for June 30, 2005)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Assets	Cash and cash equivalents	$ 12,792	$ 59,958	$ 592,503	$131,537
	Investment securities	104,363	38,797	46,693	3,765
	Loans receivable, net	—	203,455	1,250,530	322,751
	Interest receivable on loans	—	1,191	5,354	1,750
	Interest receivable on investments	1,060	1,246	720	122
	Mortgage insurance claims receivable	—	—	260	478
	Real estate owned	—	—	954	460
	Unamortized bond issuance costs	—	2,613	7,552	3,629
	Capital assets, net	3,685	—	—	—
	Other assets	1,450	5	443	1
	Total assets	$123,350	$307,265	$1,905,009	$464,493
Liabilities	Bonds payable, net	$ —	$200,744	$1,381,392	$363,955
	Interest payable	—	3,776	24,654	9,656
	Deferred revenue	—	—	—	—
	Accounts payable and other liabilities	3,771	2,118	4,554	5,116
	Interfund payable (receivable)	(642)	20,751	(44,851)	24,681
	Funds held for others	80,555	—	—	—
	Total liabilities	83,684	227,389	1,365,749	403,408
	Commitments and contingencies				
Net Assets	Restricted by bond resolution	—	79,876	265,587	61,085
	Restricted by covenant	35,981	—	273,673	—
	Restricted by law	—	—	—	—
	Invested in capital assets	3,685	—	—	—
	Total net assets	39,666	79,876	539,260	61,085
	Total liabilities and net assets	$123,350	$307,265	$1,905,009	$464,493

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2006 Total	2005 Total
$ 40,005	$11,443	$ 848,238	$1,067,625
59,781	1,495	254,894	322,145
28,358	—	1,805,094	1,542,662
—	—	8,295	7,523
570	52	3,770	3,628
—	—	738	922
—	—	1,414	905
—	—	13,794	13,742
—	—	3,685	2,764
245	837	2,981	2,002
$128,959	$13,827	$2,942,903	$2,963,918
$ —	$ —	$1,946,091	$2,029,828
—	—	38,086	35,959
35,235	—	35,235	—
2,136	854	18,549	17,319
(425)	486	—	—
—	1,813	82,368	80,457
36,946	3,153	2,120,329	2,163,563
—	—	406,548	400,831
—	—	309,654	293,597
92,013	10,674	102,687	103,163
—	—	3,685	2,764
92,013	10,674	822,574	800,355
$128,959	$13,827	$2,942,903	$2,963,918

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Revenues, Expenses and Changes in Net Assets (in thousands)
Proprietary Funds
Year ended June 30, 2006 (with comparative totals for the year ended June 30, 2005)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Revenues	Interest earned on loans	$ —	$13,341	$ 60,725	$23,777
	Interest earned on investments	1,231	4,013	27,406	7,461
	Appropriations received	—	—	—	—
	Administrative reimbursement	16,730	—	—	—
	Fees earned and other income	8,833	856	690	—
	Unrealized gains (losses) on securities	(101)	(2,046)	(2,127)	(1,349)
	Total revenues	26,693	16,164	86,694	29,889
Expenses	Interest	—	11,709	50,472	24,934
	Loan administration and trustee fees	—	178	4,477	1,266
	Administrative reimbursement	—	1,852	7,816	3,108
	Salaries and benefits	14,054	—	—	—
	Other general operating	6,725	—	1,777	—
	Appropriations disbursed	—	—	—	—
	Reduction in carrying value of certain low interest rate deferred loans	—	—	6,427	—
	Provision for loan losses	—	(76)	1,951	75
	Total expenses	20,779	13,663	72,920	29,383
	Revenues over (under) expenses	5,914	2,501	13,774	506
Other changes	Non-operating transfer of assets between funds	205	299	7,596	(8,100)
	Change in net assets	6,119	2,800	21,370	(7,594)
Net Assets	Total net assets, beginning of year	33,547	77,076	517,890	68,679
	Total net assets, end of year	$39,666	$79,876	$539,260	$61,085

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2006 Total	2005 Total
$ 20	$ —	$ 97,863	$ 90,344
3,136	392	43,639	36,983
35,235	170,318	205,553	195,611
—	—	16,730	17,219
745	—	11,124	10,155
(282)	(41)	(5,946)	2,330
38,854	170,669	368,963	352,642
—	—	87,115	79,863
40	—	5,961	5,297
3,122	—	15,898	16,444
—	—	14,054	13,693
936	—	9,438	7,149
11,492	169,292	180,784	173,842
24,963	—	31,390	35,815
154	—	2,104	1,272
40,707	169,292	346,744	333,375
(1,853)	1,377	22,219	19,267
—	—	—	—
(1,853)	1,377	22,219	19,267
93,866	9,297	800,355	781,088
$92,013	$ 10,674	$822,574	$800,355

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds
Year ended June 30, 2006 (with comparative totals for the year ended June 30, 2005)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Cash flows from operating activities	Principal repayments on loans	$ —	$ 19,448	$ 104,531	$ 72,463
	Investment in loans	—	(10,173)	(464,346)	—
	Interest received on loans	—	14,624	60,478	22,669
	Deferred revenue	—	—	—	—
	Other operating	—	—	(1,777)	—
	Fees and other income received	8,628	856	698	—
	Salaries, benefits and vendor payments	(19,657)	(195)	(4,762)	(1,322)
	Appropriations received	—	—	—	—
	Appropriations disbursed	—	—	—	—
	Administrative reimbursement from funds	16,515	(1,839)	(7,816)	(3,108)
	Interest transferred to funds held for others	(3,098)	—	—	—
	Deposits into funds held for others	31,939	—	—	—
	Disbursements made from funds held for others	(29,933)	—	—	—
	Interfund transfers and other assets	(2,242)	—	(24,715)	23,849
	Net cash provided (used) by operating activities	2,152	22,721	(337,709)	114,551
Cash flows from noncapital financing activities	Proceeds from sale of bonds	—	12,935	595,680	—
	Principal repayment on bonds	—	(16,660)	(531,190)	(143,660)
	Interest paid on bonds and notes	—	(9,163)	(43,125)	(25,859)
	Financing costs paid related to bonds issued	—	(193)	(4,105)	—
	Interest paid/received between funds	—	(1,749)	2,203	(454)
	Principal paid/received between funds	—	(309)	589	(280)
	Premium paid on redemption of bonds	—	—	—	(236)
	Agency contribution to program funds	—	299	7,801	(8,100)
	Transfer of cash between funds	(3,438)	—	3,438	—
	Net cash provided (used) by noncapital financing activities	(3,438)	(14,840)	31,291	(178,589)
Cash flows from investing activities	Investment in real estate owned	—	—	(525)	(315)
	Interest received on investments	3,896	3,691	24,732	4,938
	Proceeds from sale of mortgage insurance claims/real estate owned	—	—	2,509	3,340
	Proceeds from maturity, sale or transfer of investment securities	41,197	14,590	78,594	12,176
	Purchase of investment securities	(35,856)	(7,689)	(42,614)	(1,761)
	Purchase of loans between funds	—		(8,386)	11,245
	Net cash provided (used) by investing activities	9,237	10,592	54,310	29,623
	Net increase (decrease) in cash and cash equivalents	7,951	18,473	(252,108)	(34,415)
Cash and cash equivalents	Beginning of year	4,841	41,485	844,611	165,952
	End of year	$ 12,792	$ 59,958	$ 592,503	$ 131,537

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2006 Total	2005 Total
$ 7,609	$ —	$ 204,051	$ 237,211
(28,064)	—	(502,583)	(408,440)
20	—	97,791	89,900
35,235	—	35,235	—
(944)	—	(2,721)	(1,932)
500	—	10,682	10,400
(40)	—	(25,976)	(23,054)
35,235	170,227	205,462	196,088
(11,395)	(169,226)	(180,621)	(174,826)
(2,915)	—	837	772
—	(63)	(3,161)	(2,505)
—	1,541	33,480	32,079
—	(557)	(30,490)	(39,510)
184	—	(2,924)	(570)
35,425	1,922	(160,938)	(84,387)
—	—	608,615	799,018
—	—	(691,510)	(624,885)
—	—	(78,147)	(74,921)
—	—	(4,298)	(5,951)
—	—	—	—
—	—	—	—
—	—	(236)	(142)
—	—	—	—
—	—	—	—
—	—	(165,576)	93,119
—	—	(840)	(628)
1,962	533	39,752	35,852
—	—	5,849	6,993
68,134	4,900	219,591	304,196
(69,305)	—	(157,225)	(237,949)
(2,859)	—	—	—
(2,068)	5,433	107,127	108,464
33,357	7,355	(219,387)	117,196
6,648	4,088	1,067,625	950,429
$ 40,005	$ 11,443	$ 848,238	$1,067,625

(continued)

Statement of Cash Flows (in thousands)

Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities

	General Reserve	Bond Funds: Rental Housing	Bond Funds: Residential Housing Finance	Bond Funds: Single Family
Revenues over (under) expenses	$ 5,914	$ 2,501	$ 13,774	$ 506
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:				
Amortization of premiums (discounts) and fees on loans	—	(98)	1,316	(1,524)
Depreciation	816	—	—	—
Realized losses (gains) on sale of securities, net	1	10	113	(818)
Unrealized losses (gains) on securities, net	101	2,046	2,127	1,349
Provision for loan losses	—	(76)	1,951	75
Reduction in carrying value of certain low interest rate and/or deferred loans	—	—	6,427	—
Capitalized interest on loans and real estate owned	—	(78)	(165)	(227)
Interest earned on investments	(1,232)	(4,079)	(30,249)	(7,237)
Interest expense on bonds and notes	—	11,709	50,472	24,934
Changes in assets and liabilities:				
Decrease (increase) in loans receivable, excluding loans transferred between funds	—	9,275	(359,815)	72,463
Decrease (increase) in interest receivable on loans	—	98	(1,398)	528
Increase in arbitrage rebate liability	—	1,417	2,730	709
Increase in deferred revenue	—	—	—	—
Interest transferred to funds held for others	(3,098)	—	—	—
Increase (decrease) in accounts payable	585	(16)	(279)	(55)
Increase (decrease) in interfund payable, affecting operating activities only	(588)	14	(24,310)	23,849
Increase (decrease) in funds held for others	2,006	—	—	—
Other	(2,353)	(2)	(403)	(1)
Total	(3,762)	20,220	(351,483)	114,045
Net cash provided (used) by operating activities	$ 2,152	$22,721	$(337,709)	$114,551

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2006 Total	2005 Total
$ (1,853)	$1,377	$ 22,219	$ 19,267
—	—	(306)	(589)
—	—	816	555
31	—	(663)	(1,184)
282	41	5,946	(2,330)
154	—	2,104	1,271
24,963	—	31,390	35,815
—	—	(470)	(466)
(3,167)	(392)	(46,356)	(37,345)
—	—	87,115	79,863
(20,455)	—	(298,532)	(171,229)
—	—	(772)	(128)
—	—	4,856	2,285
35,235	—	35,235	—
—	(63)	(3,161)	(2,505)
89	(204)	120	17
391	270	(374)	374
—	984	2,990	(7,431)
(245)	(91)	(3,095)	(627)
37,278	545	(183,157)	(103,654)
$ 35,425	$1,922	$(160,938)	$ (84,387)

Nature of Business and Fund Structure

The Minnesota Housing Finance Agency (the Agency or Minnesota Housing) was created in 1971 by an Act of the Minnesota legislature. 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 to be used for construction and rehabilitation of housing. 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. Amounts so issued shall not be deemed to constitute 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 secured by first mortgages on real property.

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 series bonds outstanding were issued to fund purchases of single family first mortgage loans and their related entry cost housing assistance loans, and home improvement subordinated loans. Assets of the series bonds issued and outstanding under the resolution and of the three endowment funds described below are pledged to the repayment of Residential Housing Finance bondholders.

Home Improvement Endowment Fund

This fund is a principal source of funding for home improvement loans. Home improvement loans in excess of $10,000 are generally secured by a second mortgage.

Homeownership Endowment Fund

This fund is 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.

Nature of Business and Fund Structure (continued)

Multifamily Endowment Fund

This fund is the principal source of funding for innovative 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 to deposit funds in either the Housing Investment Fund or Housing Affordability Fund, which were otherwise available to be transferred to General Reserve. 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 is generally available to pay any debt obligation of the Agency.

The Alternative Loan Fund, Housing Investment Fund, is currently invested in investment grade loans, as defined by the Agency, and may also be used to advance funds to retire high rate debt and to warehouse loans.

The Alternative Loan Fund, Housing Affordability Fund, includes a reserve consisting of cash and investment grade housing loans, as defined by the Agency, 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.

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. Agency contributions to bonds issued under Residential Housing Finance may be made from Single Family. Loans are secured by first mortgages on real property.

Each respective bond resolution described above 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 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 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.

Summary of Significant Accounting Policies (continued)

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 November 2003, the GASB issued Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. GASB Statement No. 42 requires governments to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Under GASB Statement No. 42, a capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Additionally, GASB Statement No. 42 requires impaired capital assets that are idle to be disclosed, and those that will no longer be used by the government to be reported at the lower of carrying value or fair value. GASB Statement No. 42 also requires that an insurance recovery associated with events or changes in circumstances resulting in impairment of a capital asset to be netted with the impairment loss, if any. The provisions of GASB Statement No. 42 are effective for the Agency's fiscal year ending June 30, 2006. This GASB statement was adopted by the Agency for the fiscal year ending June 30, 2006 and did not affect the Agency's financial statements.

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, 2007. The Agency has not yet determined the effect that the adoption of this Statement will have on its financial statements.

In June 2004, the GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation — an amendment of GASB Statement No. 34*. This statement requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. The requirements of this Statement are effective for the Agency's fiscal year ending June 30, 2006. This GASB statement was adopted by the Agency for the fiscal year ending June 30, 2006 which resulted in disclosure of the amount of net assets restricted by enabling legislation in the notes to the financial statements. In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*. This statement stipulates the basis for recognizing liability and expense for voluntary and involuntary employee termination benefits. The Statement is effective for the Agency's fiscal year ending June 30, 2006. This GASB statement was adopted by the Agency for the fiscal year ending June 30, 2006.

Summary of Significant Accounting Policies (continued)

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, 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, 2006.

Premiums, discounts or fees resulting from the purchase or origination of mortgage loans at other than face value are amortized over the life of the loans using the effective interest method. Prepayments of mortgages are taken into account in the calculation of the amortization. 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.

Summary of Significant Accounting Policies (continued)

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 Single Family and Residential Housing Finance funds. 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 when it received its fiscal year 2007 appropriation of $35,235,000 on June 30, 2006 since this amount may not be disbursed prior to July 1, 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 McKinney Act savings and 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 were otherwise available to be transferred to General Reserve. 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.

Summary of Significant Accounting Policies (continued)

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 or the legislation for the separate funds or groups of funds. The totals for fiscal year 2005 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 $832,000 are reflected as administrative reimbursement revenues in the General Reserve.

Administrative reimbursements in the amount of $15,898,000 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.

Summary of Significant Accounting Policies (continued)

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 2006 were $2.67 million and $2.79 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 continues to reflect 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 advances continue to be repaid according to the original debt repayment schedules. The advances are 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, Cash Equivalents and Investment Securities (continued)

Cash and cash equivalents are stated at cost which approximates market and are composed of the following at June 30, 2006 (in thousands):

Cash and Cash Equivalents

Funds	Deposits	Money Market Fund	Repurchase Agreements	Investment Agreements	Combined Totals
General Reserve	$ (173)	$ —	$12,965	$ —	$ 12,792
Rental Housing	—	24,954	—	35,004	59,958
Residential Housing Finance	9,673	87,840	—	494,990	592,503
Single Family	3,860	13,415	—	114,262	131,537
State Appropriated	35,125	—	4,880	—	40,005
Federal Appropriated	1,944	9,499	—	—	11,443
Agency-wide Totals	$50,429	$135,708	$17,845	$644,256	$848,238

Deposits may consist of commercial paper for General Reserve, State Appropriated and Federal Appropriated and cash awaiting investment for the remainder of the funds. The large balance of deposits in State Appropriated is due to the receipt of fiscal year 2007's appropriation on the last day of the current fiscal year. 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, 2006, 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 collateral is not provided.

Investment securities are recorded at fair market value and are composed of the following at June 30, 2006 (in thousands):

Investment Securities

	Fair Market Value		
Funds	US Treasuries, US Agencies, Certificates of Deposit and Corporate Notes, at Amortized Cost	Unrealized Appreciation (Depreciation) in Fair Market Value	Estimated Market Value
General Reserve	$105,973	$(1,610)	$104,363
Rental Housing	39,166	(369)	38,797
Residential Housing Finance	47,558	(865)	46,693
Single Family	3,626	139	3,765
State Appropriated	60,272	(491)	59,781
Federal Appropriated	1,503	(8)	1,495
Agency-wide Totals	$258,098	$(3,204)	$254,894

US treasury, US agency, corporate notes, 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

Cash, Cash Equivalents and Investment Securities (continued)

of Minnesota. US treasury and US agency securities in the remainder of the funds are held by the Agency's trustee 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) have a Standard & Poor's rating of AAA and a Moody's rating of Aaa. Corporate notes with a market value of $.981 million have a Standard & Poor's rating of AAA and a Moody's rating of Aaa. Corporate Notes of $2.998 million have a Standard & Poor's rating of A and a Moody's rating of A2. The certificates of deposit have an issuer rating of AA– from Standard & Poor's and Aa2 from Moody's.

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 $3.204 million), along with the weighted average maturities as of June 30, 2006, consist of the following (in thousands):

Cash, Cash Equivalents and Investment Securities

		Weighted Average Maturity, in Years					
Type	Par Value	General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated
Deposits	$ 48,558	—	—	—	—	—	—
Commercial paper	1,871	—	—	—	—	—	—
Money market fund	135,708	—	—	—	—	—	—
Repurchase agreements	17,845	—	—	—	—	—	—
Investment agreements	644,256	—	—	—	—	—	—
US Agencies	236,456	1.3	2.6	4.7	13.1	0.7	1.0
US Treasuries	18,385	—	14.6	13.2	—	—	11.4
Certificates of deposit	2,000	—	—	—	—	0.2	—
Corporate notes	4,000	1.5	—	—	—	1.2	—
Agency-wide Totals	$1,109,079						
Weighted Average Maturity		1.2	2.4	0.5	0.3	0.4	0.4

The form of the above table was changed from prior fiscal year to reveal more information about interest rate risk by fund.

Investments in any one issuer that represent 5 percent or more of total investments as of June 30, 2006 are as follows (in thousands):

Investment Issuer	Amount
Bayerische Landesbank, investment agreements	$239,954
AIG Matched Funding Corp., investment agreements	139,652
MBIA, investment agreements	115,098
Federal Home Loan Bank, bonds	85,679
FSA Capital Management Services, investment agreements	58,460
Federal Home Loan Mortgage Corporation, notes	54,425

Cash, Cash Equivalents and Investment Securities (continued)

The Agency maintains certain deposits and investments throughout the year that are subject to custodial credit risk. As of June 30, 2006, those amounts subject to this risk consists of the following (in thousands):

	Amount
Deposits not covered by depository insurance and uncollateralized (including $135,708 in a money market fund and $17,845 in repurchase agreements)	$202,111
Investment securities (which excludes investment agreements) uninsured, uncollateralized and not held in the Agency's name	89,255
Agency-wide Total	$291,366

Net realized gain on sale of investment securities of $.663 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, 2006 are as follows (in thousands):

Funds	Amount
Rental Housing	$20,830
Residential Housing Finance	29,976
Single Family	19,493
Totals	$70,299

Loans Receivable, Net

Loans receivable, net at June 30, 2006 consist of (in thousands):

Funds	Outstanding Principal	Allowance for Loan Losses	Unamortized Discounts and Fees	Loans Receivable, Net
General Reserve	$ —	$ —	$ —	$ —
Rental Housing	212,059	(7,274)	(1,330)	203,455
Residential Housing Finance	1,260,644	(11,641)	1,527	1,250,530
Single Family	326,357	(70)	(3,536)	322,751
State Appropriated	29,386	(1,028)	—	28,358
Federal Appropriated	—	—	—	—
Agency-wide Totals	$1,828,446	$(20,013)	$(3,339)	$1,805,094

Substantially all loans in the table above are secured by first or second mortgages on the real property. Mortgage loans in the Single Family fund and homeownership first mortgage loans in the Residential Housing Finance fund (see following table) are largely privately insured or insured by the FHA, VA, or RD. Insurance minimizes, but does not completely eliminate, loan losses. Mortgage loans in the Single Family fund are also protected by an insurance reserve fund.

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 lower 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, 2006, the amount of these loans originated was $3.052 million in the Housing Affordability Fund, $3.287 million in the Homeownership Endowment Fund, $2.892 million in the Multifamily Endowment Fund and $29.329 million in State Appropriated. These loans are excluded from the tables above and below, as they are fully reserved.

Loans Receivable, Net (continued)

Loans receivable, net in Residential Housing Finance at June 30, 2006 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	$ 123,531
Homeownership Endowment Fund:	
Homeownership, first mortgage loans	12,866
Other homeownership loans, generally secured by a second mortgage	18,267
Multifamily Endowment Fund:	
Multifamily, subordinated mortgage loans reserved at 100%	—
Residential Housing Finance Bonds:	
Homeownership, first mortgage loans	905,339
Other homeownership loans, generally secured by a second mortgage	2,382
Alternative Loan Fund, Housing Investment Fund (Pool 2):	
Homeownership, first mortgage loans	12,257
Multifamily, first mortgage loans	23,454
Alternative Loan Fund, Housing Affordability Fund (Pool 3):	
Multifamily, first mortgage loans	123,752
Multifamily, subordinated mortgage loans reserved at 100%	—
Homeownership, first mortgage loans	28,682
Residential Housing Finance Totals	$1,250,530

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, 2006 consist of the following (in thousands):

Funds	Receivables Due from the Federal Government	Other Assets and Receivables	Total
General Reserve	$1,374	$ 76	$1,450
Rental Housing	—	5	5
Residential Housing Finance	—	443	443
Single Family	—	1	1
State Appropriated	—	245	245
Federal Appropriated	837	—	837
Agency-wide Totals	$2,211	$770	$2,981

Bonds Payable, Net

Bonds payable, net at June 30, 2006 are as follows (in thousands):

Funds	Outstanding Principal	Net Unamortized Premium	Net Unamortized Deferred Loss	Bonds Payable, Net
Rental Housing	$ 204,455	$ —	$(3,711)	$ 200,744
Residential Housing Finance	1,376,075	5,317	—	1,381,392
Single Family	363,955	—	—	363,955
Totals	$1,944,485	$5,317	$(3,711)	$1,946,091

Bonds Payable, Net (continued)

Summary of bond activity from June 30, 2005 to June 30, 2006 (in thousands):

Funds	June 30, 2005 Par Bonds Outstanding	Par Issued	Par Repaid	June 30, 2006 Par Bonds Outstanding
Rental Housing	$ 208,180	$ 12,935	$ 16,660	$ 204,455
Single Family	507,615	—	143,660	363,955
Residential Housing Finance	1,314,705	592,560	531,190	1,376,075
Totals	$2,030,500	$605,495	$691,510	$1,944,485

Outstanding principal of bonds payable at June 30, 2006 are as follows (in thousands):

Series	Interest Rate	Maturity	Original Amount	Outstanding Amount
Rental Housing Bonds				
1995 Series C-2	5.25% to 5.95%	2006-2015	$ 38,210	$ 12,660
1995 Series D	5.35% to 6.00%	2006-2022	234,590	13,665
1996 Series A	5.40% to 6.10%	2006-2027	2,820	2,475
1997 Series A	5.00% to 5.875%	2006-2028	4,750	4,185
1998 Series A	5.375%	2028	5,505	5,505
1998 Series B	6.60%	2019	4,180	3,260
1998 Series C	4.45% to 5.20%	2006-2029	2,865	2,550
1999 Series A	4.25% to 5.10%	2006-2024	4,275	3,640
1999 Series B	5.10% to 6.15%	2006-2025	3,160	2,540
2000 Series A	5.35% to 6.15%	2008-2030	9,290	7,385
2000 Series B	5.90%	2031	5,150	4,775
2001 Series A	4.50% to 5.35%	2012-2033	4,800	4,570
2002 Series A	2.40% to 4.05%	2006-2014	27,630	21,665
2003 Series A	4.55% to 4.95%	2018-2045	12,770	12,635
2003 Series B	4.15% to 5.08%	2013-2031	1,945	1,885
2003 Series C-1	4.35% to 5.20%	2013-2034	2,095	2,050
2004 Series A	2.20% to 5.00%	2006-2035	9,345	9,105
2004 Series B	4.00% to 4.85%	2014-2035	3,215	3,190
2004 Series C	2.05% to 4.40%	2006-2022	80,000	71,705
2005 Series A-1	4.25% to 4.85%	2014-2035	1,725	1,725
2005 Series A-2	2.60%	2006	350	350
2006 Series A-1	4.40% to 5.10%	2016-2047	6,615	6,615
2006 Series A-2	3.80%	2008	1,300	1,300
2006 Series B	4.89%	2037	5,020	5,020
			471,605	204,455
Residential Housing Finance Bonds				
1995 Series A	5.10% to 5.85%	2006-2017	53,645	6,015
2002 Series A	4.75% to 5.30%	2012-2019	14,035	5,115
2002 Series B	4.10% to 5.65%	2006-2033	59,650	22,285
2002 Series A-1	4.20% to 4.90%	2012-2019	6,860	6,860
2002 Series B-1	3.15% to 5.35%	2006-2033	25,760	21,985
2002 Series E	4.30% to 5.00%	2013-2020	12,805	10,660
2002 Series F	3.25% to 5.40%	2006-2032	52,195	37,120
2002 Series H	3.88% to 4.93%	2007-2012	20,000	20,000
2003 Series A	1.75% to 4.30%	2006-2034	40,000	34,785
2003 Series B	Variable	2033	25,000	25,000
2003 Series I	2.35% to 5.25%	2006-2035	25,000	20,660
2003 Series J	Variable	2033	25,000	24,385

Bonds Payable, Net (continued)

Series	Interest Rate	Maturity	Original Amount	Outstanding Amount
Residential Housing Finance Bonds (continued)				
2003 Series K-1	2.25%	2006	24,150	24,150
2003 Series K-2	2.25%	2006	20,045	20,045
2003 Series L-1	2.35%	2006	21,600	21,600
2003 Series L-1	2.35%	2006	111,515	111,515
2004 Series A	3.20% to 4.25%	2011-2018	22,480	20,185
2004 Series B	2.05% to 5.00%	2006-2033	94,620	78,310
2004 Series C	4.70%	2035	14,970	13,435
2004 Series E-1	4.10% to 4.60%	2012-2016	5,110	5,030
2004 Series E-2	4.40% to 4.60%	2014-2016	6,475	6,370
2004 Series F-1	2.65% to 4.50%	2006-2012	4,600	3,620
2004 Series F-2	3.20% to 5.25%	2007-2034	36,160	35,555
2004 Series G	Variable	2032	50,000	49,210
2005 Series A	2.40% to 4.125%	2007-2018	14,575	14,575
2005 Series B	4.75% to 5.00%	2030-2035	20,425	20,330
2005 Series C	Variable	2035	25,000	24,865
2005 Series G	4.25% to 4.30%	2017-2018	8,950	8,950
2005 Series H	3.00% to 5.00%	2007-2036	51,050	50,990
2005 Series I	Variable	2036	40,000	39,910
2005 Series J	3.625% to 4.00%	2012-2015	11,890	11,890
2005 Series K	3.00% to 4.40%	2007-2028	41,950	41,950
2005 Series L	4.75% to 5.00%	2036	48,165	48,165
2005 Series M	Variable	2036	60,000	60,000
2005 Series N	3.30%	2006	109,715	109,715
2005 Series O	3.90% to 4.20%	2012-2015	4,510	4,510
2005 Series P	3.35% to 5.00%	2007-2036	65,490	65,490
2006 Series A	3.30% to 4.00%	2008-2016	13,150	13,150
2006 Series B	4.60% to 5.00%	2021-2037	43,515	43,515
2006 Series C	Variable	2037	28,335	28,335
2006 Series D	3.70%	2007	35,285	35,285
2006 Series E	3.75%	2007	45,555	45,555
2006 Series F	3.45% to 4.25%	2007-2016	11,015	11,015
2006 Series G	4.85% to 5.50%	2021-2037	58,985	58,985
2006 Series H	5.85%	2036	15,000	15,000
			1,524,235	1,376,075
Single Family Mortgage Bonds				
1992 Series C-2	6.15%	2023	12,185	2,235
1992 Series D-2	5.60% to 5.95%	2006-2017	26,740	7,565
1993 Series D	6.40%	2027	17,685	2,165
1993 Series F	6.25%	2020	9,500	1,010
1994 Series E	4.90% to 5.90%	2006-2025	31,820	13,175
1994 Series T	5.50% to 6.125%	2006-2017	16,420	1,530
1995 Series G	8.05%	2012	8,310	495
1995 Series H	6.40%	2027	19,240	2,355
1995 Series I	6.35%	2017-2018	7,450	915
1995 Series M	5.10% to 5.875%	2006-2017	32,025	6,615
1996 Series A	6.375%	2028	34,480	4,085
1996 Series B	6.35%	2018-2019	7,990	2,085
1996 Series C	5.50% to 6.10%	2006-2015	12,345	1,755

Bonds Payable, Net (continued)

Series	Interest Rate	Maturity	Original Amount	Outstanding Amount
Single Family Mortgage Bonds (continued)				
1996 Series D	5.45% to 6.00%	2006-2017	$ 23,580	$ 2,325
1996 Series E	6.25%	2022-2023	14,495	2,275
1996 Series F	6.30%	2026-2028	18,275	2,870
1996 Series G	6.25%	2026-2028	41,810	5,470
1996 Series H	6.00%	2021	13,865	1,815
1996 Series I	7.32% to 8.00%	2006-2017	14,325	1,410
1996 Series J	5.60%	2021	915	190
1996 Series K	4.60% to 5.40%	2006-2017	9,280	2,305
1997 Series A	5.30% to 5.95%	2006-2017	22,630	3,670
1997 Series B	6.20%	2021	9,180	2,260
1997 Series C	6.25%	2029	27,740	2,595
1997 Series D	5.80% to 5.85%	2019-2021	15,885	4,335
1997 Series E	5.90%	2029	23,495	3,705
1997 Series F	7.20% to 7.25%	2006-2007	11,620	285
1997 Series G	5.30% to 6.00%	2006-2018	40,260	610
1997 Series I	5.50%	2017	9,730	3,405
1997 Series K	5.75%	2026-2029	22,700	7,935
1997 Series L	6.70% to 6.80%	2006-2007	9,550	385
1998 Series A	4.65% to 5.20%	2008-2017	5,710	1,595
1998 Series B	4.75% to 5.50%	2006-2029	17,030	3,330
1998 Series C	4.50% to 5.25%	2006-2017	21,775	5,770
1998 Series E	5.40%	2025-2030	30,500	11,605
1998 Series F-1	4.65% to 5.45%	2006-2017	10,650	2,655
1998 Series G-1	5.60%	2022	6,150	2,145
1998 Series H-1	5.65%	2031	14,885	5,185
1998 Series F-2	4.85% to 5.70%	2006-2017	11,385	4,465
1998 Series G-2	6.00%	2022	6,605	3,525
1998 Series H-2	6.05%	2031	15,965	8,525
1999 Series B	5.00% to 5.25%	2013-2020	18,865	9,280
1999 Series C	4.50% to 4.90%	2006-2024	21,960	3,420
1999 Series D	5.45%	2026-2031	23,975	11,330
1999 Series H	5.30% to 5.80%	2011-2021	16,350	6,085
1999 Series I	4.90% to 6.05%	2006-2031	34,700	9,305
1999 Series J	5.00%	2017	4,745	3,065
1999 Series K	3.65% to 5.35%	2006-2033	44,515	27,325
2000 Series A	5.25% to 5.85%	2009-2020	18,650	8,550
2000 Series B	5.55%	2024	16,580	4,330
2000 Series C	6.10%	2030-2032	30,320	12,600
2000 Series F	Variable	2031	20,000	18,115
2000 Series G	4.25% to 5.40%	2008-2025	39,990	23,465
2000 Series H	4.25% to 5.50%	2006-2023	32,475	14,475
2000 Series I	5.00% to 5.80%	2006-2019	20,185	9,610
2000 Series J	5.40% to 5.90%	2023-2030	29,720	14,945
2001 Series A	5.35% to 5.45%	2017-2022	14,570	8,710
2001 Series B	4.40% to 5.675%	2006-2030	34,855	15,535
2001 Series E	2.00% to 4.90%	2006-2035	23,000	21,180
			1,151,635	363,955
Combined Totals			$3,147,475	$1,944,485

Bonds Payable, Net (continued)

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 detail within the applicable series resolution.

Annual debt service requirements to maturity for bonds outstanding as of June 30, 2006, are as follows (in thousands):

	Rental Housing Bonds		Residential Housing Finance Bonds	
Fiscal Year	Principal	Interest	Principal	Interest
2007	$11,125	$ 9,082	$379,000	$ 52,798
2008	12,500	8,790	20,770	44,602
2009	11,790	8,330	17,220	43,937
2010	12,405	7,866	22,960	43,187
2011	13,030	7,353	18,705	42,377
2012-2016	55,035	28,634	122,090	197,635
2017-2021	38,135	17,966	137,350	169,739
2022-2026	17,510	10,878	176,280	134,867
2027-2031	14,965	6,462	221,965	90,072
2032-2036	9,055	3,349	237,190	34,375
2037-2041	4,240	1,728	22,545	758
2042-2046	4,135	660	—	—
2047-2051	530	25	—	—

	Single Family Mortgage Bonds		Combined Totals	
Fiscal Year	Principal	Interest	Principal	Interest
2007	$ 7,905	$20,021	$398,030	$ 81,901
2008	7,595	19,642	40,865	73,034
2009	8,050	19,265	37,060	71,532
2010	9,005	18,845	44,370	69,898
2011	10,525	18,375	42,260	68,105
2012-2016	63,480	82,529	240,605	308,798
2017-2021	71,365	63,454	246,850	251,159
2022-2026	83,095	42,337	276,885	188,082
2027-2031	87,625	16,815	324,555	113,349
2032-2036	15,310	1,294	261,555	39,018
2037-2041	—	—	26,785	2,486
2042-2046	—	—	4,135	660
2047-2051	—	—	530	25

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.

Residential Housing Finance Bonds 2003 Series B and J, 2004 Series G, 2005 Series C, I and M, and 2006 Series C accrue interest at a rate that changes each week. The rate is determined through a weekly remarketing of the outstanding bonds. Future interest due for these series, as displayed above in the annual debt service requirements table, is based upon the rate as of June 30, 2006. As

Bonds Payable, Net (continued)

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 for each calendar month. The rate is the sum of the monthly London Interbank Offered Rate plus 0.30% per annum provided that the rate may not be more than 11.00% per annum. This series was placed with a single investor. Future interest due for this series, as displayed above in the annual debt service requirements table, is based upon the calculated rate as of June 30, 2006. As rates vary, variable rate bond interest payments 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, 2006, it is in compliance with those covenants and the assets of all funds and accounts in the bond funds equaled or exceeded the requirements as established by the respective bond resolutions.

As of or after June 30, 2006, the Agency called for early redemption of certain bonds that 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 issuing variable rate mortgage revenue bonds. The intentions of the swaps were to create synthetic fixed rate debt at a lower interest rate than achievable from long-term fixed rate bonds and to achieve 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, 2006, 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
2007	$ 2,375	$ 9,074	$ 541	$11,990
2008	—	10,033	49	10,082
2009	—	10,033	(397)	9,636
2010	—	10,033	(822)	9,211
2011	—	10,034	(1,243)	8,791
2012-2016	930	50,168	(11,807)	39,291
2017-2021	22,300	48,385	(21,503)	49,182
2022-2026	66,105	39,771	(24,239)	81,637
2027-2031	87,985	24,613	(18,612)	93,986
2032-2036	69,735	7,151	(7,008)	69,878
2040-2041	2,275	66	(62)	2,279

Terms of Swaps

The terms, including the fair values and counterparty credit ratings of the outstanding swaps as of June 30, 2006, are contained in the table below. The initial notional amounts of the swaps match the 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. The Agency

Interest Rate Swaps (continued)

has purchased the cumulative right, based upon a 300% Bond Market Association (BMA) prepayment rate on the underlying mortgage loans, to further reduce the notional balances of the swaps as necessary and the right to terminate the outstanding swap balances at par value on or after the 10-year anniversary dates of the swaps. The Agency has the right to terminate swaps at fair value at any time.

Associated Bond Series	Current Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Swap Termination Date	Counterparty Credit Rating
RHFB 2003B	$ 25,000,000	July 23, 2003	3.532%	65% of one-month LIBOR* plus 0.23% per annum	$1,856,284	January 1, 2033	Aa2**/AA+***
RHFB 2003J	24,385,000	October 15, 2003	4.183%	65% of one-month LIBOR* plus 0.23% per annum	(103,931)	July 1, 2033	Aa2**/AA+***
RHFB 2004G	49,210,000	July 22, 2004	4.165%	64% of one-month LIBOR* plus 0.26% per annum	(202,124)	January 1, 2032	Aa2**/AA–***
RHFB 2005C	24,865,000	March 2, 2005	3.587%	64% of one-month LIBOR* plus 0.28% per annum	732,579	January 1, 2035	Aa2**/AA+***
RHFB 2005I	39,910,000	June 2, 2005	3.570%	64% of one-month LIBOR* plus 0.28% per annum	1,355,212	January 1, 2036	Aa1**/AA***
RHFB 2005M	60,000,000	August 4, 2005	3.373%	64% of one-month LIBOR* plus 0.29% per annum	2,149,831	January 1, 2036	Aa1**/AA***
RHFB 2006C	28,335,000	March 21, 2006	3.788%	64% of one-month LIBOR* plus 0.29% per annum	531,765	January 1, 2037	Aa2**/AA+***
Total	$251,705,000				$6,319,616		

*London Interbank Offered Rate

**Moody's Investors Service, Inc.

***Standard & Poor's Inc.

Swap Valuation

The Fair Values presented above were estimated by the Agency's counterparties to the swaps. The valuation was determined by calculating the difference between the present values of each fixed cash flow to be paid and each floating cash flow to be received by the Agency based upon the current market yield curve. The present value factors for each cash flow are based on the implied zero coupon yield curve determined by current market rates. Additionally, the values of the call options are determined by calculating the present value of each predicted option outcome, whose interest rate prediction variance is determined by current market implied volatility. Together these calculations along with accrued interest at the fixed contractual interest rate determine the current fair value of the Agency's swap contracts. The Fair Values in the table above represent the termination payments that would have been due had the swaps been terminated as of June 30, 2006. A positive fair value represents money due the Agency by the counterparty upon termination of the swap while a negative fair value represents money payable by the Agency.

Termination Risk

The Agency's swap contracts are based upon the International Swap Dealers Association Master Agreement, which includes certain termination events. The swap contracts may be terminated by either party if the other party fails to perform under the terms of the contract. Upon termination, a payment is due to one party irrespective of causality based upon the fair value of the

Interest Rate Swaps (continued)

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 under favorable financial terms. To reduce the Agency's termination risk, the swap contracts limit the counterparty's ability to terminate due to the following Agency actions or events: payment default, other defaults that remain uncured for 30 days after notice, bankruptcy and insolvency.

Credit Risk

The terms of the swaps expose the Agency to potential credit risk with the counterparty upon the occurrence of a termination event. The fair value of a swap represents the Agency's current credit exposure to the counterparties with which the swaps were executed. As of June 30, 2006, the Agency did have a net credit risk exposure to its counterparties because the combined swap positions had a positive net fair value. The swap agreements contain varying collateral requirements based upon counterparties' credit ratings and the fair values of the swaps. These bi-lateral requirements are established to mitigate potential credit risk exposure. These requirements were met as of June 30, 2006.

Amortization Risk

The Agency may incur 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 the swaps to enable the Agency to closely manage the outstanding balances of variable rate bonds and notional swap amounts. Additionally, the Agency may terminate the swaps at market value at any time.

Basis Risk

The Agency incurs the potential risk that the variable interest payments on its bonds will not equal the variable interest receipts from its swaps. This basis risk exists because the Agency pays a variable rate on its bonds based on the weekly tax-exempt BMA rate but under the terms of its swaps receives a variable rate based upon the one-month, taxable LIBOR rate. Basis risk will vary over time due to inter-market conditions. As of June 30, 2006, the interest rate on the Agency's variable rate debt ranged from 4.00% to 4.03% per annum while the variable interest rates on the swaps ranged from 3.53% to 3.56% per annum. In order to reduce the cumulative effects of basis risk, the variable rate determination structure for interest receipts within the swap is based upon a regression analysis of the long-term relationship between these two interest rate indices.

Tax Risk

The structure of the variable interest rate payments the Agency receives from its swap contracts are based upon the historical long-term relationship between taxable and tax-exempt short-term interest rates. Tax risk represents a 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 was economically unfeasible to transfer to the swap counterparty.

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 those bonds were used by that non-profit corporation to refinance certain HUD Section 202 elderly housing projects. The bonds were sold on a private placement basis. As of June 30, 2006, $33.1 million of those 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. The Agency's trustee is not the trustee for this series of bonds.

Accounts Payable and Other Liabilities

Accounts payable and other liabilities at June 30, 2006 consist of the following (in thousands):

Funds	Arbitrage Rebate Payable to the Federal Government and Yield Compliance Liability	Accrued Salaries, Compensated Absencesc and Employee Benefits	Other Liabilities and Accounts Payable	Total
General Reserve	$ —	$2,377	$1,394	$ 3,771
Rental Housing	2,065	—	53	2,118
Residential Housing Finance	2,486	—	2,068	4,554
Single Family	5,050	—	66	5,116
State Appropriated	—	—	2,136	2,136
Federal Appropriated	—	—	854	854
Agency-wide Totals	$9,601	$2,377	$6,571	$18,549

The amount of arbitrage rebate and yield compliance payable that is not due within one year in Rental Housing is $2.065 million, in Residential Housing Finance is $2.486 million and in Single Family is $3.849 million, for a total of $8.400 million.

Interfund Balances

Interfund balances displayed as Interfund Payable (Receivable) at June 30, 2006 consist 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	$—	$ 18	$205	$ —	$209	$210	$ 642
Due to	Rental Housing	—	—	—	—	—	—	—
Due to	Residential Housing Finance	—	20,733	—	24,481	—	—	45,214
Due to	Single Family	—	—	—	—	—	—	—
Due to	State Appropriated	—	—	158	200	—	276	634
Due to	Federal Appropriated	—	—	—	—	—	—	—
	Agency-wide Totals	$ 0	$20,751	$363	$24,681	$209	$486	$46,490

The $20.733 million due to Residential Housing Finance reflects advances made to Rental Housing in fiscal 1997 and accrued interest on those advances. The advances were made to take advantage of economically favorable conditions for optionally redeeming bonds in Rental Housing. Repayment of the advances continues according to the original debt repayment schedule. The portion that will not be repaid within one year is $19.513 million.

The $24.481 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 $23.115 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, 2006 consist 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	$—	$1,839	$ 7,816	$3,108	$2,915	$ 838	$16,516
	Rental Housing	—	—	—	—	—	—	—
	Residential Housing Finance	—	2,058	—	930	2,859	—	5,847
	Single Family	—	—	35,441	—	—	—	35,441
	State Appropriated	—	—	309	151	—	1,031	1,491
	Federal Appropriated	—	538	—	—	1,306	—	1,844
	Agency-wide Totals	$—	$4,435	$43,566	$4,189	$7,080	$1,869	$61,139

Interfund transfers recorded in Interfund Payable (Receivable) are used to make a $24.000 million advance to Single Family from Residential Housing Finance to optionally redeem bonds, 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, to move funds advanced by State Appropriated to Federal Appropriated for assistance to hurricane victims, and to move payments from Rental Housing and 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, 2006, consist 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	$ —	$—	$ —	$ —	$—	$—	$ —
	Rental Housing	—	—	299	—	—	—	299
	Residential Housing Finance	3,438	—	—	8,100	—	—	11,538
	Single Family	—	—	—	—	—	—	—
	State Appropriated	—	—	—	—	—	—	—
	Federal Appropriated	—	—	—	—	—	—	—
	Agency-wide Totals	$3,438	$—	$299	$8,100	$—	$—	$11,837

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

Net Assets (continued)

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, 2006 (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	$35,981	$ —	$ —	$35,981
Unrealized depreciation in fair market value of investments, excluding multifamily development escrow investments	—	(256)	256	—
Subtotal, Housing Endowment Fund (Pool 1), General Reserve	35,981	(256)	256	35,981
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	61,270	—	—	61,270
Unrealized depreciation in fair market value of investments		(27)	27	—
Subtotal, Housing Investment Fund (Pool 2), Residential Housing Finance	61,270	(27)	27	61,270

Net Assets (continued)

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 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 . . .	$212,541	$ —	$ —	$212,541
Unrealized appreciation in fair market value of investments	—	145	(283)	(138)
Subtotal, Housing Affordability Fund (Pool 3), Residential Housing Finance	212,541	145	(283)	212,403
Agency-wide Total	$309,792	$(138)	$ —	$309,654

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 $309.654 million of net assets restricted by covenant are restricted by Minnesota Housing's enabling legislation.

In connection with self-insuring certain single family loans, the Agency has agreed to maintain General Reserve net assets of at least 125% of the Single Family Mortgage bond resolution insurance reserve. The amount aggregated $10.718 million at June 30, 2006.

Restricted by Law

Undisbursed, recognized federal and state appropriations are classified as net assets restricted by law. The $92.013 million of net assets restricted by law in the State Appropriated fund 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

Defined Benefit Pension Plan (continued)

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 Agency's pension contribution to the System for the year ending June 30, 2006 was $460 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
07/01/05	$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)
07/01/03	7,757,292	7,830,671	73,379	99.06	2,009,975	3.65

Schedule of Employer Contributions
(dollars in thousands)

Year Ended June 30	Actuarially Required Contribution Rate	Actual Covered Payroll	Actual Member Contributions	Annual Required Contribution	Actual Employer Contribution*	Percent Contributed
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
2003	8.34	2,009,975	83,850	83,782	80,399	95.96

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

The information presented is as of July 1, 2005, which is the latest actuarial information available.

The above summarizes the defined benefit pension plan. Please refer to the July 1, 2005, 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.

Risk Management (continued)

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.

Real and Personal Property	Coverage Limit
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	25,000

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, 2006, 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	2,375
Residential Housing Finance	181,926
Single Family	—
State Appropriated	65,421
Federal Appropriated	22,225
Agency-wide Totals	$271,947

The Agency has cancelable lease commitments for office facilities and parking on a long-term basis. Lease expense for the fiscal year ended June 30, 2006 was $1.030 million. Commitments for future minimum lease payments under cancelable leases for office facilities and parking are (in thousands):

	Fiscal Year			
	2007	2008	2009	Total
Amount:	$983	$913	$858	$2,754

The Agency has in place a $15 million revolving line of credit with Wells Fargo Bank, N.A. that expires on December 31, 2006 and may be renewed for an additional one-year period through December 31, 2007. The line of credit agreement requires the Agency to maintain certain asset levels and meet certain reporting requirements. At June 30, 2006 there was no balance outstanding. The line of credit activity for the year ended June 30, 2006, 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.

Commitments (continued)

Effective March 15, 2006 HUD rescinded its prior approval of contracts for deed as an acceptable alternative form of homeownership in the Federal-HOME program. The Agency is engaged in a continuing dialog with HUD regarding the use of contracts for deed to convey HOME-assisted single-family homes to families that would not qualify for market rate mortgage financing. The Agency believes it has been and remains in compliance with the HOME program's regulations and requirements but has notified its grantees to not sell any properties approved by the Agency after March 15, 2006 via contracts for deed until further notice.

Subsequent Events

On June 8, 2006 the Board of the Agency approved series resolutions authorizing the issuance of $140,000,000 bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Residential Housing Bonds, 2006 Series I and 2006 Series J were delivered on July 27, 2006.

On July 27, 2006 the Board of the Agency approved series resolutions authorizing the issuance of $4,060,000 bonds to finance the acquisition and rehabilitation of a multifamily development in Cloquet, Minnesota. The Rental Housing Bonds, 2006 Series C-1 and 2006 Series C-2 were delivered on August 15, 2006.

The Agency called for early redemption subsequent to June 30, 2006 the following bonds:

Program Funds	Retirement Date	Par Value
Residential Housing Finance	July 1, 2006	$16,145,000
Single Family	July 1, 2006	28,140,000
Rental Housing	August 1, 2006	2,420,000
Rental Housing	September 7, 2006	1,430,000

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
General Reserve and Bond Funds
Five Year Financial Summary (in thousands)
Fiscal Years 2002 – 2006

		2002	2003	2004	2005	2006
Loans Receivable, net	Multifamily programs	$ 337,087	$ 348,196	$ 362,870	$ 350,881	$ 350,661
	Homeownership programs	1,212,436	1,009,937	932,777	1,061,556	1,302,544
	Home improvement programs	104,537	92,345	89,157	101,657	123,531
	Total	$1,654,060	$1,450,478	$1,384,804	$1,514,094	$1,776,736
Bonds Payable, net(1)	Multifamily programs	$ 267,739	$ 246,701	$ 216,928	$ 201,200	$ 200,744
	Homeownership programs	1,668,449	1,579,978	1,607,661	1,794,886	1,725,347
	Home improvement programs	—	20,000	20,000	20,000	20,000
	Total	$1,936,188	$1,846,679	$1,844,589	$2,016,086	$1,946,091
Loans purchased or originated during year	Multifamily programs	$ 18,341	$ 58,607	$ 50,509	$ 20,056	$ 29,534
	Homeownership programs	229,603	145,748	216,109	305,899	393,866
	Home improvement programs	37,281	35,391	34,981	44,279	51,119
	Total	$ 285,225	$ 239,746	$ 301,599	$ 370,234	$ 474,519
Net Assets	Total net assets	$ 612,361	$ 648,459	$ 666,978	$ 697,192	$ 719,887
	Percent of total assets	22.6%	24.6%	25.2%	24.5%	25.7%
Revenues over Expenses	Revenues over expenses for the year	$ 29,687	$ 36,098	$ 18,519	$ 30,214	$ 22,695

Notes:

(1) Amounts are net of unamortized bond issuance costs in 2002 through 2005.

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Net Assets (in thousands)
General Reserve and Bond Funds
June 30, 2006 (with comparative totals for June 30, 2005)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Assets	Cash and cash equivalents	$ 12,792	$ 59,958	$ 592,503	$131,537
	Investment securities	104,363	38,797	46,693	3,765
	Loans receivable, net	—	203,455	1,250,530	322,751
	Interest receivable on loans	—	1,191	5,354	1,750
	Interest receivable on investments	1,060	1,246	720	122
	Mortgage insurance claims receivable	—	—	260	478
	Real estate owned	—	—	954	460
	Unamortized bond issuance costs	—	2,613	7,552	3,629
	Capital assets, net	3,685	—	—	—
	Other assets	1,450	5	443	1
	Total assets	$123,350	$307,265	$1,905,009	$464,493
Liabilities	Bonds payable, net	$ —	$200,744	$1,381,392	$363,955
	Interest payable	—	3,776	24,654	9,656
	Accounts payable and other liabilities	3,771	2,118	4,554	5,116
	Interfund payable (receivable)	(642)	20,751	(44,851)	24,681
	Funds held for others	80,555	—	—	—
	Total liabilities	83,684	227,389	1,365,749	403,408
	Commitments and contingencies				
Net Assets	Restricted by bond resolution	—	79,876	265,587	61,085
	Restricted by covenant	35,981	—	273,673	—
	Invested in capital assets	3,685	—	—	—
	Total net assets	39,666	79,876	539,260	61,085
	Total liabilities and net assets	$123,350	$307,265	$1,905,009	$464,493

2006 Total General Reserve and Bond Funds	2005 Total General Reserve and Bond Funds
$ 796,790	$1,056,889
193,618	257,616
1,776,736	1,514,094
8,295	7,523
3,148	3,303
738	922
1,414	905
13,794	13,742
3,685	2,764
1,899	1,256
$2,800,117	$2,859,014
$1,946,091	$2,029,828
38,086	35,959
15,559	15,807
(61)	600
80,555	79,628
2,080,230	2,161,822
406,548	400,831
309,654	293,597
3,685	2,764
719,887	697,192
$2,800,117	$2,859,014

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, 2006 (with comparative totals for the year ended June 30, 2005)

		General Reserve	Bond Funds: Rental Housing	Bond Funds: Residential Housing Finance	Bond Funds: Single Family
Revenues	Interest earned on loans	$ —	$13,341	$ 60,725	$23,777
	Interest earned on investments	1,231	4,013	27,406	7,461
	Administrative reimbursement	16,730	—	—	—
	Fees earned and other income	8,833	856	690	—
	Unrealized gains (losses) on securities	(101)	(2,046)	(2,127)	(1,349)
	Total revenues	26,693	16,164	86,694	29,889
Expenses	Interest	—	11,709	50,472	24,934
	Loan administration and trustee fees	—	178	4,477	1,266
	Administrative reimbursement	—	1,852	7,816	3,108
	Salaries and benefits	14,054	—	—	—
	Other general operating	6,725	—	1,777	—
	Reduction in carrying value of certain low interest rate deferred loans	—	—	6,427	—
	Provision for loan losses	—	(76)	1,951	75
	Total expenses	20,779	13,663	72,920	29,383
	Revenues over (under) expenses	5,914	2,501	13,774	506
Other changes	Non-operating transfer of assets between funds	205	299	7,596	(8,100)
	Change in net assets	6,119	2,800	21,370	(7,594)
Net Assets	Total net assets, beginning of year	33,547	77,076	517,890	68,679
	Total net assets, end of year	$39,666	$79,876	$539,260	$61,085

2006 Total General Reserve and Bond Funds	2005 Total General Reserve and Bond Funds
$ 97,843	$ 90,273
40,111	35,069
16,730	17,219
10,379	9,405
(5,623)	2,274
159,440	154,240
87,115	79,863
5,921	5,258
12,776	12,193
14,054	13,693
8,502	6,124
6,427	5,738
1,950	1,157
136,745	124,026
22,695	30,214
—	—
22,695	30,214
697,192	666,978
$719,887	$697,192

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds
Year ended June 30, 2006 (with comparative totals for the year ended June 30, 2005)

			Bond Funds		
		General Reserve Account	Rental Housing	Residential Housing Finance	Single Family
Cash flows from operating activities	Principal repayments on loans	$ —	$ 19,448	$ 104,531	$ 72,463
	Investment in loans	—	(10,173)	(464,346)	—
	Interest received on loans	—	14,624	60,478	22,669
	Other operating	—	—	(1,777)	—
	Fees and other income received	8,628	856	698	—
	Salaries, benefits and vendor payments	(19,657)	(195)	(4,762)	(1,322)
	Administrative reimbursement from funds	16,515	(1,839)	(7,816)	(3,108)
	Interest transferred to funds held for others	(3,098)	—	—	—
	Deposits into funds held for others	31,939	—	—	—
	Disbursements made from funds held for others	(29,933)	—	—	—
	Interfund transfers and other assets	(2,242)	—	(24,715)	23,849
	Net cash provided (used) by operating activities	2,152	22,721	(337,709)	114,551
Cash flows from noncapital financing activities	Proceeds from sale of bonds	—	12,935	595,680	—
	Principal repayment on bonds	—	(16,660)	(531,190)	(143,660)
	Interest paid on bonds and notes	—	(9,163)	(43,125)	(25,859)
	Financing costs paid related to bonds issued	—	(193)	(4,105)	—
	Interest paid/received between funds	—	(1,749)	2,203	(454)
	Principal paid/received between funds	—	(309)	589	(280)
	Premium paid on redemption of bonds	—	—	—	(236)
	Agency contribution to program funds	—	299	7,801	(8,100)
	Transfer of cash between funds	(3,438)	—	3,438	—
	Net cash provided (used) by noncapital financing activities	(3,438)	(14,840)	31,291	(178,589)
Cash flows from investing activities	Investment in real estate owned	—	—	(525)	(315)
	Interest received on investments	3,896	3,691	24,732	4,938
	Proceeds from sale of mortgage insurance claims/real estate owned	—	—	2,509	3,340
	Proceeds from maturity, sale or transfer of investment securities	41,197	14,590	78,594	12,176
	Purchase of investment securities	(35,856)	(7,689)	(42,614)	(1,761)
	Purchase of loans between funds	—		(8,386)	11,245
	Net cash provided by investing activities	9,237	10,592	54,310	29,623
	Net increase (decrease) in cash and cash equivalents	7,951	18,473	(252,108)	(34,415)
Cash and cash equivalents	Beginning of year	4,841	41,485	844,611	165,952
	End of year	$ 12,792	$ 59,958	$ 592,503	$ 131,537

2006 Total General Reserve and Bond Funds	2005 Total General Reserve and Bond Funds
$ 196,442	$ 228,883
(474,519)	(370,234)
97,771	89,829
(1,777)	(897)
10,182	9,400
(25,936)	(23,015)
3,752	5,131
(3,098)	(2,484)
31,939	30,445
(29,933)	(37,052)
(3,108)	(1,309)
(198,285)	(71,303)
608,615	799,018
(691,510)	(624,885)
(78,147)	(74,921)
(4,298)	(5,951)
—	—
—	—
(236)	(142)
—	—
—	—
(165,576)	93,119
(840)	(628)
37,257	33,975
5,849	6,993
146,557	217,996
(87,920)	(163,252)
2,859	—
103,762	95,084
(260,099)	116,900
1,056,889	939,989
$ 796,790	$1,056,889

(continued)

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds (continued)
Year ended June 30, 2006 (with comparative totals for the year ended June 30, 2005)

Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities

		Bond Funds		
	General Reserve	Rental Housing	Residential Housing Finance	Single Family
Revenues over (under) expenses	$ 5,914	$ 2,501	$ 13,774	$ 506
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities				
Amortization of premiums (discounts) and fees on loans	—	(98)	1,316	(1,524)
Depreciation	816	—	—	—
Realized losses (gains) on sale of securities, net	1	10	113	(818)
Unrealized losses (gains) on securities, net	101	2,046	2,127	1,349
Provision for loan losses	—	(76)	1,951	75
Reduction in carrying value of certain low interest rate and/or deferred loans	—	—	6,427	—
Capitalized interest on loans and real estate owned	—	(78)	(165)	(227)
Interest earned on investments	(1,232)	(4,079)	(30,249)	(7,237)
Interest expense on bonds and notes	—	11,709	50,472	24,934
Changes in assets and liabilities				
Decrease (increase) in loans receivable, excluding loans transferred between funds	—	9,275	(359,815)	72,463
Decrease (increase) in interest receivable on loans	—	98	(1,398)	528
Increase in arbitrage rebate liability	—	1,417	2,730	709
Interest transferred to funds held for others	(3,098)	—	—	—
Increase (decrease) in accounts payable	585	(16)	(279)	(55)
Increase (decrease) in interfund payable, affecting operating activities only	(588)	14	(24,310)	23,849
Increase (decrease) in funds held for others	2,006	—	—	—
Other	(2,353)	(2)	(403)	(1)
Total	(3,762)	20,220	(351,483)	114,045
Net cash provided (used) by operating activities	$ 2,152	$22,721	$(337,709)	$114,551

2006 Total General Reserve and Bond Funds	2005 Total General Reserve and Bond Funds
$ 22,695	$ 30,214
(306)	(589)
816	555
(694)	(1,184)
5,623	(2,274)
1,950	1,157
6,427	5,738
(470)	(466)
(42,797)	(35,431)
87,115	79,863
(278,077)	(141,351)
(772)	(128)
4,856	2,285
(3,098)	(2,484)
235	1,013
(1,035)	(260)
2,006	(6,607)
(2,759)	(1,354)
(220,980)	(101,517)
$(198,285)	$ (71,303)

Other Information

Board of Directors

Michael Finch, Ph.D., Chair
Member

Marina Muñoz Lyon, Vice Chair
Member

The Honorable Patricia Anderson
Ex officio member
State Auditor, State of Minnesota

Lee Himle
Member

Betty Lou Berg
Member

Paul Gaston
Member

Joseph Johnson III
Member

Legal and Financial Services

Bond Trustee
Wells Fargo Bank, N.A.

Bond Paying Agent
Wells Fargo Bank, N.A.

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