MINNESOTA HOUSING FINANCE AGENCY
Annual Financial Report as of and for the year ended June 30, 2008

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MINNESOTA HOUSING FINANCE AGENCY
Commissioner's Report

Minnesota Housing was not immune to the impacts of the nationwide housing foreclosure and credit crises during the year. Our single family loan portfolio performed well despite experiencing rates of delinquency and foreclosure higher than our modest historical experience. At the same time, our home improvement loan portfolio performed less well which was expected for a portfolio of subordinate-lien or unsecured loans. I am pleased to report that during the period when the commercial mortgage industry offered riskier products, Minnesota Housing consistently offered fixed-rate mortgage products and other assistance designed to provide borrowers sustainable homeownership while minimizing loan losses for Minnesota Housing. I believe this approach was largely successful but changes in the economy impacted some households adversely and thus the Agency's current period earnings are some $5 million lower than expected due to prudently increasing our loan loss reserves to cover future losses in the loan portfolios.

The mortgage industry turmoil provided an unexpected opportunity for Minnesota Housing. As commercial lenders tightened their credit terms last fall and winter, first-time homebuyers were able to access favorable mortgage financing through Minnesota Housing. In fact, we experienced increased demand for our homeownership mortgage products through the first half of fiscal 2008. Demand declined somewhat during the second half of the year as economic conditions nationwide and in the state deteriorated further and conventional mortgage insurers further restricted credit terms.

The economic turmoil also spread to the capital markets and during the most unstable period in the financial markets Minnesota Housing elected to not borrow capital to finance its loan programs, relying instead on internal resources prudently set aside for such occasions. When we eventually did borrow, we were able to capitalize on pent-up demand for Minnesota Housing bonds and the flexibility of our financial structure that enables us to issue a variety of debt instruments to navigate through challenging market conditions. Recently-enacted federal legislation to remove the AMT penalty from our bonds and to provide additional authority to issue tax-exempt bonds will even better position the Agency to operate a significant lending program.

The Agency has refined our strategy management vision and created an Agency-wide Balanced Scorecard to both drive and monitor progress on our strategic priorities: Finance new affordable housing opportunities; preserve existing affordable housing; end long-term homelessness; and increase emerging market homeownership. While success in the emerging market priority has slowed due to current economic conditions, we have now achieved a milestone in our Business Plan to End Long-Term Homelessness, surpassing the half way mark of 2,000 of the total goal of 4,000 new housing opportunities. During 2007 the Agency provided $11.3 million to help prevent or end homelessness for nearly 8,700 households.

The Agency also remains focused on serving emerging market communities under difficult market conditions: unprecedented foreclosure rates, tightening credit markets, and waning consumer confidence in real estate markets and has signed the first Federal Housing Administration (FHA) memorandum of understanding in the nation with the Department of Housing and Urban Development which will increase access to FHA financing for emerging market borrowers.

Despite the short Minnesota legislative session and a nearly $1 billion budget deficit, Minnesota Housing received only a small appropriation reduction ($200,000) and all Agency initiatives passed, including $30 million for nonprofit housing bonds to construct, acquire, preserve or rehabilitate permanent supportive housing. The Agency also positioned itself to receive a share of the additional temporary cap increase provided by the Federal Housing Recovery Act in anticipation of potential action by Congress to assist with foreclosure prevention through refinancing.

The annual assistance provided by the Agency continues to foster strong communities, assisting nearly 59,000 Minnesota households in 2007 in the amount of $745 million. Of that total, $237.6 million assisted 42,100 rental units or their tenants, and $506.8 million assisted 16,500 homebuyers or homeowners.

With the Agency's re-tooled financial structure in place for the past year, we were able to more clearly demonstrate the solid and consistent financial performance we have long been known for delivering. As we look ahead, we are confident that Minnesota Housing is well positioned to weather the housing driven economic downturn. The combination of the removal of AMT, our new partnership with FHA and Minnesota's additional share of tax-exempt bonding authority provided by the Federal Housing Recovery Act, will further our ability to create more affordable housing opportunities for Minnesotans. Economic pressures will continue to underscore the need for our staff to apply these new tools creatively and effectively.

Timothy E. Marx, Commissioner
Minnesota Housing
August 27, 2008

Independent Auditors' Report

To the Members of the Board of Directors 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, 2008, 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 2007 financial statements and, in our report dated September 26, 2007, 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, 2008, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

LarsonAllen LLP

LarsonAllen LLP

Minneapolis, Minnesota
August 27, 2008

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

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

Introduction

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

Minnesota Housing was authorized through June 30, 2008 to issue bonds and other obligations to fulfill its corporate purposes up to a total outstanding amount of $3.0 billion. State statute increased the limit to $5.0 billion effective July 1, 2008. The bonds and other obligations are not a debt of the State of Minnesota or any political subdivision thereof.

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

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

Discussion of Financial Statements

The financial section consists of three parts — independent auditors' report, management's discussion and analysis (this section), and the basic financial statements. The basic financial statements are presented on an accrual basis and include two kinds of statements: Agency-wide financial statements and fund financial statements.

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

Discussion of Financial Statements (continued)

The basic financial statements also include comparative totals as of and for the year ended June 30, 2007. 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.

Funds Restructuring and Changes in Investment Guidelines

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

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

The Agency changed its net asset requirements and investment guidelines for its General Reserve assets and Alternative Loan Fund (Pool 2 and Pool 3), effective July 1, 2007. The new guidelines retain the liquidity reserve in the Housing Endowment Fund (Pool 1) but reduce its size to 1% of gross loans receivable excluding loans credited to the Housing Affordability Fund (Pool 3) and appropriated loans. Pool 2 is to consist of amortizing interest-bearing housing loans or investment grade securities held in bond funds. Pool 3 is retained generally for investment in investment grade securities and for deferred, zero percent and low interest-rate loans and grants. Pool 1 and Pool 2 represent, with assets pledged to pay bonds of the Agency, the sustainable lending operation of the Agency. Pool 3 represents the more mission-intensive operations of the Agency. As of June 30, 2008 the Agency was in compliance with the requirements of this Board resolution.

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 the costs of administering Minnesota Housing programs are captured. The fees earned are generally related to the administration of the federal low income housing tax credit program, administration of the federal Housing Assistance Payment program, and contract administration of the Section 8 program for developments not financed by Minnesota Housing.

Rental Housing

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

Inherent risks remain in these portfolios, especially for 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 staff attention.

Discussion of Individual Funds (continued)

All of Minnesota Housing's bond-financed multifamily loans are financed in Rental Housing. Funds in excess of bond resolution requirements may be used to redeem bonds, to fund housing programs and for Agency operations.

Residential Housing Finance

Included within Residential Housing Finance are the bonds issued and outstanding under the Residential Housing Finance bond resolution, the limited obligation draw-down bonds issued under a separate bond resolution and the restricted by covenant Alternative Loan Fund which consists of the Housing Investment Fund (Pool 2) and the Housing Affordability Fund (Pool 3).

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

This bond resolution is the principal source of financing for bond-financed homeownership programs. Minnesota Housing may also issue bonds for its home improvement loan program under this bond resolution although no bonds were issued to support home improvement lending during fiscal year 2008.

Assets of the Housing Investment Fund (Pool 2) may consist of investment quality housing loans and investment grade securities. During fiscal year 2008 this fund provided capital for several Agency programs including its home improvement loan program, its multifamily first-mortgage loan program, for warehousing purchases of single family first-mortgage loans and for bond sale contributions. The fund may also provide funding for interim financing for construction and rehabilitation of single family housing, and may be used to advance funds to retire debt.

Assets of the Housing Affordability Fund (Pool 3) may consist of investment-grade securities when not utilized for program purposes. Program purposes include, but are not limited to: zero-percent loans; loans at interest rates substantially below market; high risk loans; deferred loans; revolving funds; and grants and rental assistance. During fiscal year 2008 resources from Pool 3 were used for entry cost assistance for first-time homebuyers, below-market interim financing for construction and rehabilitation of single family housing and innovative multifamily programs that were not eligible for bond financing such as non-profit capacity building and deferred, subordinated loans to support first mortgages.

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

Single Family

This fund was historically the principal source of financing for Minnesota Housing's bond-financed homeownership programs. Since fiscal year 2002 Minnesota Housing has utilized the Residential Housing Finance Fund as its principal source of financing for these programs because of the increased flexibility afforded by that bond resolution. The majority of the loans in Single Family have either FHA insurance or a VA or RD guarantee.

Funds in excess of bond resolution requirements may be 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.

Discussion of Individual Funds (continued)

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

General Overview

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

Assets and revenues of the bond funds are restricted to uses specifically set forth in their respective bond resolutions and are pledged for the primary benefit of the respective bondholders and swap counterparties. General Reserve is created under the Minnesota Housing bond resolutions as part of the pledge of the general obligation of Minnesota Housing. Minnesota Housing covenants in the bond resolutions that it will use the assets in General Reserve only for administration and financing of programs in accordance with the policy and purpose of the Minnesota Housing enabling legislation, including reserves for the payment of bonds and notes and of loans made from the proceeds thereof, and shall accumulate and maintain therein such a balance of funds and investments as will be sufficient for the purpose.

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

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

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

Condensed Financial Information

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

		Agency-wide Total			Combined General Reserve and Bond Funds		
					June 30, 2008		
		June 30, 2008	June 30, 2007	Change	Excluding Pool 3	Pool 3	Total
Assets	Cash and Investments	$1,030,500	$1,260,244	$(229,744)	$ 845,469	$ 72,098	$ 917,567
	Loans receivable, Net	2,398,136	2,091,381	306,755	2,340,839	20,435	2,361,274
	Interest Receivable	21,365	16,919	4,446	19,286	997	20,283
	Total Assets	3,480,950	3,394,421	86,529	3,235,269	94,002	3,329,271
Liabilities	Bonds Payable	2,411,376	2,398,988	12,388	2,411,376	—	2,411,376
	Interest Payable	53,009	47,593	5,416	53,009	—	53,009
	Accounts Payable and Other Liabilities	24,654	14,797	9,857	15,330	6,797	22,127
	Funds Held for Others . . .	84,445	81,404	3,041	82,391	—	82,391
	Total Liabilities	2,573,484	2,542,782	30,702	2,573,145	(8,333)	2,564,812
Net Assets	Restricted by Bond Resolution	284,344	423,358	(139,014)	284,344	—	284,344
	Restricted by Covenant . .	476,878	323,247	153,631	374,543	102,335	476,878
	Restricted by Law	143,007	100,649	42,358	—	—	—
	Total Net Assets	907,466	851,639	55,827	662,124	102,335	764,459

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

		Agency-wide Total			Combined General Reserve and Bond Funds		
					Fiscal 2008		
		Fiscal 2008	Fiscal 2007	Change	Excluding Pool 3	Pool 3	Total
Revenues	Interest Earned	$183,041	$165,200	$17,841	$171,720	$ 4,589	$176,309
	Appropriations Received .	266,273	210,797	55,476	—	—	—
	Fees and Reimbursements	14,378	11,012	3,366	33,608	585	34,193
	Total Revenues (1)	491,133	406,367	84,766	207,186	6,063	213,249
Expenses	Interest Expense	115,556	101,349	14,207	115,556	—	115,556
	Appropriations Disbursed	200,240	186,690	13,550	—	—	—
	Fees and Reimbursements	6,830	5,938	892	22,429	1,235	23,664
	Payroll, Gen. & Admin. . .	40,088	24,469	15,619	25,363	11,281	36,644
	Loan Loss/Value Adjust's .	49,760	40,555	9,205	8,486	15,430	23,916
	Total Expenses (1)	435,306	377,302	58,004	171,834	27,946	199,780
	Revenues over Expenses .	55,827	29,065	26,762	35,352	(21,883)	13,469
	Beginning Net Assets	851,639	822,574	29,065	547,403	203,587	750,990
	Ending Net Assets	907,466	851,639	55,827	662,124	102,335	764,459

(1) Agency-wide totals include interfund amounts.

Combined General Reserve and Bond Funds		Combined State and Federal Appropriations Funds		
June 30, 2007	Change	June 30, 2008	June 30, 2007	Change
$1,188,099	$(270,532)	$112,933	$ 72,145	$40,788
2,059,822	301,452	36,862	31,559	5,303
16,105	4,178	1,082	814	268
3,289,465	39,806	151,679	104,956	46,723
2,398,988	12,388	—	—	—
47,593	5,416	—	—	—
12,999	9,128	2,527	1,798	729
79,404	2,987	2,054	2,000	54
2,538,475	26,337	8,672	4,307	4,365
423,358	(139,014)	—	—	—
323,247	153,631	—	—	—
—	—	143,007	100,649	42,358
750,990	13,469	143,007	100,649	42,358

Combined General Reserve and Bond Funds		Combined State and Federal Appropriations Funds		
Fiscal 2007	Change	Fiscal 2008	Fiscal 2007	Change
$160,834	$ 15,475	$ 6,732	$ 4,366	$ 2,366
—	—	266,273	210,797	55,476
28,568	5,625	3,017	745	2,272
189,997	23,252	277,884	216,370	61,514
101,349	14,207	—	—	—
—	—	200,240	186,690	13,550
20,524	3,140	5,998	3,715	2,283
23,433	13,211	3,444	1,036	2,408
13,588	10,328	25,844	26,967	(1,123)
158,894	40,886	235,526	218,408	17,118
31,103	(17,634)	42,358	(2,038)	44,396
719,887	31,103	100,649	102,687	(2,038)
750,990	13,469	143,007	100,649	42,358

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 2008 Financial Report.

General Reserve and Bond Funds — Statement of Net Assets

Loans receivable, investments, cash, cash equivalents, interest receivable, and unamortized bond issuance costs comprise the majority of assets in the General Reserve and bond funds. Equipment, fixtures, furniture, capitalized software costs, and other assets continue to be insignificant in relation to the total General Reserve and bond fund assets.

Loans receivable, net is the largest single category of bond fund assets. Loans are limited to housing-related lending for low- and moderate-income individuals and families. Loans receivable, net increased 15% to $2,361 million at June 30, 2008 as a result of new loan purchases and originations net of repayments, prepayments, and loss reserves. Amortizing homeownership loans at fixed interest rates, secured by first mortgages, continue to be the dominant loan product offered by Minnesota Housing (referred to as the homeownership portfolio). The majority of growth in loans receivable during fiscal year 2008 was attributable to the homeownership portfolio. The reserve for loan loss for the homeownership loan portfolio increased due to the continued growth of the portfolio and an increase in homeownership loan delinquency rates as displayed in the following delinquency data. Minnesota Housing also has amortizing home improvement and rental rehabilitation loans which offer no-interest, low-interest, and market-rate loans that may be secured with second or subordinate mortgages, or may be unsecured as is the case for some loans in the home improvement loan portfolio. The reserve for loan loss for the home improvement loan portfolio increased as a result of increased loan delinquency rates as displayed in the following delinquency data. Amortizing multifamily loans at fixed interest rates, secured by first mortgages (referred to as the multifamily portfolio) exhibited very little change in the delinquency rate and the aggregate loan receivable balance. The reserve for loan loss for the multifamily portfolio was relatively unchanged during fiscal year 2008. Minnesota Housing's primary loan programs offer fixed interest rate/fixed payment financing that has not exhibited the same high risk characteristics recently associated with some "sub-prime" adjustable payment loan products.

Homeownership Loan Portfolio Delinquency
Actual Loan Count

	June 30, 2008		June 30, 2007	
Current and less than 60 days past due	18,650	95.5%	17,088	96.5%
60-89 days past due	243	1.2%	247	1.4%
90-119 days past due	155	0.8%	115	0.6%
120+ days past due and foreclosures(1)	485	2.5%	268	1.5%
Total count	19,533		17,718	
Total past due(1)	883	4.5%	630	3.5%

(1) In addition to loans customarily included in foreclosure statistics, "foreclosures" include homeownership loans for which the sheriff's sale has been held and the redemption period (generally six months) has not yet elapsed. This causes the delinquency rates in the table to be higher than benchmark delinquency rates reported by the Mortgage Bankers Association of America.

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

Home Improvement Loan Portfolio Delinquency
Actual Loan Count

	June 30, 2008		June 30, 2007	
Current and less than 60 days past due	9,304	94.7%	10,020	95.5%
60-89 days past due	61	0.6%	87	0.8%
90-119 days past due	21	0.2%	32	0.3%
120+ days past due(2)	439	4.5%	352	3.4%
Total count	9,825		10,491	
Total past due(2)	521	5.3%	471	4.5%

(2) In addition to loans customarily included in foreclosure statistics, "120+ days past due" includes delinquent home improvement loans for which collection efforts have ceased but a valid lien remains.

Delinquency rates through June, 2008 for the entire Minnesota Housing homeownership loan portfolio, excluding those loans not customarily included in foreclosure statistics, approximated the delinquency rates of similar loan data available through March, 2008 from the Mortgage Bankers Association of America (as adjusted to reflect the proportions of insurance types in the Agency's loan portfolio).

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

Mortgage insurance claims receivable consist of non-performing homeownership loans that are FHA insured or VA guaranteed. These loans are reclassified as claims receivable at the time the Agency files a claim. Mortgage insurance claims receivable increased 107% to $3.811 million at June 30, 2008 as a result of increased delinquency rates within the homeownership portfolio.

Real estate owned consists of homeownership loans that have been foreclosed and multifamily property carrying costs incurred through the process of acquiring and holding real property. Real estate owned increased 158% to $7.037 million at June 30, 2008 as a result of increased foreclosures within the homeownership portfolio.

While there has been an increase in delinquency rates and foreclosures in the Agency's loan portfolio during fiscal year 2008, as evidenced by increases in mortgage insurance claims and real estate owned, the combined total of mortgage insurance claims and real estate owned remains immaterial compared to total loans receivable at June 30, 2008, being less than 0.46% of total net loans receivable. Management believes that reserves for loan losses are adequate to assure the proper valuation of the loan assets based on the current assessment of asset quality.

There are no loans 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 23% to $918 million at June 30, 2008 primarily due to decreased debt issuance and increased single family loan warehousing.

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 26% to $20.283 million at June 30, 2008. The average balance of loans receivable was higher in fiscal year 2008 than in the previous year and more than offset the lower average balance of combined investments, cash and cash equivalents.

Bonds payable, net is the largest single category of liabilities, resulting from debt issued to fund housing-related lending. Bonds payable increased 1% to $2,411 million at June 30, 2008 resulting from new debt issuance exceeding redemptions and bond maturities.

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

The companion category of interest payable increased 11% to $53.009 million at June 30, 2008 primarily due to a higher average of outstanding bonds during the second half of the fiscal year compared to the second half of the prior fiscal year.

While there is no debt issued in General Reserve, there is a significant liability for funds held for others. These funds are routinely collected and held in escrow on behalf of multifamily borrowers pursuant to 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 4% to $82.391 million at June 30, 2008 as multifamily escrows increased slightly.

Accounts payable and other liabilities increased 70% to $22.127 million at June 30, 2008 primarily as a result of a reserve established during fiscal 2008 for potential payment to HUD for projects funded through the HUD Home Investment Partnerships (HOME) Program which are not in compliance with certain HOME Program regulatory requirements. The largest component of accounts payable continues to be arbitrage liability on tax-exempt bonds pursuant to federal law, which is payable to the United States Treasury and yield compliance liability. Minnesota Housing obtains from independent calculation specialists annual calculations of its arbitrage rebate liability.

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

Net assets of General Reserve and bond funds are divided into two primary categories. Net Assets Restricted by Bond Resolution are pledged to the payment of bonds, subject to bond resolution requirements that authorize Minnesota Housing to withdraw funds in excess of the amounts required to be maintained under the bond resolutions. Net Assets Restricted by Covenant are subject to a covenant with bondholders that the Agency shall use the money in General Reserve and money that would otherwise have been released to General Reserve only for the administration and financing of programs in accordance with the policy and purpose of the Minnesota Housing enabling legislation, including the creation of reserves for the payment of bonds and of loans made from the proceeds thereof, and shall accumulate and maintain therein such a balance of funds and investments as will be sufficient for the purpose. The Board of the Agency has established investment guidelines for these funds to provide financial security for the Agency's bondholders. Net assets increased 2% to $764.459 million at June 30, 2008 principally as a result of the financial performance of the bond funds.

General Reserve and Bond Funds — Revenues Over Expenses

Revenues over expenses of General Reserve and bond funds decreased 57% from fiscal year 2007 after considering Pool 3 net disbursements and the net effect of unrealized gains and losses that result from market valuation adjustments to certain investment assets. Ignoring the effects of unrealized gains and losses on investments, total revenues increased 11%. Total expenses, excluding Pool 3 expenses for reduction in carrying value and other general operating, increased 15% compared to the prior year. Minnesota Housing experienced strong positive revenue growth during fiscal year 2008 from its business activities.

The largest revenue component, interest earned, increased during the year. Combined interest revenues of General Reserve and bond funds from loans and investments increased 10% to $176.309 million compared to the prior year. Loan interest revenue increased 21% in fiscal year 2008 as new loan purchases and originations were made and net loans outstanding were higher throughout the year. This increase was partially offset by investment interest revenue which decreased 15% in fiscal year 2008 as investment yields decreased and the average balance of investments, cash, and cash equivalents was lower compared to fiscal year 2007.

Administrative reimbursements to General Reserve from bond funds were $16.878 million in fiscal year 2008 compared to $14.596 million during the prior fiscal year. The rise is a result of an

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

increase in the total assets of the bond funds upon which the administrative reimbursement is calculated. General Reserve also incurs overhead expenses to administer state and federal appropriated housing programs. General Reserve received overhead reimbursements of $6.830 million from the State and Federal Appropriated funds to recover certain overhead expenses incurred during fiscal year 2008 compared to $4.522 million during the prior fiscal year. Overhead reimbursement from State Appropriated during fiscal 2008 included $1.376 million from fiscal 2007 unreimbursed overhead. Investment earnings within the State Appropriated fund were insufficient to recapture $0.255 million of fiscal 2008 overhead expense.

Other fee income to General Reserve and bond funds increased 11% to $10.485 million compared to the prior year. The primary components are fees earned from the federal low income housing tax credit program, Section 8 contract administration, federal Housing Assistance Payments administration, and from various loan programs.

Minnesota Housing recorded $2.747 million of unrealized gains on investment securities during fiscal year 2008, compared to $0.595 million of unrealized gains during the prior year, an increase of $2.152 million. Interest expense of the bond funds increased 14% to $115.556 million compared to the prior year as a result of higher interest rates and increasing debt outstanding during fiscal year 2008.

Combined expenses for loan administration, trustee fees and administrative reimbursements in the bond funds increased by 15% to $23.664 million compared to the prior year. $16.878 million of the total administrative reimbursement revenue in General Reserve was an interfund charge to the bond funds which was eliminated for purposes of financial reporting in the Agency-wide financial statements.

Operating expenses increased in fiscal year 2008. Salaries and benefits in General Reserve increased 11% to $16.582 million compared to the prior year. Other general operating expense in General Reserve and bond funds increased 136% to $20.062 million compared to the prior year. Much of the increase is due to a $6.877 million reserve that was established during fiscal 2008 for potential payment to HUD for projects funded through the HUD Home Investment Partnerships (HOME) Program which are not in compliance with certain Home Program regulatory requirements. The remainder of the increase is largely due to increased expenditures for the Agency's ending long-term homelessness initiative.

Reductions in carrying value of certain low interest rate deferred loans in the bond funds increased 48% to $14.894 million as valuation reductions of new deferred loans exceeded recoveries from existing deferred loans.

Provision for loan loss expense in the bond funds increased 156% to $9.022 million. The provision for loan loss expense for the homeownership loan portfolio increased due to continued growth of the portfolio, increased loan delinquency rates, and losses on real estate owned. The provision for loan loss expense for the home improvement loan portfolio increased as a result of increased loan delinquency rates. The provision for loan loss expense for the multifamily loan portfolio was relatively unchanged. Please refer to the loans receivable comments in the Financial Highlights section of the Management's Discussion and Analysis of Financial Condition and Results of Operations for more information regarding loan asset quality.

Non-operating transfers occur as a result of bond sale contributions related to new debt issues, the periodic transfer of assets to maintain the Housing Endowment Fund (Pool 1) requirement and Housing Investment Fund (Pool 2) 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 $17.634 million to $13.469 million compared to the prior year. After removing the effects of unrealized gains and the Residential Housing Finance Pool 3-type expenses

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

consisting of other general operating and reduction in carrying value, the combined revenues over expenses decreased 6% or $2.151 million. Increased interest earned net of interest expense and increased administrative reimbursement revenue were more than offset by the increased provision for loan loss expense. Revenues over expenses in General Reserve that are in excess of the Housing Endowment Fund (Pool 1) requirement are transferred periodically to the Housing Investment Fund (Pool 2) for use in housing programs. Revenues over expenses plus non-operating transfers in the Housing Investment Fund (Pool 2) that are in excess of requirements are transferred periodically to the Housing Affordability Fund (Pool 3) for use in housing programs. Board policy establishes the required balances for Pool 1 and Pool 2.

Total combined net assets of General Reserve and bond funds increased 2% to $764.459 million as of June 30, 2008 as a result of revenues over expenses for fiscal year 2008. The net assets of each individual bond fund increased as a result of net revenues over expenses by fund and non-operating transfers of assets between funds. The net assets of General Reserve decreased as a result of the fiscal 2008 fund restructuring that reduced the Pool 1 liquidity reserve requirement from 2% to 1% of certain gross loans receivable.

State and Federal Appropriated Funds — Statement of Net Assets

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

Investments, cash, and cash equivalents are the largest category of assets in the appropriated funds. The June 30, 2008 combined balance increased 57% to $112.933 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.

Certain state appropriations are expended as housing loans with near- or below-market interest rates, resulting in net loans receivable. At June 30, 2008 State Appropriated fund net loans receivable increased 17% to $36.862 million, reflecting higher current year net loan program activity.

Interest receivable in appropriated funds is a function of the timing of interest payments and the general level of interest rates on investments. Interest receivable on appropriated funds at June 30, 2008 increased 33% to $1.082 million primarily as a result of higher fiscal year-end investment balances.

Accounts payable and other liabilities represent amounts payable for the U.S. Department of Housing and Urban Development (HUD) Section 236 interest reduction payments, HUD's share of savings from certain debt refinancing activities and accrued expenses for federal and state housing programs. The balance payable at June 30, 2008 was $2.527 million compared to $1.798 million at June 30, 2007. The increase in accounts payable and other liabilities is largely attributable to increases in accrued program disbursements payable.

For administrative convenience, certain State Appropriated fund loans are administered within the bond funds, resulting in an interfund receivable for the loan disbursement and servicing activities. Interfund payable occurs in the Federal Appropriated fund as a result of overhead expense and indirect cost recoveries due to Minnesota Housing. At June 30, 2008 the combined net interfund payable was $4.091 million.

Funds held for others represent excess federal housing assistance payments received for the administration of the Section 8 program and the interest income earned on those unexpended funds. At June 30, 2008 the balance of funds held for the federal government was $2.054 million.

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

All of the net assets of the appropriated funds are restricted by law for use with housing programs only and are not pledged or available to support the bonds or other obligations of Minnesota Housing or its general obligation pledge in respect thereof. The combined net assets of the appropriated funds increased to $143.007 million as of June 30, 2008 compared to June 30, 2007, reflecting combined revenues in excess of disbursements and expenses during fiscal year 2008.

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 $210.797 million at June 30, 2007 to $266.273 million at June 30, 2008. Federal appropriations received increased by $3.936 million while state appropriations received increased by $51.540 million.

Interest income from investments increased throughout the year as investment yields in general were above the previous levels while the average balance of investment assets was similar to the prior year. The combined interest income from investments increased 52% to $6.541 million at June 30, 2008.

Loan interest income from State Appropriations loan assets continues to be minimal at $0.191 million as relatively few loans are interest bearing.

Private donations to support state housing programs in the amount of $3.017 million were recognized as other income in the State Appropriated fund during the year ending June 30, 2008.

Unrealized gains on investments are recorded to reflect valuation adjustments to current market conditions for investments, and may be reversed over time as the investments are held. Combined unrealized gains of $1.862 million were recorded at June 30, 2008 compared to a $0.462 million unrealized gains at June 30, 2007.

Administrative reimbursements to General Reserve of overhead expenses to administer State Appropriated fund programs increased 61% to $5.954 million compared to the prior year. The Agency incurs the overhead expense in its General Reserve. The General Reserve is reimbursed for these overhead expenses by the State Appropriated fund to the extent that investment earnings are sufficient. During fiscal year 2008 investment earnings in the State Appropriated fund were insufficient to fully reimburse $0.255 million of overhead expenses incurred by General Reserve. However, overhead reimbursement received from State Appropriated funds during fiscal 2008 included $1.376 million for fiscal 2007 unreimbursed overhead.

Combined appropriations disbursed increased 7% to $200.240 million compared to the prior year, reflecting State Appropriations disbursed of $21.374 million and federal appropriations disbursed of $178.866 million to support housing policy objectives.

Decreased expenditures of State Appropriated funds for below market and zero-percent interest rate loans resulted in less expense from reductions in carrying value of certain loans. Net reductions of carrying value decreased 5% to $25.036 million compared to the prior year as a result of making a lesser amount of 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 and Agency funded expenses to administer

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

a certain federally funded housing program. Other general operating expense increased 232% to $3.444 million at June 30, 2008.

Combined revenues exceeded combined expenditures of the appropriated funds by $42.358 million at June 30, 2008, reflecting current year revenues that were in excess of disbursements. Ultimately, the entire State and Federal Appropriated funds' net assets will be expended for housing.

Significant Long-Term Debt Activity

Minnesota Housing issues a significant amount of bonds, having outstanding at June 30, 2008 long-term bonds totaling $2,055.2 million and short-term bonds totaling $350.5 million. Bond proceeds and related revenues are held by a trustee, who is responsible for administration of bond resolution requirements including payment of debt service. The bond resolutions also require funding of debt service reserve accounts and may require funding of insurance reserve accounts. At June 30, 2008, amounts held by the trustee in principal, interest, redemption, and reserve accounts represented full funding of those requirements as of that date.

Minnesota Housing continually investigates and utilizes different financing and debt management techniques to achieve its goals of reducing interest expense and efficiently utilizing bonding authority while responding to changing capital markets. During the 2008 fiscal year, Minnesota Housing completed the issuance of 12 series of bonds and notes aggregating $631.1 million. This is compared to the issuance of 24 series totaling $1,008.8 million the previous year. Minnesota Housing internally financed its loan programs in early calendar 2008, relying on resources set aside for such occasions, rather than borrowing capital during the most turbulent period in the capital markets (see Significant Factors That May Affect Financial Condition and/or Operations–Mortgage Industry Credit Tightening). Long-term bonds are issued as capital is needed for program purposes and as opportunities arise to economically refund outstanding bonds. Short-term bonds and notes are issued to preserve tax-exempt bonding authority for future program use.

A total of $618.650 million in principal payments and $107.307 million of interest payments were made during the year. Of the total principal payments, $231.1 million were made prior to the scheduled maturity date using a combination of optional and special redemption provisions.

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

Purchases of homeownership first mortgage loans have increased annually since 2003 when the Agency replaced its seasonal lending program with a continual, year-round program. While most of the Agency's bonds are tax-exempt, taxable bonds are increasingly issued to supplement limited tax-exempt authority in order to meet increased demand for mortgage loans. Taxable bonds may also be used to finance lending programs where federal tax-exempt bond restrictions are inconsistent with program goals. Variable-rate bonds and interest-rate swaps are an increasing component of Minnesota Housing's financings, enabling the Agency to provide below-market mortgage financing at fixed interest rates. Interest-rate swaps have generally been used to hedge the mismatch between fixed-rate loans and variable-rate bonds. (See Interest Rate Swaps under the notes to the financial statements for further discussion of interest-rate swaps and their risks.) Board policy governs the process Minnesota Housing follows to issue and manage bonds. State statute limited total outstanding debt of Minnesota Housing to $3.0 billion through June 30, 2008 and increased it thereafter to $5.0 billion.

Significant Long-Term Debt Activity (continued)

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

Significant Factors That May Affect Financial Condition and/or Operations

Legislative Actions

Legislation was enacted in 2008 that authorizes Minnesota Housing to issue up to $30 million in nonprofit housing bonds for permanent supportive housing for persons experiencing long-term homelessness and establishes a standing appropriation for the debt service on the nonprofit housing bonds. The authorization and the standing appropriation were part of the Governor's capital investment budget recommendations. This is the first time that Minnesota Housing has either sought or received authority to issue bonds for which the State would pay the debt service. The nonprofit housing bonds are an alternative funding source to GO bond proceeds; this funding source overcomes some of the challenges presented by the use of GO bond funds for affordable housing. One million dollars in GO bond proceeds also was appropriated to Minnesota Housing for emergency or temporary housing or permanent supportive housing.

During August, 2007, seven counties in southeastern Minnesota were impacted by serious flooding. State legislation was adopted in September 2007 to provide relief for households and communities affected by the flood. $18 million was appropriated to Minnesota Housing to provide disaster relief.

State appropriations are used for specific programs and are not available to pay for Minnesota Housing operating expenses or debt service.

Changes in state and federal laws governing administration, funding objectives, housing policy and fiscal policy pose a potential risk to Minnesota Housing's attainment of mission and financials objectives.

Nationwide Foreclosure Crisis

The nationwide housing foreclosure crisis impacted borrowers in Minnesota Housing's loan portfolio despite the Agency's practice to provide only mortgage products designed to promote sustainable homeownership. Loan delinquencies and foreclosures were higher in fiscal year 2008 for both the homeownership and home improvement portfolios as described in Management's Discussion and Analysis of Financial Condition and Results of Operations–Financial Highlights. The possible severity of general economic conditions and the future impact to the Agency's loan portfolios is unpredictable. The agency regularly reviews loan portfolio performance and records additional loss reserves when justified by actual delinquency, foreclosure and property loss experience.

Mortgage Industry Credit Tightening

Industry-wide tightening of credit terms for mortgage borrowers initially increased demand for Minnesota Housing mortgages then later, when terms further tightened, dampened demand for a time. Toward the end of the fiscal year, the Agency's lending volume was increasing, most notably for government-insured and government-guaranteed mortgages. This is a positive development since conventionally-insured mortgages are assigned less value by credit rating agencies during periods of economic challenge. Minnesota Housing's issuer credit rating remains AA+/Aa1 even after the credit rating agencies applied more conservative assumptions in their analysis of the Agency's financial strength.

Additional Information

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

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Net Assets (in thousands)
As of June 30, 2008 (with comparative totals for June 30, 2007)

		Agency-wide Total as of June 30, 2008	Agency-wide Total as of June 30, 2007
Assets	Cash and cash equivalents	$ 655,749	$ 783,102
	Investment securities	374,751	477,142
	Loans receivable, net	2,398,136	2,091,381
	Interest receivable on loans	12,308	9,979
	Interest receivable on investments	9,057	6,940
	Mortgage insurance claims receivable	3,811	1,837
	Real estate owned	7,037	2,727
	Unamortized bond issuance costs	14,362	15,206
	Capital assets, net	3,237	4,385
	Other assets	2,502	1,722
	Total assets	$3,480,950	$3,394,421
Liabilities	Bonds payable, net	$2,411,376	$2,398,988
	Interest payable	53,009	47,593
	Accounts payable and other liabilities	24,654	14,797
	Funds held for others	84,445	81,404
	Total liabilities	2,573,484	2,542,782
	Commitments and contingencies		
Net Assets	Restricted by bond resolution	284,344	423,358
	Restricted by covenant	476,878	323,247
	Restricted by law	143,007	100,649
	Invested in capital assets	3,237	4,385
	Total net assets	907,466	851,639
	Total liabilities and net assets	$3,480,950	$3,394,421

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Activities (in thousands)
Year ended June 30, 2008 (with comparative totals for the year ended June 30, 2007)

		Agency-wide Total For The Year Ended June 30, 2008	Agency-wide Total For The Year Ended June 30, 2007
Revenues	Interest earned on loans	$133,967	$110,905
	Interest earned on investments	49,074	54,295
	Appropriations received	266,273	210,797
	Administrative reimbursement	876	817
	Fees earned and other income	13,502	10,195
	Unrealized gains on securities	4,609	1,057
	Total revenues	468,301	388,066
Expenses	Interest	115,556	101,349
	Loan administration and trustee fees	6,830	5,938
	Salaries and benefits	16,582	14,937
	Other general operating	23,506	9,532
	Appropriations disbursed	200,240	186,690
	Reduction in carrying value of certain low interest rate deferred loans	39,930	36,497
	Provision for loan losses	9,830	4,058
	Total expenses	412,474	359,001
	Revenues over expenses	55,827	29,065
	Change in net assets	55,827	29,065
Net Assets	Total net assets, beginning of year	851,639	822,574
	Total net assets, end of year	$907,466	$851,639

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Net Assets (in thousands)
Proprietary Funds
As of June 30, 2008 (with comparative totals as of June 30, 2007)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Assets	Cash and cash equivalents	$ 62,744	$ 50,870	$ 443,398	$ 88,992
	Investment securities	46,625	12,945	205,763	6,230
	Loans receivable, net	—	210,208	1,896,430	254,636
	Interest receivable on loans	—	1,280	9,528	1,486
	Interest receivable on investments	693	950	6,216	130
	Mortgage insurance claims receivable	—	—	2,528	1,283
	Real estate owned	—	—	6,384	653
	Unamortized bond issuance costs	—	2,088	9,958	2,316
	Capital assets, net	3,237	—	—	—
	Other assets	1,203	4	492	1
	Total assets	$114,502	$278,345	$2,580,697	$355,727
Liabilities	Bonds payable, net	$ —	$178,431	$1,976,495	$256,450
	Interest payable	—	3,522	42,687	6,800
	Accounts payable and other liabilities	4,037	4,328	11,948	1,814
	Interfund payable (receivable)	1,211	10	(28,738)	23,426
	Funds held for others	82,391	—	—	—
	Total liabilities	87,639	186,291	2,002,392	288,490
	Commitments and contingencies				
Net Assets	Restricted by bond resolution	—	92,054	125,053	67,237
	Restricted by covenant	23,626	—	453,252	—
	Restricted by law	—	—	—	—
	Invested in capital assets	3,237	—	—	—
	Total net assets	26,863	92,054	578,305	67,237
	Total liabilities and net assets	$114,502	$278,345	$2,580,697	$355,727

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	Total as of June 30, 2008	Total as of June 30, 2007
$ 112	$ 9,633	$ 655,749	$ 783,102
99,042	4,146	374,751	477,142
36,862	—	2,398,136	2,091,381
14	—	12,308	9,979
1,007	61	9,057	6,940
—	—	3,811	1,837
—	—	7,037	2,727
—	—	14,362	15,206
—	—	3,237	4,385
375	427	2,502	1,722
$137,412	$14,267	$3,480,950	$3,394,421
$ —	$ —	$2,411,376	$2,398,988
—	—	53,009	47,593
1,880	647	24,654	14,797
2,728	1,363	—	—
—	2,054	84,445	81,404
4,608	4,064	2,573,484	2,542,782
—	—	284,344	423,358
—	—	476,878	323,247
132,804	10,203	143,007	100,649
—	—	3,237	4,385
132,804	10,203	907,466	851,639
$137,412	$14,267	$3,480,950	$3,394,421

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Revenues, Expenses and Changes in Net Assets (in thousands)
Proprietary Funds
Year ended June 30, 2008 (with comparative totals for the year ended June 30, 2007)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Revenues	Interest earned on loans	$ —	$13,802	$100,271	$19,703
	Interest earned on investments	1,239	2,748	33,640	4,906
	Appropriations received	—	—	—	—
	Administrative reimbursement	23,708	—	—	—
	Fees earned and other income	8,757	777	951	—
	Unrealized gains on securities	30	199	2,332	186
	Total revenues	33,734	17,526	137,194	24,795
Expenses	Interest	—	9,394	89,475	16,687
	Loan administration and trustee fees	—	161	5,691	934
	Administrative reimbursement	—	1,734	12,905	2,239
	Salaries and benefits	16,582	—	—	—
	Other general operating	8,745	—	11,317	—
	Appropriations disbursed	—	—	—	—
	Reduction in carrying value of certain low interest rate deferred loans	—	—	14,894	—
	Provision for loan losses	—	196	8,097	729
	Total expenses	25,327	11,485	142,379	20,589
	Revenues over (under) expenses	8,407	6,041	(5,185)	4,206
Other changes	Non-operating transfer of assets between funds	(27,554)	—	27,554	—
	Change in net assets	(19,147)	6,041	22,369	4,206
Net Assets	Total net assets, beginning of year	46,010	86,013	555,936	63,031
	Total net assets, end of year	$ 26,863	$92,054	$578,305	$67,237

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	Total For The Year Ended June 30, 2008	Total For The Year Ended June 30, 2007
$ 191	$ —	$133,967	$110,905
6,037	504	49,074	54,295
87,796	178,477	266,273	210,797
—	—	23,708	19,118
3,017	—	13,502	10,195
1,712	150	4,609	1,057
98,753	179,131	491,133	406,367
—	—	115,556	101,349
44	—	6,830	5,938
5,954	—	22,832	18,301
—	—	16,582	14,937
2,369	1,075	23,506	9,532
21,374	178,866	200,240	186,690
25,036	—	39,930	36,497
808	—	9,830	4,058
55,585	179,941	435,306	377,302
43,168	(810)	55,827	29,065
—	—	—	—
43,168	(810)	55,827	29,065
89,636	11,013	851,639	822,574
$132,804	$ 10,203	$907,466	$851,639

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds
Year ended June 30, 2008 (with comparative totals for the year ended June 30, 2007)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Cash flows from operating activities:	Principal repayments on loans	$ —	$ 16,923	$ 92,718	$ 29,498
	Investment in loans	—	(2,684)	(473,501)	(10,130)
	Interest received on loans	—	14,507	98,744	16,410
	Other operating	—	—	(4,541)	—
	Fees and other income received	8,807	777	963	—
	Salaries, benefits and vendor payments	(23,152)	(155)	(5,661)	(931)
	Appropriations received	—	—	—	—
	Appropriations disbursed	—	—	—	—
	Administrative reimbursement from funds	22,770	(1,734)	(11,367)	(2,246)
	Interest transferred to funds held for others	(3,627)	—	—	—
	Deposits into funds held for others	31,897	—	—	—
	Disbursements made from funds held for others	(29,655)	—	—	—
	Interfund transfers and other assets	(3,704)	10	(1,567)	(16)
	Net cash provided (used) by operating activities	3,336	27,644	(304,212)	32,585
Cash flows from noncapital financing activities:	Proceeds from sale of bonds	—	—	633,221	—
	Principal repayment on bonds	—	(13,725)	(558,565)	(46,360)
	Interest paid on bonds and notes	—	(8,812)	(82,611)	(15,884)
	Financing costs paid related to bonds issued	—	—	(2,689)	—
	Interest paid/received between funds	—	—	1,477	(1,477)
	Principal paid/received between funds	—	—	650	(650)
	Premium paid on redemption of bonds	—	—	—	—
	Transfer of cash between funds	(22,278)	—	22,278	—
	Net cash provided (used) by noncapital financing activities	(22,278)	(22,537)	13,761	(64,371)
Cash flows from investing activities:	Investment in real estate owned	—	—	(675)	(335)
	Interest received on investments	4,978	2,584	32,019	4,974
	Proceeds from sale of mortgage insurance claims/real estate owned	—	—	11,681	2,738
	Proceeds from maturity, sale or transfer of investment securities	66,995	5,425	438,002	8,339
	Purchase of investment securities	(22,088)	(14,182)	(314,492)	(10,487)
	Purchase of loans between funds	—	—	2,065	—
	Net cash provided (used) by investing activities	49,885	(6,173)	168,600	5,229
	Net increase (decrease) in cash and cash equivalents	30,943	(1,066)	(121,851)	(26,557)
Cash and cash equivalents:	Beginning of Year	31,801	51,936	565,249	115,549
	End of Year	$ 62,744	$ 50,870	$ 443,398	$ 88,992

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	Total For the Year Ended June 30, 2008	Total For the Year Ended June 30, 2007
$ 5,086	$ —	$ 144,225	$ 165,887
(34,772)	—	(521,087)	(504,674)
177	—	129,838	110,304
(2,367)	—	(6,908)	(2,625)
2,887	—	13,434	10,269
(11)	—	(29,910)	(28,380)
87,796	178,243	266,039	176,206
(20,114)	(178,646)	(198,760)	(187,020)
(6,721)	—	702	886
—	(83)	(3,710)	(3,663)
—	108	32,005	36,422
—	(54)	(29,709)	(38,283)
3,092	—	(2,185)	(1,392)
35,053	(432)	(206,026)	(266,063)
—	—	633,221	1,014,640
—	—	(618,650)	(560,095)
—	—	(107,307)	(87,321)
—	—	(2,689)	(4,965)
—	—	—	—
—	—	—	—
—	—	—	(48)
—	—	—	—
—	—	(95,425)	362,211
—	—	(1,010)	(880)
5,465	599	50,619	47,751
—	—	14,419	9,835
44,448	3,900	567,109	220,972
(92,290)	(3,500)	(457,039)	(438,962)
(2,065)	—	—	—
(44,442)	999	174,098	(161,284)
(9,389)	567	(127,353)	(65,136)
9,501	9,066	783,102	848,238
$ 112	$ 9,633	$ 655,749	$ 783,102

(continued)

Statement of Cash Flows (in thousands)

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	$ 8,407	$ 6,041	$ (5,185)	$ 4,206
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:				
Amortization of premiums (discounts) and fees on loans	—	(85)	2,214	(562)
Depreciation	2,049	—	—	—
Realized losses (gains) on sale of securities, net	(7)	(11)	(1,377)	4
Unrealized losses on securities, net	(30)	(199)	(2,332)	(186)
Provision for loan losses	—	196	8,097	729
Reduction in carrying value of certain low interest rate and/or deferred loans	—	—	14,894	—
Capitalized interest on loans and real estate owned	—	(82)	(1,202)	(251)
Interest earned on investments	(1,232)	(2,813)	(38,265)	(5,235)
Interest expense on bonds and notes	—	9,394	89,475	16,687
Changes in assets and liabilities:				
Decrease (increase) in loans receivable, excluding loans transferred between funds	—	14,239	(380,783)	19,368
Decrease (increase) in interest receivable on loans	—	128	(2,539)	88
Increase (decrease) in arbitrage rebate liability	—	820	6,002	(2,243)
Increase (decrease) in deferred revenue	—	—	—	—
Interest transferred to funds held for others	(3,627)	—	—	—
Increase (decrease) in accounts payable	159	6	6,818	3
Increase (decrease) in interfund payable, affecting operating activities only	(3,986)	10	427	(23)
Increase (decrease) in funds held for others	2,242	—	—	—
Other	(639)	—	(456)	—
Total	(5,071)	21,603	(299,027)	28,379
Net cash provided (used) by operating activities	$ 3,336	$27,644	$(304,212)	$32,585

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	Total For The Year Ended June 30, 2008	Total For The Year Ended June 30, 2007
$ 43,168	$ (810)	$ 55,827	$ 29,065
—	—	1,567	418
—	—	2,049	1,202
(19)	—	(1,410)	(156)
(1,712)	(150)	(4,609)	(1,057)
808	—	9,830	4,058
25,036	—	39,930	36,497
—	—	(1,535)	(857)
(6,018)	(504)	(54,067)	(53,030)
—	—	115,556	101,349
(29,686)	—	(376,862)	(338,787)
(14)	—	(2,337)	(1,689)
—	—	4,579	418
—	—	—	(35,235)
—	(83)	(3,710)	(3,663)
1,262	71	8,319	(1,604)
2,358	1,224	10	(189)
—	54	2,296	(1,861)
(130)	(234)	(1,459)	(942)
(8,115)	378	(261,853)	(295,128)
$ 35,053	$ (432)	$(206,026)	$(266,063)

Nature of Business and Fund Structure

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

The Agency was authorized to issue bonds and other obligations to fulfill its corporate purposes up to a total outstanding amount of $3.0 billion. State statute increased the limit to $5.0 billion effective July 1, 2008. The bonds and other obligations are not a debt of the State of Minnesota or any political subdivision thereof.

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

General Reserve

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

Rental Housing

Bond proceeds for the multifamily housing programs are maintained under the Rental Housing bond resolution. Loans are generally secured by first mortgages on real property. The Rental Housing bond resolution prescribes the application of bond proceeds, debt service requirements of the bond indebtedness, permitted investments, and eligible loans to be financed from the bond proceeds.

Residential Housing Finance

Included within Residential Housing Finance are the bonds issued and outstanding under the Residential Housing Finance bond resolution, the bonds issued and outstanding under the limited obligation draw-down bond resolution, the bond funds and the Alternative Loan Fund which consists of the Housing Investment Fund (Pool 2) and the Housing Affordability Fund (Pool 3), both of which are restricted by a covenant with bondholders.

Bonds

Bonds issued to date were for the purpose of funding purchases of single family first mortgage loans, some related entry cost housing assistance loans, and unsecured or subordinated home improvement loans, although no bonds were issued to support home improvement lending during fiscal year 2008.The majority of the single family first mortgage loans financed by these bond issues are insured by private mortgage insurers 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). Assets of the bonds issued and outstanding under the resolution are pledged to the repayment of Residential Housing Finance bonds, except that the limited obligation draw-down bonds are issued under a separate bond resolution and are secured solely by the proceeds thereof as invested in a guaranteed investment contract. As of July 1, 2007, the Home Improvement Endowment Fund, the Homeownership Endowment Fund, and the Multifamily

Nature of Business and Fund Structure (continued)

Endowment Fund were collapsed and their assets transferred to the Alternative Loan Fund and distributed between the Housing Investment Fund (Pool 2) and the Housing Affordability Fund (Pool 3), which are not pledged to the payment of the Residential Housing Finance bonds. For more information, see Subsequent Events below.

Alternative Loan Fund

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

Assets of the Housing Investment Fund (Pool 2) may consist of investment quality housing loans and investment grade securities. During fiscal year 2008 this fund provided capital for several Agency programs including its home improvement loan program, its multifamily first-mortgage loan program, for warehousing purchases of single family first-mortgage loans and for bond sale contributions. The fund may also provide funding for interim financing for construction and rehabilitation of single family housing, and may be used to advance funds to retire high-rate debt.

Assets of the Housing Affordability Fund (Pool 3) may consist of investment-grade securities when not utilized for program purposes. Program purposes include, but are not limited to: zero-percent loans; loans at interest rates substantially below market; high risk loans; deferred loans; revolving funds; and grants and rental assistance. During fiscal year 2008 resources from Pool 3 were used for entry cost assistance for first-time homebuyers, below-market interim financing for construction and rehabilitation of single family housing and innovative multifamily programs that were not eligible for bond financing such as non-profit capacity building and deferred, subordinated loans to support first mortgages.

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

The limited obligation draw-down bond resolution prescribes the application of bond proceeds, and permitted investments.

Single Family

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

The Single Family bond resolution prescribes the application of 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 Minnesota legislature which are to be used for programs for low- and moderate-income persons and families in the form of low-interest loans, no-interest deferred loans, innovative development and other housing-related program costs. The net assets of the State Appropriated fund are not pledged or available to support the bondholders or creditors of the Agency.

Nature of Business and Fund Structure (continued)

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- and moderate-income persons and families in the form of no-interest deferred loans, grants, support to other non-profit housing organizations and other housing-related program costs. The net assets of the Federal Appropriated fund are not pledged or available to support the bondholders or creditors of the Agency.

Summary of Significant Accounting Policies

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

Basis of Accounting

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

Generally Accepted Accounting Principles

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

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

New Accounting Pronouncements

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The approach followed in this Statement generally is consistent with the approach adopted in Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, with modifications to reflect differences between pension benefits and OPEB. GASB Statement No. 45 is effective for the Agency's fiscal year ended June 30, 2008. The adoption of this Statement did not materially affect the Agency's financial statements.

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

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. It requires that when any one of five specified obligating events occurs, a government is required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a

Summary of Significant Accounting Policies (continued)

liability and, if appropriate, capitalized when goods and services are acquired. Obligating events include the following:

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

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

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

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

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* This Statement defines derivative instruments and requires governmental entities to measure most derivative instruments at fair value and report them on the financial statements as assets or liabilities. Changes in the fair value of derivative instruments would be reported in the financial statements as investment gains and losses, unless certain criteria are met for investing the derivative instrument as a hedge, in which case a deferred inflow or outflow would be reported on the statement of net assets. This statement also requires note disclosure that includes summary information about derivative instruments used as hedges and investments, and disclosure of the risk exposures resulting from the derivative instruments. GASB Statement No. 53 is required to be effective for the Agency's fiscal year ending June 30, 2010. The Agency has not yet determined the effect that the adoption of this statement will have on its financial statements.

Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

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

Investment Securities

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

Loans Receivable, Net

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

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

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

For homeownership and home improvement loans, the Agency establishes varying amounts of reserves depending upon the number of delinquent loans, the number of days delinquent and the type of insurance coverage in force if any: Federal Housing Administration (FHA) insurance, Rural Development (RD) guarantee, Veterans Administration (VA) guarantee, or private mortgage 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, 2008.

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

Interest Receivable on Loans

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

Mortgage Insurance Claims Receivable

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

Real Estate Owned

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

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 Residential Housing Finance fund and the Single Family fund. In the Rental Housing fund, deferred gain or loss on refunding is amortized using the bonds outstanding method due to the unpredictable nature of prepayments of multifamily loans.

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; non-operating transfers among the Housing Endowment Fund (Pool 1), the Housing Investment Fund (Pool 2), and the Housing Affordability Fund (Pool 3); and certain mortgage payments received but not yet transferred to their respective funds.

Funds Held for Others

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

Restricted by Bond Resolution

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

Restricted by Covenant

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

Restricted by Law

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

Invested in Capital Assets

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

Summary of Significant Accounting Policies (continued)

Agency-wide Total

The Agency-wide Total columns reflect the totals of the similar accounts of the various funds. Since the assets of certain of the funds are restricted by either the related bond resolutions or legislation, the totaling of the accounts, including assets therein, is for convenience only and does not indicate that the combined assets are available in any manner other than that provided for in either the bond resolutions, Board resolutions or the legislation for the separate funds or groups of funds. The totals for fiscal year 2007 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 $0.877 million are reflected as administrative reimbursement revenues in the General Reserve.

Administrative reimbursements in the amount of $22.832 million between the Agency's funds have been eliminated from the respective administrative reimbursement revenues and expenses line items for purposes of presentation in the Agency-wide statement of activities.

Fees Earned and Other Income

Fees earned and other income consists mainly of fees related to the financing and administration of Section 8 properties, including administration of a HUD-owned Section 8 portfolio, fees in connection with operating the federal 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, operating subsidies for other State agencies 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 (Pool 3) loans, and State Appropriated loans which are originated at below market interest rates 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 risks associated with them. Certain of these loans may be forgiven at maturity.

Other Changes

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

Non-operating Transfer of Assets Between Funds

Non-operating transfers occur as a result of bond sale contributions related to new debt issues; transfers among the Housing Endowment Fund (Pool 1), the Housing Investment Fund (Pool 2), and the Housing Affordability Fund (Pool 3); 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.

Summary of Significant Accounting Policies (continued)

Non-Cash Activities

Transfers from loans receivable to mortgage insurance claims receivable and real estate owned for fiscal year 2008 were $18.3 million and $3.2 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

In fiscal year 2006 an advance was made from Residential Housing Finance to optionally redeem bonds in Single Family in order to take advantage of economically favorable conditions. The advance to Single Family is being repaid according to the original debt repayment schedule. The advance is recorded in Interfund Payable (Receivable).

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 calculation 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), State investment pool, corporate obligations, municipal bonds and other investments consistent with requirements of safety and liquidity that comply with applicable provisions of the bond resolutions, state law or Board policy.

Cash and Cash Equivalents are stated at cost which approximates market and are composed of the following at June 30, 2008 (in thousands):

Cash and Cash Equivalents

Funds	Deposits	Commercial Paper	Money Market Fund	State Investment Pool	Investment Agreements	Combined Totals
General Reserve	$ —	$ —	$ —	$62,744	$ —	$ 62,744
Rental Housing	—	—	10,429	—	40,441	50,870
Residential Housing Finance	3,404	—	70,863	—	369,131	443,398
Single Family	749	—	6,715	—	81,528	88,992
State Appropriated	112	—	—	—	—	112
Federal Appropriated	32	2,047	7,552	2	—	9,633
Agency-wide Totals	$4,297	$2,047	$95,559	$62,746	$491,100	$655,749

Deposits were cash awaiting investment, consisting 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. Commercial paper is held by the Agency's agent.

The state investment pool is an internal investment pool managed by the Minnesota State Board of Investment (SBI). The SBI invests in short-term, liquid, high quality debt securities. These

Cash, Cash Equivalents and Investment Securities (continued)

investments can include US treasury securities, US agency securities, bankers acceptances, high grade corporates, and commercial paper. This investment pool is unrated.

Generally, investment agreements are uncollateralized, interest-bearing contracts with financial institutions or corporations 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 resolutions. As of June 30, 2008, all the investment agreement providers had a Standard & Poor's long-term credit rating of "A-" or higher and a Moody's long-term credit rating of "A2" or higher, except for Trinity Funding Corporation LLC which Moody's does not rate. The individual investment agreements are unrated. Substantially all of the agreements contain "termination" clauses so that the Agency may withdraw funds early if credit ratings deteriorate below specified levels and remedial action is not taken.

Investment securities (comprising US Treasuries, US Agencies, certificates of deposit, commercial paper and corporate notes) are recorded at fair market value and were allocated to the following funds at June 30, 2008 (in thousands):

Investment Securities

Funds	Amortized Cost	Unrealized Appreciation in Fair Market Value	Estimated Fair Market Value
General Reserve	$ 46,337	$ 288	$ 46,625
Rental Housing	12,529	416	12,945
Residential Housing Finance	204,528	1,235	205,763
Single Family Mortgage	5,890	340	6,230
State Appropriated	97,380	1,662	99,042
Federal Appropriated	3,983	163	4,146
Agency-wide Totals	$370,647	$4,104	$374,751

US treasury securities, US agency securities, corporate notes and commercial paper in General Reserve, State Appropriated and Federal Appropriated are held by the Agency's agent in the name of the State of Minnesota. US treasury and US agency securities in the remainder of the funds are held by the trustees under the Agency's bond resolutions in the Agency's name. US agency investments (Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Farm Credit Bank, and Resolution Funding Corporation) had a Standard & Poor's rating of "AAA" and a Moody's rating of "Aaa" as of June 30, 2008. The Agency's investments in municipals were rated "AAA/Aa3" as of June 30, 2008. On August 14, 2008 the rating on the municipals changed to "AA/Aa3." Of the Agency's investments in corporate notes as of June 30, 2008, $8.268 million were rated "AA-/Aa2," and $5.431 million were rated "A-/Baa1."

Cash, Cash Equivalents and Investment Securities (continued)

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 appreciation of $4.104 million and net discounts of $0.309 million), along with the weighted average maturities as of June 30, 2008, consisted 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	$ 4,297	—	—	—	—	—	—
Commercial paper	2,047	—	—	—	—	—	—
Money market fund	95,559	—	—	—	—	—	—
State Investment Pool	62,746	—	—	—	—	—	—
Investment agreements	491,100	—	—	—	—	—	—
US Agencies	305,816	2.7	7.2	6.3	12.1	1.5	6.3
US Treasuries	18,385	—	—	12.2	8.6	—	9.4
Municipals	33,000	—	—	—	—	—	—
Corporate notes	13,755	0.2	—	—	—	0.1	—
Agency-wide Totals	$1,026,705						
Weighted Average Maturity		0.8	1.1	2.0	0.7	1.3	1.9

Investments in any one issuer, excluding investments issued or explicitly guaranteed by the U.S. Government, that represent 5 percent or more of the par value of total investments, as defined by GASB Statement No. 40, as of June 30, 2008 were as follows (in thousands):

Investment Issuer	Amount
Federal Home Loan Bank	$203,385
AIG Matched Funding Corp, investment agreements	163,635
Calyon, investment agreements	108,017
FSA Capital Management Services, investment agreements	55,687
Bayerische Landesbank, investment agreements	46,670

The Agency maintained certain deposits and investments throughout the year that were subject to custodial credit risk. As of June 30, 2008, those amounts subject to this risk consisted of the following (in thousands):

	Amount
Deposits not covered by depository insurance and uncollateralized (including $95,559 in a money market fund and $62,746 in the State investment pool)	$162,601
Investment securities (which excludes investment agreements) uninsured, uncollateralized and not held in the Agency's name	224,939
Agency-wide Total	$387,540

Net realized gain on sale of investment securities of $1.409 million is included in interest earned on investments.

Cash, Cash Equivalents and Investment Securities (continued)

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, 2008 were as follows (in thousands):

Funds	Amount
Rental Housing	$20,607
Residential Housing Finance	48,077
Single Family	15,818
Totals	$84,502

Loans Receivable, Net

Loans receivable, net at June 30, 2008 consisted of (in thousands):

Funds	Outstanding Principal	Allowance for Loan Losses	Unamortized Premiums (Discounts) and Fees	Loans Receivable, Net
General Reserve	$ —	$ —	$ —	$ —
Rental Housing	219,657	(8,093)	(1,356)	210,208
Residential Housing Finance	1,907,099	(15,921)	5,252	1,896,430
Single Family	257,145	(430)	(2,079)	254,636
State Appropriated	38,274	(1,412)	—	36,862
Federal Appropriated	—	—	—	—
Agency-wide Totals	$2,422,175	$(25,856)	$ 1,817	$2,398,136

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

In addition to the loans in the table above, certain loans are originated at below-market interest rates and repayment is deferred for up to 30 years. These loans are generally in either a second or more subordinate mortgage position or may be unsecured. Given the nature of these loans and the risk associated with them, at the time of origination they are fully reserved resulting in a net carrying value of zero. During the fiscal year ended June 30, 2008 loans originated with such characteristics amounted to $17.331 million in the Residential Housing Finance Housing Affordability Fund (Pool 3), and $33.956 million in State Appropriated. Loans with net carrying values of zero are excluded from the tables above and below.

Loans Receivable, Net (continued)

Loans receivable, net in Residential Housing Finance at June 30, 2008 consist of a variety of loans as follows (in thousands):

Description	Net Outstanding Amount
Residential Housing Finance Bonds:	
Homeownership, first mortgage loans	$1,555,503
Other homeownership loans, generally secured by a second mortgage	2,408
Alternative Loan Fund, Housing Investment Fund (Pool 2):	
Home Improvement loans, generally secured by a second mortgage	115,452
Homeownership, first mortgage loans	66,331
Multifamily, first mortgage loans	136,301
Alternative Loan Fund, Housing Affordability Fund (Pool 3):	
Multifamily, subordinated mortgage loans reserved at 100%	—
Other homeownership loans, generally secured by a second mortgage	20,435
Residential Housing Finance Totals	$1,896,430

The Agency is limited by statute 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, 2008 consisted of the following (in thousands):

Funds	Receivables Due from the Federal Government	Other Assets and Receivables	Total
General Reserve	$1,199	$ 4	$1,203
Rental Housing	—	4	4
Residential Housing Finance	—	492	492
Single Family	—	1	1
State Appropriated	—	375	375
Federal Appropriated	427	—	427
Agency-wide Totals	$1,626	$876	$2,502

Bonds Payable, Net

Bonds payable, net at June 30, 2008 were as follows (in thousands):

Funds	Par Bonds Outstanding	Net Unamortized Premium and Deferred Fees	Net Unamortized Deferred Loss	Bonds Payable, Net
Rental Housing	$ 181,155	$ —	$(2,724)	$ 178,431
Residential Housing Finance	1,968,100	8,395	—	1,976,495
Single Family	256,450	—	—	256,450
Totals	$2,405,705	$8,395	$(2,724)	$2,411,376

Summary of bond activity from June 30, 2007 to June 30, 2008 (in thousands):

Funds	June 30, 2007 Bonds Outstanding, at Par	Par Issued	Par Repaid	June 30, 2008 Bonds Outstanding, at Par
Rental Housing	$ 194,880	$ —	$ 13,725	$ 181,155
Residential Housing Finance	1,895,500	631,165	558,565	1,968,100
Single Family	302,810	—	46,360	256,450
Totals	$2,393,190	$631,165	$618,650	$2,405,705

Bonds Payable, Net (continued)

Bonds payable at June 30, 2008 were as follows (in thousands):

Series	Interest rate	Final Maturity	Original Par	June 30, 2008 Bonds Outstanding, at Par
Rental Housing Bonds				
1995 Series C-2	5.50% to 5.95%	2015	$ 38,210	$ 9,535
1995 Series D	5.55% to 6.00%	2022	234,590	11,735
1997 Series A	5.20% to 5.875%	2028	4,750	3,990
1998 Series A	5.375%	2028	5,505	5,505
1998 Series B	6.60%	2019	4,180	2,910
1998 Series C	4.55% to 5.20%	2029	2,865	2,425
1999 Series A	4.45% to 5.10%	2024	4,275	3,395
1999 Series B	5.30% to 6.15%	2025	3,160	2,295
2000 Series A	5.375% to 6.15%	2030	9,290	6,590
2000 Series B	5.90%	2031	5,150	4,540
2001 Series A	4.50% to 5.35%	2033	4,800	4,400
2002 Series A	3.05% to 4.05%	2014	27,630	17,510
2003 Series A	4.55% to 4.95%	2045	12,770	12,350
2003 Series B	4.15% to 5.08%	2031	1,945	1,805
2003 Series C-1	4.35% to 5.20%	2034	2,095	1,990
2004 Series A	2.90% to 5.00%	2035	9,345	8,480
2004 Series B	4.00% to 4.85%	2035	3,215	3,090
2004 Series C	2.60% to 4.40%	2022	80,000	58,765
2005 Series A-1	4.25% to 4.85%	2035	1,725	1,680
2006 Series A-1	4.40% to 5.10%	2047	6,615	6,580
2006 Series B	4.89%	2037	5,020	4,980
2006 Series C-1	4.96%	2037	2,860	2,830
2007 Series A-1	4.65%	2038	3,775	3,775
			473,770	181,155
Residential Housing Finance Bonds				
2002 Series A	4.75% to 5.30%	2019	14,035	3,990
2002 Series B	4.60% to 5.65%	2033	59,650	16,755
2002 Series A-1	4.20% to 4.90%	2019	6,860	4,990
2002 Series B-1	3.80% to 5.35%	2033	25,760	17,885
2002 Series E	4.30% to 5.00%	2020	12,805	8,505
2002 Series F	3.95% to 5.40%	2032	52,195	28,510
2002 Series H	4.48% to 4.93%	2012	20,000	15,000
2003 Series A	2.50% to 4.30%	2034	40,000	25,435
2003 Series B	Variable	2033	25,000	25,000
2003 Series I	3.25% to 5.25%	2035	25,000	14,910
2003 Series J	Variable	2033	25,000	22,780
2004 Series A	3.20% to 4.25%	2018	22,480	19,455
2004 Series B	2.75% to 5.00%	2033	94,620	62,900
2004 Series C	4.70%	2035	14,970	13,110
2004 Series E-1	4.10% to 4.60%	2016	5,110	4,415
2004 Series E-2	4.40% to 4.60%	2016	6,475	5,600
2004 Series F-1	3.90% to 4.50%	2012	4,600	1,085
2004 Series F-2	3.70% to 5.25%	2034	36,160	29,940
2004 Series G	Variable	2032	50,000	44,470
2005 Series A	2.75% to 4.125%	2018	14,575	12,630

Bonds Payable, Net (continued)

Series	Interest rate	Final Maturity	Original Par	June 30, 2008 Bonds Outstanding, at Par
Residential Housing Finance Bonds (continued)				
2005 Series B	4.75% to 5.00%	2035	$ 20,425	$ 18,765
2005 Series C	Variable	2035	25,000	22,820
2005 Series G	4.25% to 4.30%	2018	8,950	8,865
2005 Series H	3.60% to 5.00%	2036	51,050	46,400
2005 Series I	Variable	2036	40,000	37,000
2005 Series J	3.625% to 4.00%	2015	11,890	11,730
2005 Series K	3.30% to 4.40%	2028	41,950	37,265
2005 Series L	4.75% to 5.00%	2036	48,165	44,875
2005 Series M	Variable	2036	60,000	55,595
2005 Series O	3.90% to 4.20%	2015	4,510	4,510
2005 Series P	3.70% to 5.00%	2036	65,490	61,870
2006 Series A	3.30% to 4.00%	2016	13,150	11,895
2006 Series B	4.60% to 5.00%	2037	43,515	42,470
2006 Series C	Variable	2037	28,335	27,240
2006 Series F	3.60% to 4.25%	2016	11,015	10,135
2006 Series G	4.85% to 5.50%	2037	58,985	58,420
2006 Series H	5.85%	2036	15,000	14,045
2006 Series I	3.90% to 5.75%	2038	95,000	92,820
2006 Series J	6.00% to 6.51%	2038	45,000	43,960
2006 Series L	3.45% to 3.95%	2016	6,740	6,740
2006 Series M	4.625% to 5.75%	2037	35,260	35,120
2006 Series N	5.19% to 5.76%	2037	18,000	17,675
2007 Series C	3.45% to 3.95%	2017	12,515	12,515
2007 Series D	4.60% to 5.50%	2038	62,485	62,485
2007 Series E	Variable	2038	25,000	24,860
2007 Series H	3.65% to 3.95%	2017	12,230	12,230
2007 Series I	3.70% to 5.50%	2038	100,270	99,800
2007 Series J	Variable	2038	37,500	37,500
2007 Series K	3.78%	2008	98,440	98,440
2007 Series L	3.70% to 5.50%	2048	105,000	105,000
2007 Series M	6.345%	2038	70,000	69,965
2007 Series N	3.30%	2008	36,000	36,000
2007 Series O	3.35%	2008	64,000	64,000
2007 Series P	3.50% to 3.90%	2017	4,305	4,305
2007 Series Q	3.70% to 5.50%	2038	42,365	42,365
2007 Series R	4.41% to 4.76%	2013	2,840	2,840
2007 Series S	Variable	2038	18,975	18,975
2007 Series T	Variable	2048	37,160	37,160
			2,031,810	1,816,020
Limited Obligation Bonds (Draw Down)				
2007-1	Variable	2010	25,090	25,090
2007-2	Variable	2010	126,990	126,990
			152,080	152,080
Single Family Mortgage Bonds				
1993 Series D	6.40%	2027	17,685	1,165
1993 Series F	6.25%	2020	9,500	550

Bonds Payable, Net (continued)

Series	Interest rate	Final Maturity	Original Par	June 30, 2008 Bonds Outstanding, at Par
Single Family Mortgage Bonds (continued)				
1994 Series E	5.60% to 5.90%	2025	$31,820	$12,340
1994 Series T	5.75% to 6.125%	2017	16,420	970
1995 Series G	8.05%	2012	8,310	170
1995 Series H	6.40%	2027	19,240	1,275
1995 Series I	6.35%	2018	7,450	495
1995 Series M	5.30% to 5.875%	2017	32,025	3,580
1996 Series A	6.375%	2028	34,480	3,355
1996 Series B	6.35%	2019	7,990	1,710
1996 Series C	5.75% to 6.10%	2015	12,345	1,180
1996 Series D	5.70% to 6.00%	2017	23,580	1,310
1996 Series E	6.25%	2023	14,495	1,535
1996 Series F	6.30%	2028	18,275	1,940
1996 Series G	6.25%	2028	41,810	4,130
1996 Series H	6.00%	2021	13,865	1,370
1996 Series I	7.37% to 8.00%	2017	14,325	905
1996 Series J	5.60%	2021	915	100
1996 Series K	4.80% to 5.40%	2017	9,280	1,055
1997 Series A	5.50% to 5.95%	2017	22,630	2,240
1997 Series B	6.20%	2021	9,180	1,665
1997 Series C	6.25%	2029	27,740	1,900
1997 Series D	5.80% to 5.85%	2021	15,885	3,250
1997 Series E	5.90%	2029	23,495	2,770
1997 Series G	5.40% to 6.00%	2018	40,260	360
1997 Series I	5.50%	2017	9,730	2,575
1997 Series K	5.75%	2029	22,700	6,000
1998 Series A	4.65% to 5.20%	2017	5,710	1,190
1998 Series B	5.50%	2029	17,030	2,245
1998 Series C	4.650% to 5.25%	2017	21,775	3,625
1998 Series E	5.40%	2030	30,500	8,755
1998 Series F-1	4.90% to 5.45%	2017	10,650	1,515
1998 Series G-1	5.60%	2022	6,150	1,480
1998 Series H-1	5.65%	2031	14,885	3,590
1998 Series F-2	4.95% to 5.70%	2017	11,385	2,970
1998 Series G-2	6.00%	2022	6,605	2,810
1998 Series H-2	6.05%	2031	15,965	6,820
1999 Series B	5.00% to 5.25%	2020	18,865	7,250
1999 Series C	4.70% to 4.90%	2024	21,960	795
1999 Series D	5.45%	2031	23,975	8,845
1999 Series H	5.30% to 5.80%	2021	16,350	4,490
1999 Series I	5.15% to 6.05%	2031	34,700	6,285
1999 Series J	5.00%	2017	4,745	2,435
1999 Series K	4.05% to 5.35%	2033	44,515	20,910
2000 Series A	5.25% to 5.85%	2020	18,650	7,085
2000 Series B	5.55%	2024	16,580	1,275
2000 Series C	6.10%	2032	30,320	10,210
2000 Series F	Variable	2031	20,000	12,845
2000 Series G	4.25% to 5.40%	2025	39,990	17,815

Bonds Payable, Net (continued)

Series	Interest rate	Final Maturity	Original Par	June 30, 2008 Bonds Outstanding, at Par
Single Family Mortgage Bonds (continued)				
2000 Series H	5.50%	2023	$ 32,475	$ 9,025
2000 Series I	5.15% to 5.80%	2019	20,185	6,765
2000 Series J	5.40% to 5.90%	2030	29,720	11,050
2001 Series A	5.35% to 5.45%	2022	14,570	6,870
2001 Series B	4.70% to 5.675%	2030	34,855	10,770
2001 Series E	2.70% to 4.90%	2035	23,000	16,835
			1,091,540	256,450
Combined Totals			$3,749,200	$2,405,705

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

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

While the limited obligation draw-down bonds have a stated maturity of October 24, 2010, the owner of the bonds has given the Agency a notice of its optional tender of the bonds on October 1, 2008, on which date the Agency is obligated to purchase the bonds at a price equal to the par amount thereof, which purchase is to be funded from proceeds of the draw-down bonds on deposit with the trustee therefor or proceeds of refunding bonds issued by the Agency.

Annual debt service requirements to maturity for bonds outstanding as of June 30, 2008, are as follows (in thousands):

	Rental Housing Bonds		Residential Housing Finance Bonds (1)	
Fiscal Year	Principal	Interest	Principal	Interest
2009	$ 11,500	$ 8,349	$ 373,560	$ 76,139
2010	12,110	7,894	30,500	67,921
2011	12,720	7,390	26,710	66,818
2012	12,990	6,844	27,855	65,742
2013	11,895	6,282	38,825	64,356
2014-2018	44,795	24,476	174,685	300,998
2019-2023	28,620	15,243	208,420	260,580
2024-2028	16,915	9,922	284,390	211,771
2029-2033	13,980	5,649	368,730	145,404
2034-2038	8,500	2,794	397,605	63,820
2039-2043	4,255	1,318	23,630	3,900
2044-2048	2,875	283	10,585	1,535
2049-2053	—	—	2,605	73
Totals	$181,155	$96,444	$1,968,100	$1,329,057

Bonds Payable, Net (continued)

	Single Family Mortgage Bonds		Combined Totals	
Fiscal Year	Principal	Interest	Principal	Interest
2009	$ 5,995	$ 13,817	$ 391,055	$ 98,305
2010	6,465	13,512	49,075	89,327
2011	7,580	13,181	47,010	87,389
2012	7,900	12,784	48,745	85,370
2013	8,460	12,357	59,180	82,995
2014-2018	49,530	54,065	269,010	379,539
2019-2023	52,560	39,869	289,600	315,692
2024-2028	67,640	24,165	368,945	245,858
2029-2033	47,075	6,061	429,785	157,114
2034-2038	3,245	199	409,350	66,813
2039-2043	—	—	27,885	5,218
2044-2048	—	—	13,460	1,818
2049-2053	—	—	2,605	73
Totals	$256,450	$190,010	$2,405,705	$1,615,511

(1) Includes limited obligation draw down bonds

Principal due on limited obligation draw-down bonds is reflected in the table above based on the maturity date of the bonds. This presentation does not alter the expectation that these bonds will be redeemed in whole or in part from proceeds of refunding bonds from time to time before the maturity date. Draw down bonds are secured by an investment contract that is structured to permit additional deposits (reflecting additional draws on the bonds) and withdrawals to accommodate refundings. All such investment contracts are included in Cash and Cash Equivalents on the statement of net assets.

Principal due on short-term notes is reflected in the year of maturity of the individual notes, because short-term notes may not be remarketed. Notes are secured either by investment contracts structured to provide liquidity at each debt service payment date or by US Agency securities scheduled to mature at each debt service payment date in the amounts required at that date.

Residential Housing Finance Bonds 2003 Series B and J, 2004 Series G, 2005 Series C, I and M, 2006 Series C and 2007 Series E (Taxable), J (Taxable), S and T (Taxable) accrue interest at rates that change weekly as determined by a remarketing agent for such series based on market conditions. The Limited Obligation Bond (Draw Down), 2007-1 and 2007-2 also accrue interest at a variable rate based on certain indices. Future interest due for these bonds, as displayed above in the annual debt service requirements table, is based upon the rate in effect on June 30, 2008. Variable rate bond interest payments will vary as rates vary. 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.

Single Family Bonds, 2000 Series F accrue interest at a variable rate that is recalculated each calendar month. The rate is the one-month LIBOR (London Interbank Offered Rate) plus 0.30% per annum provided that the rate may not exceed 11.00% per annum. Future interest due for this series, as displayed above in the annual debt service requirements table, is based upon the calculated rate in effect on June 30, 2008. Variable rate bond interest payments on this series of bonds will vary as one-month LIBOR varies.

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

Bonds Payable, Net (continued)

June 30, 2008, it is in compliance with those covenants in all material respects and the assets of all funds and accounts in the bond funds equaled or exceeded the requirements as established by the respective bond resolutions.

Call notices were issued on or before June 30, 2008 for the redemption of certain bonds thereafter. See Subsequent Events.

Interest Rate Swaps

Objective of Swaps

The Agency has entered into interest rate swap agreements in connection with its issuance of variable rate mortgage revenue bonds since 2003 (excluding the limited obligation draw-down bonds). Using variable-rate debt hedged with interest-rate swaps reduces the Agency's cost of capital compared to using long-term fixed rate bonds and, in turn, reduces mortgage rates offered to the Agency's low- and moderate-income, first-time home buyers.

Swap Payments and Associated Debt

Using rates as of June 30, 2008, 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
2009	$ 7,220	$ 8,590	$ 6,573	$ 22,383
2010	890	8,457	7,204	16,551
2011	930	8,435	6,830	16,195
2012	980	8,411	6,412	15,803
2013	1,035	8,387	6,007	15,429
2014-2018	14,755	41,223	24,574	80,552
2019-2023	46,740	37,898	16,243	100,881
2024-2028	85,385	29,700	8,896	123,981
2029-2033	103,875	18,174	4,414	126,463
2034-2038	75,150	6,455	1,833	83,438
2039-2043	9,580	1,240	26	10,846
2044-2048	6,105	528	—	6,633
2049-2053	755	9	—	764

Terms of Swaps

Terms of the swaps, including the fair values and the credit ratings of the three counterparties thereto as of June 30, 2008, are contained in the three tables below. Initial swap notional amounts match original principal amounts of the associated debt. The Agency's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in outstanding principal amounts of the associated bond series. With respect to the outstanding swaps, the Agency has also purchased the cumulative right, based upon a 300% PSA prepayment rate (The Standard Prepayment Model of The Securities Industry and Financial Markets Association and formerly the Public Securities Association) on the underlying mortgage loans, to further reduce the notional balances of the swaps as necessary to correspond to the outstanding principal amount of the associated bond series and, except for the 2003B, 2003J and 2004G swaps, the right to terminate the swaps at par at approximately the 10-year anniversary date of the swap. The Agency also has the right to terminate outstanding swaps in whole or in part at fair value at any time if it is not in default thereunder.

Interest Rate Swaps (continued)

Counterparty: UBS AG

Credit Rating: Aa1**/AA-***(2)

Associated Bond Series	Notional Amount as of June 30, 2008	Effective Date	Maturity Date	Fixed Rate Payable	Variable Rate To Be Received	Fair Value as of June 30, 2008(1)
RHFB 2003B	$ 25,000,000	July 23, 2003	January 1, 2033	3.532%	65% of 1 month LIBOR* plus 0.23% per annum	$ 385,535
RHFB 2003J	22,780,000	October 15, 2003	July 1, 2033	4.183%	65% of 1 month LIBOR* plus 0.23% per annum	(1,176,458)
RHFB 2005C	22,820,000	March 2, 2005	January 1, 2035	3.587%	64% of 1 month LIBOR* plus 0.28% per annum	(402,213)
RHFB 2006C	27,240,000	March 21, 2006	January 1, 2037	3.788%	64% of 1 month LIBOR* plus 0.29% per annum	(925,998)
RHFB 2007S	18,975,000	December 19, 2007	July 1, 2038	4.340%	100% of SIFMA**** plus 0.06% per annum	(539,392)
RHFB 2007T (Taxable)	37,160,000	December 19, 2007	July 1, 2026	4.580%	100% of 1 month LIBOR*	(306,818)
Total	$153,975,000					$(2,965,344)

Counterparty: Royal Bank of Canada

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

Associated Bond Series	Notional Amount as of June 30, 2008	Effective Date	Maturity Date	Fixed Rate Payable	Variable Rate To Be Received	Fair Value as of June 30, 2008(1)
RHFB 2004G	$ 44,470,000	July 22, 2004	January 1, 2032	4.165%	64% of 1 month LIBOR* plus 0.26% per annum	$(2,088,801)
RHFB 2007E (Taxable)	24,860,000	March 7, 2007	July 1, 2038	5.738%	100% of 1 month LIBOR*	(1,314,772)
RHFB 2007J (Taxable)	37,500,000	May 17, 2007	July 1, 2038	5.665%	100% of 1 month LIBOR*	(1,832,700)
Total	$106,830,000					$(5,236,273)

Interest Rate Swaps (continued)

Counterparty: Citibank, N.A.

Credit Rating: Aa1**/AA***(3)

Associated Bond Series	Notional Amount as of June 30, 2008	Effective Date	Maturity Date	Fixed Rate Payable	Variable Rate To Be Received	Fair Value as of June 30, 2008(1)
RHFB 2005I	$ 37,000,000	June 2, 2005	January 1, 2036	3.570%	64% of 1 month LIBOR* plus 0.28% per annum	$ (718,385)
RHFB 2005M	55,595,000	August 4, 2005	January 1, 2036	3.373%	64% of 1 month LIBOR* plus 0.29% per annum	(571,073)
Total	$ 92,595,000					$(1,289,458)
Combined Totals	$353,400,000					$(9,491,075)

(1) A negative fair value represents money due from the Agency to the counterparty upon an assumed termination on June 30, 2008. A positive fair value represents the amount due the Agency by the counterparty upon such assumed termination

(2) Standard & Poor's Rating Services has given the "AA-" rating of this counterparty (UBS AG) a negative outlook.

(3) Moody's Investor Services, Inc. has given the "Aa1" rating to this counterparty (Citibank, N.A.) a negative outlook and Standard & Poor's Rating Services has placed the "AA" rating of this counterparty (Citibank, N.A.) on negative watch.

*London Interbank Offered Rate.

**Moody's Investors Service, Inc.

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

****Securities Industry and Financial Markets Association

Swap Valuation

The fair values presented in the foregoing tables were estimated by the Agency's counterparties to the swaps and approximate the termination payments that would have been due had the swaps been terminated as of June 30, 2008. A positive fair value represents the amount due the Agency by the counterparty upon termination of the swap while a negative fair value represents the amount payable by the Agency.

Termination Risk

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

Credit Risk

A swap potentially exposes the Agency to credit risk with the counterparty. The fair value of a swap represents the Agency's current credit exposure to the swap counterparty upon a termination event. As of June 30, 2008, the Agency did not have a net credit risk exposure to each of its three counterparties because their respective combined swap positions had a negative net fair value, as set forth in the foregoing tables. The swap agreements contain varying collateral

Interest Rate Swaps (continued)

requirements based upon the Agency's and the counterparties' credit ratings and the fair values of the swaps. These bilateral requirements are established to mitigate potential credit risk exposure. As of June 30, 2008, neither the Agency nor any counterparty had been required to post collateral.

Amortization Risk

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

Basis Risk

The potential for basis risk exists when variable interest payments on the Agency's bonds do not equal variable interest receipts payable by the counterparty under the associated swap. The variable rate the Agency pays on its bonds resets weekly, but the variable rate received on its swaps is based upon a specified percent of the one-month, taxable LIBOR rate or the SIFMA rate, plus a specified spread if the swap relates to tax-exempt bonds. Basis risk will vary over time due to inter-market conditions. As of June 30, 2008, the interest rate on the Agency's variable rate tax-exempt debt ranged from 1.53% to 1.95% per annum while the variable interest rate on the associated swaps ranged from 1.61% to 1.86% per annum. As of June 30, 2008, the interest rate on the Agency's variable rate taxable debt was 2.48% per annum while the variable interest rate on the corresponding swaps ranged from 2.46% to 2.48% per annum. In order to reduce the cumulative effects of basis risk on the swaps relating to tax-exempt variable rate debt, the determination of the spread from one-month LIBOR payable by the counterparty under the swap has been based upon a regression analysis of the long-term relationship between one-month LIBOR and the tax-exempt variable rate SIFMA index (which ordinarily would approximate the weekly variable rate on the Agency's tax-exempt variable rate bonds).

Tax Risk

The structure of the variable interest rate payments the Agency receives from its LIBOR-based swap contracts relating to tax-exempt variable rate bonds is based upon the historical long-term relationship between taxable and tax-exempt short-term interest rates. Tax risk represents the risk that may arise due to a change in the tax code that may fundamentally alter this relationship. The Agency chose to assume this risk at the time the swaps were entered into because it was not economically favorable to transfer to the swap counterparties.

Conduit Debt Obligation

On December 21, 2005, the Agency issued tax-exempt bonds on a conduit basis for a certain Minnesota nonprofit corporation. The proceeds of the bonds were used by the corporation to refinance certain HUD Section 202 elderly housing projects. The bonds were sold on a private placement basis. As of June 30, 2008, $32.1 million of the bonds were outstanding. Neither the Agency, the State of Minnesota, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

Accounts Payable and Other Liabilities

Accounts payable and other liabilities at June 30, 2008 consisted of the following (in thousands):

Funds	Arbitrage Rebate Payable to the Federal Government and Yield Compliance Liability	Accrued Salaries, Compensated Absences and Employee Benefits	Other Liabilities and Accounts Payable	Total
General Reserve	$ —	$2,815	$ 1,222	$ 4,037
Rental Housing	4,301	—	27	4,328
Residential Housing Finance	4,594	—	7,354	11,948
Single Family	1,750	—	64	1,814
State Appropriated	—	—	1,880	1,880
Federal Appropriated	—	—	647	647
Agency-wide Totals	$10,645	$2,815	$11,194	$24,654

The amount of arbitrage rebate and yield compliance payable that is not due within one year in Rental Housing is $4.301 million, in Residential Housing Finance is $4.594 million and in Single Family is $1.207 million, for a total of $10.102 million.

Interfund Balances

Interfund balances displayed as Interfund Payable (Receivable) at June 30, 2008 consisted of the following (in thousands):

	Due from						
Funds	General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total
Due to: General Reserve	$ —	$—	$2,100	$ —	$2,995	$ 314	$ 5,409
Rental Housing	—	—	—	—	—	—	—
Residential Housing Finance	6,556	10	—	23,287	—	1,049	30,902
Single Family	—	—	—	—	—	—	—
State Appropriated	64	—	64	139	—	—	267
Federal Appropriated	—	—	—	—	—	—	—
Agency-wide Totals	$6,620	$10	$2,164	$23,426	$2,995	$1,363	$36,578

The $23.287 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 $21.780 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, 2008 consisted of the following (in thousands):

Transfer to: Funds	Transfer from: General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total
General Reserve-administrative reimbursement	$—	$1,734	$11,367	$2,246	$6,722	$701	$22,770
Rental Housing	—	—	—	—	—	—	—
Residential Housing Finance	50	—	—	2,127	—	—	2,177
Single Family	—	—	—	—	—	—	—
State Appropriated	—	—	6	16	2,065	—	2,087
Federal Appropriated	33	401	—	—	—	—	434
Agency-wide Totals	$83	$2,135	$11,373	$4,389	$8,787	$701	$27,468

Interfund transfers recorded in Interfund Payable (Receivable) were made to move loan payments that were deposited for administrative convenience in a fund not holding the loans; to make administrative reimbursements to the General Reserve from other funds; to pay for loans transferred between funds including $2.065 million of entry cost assistance loans transferred from Residential Housing Finance to State Appropriated; to repay funds advanced by State Appropriated to Federal Appropriated for assistance to hurricane victims, and to make payments from Single Family to Residential Housing Finance on loans outstanding between those funds.

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds for the year ended June 30, 2008, consisted of the following (in thousands):

Transfer to: Funds	Transfer from: General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total
General Reserve	$ —	$—	$—	$—	$—	$—	$ —
Rental Housing	—	—	—	—	—	—	—
Residential Housing Finance	22,278	—	—	—	—	—	22,278
Single Family	—	—	—	—	—	—	—
State Appropriated	—	—	—	—	—	—	—
Federal Appropriated	—	—	—	—	—	—	—
Agency-wide Totals	$22,278	$—	$—	$—	$—	$—	$22,278

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. The majority of this year's transfer from General Reserve to Residential Housing Finance was the result of the funds restructuring.

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 (or any

Net Assets (continued)

such transferred funds deposited directly in 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 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 $476.878 million of net assets restricted by covenant are restricted by a covenant made with bondholders authorized by the Agency's enabling legislation.

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 combined net assets of the General Reserve and bond funds (exclusive of Pool 3) are required by Board Resolution to be not less than the combined net assets of the same funds as of the immediately preceding fiscal year end. Since the funds restructuring of the Agency occurred during fiscal year 2008 there is no comparable combined net assets of the same funds as of the immediately preceding fiscal year end.

By board resolution, the Agency changed its net asset requirements and investment guidelines for the Housing Endowment Fund (Pool 1), the Housing Investment Fund (Pool 2) and the Housing Affordability Fund (Pool 3), effective July 1, 2007. See Management's Discussion and Analysis of Financial Condition and Results of Operations-Restructuring Fund Structure and Change in Investment Guidelines, for additional information.

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, 2008 (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 Unrealized Depreciation in Fair Market Value	Total Net Assets Restricted by Covenant
Housing Endowment Fund (Pool 1), General Reserve				
Pool 1 is an amount equal to 1% of gross loans outstanding (excluding Pool 3 and appropriated loans) and must be invested in short-term, investment-grade paper at market interest rates	$23,626	$—	$—	$23,626
Unrealized depreciation in fair market value of investments, excluding multifamily development escrow investments	—	—	—	—

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 Unrealized Depreciation in Fair Market Value	Total Net Assets Restricted by Covenant
Subtotal, Housing Endowment Fund (Pool 1), General Reserve	$ 23,626	$ —	$—	$ 23,626
Housing Investment Fund (Pool 2), Residential Housing Finance				
An amount ($641,072) equal to the beginning net asset balance of General Reserve and the bond funds, excluding Pool 3, as reorganized on July 1, 2007 and increased by an amount ($21,090) that equals the percentage agreed to by the board (3% for fiscal 2008) plus unrealized gains or minus unrealized losses is retained in General Reserve and the bond funds. The excess ($14,300) is transferred from Pool 2 to Pool 3 leaving a Pool 2 net asset balance of $350,917. Pool 2 is invested in investment-quality housing loans, as defined by the Agency, or investment-grade securities.	350,959	—	—	350,959
Unrealized depreciation in fair market value of investments	—	(42)	—	(42)
Subtotal, Housing Investment Fund (Pool 2), Residential Housing Finance	350,959	(42)	—	350,917
Housing Affordability Fund (Pool 3), Residential Housing Finance				
Funds in excess of Pool 1 and Pool 2 requirements are transferred to Pool 3. Assets are invested in deferred loans, zero percent and low interest-rate loans, other loans with higher than ordinary risk factors, or investment-grade securities.	101,758	—	—	101,758
Unrealized appreciation in fair market value of investments	—	577	—	577
Subtotal, Housing Affordability Fund (Pool 3), Residential Housing Finance	101,758	577	—	102,335
Agency-wide Total	$476,343	$535	$—	$476,878

Net Assets (continued)

Restricted by Law

Undisbursed, recognized federal and state appropriations are classified as Net Assets Restricted by Law. The $10.203 million of net assets restricted by law in the Federal Appropriated fund as of June 30, 2008 are restricted by federal requirements that control the use of the funds. The $132.804 million of net assets restricted by law in the State Appropriated fund as of June 30, 2008 are restricted by the state laws appropriating such funds.

Defined Benefit Pension Plan

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

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

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

Effective Date	Employee	Employer
07/01/07	4.25%	4.25%
07/01/08	4.50	4.50
07/01/09	4.75	4.75
07/01/10	5.00	5.00

The Agency's pension contribution to the System for the year ended June 30, 2008 was $560 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
07/01/07	$8,904,517	$9,627,305	$722,788	92.49%	$2,095,310	34.50%
07/01/06	8,486,756	8,819,161	332,405	96.23%	2,016,588	16.48%
07/01/05	8,081,736	8,455,336	373,600	95.58%	1,952,323	19.14%

Defined Benefit Pension Plan (continued)

Schedule of Employer Contributions
(dollars in thousands)

Year Ended June 30	Actuarially Required Contribution Rate	Actual Covered Payroll	Actual Member Contributions	Annual Required Employer Contributions	Actual Employer Contributions*	Percent Contributed
2007	10.11%	$2,095,310	$89,447	$122,389	$86,492	70,67%
2006	10.55%	2,016,588	85,379	127,371	82,645	64.88%
2005	9.33%	1,952,323	83,101	99,051	80,312	81.08%

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

The information presented was as of July 1, 2007, which is the latest actuarial information available.

The above summarizes the defined benefit pension plan. Please refer to the July 1, 2007, 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.

Other Postemployment Benefits

The Agency's employees participate in the State of Minnesota-sponsored hospital, medical, and dental insurance group. State statute requires that former employees and their dependents be allowed to continue participation indefinitely, under certain conditions, in the insurance that the employees participated in immediately before retirement. The former employees must pay the entire premium for continuation coverage. An implicit rate subsidy exists for the former participants that elect to continue coverage. That subsidy refers to the concept that retirees under the age of 65 (i.e. not eligible for Medicare) generate greater claims on average than active participants.

The State of Minnesota obtained an actuarial valuation from an independent firm of its postretirement medical benefits as of July 1, 2006 to determine its other postemployment benefits (OPEB) liability. That valuation has not yet been reviewed by the state's auditors but no changes are anticipated. The state intends to fund the OPEB liability on a "pay as you go" basis. The State and the Agency recorded the liability for the first time during fiscal 2008. The State has calculated the Agency's portion of the OPEB obligation based upon active employee count. For the Agency, the annual required contribution (ARC) is $96 thousand, the employer contribution is $58 thousand and the net OPEB obligation (NOO) is $38 thousand. The NOO was recorded as an expense and a corresponding liability by the Agency.

This is a cost sharing plan. The State of Minnesota has not prepared separate financial statements for the plan. The actuarial method used to determine the actuarial accrued liability and the annual required contribution was the entry age normal method. The assumed discount rate was 4.75% and the assumed payroll growth rate was 4.0%. Future retirees who are eligible for an implicit subsidy are assumed to elect coverage at a 50% rate. The projected annual medical claims cost trend rate is 9.13% initially, reduced by decrements to an ultimate rate of 5.0% for the year 2026 and beyond. Mortality was determined using 1983 Group Annuity Mortality Tables.

The funding status is described in the following tables on a plan-wide basis. The Agency portion is not separately determinable. The State of Minnesota also subsidizes the healthcare and dental premium rates for certain other state agency retirees. That liability is reflected in the tables along with the implicit rate subsidy.

Other Postemployment Benefits (continued)

The funding status 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	Covered Payroll	UAAL as a % of Covered Payroll
07/01/06	$0	$564,809	$564,809	0.0%	$1,961,643	28.79%

Schedule of Employer Contributions
(dollars in thousands)

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
06/30/08	$56,314	$24,611	43.70%	$31,703

Development of NOO and Annual OPEB Cost Pursuant to GASB No. 45
(dollars in thousands)

Fiscal Year Ended	(a) Annual Required Contribution (ARC)	(b) Employer Contribution	(c) Interests on NOO	(d) ARC Adjustment with Interest (h) / (e) * 1.0475	(e) Amortization Factor	(f) Annual OPEB Cost (a) + (c) − (d)	(g) Change in NOO (f) − (b)	(h) NOO Balance LY + (g)
06/30/07								$ —
06/30/08	$56,314	$24,611	$—	$—	27.0839*	$56,314	$31,703	$31,703

*30-year amortization using 4.75% interest and 4.00% payroll growth.

Risk Management

Minnesota Housing is exposed to various insurable risks of loss related to tort; theft of, damage to, or destruction of assets; errors or omissions; and employer obligations. Minnesota Housing manages these risks through State of Minnesota insurance plans including the State of Minnesota Risk Management Fund (a self-insurance fund) and through purchased insurance coverage. Property, casualty, liability, and crime coverage is provided by the Minnesota Risk Management Fund which may also purchase other insurance from qualified insurers for Minnesota Housing's needs. Minnesota Housing bears a $1,000 deductible per claim for the following coverage limits.

Type of coverage	Coverage Limit
Real and personal property loss	$ 5,038,665
Business interruption/loss of use/extra expense	50,000,000
Bodily injury and property damage per person	400,000
Bodily injury and property damage per occurrence	1,200,000
Faithful performance/commercial crime	13,000,000
Employee dishonesty	250,000

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

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

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

Commitments

As of June 30, 2008, 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	—
Residential Housing Finance	143,036
Single Family	—
State Appropriated	98,803
Federal Appropriated	22,381
Agency-wide Totals	$264,220

Board-approved selections of future loans or other housing assistance for multifamily housing projects are included in the above table. Multifamily developers frequently proceed with their projects based upon their selection by the Board and, therefore, a selection is treated like a de facto commitment although it is merely a reservation of funds. The Agency retains the unilateral discretion to cancel any reservation of funds that has not been formally and legally committed.

The Agency has cancelable lease commitments for office facilities through May 2009 and for parking through February 2010. Combined office facilities and parking lease expense for the fiscal year ended June 30, 2008 was $1.153 million. The Agency is currently considering alternative arrangements for future office facilities and parking that include possible extensions of the existing leases. Commitments for future minimum lease payments under cancelable leases for office facilities and parking are (in thousands):

	Fiscal Year		
	2009	2010	Total
Amount	$1,115	$83	$1,198

The Agency had in place a $15 million revolving line of credit with Wells Fargo Bank, N.A. that expired on December 31, 2007. There were no advances made or balances outstanding during fiscal year 2008. The Agency determined that this line of credit was not necessary and intentionally did not renew the line.

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

Subsequent Events

On June 26, 2008 the Board of the Agency adopted a series resolution authorizing the issuance of $25.090 million bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Residential Housing Finance Bonds, 2008 Series A were delivered on August 7, 2008.

On June 26, 2008 the Board of the Agency adopted a series resolution authorizing the issuance of $34.910 million bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Residential Housing Finance Bonds, 2008 Series B were delivered on August 7, 2008.

On June 26, 2008 the Board of the Agency adopted a series resolution authorizing the issuance of $40.000 million bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Residential Housing Finance Bonds, 2008 Series C were delivered as variable rate demand obligations on August 7, 2008. The Agency also entered into a swap agreement with the Royal Bank of Canada in respect to these bonds.

On July 11, 2008 the Board of the Agency adopted a bond resolution authorizing the issuance of up to $350 million in principal amount of limited obligation draw-down bonds, of which no more than $200 million may be outstanding at any time for the purpose of preserving volume cap for

Subsequent Events (continued)

future use. The Limited Obligation Bonds, Draw-Down Series 2008-2 (AMT Refunding), in the initial draw amount of $161.865 million, and Draw-Down Series 2008-4 (Non-AMT New Authority), in the initial draw amount of $33.965 million, were delivered on August 11, 2008.

Certain proceeds of the Residential Housing Finance Bonds, 2008 Series A and the Limited Obligation Bonds, Draw Down Series 2008-2 will be applied to redeem all outstanding Limited Obligation Bonds (Draw Down), 2007-1 and 2007-2 on September 2, 2008.

The Agency called for redemption subsequent to June 30, 2008 the following bonds (in thousands):

Program	Redemption Date	Par Value
Residential Housing Finance	July 1, 2008	$ 17,515
Single Family	July 1, 2008	10,305
Rental Housing	August 1, 2008	585
Rental Housing	August 27, 2008	180
Limited Obligation Bonds (Draw Down), 2007-1 and 2007-2	September 2, 2008	152,080

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MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
General Reserve and Bond Funds
Five Year Financial Summary (in thousands)
Fiscal Years 2004 – 2008

		2004	2005	2006	2007	2008
Loans Receivable, net (as of June 30)	Multifamily programs	$ 362,870	$ 350,881	$ 350,661	$ 348,974	$ 346,509
	Homeownership programs	932,777	1,061,556	1,302,544	1,588,871	1,899,313
	Home improvement programs	89,157	101,657	123,531	121,977	115,452
	Total	$1,384,804	$1,514,094	$1,776,736	$2,059,822	$2,361,274
Bonds Payable, net[1] (as of June 30)	Multifamily programs	$ 216,928	$ 201,200	$ 200,744	$ 191,691	$ 178,431
	Homeownership programs	1,607,661	1,794,886	1,725,347	2,187,297	2,217,945
	Home improvement programs	20,000	20,000	20,000	20,000	15,000
	Total	$1,844,589	$2,016,086	$1,946,091	$2,398,988	$2,411,376
Loans purchased or originated during fiscal year	Multifamily programs	$ 50,509	$ 20,056	$ 29,534	$ 19,306	$ 30,169
	Homeownership programs	216,109	305,899	393,866	424,436	436,263
	Home improvement programs	34,981	44,279	51,119	29,456	19,883
	Total	$ 301,599	$ 370,234	$ 474,519	$ 473,198	$ 486,315
Net Assets (as of June 30)	Total net assets	$ 666,978	$ 697,192	$ 719,887	$ 750,990	$ 764,459
	Percent of total assets	25.2%	24.5%	25.7%	22.8%	23.0%
Revenues over Expenses	Revenues over expenses for the fiscal year	$ 18,519	$ 30,214	$ 22,695	$ 31,103	$ 13,469

Notes:

(1) Amounts are net of unamortized bond issuance costs in 2004 and 2005.

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Net Assets (in thousands)
General Reserve and Bond Funds
June 30, 2008 (with comparative totals for June 30, 2007)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance Excluding Pool 3	Single Family
Assets	Cash and cash equivalents	$ 62,744	$ 50,870	$ 439,183	$ 88,992
	Investment securities	46,625	12,945	137,880	6,230
	Loans receivable, net	—	210,208	1,875,995	254,636
	Interest receivable on loans	—	1,280	9,468	1,486
	Interest receivable on investments	693	950	5,279	130
	Mortgage insurance claims receivable	—	—	2,528	1,283
	Real estate owned	—	—	6,384	653
	Unamortized bond issuance costs	—	2,088	9,958	2,316
	Capital assets, net	3,237	—	—	—
	Other assets	1,203	4	20	1
	Total assets	$114,502	$278,345	$2,486,695	$355,727
Liabilities	Bonds payable, net	$ —	$178,431	$1,976,495	$256,450
	Interest payable	—	3,522	42,687	6,800
	Accounts payable and other liabilities	4,037	4,328	5,151	1,814
	Interfund payable (receivable)	1,211	10	(13,608)	23,426
	Funds held for others	82,391	—	—	—
	Total liabilities	87,639	186,291	2,010,725	288,490
	Commitments and contingencies				
Net Assets	Restricted by bond resolution	—	92,054	125,053	67,237
	Restricted by covenant	23,626	—	350,917	—
	Invested in capital assets	3,237	—	—	—
	Total net assets	26,863	92,054	475,970	67,237
	Total liabilities and net assets	$114,502	$278,345	$2,486,695	$355,727

General Reserve & Bond Funds, Excluding Pool 3 Total as of June 30, 2008	Residential Housing Finance Pool 3	General Reserve & Bond Funds Total as of June 30, 2008	General Reserve & Bond Funds Total as of June 30, 2007
$ 641,789	$ 4,215	$ 646,004	$ 764,535
203,680	67,883	271,563	423,564
2,340,839	20,435	2,361,274	2,059,822
12,234	60	12,294	9,979
7,052	937	7,989	6,126
3,811	—	3,811	1,837
7,037	—	7,037	2,727
14,362	—	14,362	15,206
3,237	—	3,237	4,385
1,228	472	1,700	1,284
$3,235,269	$ 94,002	$3,329,271	$3,289,465
$2,411,376	$ —	$2,411,376	$2,398,988
53,009	—	53,009	47,593
15,330	6,797	22,127	12,999
11,039	(15,130)	(4,091)	(509)
82,391	—	82,391	79,404
2,573,145	(8,333)	2,564,812	2,538,475
284,344	—	284,344	423,358
374,543	102,335	476,878	323,247
3,237	—	3,237	4,385
662,124	102,335	764,459	750,990
$3,235,269	$ 94,002	$3,329,271	$3,289,465

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, 2008 (with comparative totals for the year ended June 30, 2007)

		General Reserve	Bond Funds: Rental Housing	Bond Funds: Residential Housing Finance Excluding Pool 3	Bond Funds: Single Family
Revenues	Interest earned on loans	$ —	$13,802	$ 99,972	$19,703
	Interest earned on investments	1,239	2,748	29,350	4,906
	Administrative reimbursement	23,708	—	—	—
	Fees earned and other income	8,757	777	366	—
	Unrealized gains on securities	30	199	1,443	186
	Total revenues	33,734	17,526	131,131	24,795
Expenses	Interest	—	9,394	89,475	16,687
	Loan administration and trustee fees	—	161	5,677	934
	Administrative reimbursement	—	1,734	11,684	2,239
	Salaries and benefits	16,582	—	—	—
	Other general operating	8,745	—	36	—
	Reduction in carrying value of certain low interest rate deferred loans	—	—	—	—
	Provision for loan losses	—	196	7,561	729
	Total expenses	25,327	11,485	114,433	20,589
	Revenues over (under) expenses	8,407	6,041	16,698	4,206
Other changes	Non-operating transfer of assets between funds	(27,554)	—	106,923	—
	Change in net assets	(19,147)	6,041	123,621	4,206
Net Assets	Total net assets, beginning of year	46,010	86,013	352,349	63,031
	Total net assets, end of year	$ 26,863	$92,054	$475,970	$67,237

General Reserve & Bond Funds, Excluding Pool 3 Total For The Year Ended June 30, 2008	Residential Housing Finance Pool 3	General Reserve & Bond Funds Total For The Year Ended June 30, 2008	General Reserve & Bond Funds Total For The Year Ended June 30, 2007
$133,477	$ 299	$133,776	$110,830
38,243	4,290	42,533	50,004
23,708	—	23,708	19,118
9,900	585	10,485	9,450
1,858	889	2,747	595
207,186	6,063	213,249	189,997
115,556	—	115,556	101,349
6,772	14	6,786	5,928
15,657	1,221	16,878	14,596
16,582	—	16,582	14,937
8,781	11,281	20,062	8,496
—	14,894	14,894	10,062
8,486	536	9,022	3,526
171,834	27,946	199,780	158,894
35,352	(21,883)	13,469	31,103
79,369	(79,369)	—	—
114,721	(101,252)	13,469	31,103
547,403	203,587	750,990	719,887
$662,124	$ 102,335	$764,459	$750,990

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds
Year ended June 30, 2008 (with comparative totals for the year ended June 30, 2007)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance Excluding Pool 3	Single Family
Cash flows from operating activities	Principal repayments on loans	$ —	$ 16,923	$ 90,278	$ 29,498
	Investment in loans	—	(2,684)	(451,124)	(10,130)
	Interest received on loans	—	14,507	97,744	16,410
	Other operating	—	—	(36)	—
	Fees and other income received	8,807	777	378	—
	Salaries, benefits and vendor payments	(23,152)	(155)	(5,633)	(931)
	Administrative reimbursement from funds	22,770	(1,734)	(10,146)	(2,246)
	Interest transferred to funds held for others	(3,627)	—	—	—
	Deposits into funds held for others	31,897	—	—	—
	Disbursements made from funds held for others	(29,655)	—	—	—
	Interfund transfers and other assets	(3,704)	10	(11,712)	(16)
	Net cash provided (used) by operating activities	3,336	27,644	(290,251)	32,585
Cash flows from noncapital financing activities	Proceeds from sale of bonds	—	—	633,221	—
	Principal repayment on bonds	—	(13,725)	(558,565)	(46,360)
	Interest paid on bonds and notes	—	(8,812)	(82,611)	(15,884)
	Financing costs paid related to bonds issued	—	—	(2,689)	—
	Interest paid/received between funds	—	—	1,477	(1,477)
	Principal paid/received between funds	—	—	650	(650)
	Premium paid on redemption of bonds	—	—	—	—
	Transfer of cash between funds	(22,278)	—	130,611	—
	Net cash provided (used) by noncapital financing activities	(22,278)	(22,537)	122,094	(64,371)
Cash flows from investing activities	Investment in real estate owned	—	—	(539)	(335)
	Interest received on investments	4,978	2,584	28,162	4,974
	Proceeds from sale of mortgage insurance claims/real estate owned	—	—	11,681	2,738
	Proceeds from maturity, sale or transfer of investment securities	66,995	5,425	335,563	8,339
	Purchase of investment securities	(22,088)	(14,182)	(212,778)	(10,487)
	Purchase of loans between funds	—	—	(108,495)	—
	Net cash provided (used) by investing activities	49,885	(6,173)	53,594	5,229
	Net increase (decrease) in cash and cash equivalents	30,943	(1,066)	(114,563)	(26,557)
Cash and cash equivalents	Beginning of year	31,801	51,936	553,746	115,549
	End of year	$ 62,744	$ 50,870	$ 439,183	$ 88,992

General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2008	Residential Housing Finance Pool 3	Total General Reserve & Bond Funds Total For The Year Ended June 30, 2008	Total General Reserve & Bond Funds Total For The Year Ended June 30, 2007
$ 136,699	$ 2,440	$ 139,139	$ 160,268
(463,938)	(22,377)	(486,315)	(473,198)
128,661	1,000	129,661	110,229
(36)	(4,505)	(4,541)	(1,597)
9,962	585	10,547	9,524
(29,871)	(28)	(29,899)	(28,337)
8,644	(1,221)	7,423	4,097
(3,627)	—	(3,627)	(3,505)
31,897	—	31,897	29,354
(29,655)	—	(29,655)	(31,402)
(15,422)	10,145	(5,277)	(1,726)
(226,686)	(13,961)	(240,647)	(226,293)
633,221	—	633,221	1,014,640
(618,650)	—	(618,650)	(560,095)
(107,307)	—	(107,307)	(87,321)
(2,689)	—	(2,689)	(4,965)
—	—	—	—
—	—	—	—
—	—	—	(48)
108,333	(108,333)	—	—
12,908	(108,333)	(95,425)	362,211
(874)	(136)	(1,010)	(880)
40,698	3,857	44,555	44,488
14,419	—	14,419	9,835
416,322	102,439	518,761	146,755
(259,535)	(101,714)	(361,249)	(373,899)
(108,495)	110,560	2,065	5,528
102,535	115,006	217,541	(168,173)
(111,243)	(7,288)	(118,531)	(32,255)
753,032	11,503	764,535	796,790
$ 641,789	$ 4,215	$ 646,004	$ 764,535

(continued)

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds (continued)
Year ended June 30, 2008 (with comparative totals for the year ended June 30, 2007)

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

	General Reserve	Bond Funds: Rental Housing	Bond Funds: Residential Housing Finance Excluding Pool 3	Bond Funds: Single Family
Revenues over (under) expenses	$ 8,407	$ 6,041	$ 16,698	$ 4,206
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:				
Amortization of premiums (discounts) and fees on loans	—	(85)	2,258	(562)
Depreciation	2,049	—	—	—
Realized losses (gains) on sale of securities, net	(7)	(11)	(1,040)	4
Unrealized losses (gains) on securities, net	(30)	(199)	(1,443)	(186)
Provision for loan losses	—	196	7,561	729
Reduction in carrying value of certain low interest rate and/or deferred loans	—	—	—	—
Capitalized interest on loans and real estate owned	—	(82)	(1,202)	(251)
Interest earned on investments	(1,232)	(2,813)	(34,312)	(5,235)
Interest expense on bonds and notes	—	9,394	89,475	16,687
Changes in assets and liabilities:				
Decrease (increase) in loans receivable, excluding loans transferred between funds	—	14,239	(360,846)	19,368
Decrease (increase) in interest receivable on loans	—	128	(3,284)	88
Increase (decrease) in arbitrage rebate liability	—	820	6,002	(2,243)
Interest transferred to funds held for others	(3,627)	—	—	—
Increase (decrease) in accounts payable	159	6	56	3
Increase (decrease) in interfund payable, affecting operating activities only	(3,986)	10	(10,171)	(23)
Increase (decrease) in funds held for others	2,242	—	—	—
Other	(639)	—	(3)	—
Total	(5,071)	21,603	(306,949)	28,379
Net cash provided (used) by operating activities	$ 3,336	$27,644	$(290,251)	$32,585

General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2008	Residential Housing Finance Pool 3	Total General Reserve & Bond Funds Year Ended June 30, 2008	Total General Reserve & Bond Funds Year Ended June 30, 2007
$ 35,352	$(21,883)	$ 13,469	$ 31,103
1,611	(44)	1,567	418
2,049	—	2,049	1,202
(1,054)	(337)	(1,391)	(159)
(1,858)	(889)	(2,747)	(595)
8,486	536	9,022	3,526
—	14,894	14,894	10,062
(1,535)	—	(1,535)	(857)
(43,592)	(3,953)	(47,545)	(48,736)
115,556	—	115,556	101,349
(327,239)	(19,937)	(347,176)	(312,930)
(3,068)	745	(2,323)	(1,689)
4,579	—	4,579	418
(3,627)	—	(3,627)	(3,505)
224	6,762	6,986	(1,629)
(14,170)	10,598	(3,572)	(637)
2,242	—	2,242	(2,048)
(642)	(453)	(1,095)	(1,586)
(262,038)	7,922	(254,116)	(257,396)
$(226,686)	$(13,961)	$(240,647)	(226,293)

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