

Evaluating Affordable Housing Efforts

Annual Financial Report

State Fiscal Year 2017



MINNESOTA HOUSING FINANCE AGENCY
Annual Financial Report as of and for the year ended June 30, 2017

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MINNESOTA HOUSING FINANCE AGENCY

Commissioner's Report

At Minnesota Housing, we are pleased to have completed another year with strong financial and programmatic results.

Minnesota continues to enjoy strong economic activity, with unemployment at 3.7% and with Minnesota adding roughly 39,900 jobs in past year bringing the total to nearly 3 million jobs in the State. Statewide home sales prices increased by 6.4% from \$218,500 in June 2016 to \$232,500 in June 2017. In this marketplace environment, Minnesota Housing has capitalized on strong market conditions and continuing low interest rates to improve both its product offerings and its financial condition with positive programmatic results:

- Minnesota Housing continues to support strong single-family home mortgage production levels. First time homebuyers continue to enter the market in large numbers, putting pressure on housing inventory in the lower price ranges, as existing homes with values below \$250,000 currently represent only a 1.6 month supply in the Twin Cities metropolitan area. Minnesota Housing had a high volume of home mortgages last year, with almost 3,800 loans purchased and over \$608 million in lending. The Agency increased its allocation of loans for downpayment and closing costs during the year to support this production and to ensure that the Agency is reaching its targeted borrowers. About 90% of mortgage loans went to first time homebuyers and more than 32% were for households of color and Hispanic ethnicity.
- Minnesota Housing continues to manage its single-family production using a “best execution” strategy, using bond sales as well as selling loans directly into the capital markets. As the use of tax-exempt bonding authority for multifamily transactions grew over the past year, the Agency increased the amount of taxable bonds used to support single family bond transactions. These and other strategies allow the Agency to address the growing demand for mortgages from first time homebuyers while also supporting an increasing number of multifamily rental transactions that utilize tax exempt bonds and 4% housing tax credits.
- Minnesota Housing has seen delinquency rates across its entire single-family portfolio continue to drop from 3.75% in June of last year to 3.36% this year for 60+ days, and the foreclosure rate also fell from 0.97% to 0.87%. With the strong market for single family homes, the Agency has focused on reducing its REO portfolio, which stood at only 0.3% of all loans (23 loans) in the whole loan portfolio at year end. In a year when the Agency disposed of 226 REO properties, it saw REO losses of less than \$2 million. The Agency continues its strategy of placing virtually all new loan production into mortgage-backed securities.
- Forecasts for the State of Minnesota still show the State with a budget surplus, but tax and spending initiatives passed by the 2017 State Legislature will limit future surpluses. Minnesota Housing continues to enjoy strong support from the State Legislature, with the Agency receiving over \$100 million in state appropriations for Agency programs for the 2018-2019 biennium, and a \$55 million authorization for Housing Infrastructure bonds and a \$10 million authorization for general obligations bonds for public housing renovations.
- The demand for affordable rental housing in Minnesota is very high as investors are able to continue to raise rents in market rate properties under current market conditions. Demand for tax-exempt bonding authority for multifamily transactions is strong for preservation and new construction, including supportive housing, senior housing, and workforce housing in greater Minnesota. For the first time in at least a decade Minnesota Housing received almost no additional private activity bonding authority at the end of 2016 beyond its entitlement allocation. Minnesota Housing continues to develop its multifamily first mortgage lending capacity. It continues to bring new multifamily loans, generally insured under the FHA Risk Share program, onto the balance sheet, while continuing to process loans under the FHA MAP (Multifamily Accelerated Processing) program and the FFB/Risk Share program.
- Last year, Minnesota Housing closed 55 loans that provided capital for 43 multifamily properties and 2,490 units of affordable housing. Of these units, 151 were designated to serve long-term homeless households and 525 units were for supportive housing.

MINNESOTA HOUSING FINANCE AGENCY

Commissioner's Report (continued)

- In partnership with the non-profit Minnesota Homeownership Center, Minnesota Housing supports pre-purchase education and counseling, foreclosure prevention counseling and reverse mortgage counseling. Over 16,200 households throughout the state used these services last year. More than 8,200 of those households received their counseling through an on-line homebuyer counseling program called Framework, which makes homebuyer counseling accessible and convenient for many more households. Foreclosure prevention counseling fell from 1,700 to 1,500 over the past year. In addition, the Agency continues a new, intensive coaching and counseling program targeted primarily for households of color and Hispanic ethnicity who often experience difficulty accessing mortgage loans through conventional channels. Since the program started in the summer of 2014, 1,853 households have started this program, of which 89% are households of color and Hispanic ethnicity.

Minnesota Housing took other important steps during the year to set our course for the future:

- Completed negotiation of a new master servicing contract with US Bank.
- Negotiated a 10-year lease for new office space in downtown Saint Paul, bringing all Agency employees onto a single floor and offering enhanced technology to support their work.
- Continued to work with the State's Interagency Council on Homelessness to implement the Statewide Plan to Prevent and End Homelessness. Since the plan was implemented in December of 2013, the number of people experiencing homelessness in Minnesota has declined by 8.5%.
- Continued its significant investment in the redesign of business processes and the technology to support them.

We thank our partners throughout the state and our employees for their continuing commitment to helping Minnesotans have safe, stable homes they can afford in communities of their choice. We look forward to another strong year in 2018.



Mary Tingertal, Commissioner
Minnesota Housing
August 31, 2017

Independent Auditors' Report

Independent Auditor's Report

To the Board of Directors
Minnesota Housing Finance Agency
St. Paul, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of Minnesota Housing Finance Agency (the Agency), a component unit of the State of Minnesota, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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 from material misstatement.

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

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

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 of Minnesota Housing Finance Agency, a component unit of the State of Minnesota, as of June 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

The financial statements include summarized prior-year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended June 30, 2016, from which such summarized information was derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of selected pension information, as listed in the table of contents,

Independent Auditors' Report (continued)

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The introductory section, the supplementary information and other information as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The 2017 supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements, or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2017 supplementary information is fairly stated, in all material respects, in relation to the 2017 basic financial statements as a whole.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the Agency's 2016 basic financial statements (not presented herein), and have issued our report thereon dated August 23, 2016, which contained unmodified opinions on the respective financial statements of the business-type activities and each major fund. The accompanying supplementary information, as listed in the table of contents, for the year ended June 30, 2016, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2016 financial statements. The accompanying 2016 supplementary information has been subjected to the auditing procedures applied in the audit of the 2016 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements, or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2016 supplementary information is fairly stated in all material respects in relation to the 2016 basic financial statements taken as a whole.

The introductory section and other information have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

RSM US LLP

Minneapolis, Minnesota
August 31, 2017

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. The Agency was established to facilitate the construction and rehabilitation of housing in Minnesota for families of low- and moderate-income by providing 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 state-defined programs and to pay debt service and related expenses on state appropriation-backed housing bonds. Minnesota Housing also receives funds appropriated by the federal government for similar program purposes. The Agency's mission is to finance affordable housing for low- and moderate-income Minnesotans while fostering strong communities.

Minnesota Housing is authorized to issue bonds and notes to fulfill its corporate purposes up to a total outstanding amount of \$5.0 billion and to incur other indebtedness. None of the bonds, notes or other indebtedness is a debt of the State of Minnesota or any political subdivision thereof.

Minnesota Housing operates three program divisions; Multifamily, Single Family and Community Development which offer housing programs with funding from the sale of tax-exempt and taxable bonds, state and federal appropriations, the Housing Trust Fund and the Alternative Loan Fund. The federal Low Income Housing Tax Credit is another resource the Agency allocates. 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 the State Auditor as an ex-officio member.

Discussion of Financial Statements

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

- Agency-wide financial statements provide information about Minnesota Housing's overall financial position and results of operations. These statements consist of the Statement of Net Position 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 fund financial statements provide information about the financial position and results of operations for Minnesota Housing's eight 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.

Required and other 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 issues bonds and other debt for its programs. These funds consist of General Reserve and the bond funds, which are Rental Housing, Residential Housing Finance, Homeownership Finance, HOMESSM and Multifamily Housing.

The basic financial statements also include comparative totals as of and for the year ended June 30, 2016. Although not required, these comparative totals are intended to facilitate an understanding of Minnesota Housing's financial position and results of operations for fiscal year 2017 in comparison to the prior fiscal year.

MINNESOTA HOUSING FINANCE AGENCY

Management’s Discussion and Analysis of Financial Condition and Results of Operations (continued)

General Overview

General Overview

Minnesota Housing financial statements are presented in two formats: agency-wide and by fund. Funds include Rental Housing, Residential Housing Finance, Homeownership Finance, Multifamily Housing, and HOMESSM (collectively the bond funds); State and Federal Appropriated (collectively the appropriated funds) and General Reserve. 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. Agency-wide financial statements reflect totals of similar accounts for 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 the respective bond resolutions and are pledged for the primary benefit of the respective bondholders and interest rate swap agreement 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 to 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 legally 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 secure bonds issued under the bond funds or other obligations of Minnesota Housing or its general obligation pledge in respect thereof.

In addition to its audited annual financial statements, Minnesota Housing has published unaudited quarterly disclosure reports for Residential Housing Finance and Homeownership Finance bond resolutions and unaudited semiannual disclosure reports for the Rental Housing bond resolution. Recent disclosure reports can be found in the “Investors” section on Minnesota Housing’s web site at www.mnhousing.gov.

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). The costs of administering Minnesota Housing programs are captured on the Statement of Revenues and Expenses for General Reserve. 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

More than one-half 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 is a high priority for Minnesota Housing; therefore, this portfolio receives a significant amount of oversight.

MINNESOTA HOUSING FINANCE AGENCY

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Discussion of Individual Funds (continued)

All of Minnesota Housing's bond-financed multifamily loans, except loans financed under state appropriation-backed housing bonds, conduit bonds, and one loan under Multifamily Housing, are financed in Rental Housing as of June 30, 2017. Funds in excess of bond resolution requirements may be withdrawn and used to redeem any Agency 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 drawdown index bonds issued under a separate bond trust indenture and the restricted by covenant Alternative Loan Fund which consists of the Housing Investment Fund (Pool 2), and the Housing Affordability Fund (Pool 3). The Alternative Loan Fund is not pledged as security for any bonds of the Agency but is available to pay debt service on any bonds except appropriation-backed bonds and conduit bonds.

Bonds have been issued for the purpose of funding purchases of single family first mortgage loans, mortgage-backed securities backed by single family mortgage loans, certain entry cost housing assistance loans, and unsecured and secured 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). While mortgage insurance and guarantees help mitigate the risk of loss to the Agency, inherent risks remain including the impact of declining home values on default recoveries and the risk of deterioration to the credit worthiness of insurers. The Agency's collection experience among mortgage insurers has been generally favorable.

This bond resolution, along with the Homeownership Finance bond resolution (see Homeownership Finance below), were the principal sources 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 2017.

Assets of the Housing Investment Fund (Pool 2) consist of investment quality housing loans, as defined by the Agency, and investment grade securities. During fiscal year 2017 this fund provided capital for several Agency programs including its home improvement loan program and its multifamily first-mortgage loan program. It also provided capital for warehousing purchases of mortgage-backed securities secured by single family first mortgage loans before those securities are permanently financed by issuing bonds, permanently financed with HOMESSM certificates (see below for a description of the HOMESSM program), or sold into the TBA market. In addition, it provided capital for amortizing second lien homeownership loans made in conjunction with the Agency's single family first mortgage loans, for tax credit bridge loans, for loans to partner organizations to acquire, rehabilitate and sell foreclosed homes and to develop new affordable housing, contributions for drawdown index bond expenses, and for bond sale contributions. The fund may also provide 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) consist of investment-grade securities when not utilized for program purposes. Program purposes include, but are not limited to: no-interest loans, loans at interest rates substantially below market, high risk loans, deferred loans, revolving funds, and grants. During fiscal year 2017 funds 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, capital costs and rental assistance for permanent supportive housing, advances for certain multifamily housing developments in anticipation of permanent funding through state appropriation-backed housing bonds, and deferred, subordinated multifamily loans.

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

MINNESOTA HOUSING FINANCE AGENCY

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Discussion of Individual Funds (continued)

Homeownership Finance

This bond resolution was originally adopted for the purpose of issuing mortgage revenue bonds under the United States Treasury's Single Family New Issue Bond Program (NIBP). Non-NIBP mortgage revenue bonds, which also meet resolution requirements, have also been issued under this resolution. Bonds issued under this resolution fund mortgage-backed securities backed by single family mortgage loans. These securities are guaranteed as to payment of principal and interest by one of the Government National Mortgage Association, the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation. Funds in excess of bond resolution requirements may be withdrawn and used to redeem any Agency bonds, to fund housing programs and for Agency operations.

Home Ownership Mortgage-backed Exempt Securities (HOMESSM)

This bond indenture implements a program developed by the investment banking division of a major bank whereby the Agency issues and sells to the investment bank limited obligations of the Agency (HOMESSM certificates), each secured by a mortgage-backed security guaranteed by FNMA or GNMA. Minnesota Housing is not committed to sell any HOMESSM certificates but has the option to accept the investment bank's bid for HOMESSM certificates, which may be a higher price than the Agency could achieve by selling the mortgage-backed security in the open market. The HOMESSM Certificates are not secured by the general obligation pledge of the Agency and are not protected by the moral obligation backing from the State of Minnesota.

Multifamily Housing

This bond resolution was adopted for the purpose of issuing multifamily housing bonds under the United States Treasury's Multifamily New Issue Bond Program. Bonds were issued during a prior fiscal year for one rental housing project.

State and Federal Appropriated Funds

The appropriated funds are maintained by Minnesota Housing for the purpose of receiving and disbursing monies appropriated by the state and federal government for housing. The entire balance of the appropriated funds' net position is restricted by law for specified uses set forth in the state appropriations or federal contracts and are not pledged or available to secure the bondholders or creditors of Minnesota Housing.

The State Appropriated fund was established to account for funds, received from the state legislature, which are to be used for programs for low- and moderate-income persons and families and multifamily housing developments in the form of low-interest loans, no-interest deferred loans, low-interest amortizing loans, debt service and other costs associated with appropriation-backed housing bonds, 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 and multifamily housing developments in the form of no-interest deferred loans and grants in support of foreclosure counseling and remediation efforts, assistance to tax credit developments, and other housing-related program costs.

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

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

		Agency-wide Total		
		Fiscal 2017	Fiscal 2016	Change
Assets and Deferred Outflows	Cash and Investments	\$2,416,942	\$2,245,460	\$171,482
	Loans receivable, Net	1,071,058	1,224,448	(153,390)
	Interest Receivable	11,646	11,905	(259)
	Deferred Pension Expense	53,275	2,980	50,295
	Total Assets and Deferred Outflows	3,568,338	3,507,741	60,597
Liabilities and Deferred Inflows	Bonds Payable	2,369,523	2,307,222	62,301
	Interest Payable	24,523	26,900	(2,377)
	Pension Liability	76,077	8,979	67,098
	Accounts Payable & Other Liabilities	12,397	15,206	(2,809)
	Funds Held for Others	78,345	115,854	(37,509)
	Deferred Pension Credit	5,554	11,327	(5,773)
	Total Liabilities and Deferred Inflows	2,585,676	2,509,370	76,306
Net Position	Restricted by Bond Resolution	360,383	382,133	(21,750)
	Restricted by Covenant	471,700	477,456	(5,756)
	Restricted by Law	146,734	135,999	10,735
	Total Net Position	982,662	998,371	(15,709)

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

		Agency-wide Total		
		Fiscal 2017	Fiscal 2016	Change
Revenues	Interest Earned	\$ 119,321	\$ 120,373	\$ (1,052)
	Appropriations Received	253,196	261,144	(7,948)
	Fees and Reimbursements	14,929	16,269	(1,340)
	Net G/L on Sale of MBS Held for Sale/HOMES SM Certificates	2,521	3,756	(1,235)
	Total Revenues (1)	372,571	455,813	(83,242)
Expenses	Interest Expense	71,394	87,274	(15,880)
	Appropriations Disbursed	227,448	235,135	(7,687)
	Fees	3,898	4,182	(284)
	Payroll, Gen. & Admin.	51,083	34,128	16,955
	Loan Loss/Value Adjust's	12,456	22,186	(9,730)
	Total Expenses (1)	388,280	403,654	(15,374)
	Revenues Over/Under Expenses	(15,709)	52,159	(67,868)
	Beginning Net Position	998,371	946,212	52,159
	Ending Net Position	982,662	998,371	(15,709)

(1) Agency-wide totals include interfund amounts

Combined General Reserve and Bond Funds					Combined State and Federal Appropriations Funds		
Fiscal 2017							
Excluding Pool 3	Pool 3	Total	Fiscal 2016	Change	Fiscal 2017	Fiscal 2016	Change
\$2,254,187	\$40,264	\$2,294,451	\$2,102,941	\$191,510	\$122,491	\$142,519	\$(20,028)
979,771	51,843	1,031,614	1,183,107	(151,493)	39,444	41,341	(1,897)
11,245	146	11,391	11,683	(292)	255	222	33
53,275	-	53,275	2,980	50,295	-	-	-
3,312,583	93,254	3,405,837	3,322,923	82,914	162,501	184,818	(22,317)
2,369,523	-	2,369,523	2,307,222	62,301	-	-	-
24,523	-	24,523	26,900	(2,377)	-	-	-
76,077	-	76,077	8,979	67,098	-	-	-
10,083	182	10,265	14,439	(4,174)	2,132	767	1,365
65,308	-	65,308	68,691	(3,383)	13,037	47,163	(34,126)
5,554	-	5,554	11,327	(5,773)	-	-	-
2,586,750	(16,841)	2,569,909	2,460,551	109,358	15,767	48,819	(33,052)
360,383	-	360,383	382,133	(21,750)	-	-	-
361,605	110,095	471,700	477,456	(5,756)	-	-	-
-	-	-	-	-	146,734	135,999	10,735
725,833	110,095	835,928	862,372	(26,444)	146,734	135,999	10,735

Combined General Reserve and Bond Funds					Combined State and Federal Appropriations Funds		
Fiscal 2017							
Excluding Pool 3	Pool 3	Total	Fiscal 2016	Change	Fiscal 2017	Fiscal 2016	Change
\$ 116,193	\$ 1,083	\$ 117,276	\$ 118,222	\$ (946)	\$ 2,045	\$ 2,151	\$ (106)
-	-	-	-	-	253,196	261,144	(7,948)
16,861	(1,233)	15,628	15,973	(345)	842	296	546
2,521	-	2,521	3,756	(1,235)	-	-	-
116,707	321	117,028	190,721	(73,693)	255,543	265,092	(9,549)
71,394	-	71,394	87,274	(15,880)	-	-	-
-	-	-	-	-	227,448	235,135	(7,687)
3,758	14	3,772	4,056	(284)	126	126	-
44,783	4,209	48,992	32,177	16,815	2,091	1,951	140
(1,675)	2,573	898	3,274	(2,376)	11,558	18,912	(7,354)
137,452	8,064	145,516	146,141	(625)	242,764	257,513	(14,749)
(21,701)	(4,743)	(26,444)	44,580	(71,024)	12,779	7,579	5,200
747,534	114,838	862,372	817,792	44,580	135,999	128,420	7,579
725,833	110,095	835,928	862,372	(26,444)	146,734	135,999	10,735

MINNESOTA HOUSING FINANCE AGENCY

Management's Discussion and Analysis of Financial Condition and Results of Operations

FINANCIAL HIGHLIGHTS

General Reserve and Bond Funds-Statement of Net Position

The following financial highlights section refers to the General Reserve and bond funds. The reader is encouraged to review the Fund Financial Statements as well as supplementary information in this 2017 Financial Report.

Investments-program mortgage-backed securities (MBS), cash, cash equivalents, Investment securities-other, loans receivable, and interest receivable comprise the majority of assets. Deferred pension expense and deferred loss on interest rate swap agreements comprise the majority of deferred outflows of resources in the General Reserve and bond funds. Capital assets, real estate owned, other assets and deferred loss on refunding continue to be insignificant in relation to the total General Reserve and bond fund assets and deferred outflows of resources.

Investments- MBS is the single largest category of bond fund assets. Those assets are pledged as security for the payment of certain Agency mortgage revenue bonds are held in acquisition accounts pledged to bond holders as security for bonds. This category of investments increased 18.4% to \$1710.7 million. Single Family production was very strong in FY2017.

Mortgage-backed Securities Portfolio Delinquency

Actual Loan Count

	June 30, 2017		June 30, 2016	
Current	18,144	97.9%	15,899	97.7%
60-89 Days	186	47.4%	159	1.0%
90-119 Days	66	16.8%	71	0.4%
120+ Days	140	35.7%	166	1.0%
Total Count	18,536		16,295	
Total Past Due	392	2.1%	396	2.4%

The 60+ day delinquency rate as of June 30, 2017 for the MBS portfolio was approximately 0.3 points below the delinquency rates benchmark at the HFA division of US Bank.

Cash and cash equivalents are carefully managed to provide adequate resources for future debt service requirements and liquidity needs. This category decreased 16.9% to \$349.3 million. Cash and Cash equivalents can fluctuate based on the timing of bond sales, the rate of production, debt repayments, purchase of investments and loan transactions.

Investments securities-other consists of MBS that are held by the Agency as investments, MBS held in the warehouse for future bond sales and MBS held for sale in the TBA market as well as other quality investments such as US agency, US treasuries, municipal bonds and government backed investment pools at the trustee, Wells Fargo, and the State Board of Investments. This category decreased by 1.3% to \$234 million.

Loans receivable, net is another large single category of bond fund assets. Loans are limited to housing-related lending for low- and moderate-income individuals and families and multifamily housing developments. Loans receivable, net decreased 12.8% to \$1,031.6 million at June 30, 2017 as a result of repayments, prepayments, and loss reserves net of new loan purchases and originations. Amortizing homeownership loans at fixed interest rates, secured by first mortgages, continue to be the dominant loan product offered by Minnesota Housing. In the last half of 2009, the Agency changed its business model from purchasing homeownership loans to purchasing mortgage-backed securities (MBS) secured by homeownership loans. As a result, the homeownership loan portfolio, now in runoff, will continue to shrink as repayments and prepayments are no longer offset by new loans. Instead, the portion of investments represented by MBS may increase as they are purchased in place of loans. The Agency also sells a portion of those MBS directly into the TBA market after hedging the interest rate risk with forward sales contracts at the time of loan commitment. The reduction in loans receivable during fiscal year 2017 was attributable to the runoff of the

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

**General Reserve
and Bond Funds-
Statement of Net
Position
(continued)**

homeownership loan portfolio. The reserve for loan loss for the homeownership loan portfolio decreased due to reduced delinquency and a decrease in the estimated loss per delinquent loan. Minnesota Housing also has simple interest home improvement, amortizing down payment assistance and simple interest rental rehabilitation loans which are no-interest, low-interest, and market-rate loans generally secured with second or subordinate mortgages. The reserve for loan loss for the home improvement loan portfolio decreased due to reduced amount of loans being delinquent while the reserve for the down payment assistance loans increased slightly due to an increase in production. Amortizing multifamily loans at fixed interest rates, secured by first mortgages (referred to as the multifamily portfolio) exhibited little change in delinquency rate and the aggregate loan receivable balance. Minnesota Housing's primary loan programs offer fixed interest rate financing and therefore differ from the high risk characteristics associated with some adjustable payment loan products.

Homeownership Loan Portfolio Delinquency

Actual Loan Count

	June 30, 2017		June 30, 2016	
Current	7,025	94.7%	8,226	94.5%
60-89 Days	99	1.3%	113	1.3%
90-119 Days	41	0.6%	63	0.7%
120+ Days	250	3.4%	302	3.5%
Total Count	7,415		8,704	
Total Past Due	390	5.3%	478	5.5%

Home Improvement Loan Portfolio Delinquency

Actual Loan Count

	June 30, 2017		June 30, 2016	
Current	5,363	98.2%	5,775	98.2%
60-89 Days	37	0.7%	45	0.8%
90-119 Days	27	0.5%	26	0.4%
120+ Days	31	0.6%	36	0.6%
Total Count	5,458		5,882	
Total Past Due	95	1.7%	107	1.8%

The 60+ day delinquency rate as of June 30, 2017 for the entire Minnesota Housing homeownership loan portfolio, excluding those loans not customarily included in foreclosure statistics, exceed by approximately two percentage points the delinquency rates of similar loan data available as of March 31, 2017 from the Mortgage Bankers Association of America for loans in Minnesota (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, the Agency has determined that comparable delinquency data from other available sources is not directly comparable. The table above excludes inactive home improvement loans defined as delinquent loans for which the Agency has a valid lien but active collection efforts have been exhausted.

FHA/VA insurance claims, net 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. FHA/VA insurance claims, net decreased 40.2% to \$1.6 million at June 30, 2017 as a result of a decrease in the amount of loans with outstanding claims.

Real estate owned, net consists of properties acquired upon foreclosure of homeownership loans. Real estate owned decreased 60.4% to \$1.2 million at June 30, 2017 as a result of a decreased amount of foreclosure properties held within the homeownership portfolio on June 30, 2017.

MINNESOTA HOUSING FINANCE AGENCY

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

General Reserve and Bond Funds-Statement of Net Position (continued)

While the delinquency rates and foreclosures in the Agency's loan portfolio remained above historical norms during fiscal year 2017, the combined net total of FHA/VA insurance claims and real estate owned remains immaterial compared to total loans receivable at June 30, 2017, being less than 1% of total net loans receivable. Management believes that reserves for loan losses are adequate based on the current assessment of asset quality.

No loans reside in General Reserve.

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 decreased 2.5% to \$11.4 million at June 30, 2017. The decrease is mainly a result of a decrease in interest receivable on homeownership loans due to the runoff of that portfolio.

Bonds payable is the largest single category of liabilities, resulting primarily from debt issued to fund housing-related lending. Bonds payable increased 2.7% to \$2,369.5 million at June 30, 2017 because new bonding issuance outpaced scheduled redemptions and early bond redemptions of existing debt.

The companion category of interest payable decreased 8.9% to \$24.5 million at June 30, 2017, due to an increase in the proportion of outstanding bonds that require monthly debt service payments as opposed to semi-annual debt service payments.

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 capital expenditures. Funds held for others in General Reserve and HOMESSM decreased by 4.9% to \$65.3 million at June 30, 2017.

On the statement of net position there are three accounts that report the overall pension picture. We will describe all three in the following section. The Net Pension Liability increased to \$76.1 million as of June 30, 2017 from \$9.0 million on June 30, 2016. This increase was due to MSRS making changes to the assumptions and the Single Discount Rate (SDR) that are used to compute the pension liability. The changes included demographic changes of the plan beneficiaries as well as a substantial change to the SDR. The SDR changed from 7.9% to 4.17%. The SDR reflects a long term rate of 7.50% and a short term rate of 2.85%. The rate is applied to the benefits that are projected to be paid. Deferred Pension Expense (Deferred Outflow) increased by \$50.3 million to \$53.3 million as of June 30, 2017 from \$3.0 million at June 30, 2016. This increase was due to MSRS changing the assumptions used for the plans actuarial reports. GASB 67 and GASB 68 prescribed how these accounts will be recorded and how income will be recognized. This increase is explained by the change in assumptions and SDR. Deferred Pension Credit (Deferred Inflow) decreased to \$5.6 million as of June 30, 2017 from \$11.3 million at June 30, 2016. This decrease was due to MSRS making changes to the assumptions that were used for the plans actuarial reports. With the increase in Deferred Pension Expense (Deferred Outflow) of \$50.3 million, the increase in Net Pension Liability of \$67.1 million and the decrease in Deferred Pension Credit (Deferred Inflow) of \$5.8 million the result is an overall decrease of \$11 million to the net position.

Accounts payable and other liabilities decreased to \$10.3 million at June 30, 2017. During FY 2017 some of these Rental Housing short-term bonds have paid off and there has not been as much issuance activity.

General Reserve and Bond Funds-Revenues over Expenses

Interfund payable/receivable exists primarily as a result of interfund borrowing and pending administrative and program reimbursements between 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.

Revenues over expenses of General Reserve and bond funds decreased 163.4% to (\$28.5) million. Revenues over expenses excluding unrealized gains and losses decreased 7.2% to \$10.4 million for fiscal year 2017.

MINNESOTA HOUSING FINANCE AGENCY

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

General Reserve and Bond Funds- Revenues over Expenses (continued)

Total Revenues decreased 38.6% to \$117.0 million. Revenue excluding unrealized gains and losses on investments decreased .8% to \$155.9 million.

Total expenses decreased .5% to \$145.5 million.

The largest revenue component, interest earned on MBS and investments increased 21.5% to \$58.5 million. This is due to the increase in production as well as interest rate increases. Loan interest revenue decreased 13.8% to \$58.7 million as repayments and prepayments decreased the size of the homeownership loan portfolio. That portfolio is in runoff because of the change to the mortgage-backed securities business model during fiscal year 2010

When excluding pool 3 and unrealized gains or losses revenues increased .45% to \$154.8 million. Expenses decreased .5% to \$137.5 million

Administrative reimbursements to General Reserve from bond funds were \$20.5 million in fiscal year 2017 compared to \$19.4 million during the prior fiscal year. General Reserve also incurs overhead expenses to administer state and federal appropriated housing programs. General Reserve received overhead reimbursements of \$1.9 million from the State and Federal Appropriated funds to recover certain overhead expenses incurred during fiscal year 2017 compared to \$2.1 million during the prior fiscal year. Investment earnings within the State Appropriated fund were insufficient to reimburse the Agency for the full amount of overhead expense incurred for the state programs.

Other fee income to General Reserve and bond funds of \$13.6 million decreased by \$0.2 million compared to the prior fiscal year. The primary components are service acquisition fees earned from the sale of mortgage servicing rights, fees earned from the federal low income housing tax credit program, Section 8 contract administration, federal Housing Assistance Payments administration, and various loan programs.

The net gain on the sale of mortgage-backed securities held for sale was \$2.5 million. Components of the net gain, in addition to the gain or loss on the security itself, include the cost of minimizing interest rate risk through forward sale contracts, certain trustee fees, and service release premiums.

Unrealized losses on investment securities for fiscal year 2017 are \$38.9 million compared to \$33.4 of unrealized gains for fiscal year 2016. The unrealized gains or losses arise due to the GASB fair value and mark-to-market pronouncements. The fair value adjustments are booked quarterly and fluctuate based on market conditions. The majority 84% of these unrealized gains or losses are related to the program MBS portfolio pledged to bond holders for payments of debt service. The Agency will hold these MBS until all requirements of the Residential Housing Finance and Homeownership Finance Bond resolution are satisfied. The Agency is not permitted by the bond resolution to sell the MBS at this time so this value fluctuation is booked as required by GASB however analysis performed on income normally excludes the unrealized gains or losses.

Interest expense of the bond funds decreased 2.9% to \$66.6 million compared to the prior fiscal year as a result of refunding that replaced higher rate bonds with lower rate bonds.

Financing costs decreased 74.4% to \$4.8 million. The majority of the decrease is due to more effective hedging of cost associated with MBS securitization as well as favorable timing of bond sales.

Expenses for loan administration and trustee fees in the bond funds decreased by 7.0% to \$3.8 million compared to the prior fiscal year. Of the total administrative reimbursement revenue in General Reserve of \$22.5 million, the interfund charge to the bond funds and State Appropriated fund of \$22.0 million was eliminated for purposes of financial reporting in the Agency-wide financial statements.

Salaries and benefits in General Reserve of \$36.3 million increased 70.8% from the prior year. A large component of the Salaries and Benefits change is due to an increase in pension expense to \$11.0 million at June 30, 2017 from (\$2.1) million at June 30, 2016. Changes in assumptions and the SDR by MSRS account for all of this change.

MINNESOTA HOUSING FINANCE AGENCY

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

General Reserve and Bond Funds-Revenues over Expenses (continued)

Other general operating expense in General Reserve and bond funds increased 16.1% compared to the prior fiscal year to \$12.7 million. The majority of the increase relates to contract expenses for the 3 major system projects.

Reductions in carrying value of certain low interest rate deferred loans in the bond funds increased from \$0.5 million to \$2.4 million. The increase was due to the number of Pool 3 loans closed during the fiscal year.

The provision for loan loss expense in the bond funds decreased from \$2.7 million to \$(1.5) million. Delinquencies and foreclosures have decreased over the fiscal year.

The provision for loan loss expense for the homeownership loan portfolio decreased \$2.8 million because the delinquencies increased slightly.

The provision for loan loss expense for the home improvement loan portfolio decreased \$1.8 million as a result of decreased loan delinquencies during the year, a portion of which became inactive loans.

The provision for loan loss expense for the multifamily loan portfolio increased \$0.3 million due to the mix of loans on the watch-list, when compared to the prior fiscal year.

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, periodic fiscal year end transfers to the Housing Affordability Fund (Pool 3), if any, and periodic transfers from the bond funds of amounts in excess of bond resolution requirements. During fiscal year 2017, \$9.6 million of Pool 1 funds in excess of requirements were transferred to Pool 2. Revenues over expenses in General Reserve that are in excess of the Pool 1 requirement are transferred periodically to Pool 2 for use in housing programs. Pool 2 also recorded a \$3.0 million contribution to Pool 3 to be used for highly subsidized housing programs. Revenues over expenses plus non-operating transfers in Pool 2 may be transferred periodically, with approval of the Board, to Pool 3 for use in more highly subsidized housing programs. Board investment guidelines establish required balances for Pool 1 and Pool 2. In addition, Pool 2 made \$17.8 million in bond sale contributions to the Homeownership Finance bond fund.

Total combined net position of General Reserve and bond funds decreased 3.1% to \$835.9 million as of June 30, 2017. A portion of that increase is a result of current fiscal year unrealized gains on investments, without which the combined net position would have increased \$5.5 million. The net position of General Reserve decreased \$0.6 million as a result of a \$1.6 million decrease in the Pool 1 requirement (which resides in General Reserve). The reserve is 1% of the outstanding loans. Capital Assets increased by \$1.0 million. Assets of the appropriated funds are derived from the appropriation of funds by the State of Minnesota and funds made available to Minnesota Housing by the federal government for housing purposes. Housing preservation and development typically 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 position restricted by law. The net position of General Reserve and bond funds is divided into two primary categories. Restricted by Bond Resolution is pledged to the payment of bonds, subject to bond resolution provisions that authorize Minnesota Housing to withdraw funds in excess of the amounts required to be maintained under the bond resolutions. Restricted by Covenant is subject to a covenant with bondholders that the Agency will 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 Minnesota Housing's enabling legislation, including the creation of 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 the purpose. The Board of the Agency has established investment guidelines for these funds to implement this covenant.

State and Federal Appropriated Funds-Statement of Net Position

Investments, cash, and cash equivalents combined are the largest category of assets in the appropriated funds. The June 30, 2017 combined balance decreased 14% to \$122.5 million as a result of the combined appropriations received and other revenues exceeding the combined disbursements for programs, loans and expenses during the fiscal year.

MINNESOTA HOUSING FINANCE AGENCY

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

State and Federal Appropriated Funds-Statement of Net Position (continued)

Certain state appropriations are expended as housing loans which are in a first lien position and with near- or below-market interest rates, resulting in net loans receivable. At June 30, 2017 State Appropriated fund net loans receivable decreased 4.6% to \$39.4 million, reflecting the sale of deferred down payment assistance loans to Residential Housing Finance Resolution.

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, 2017 increased \$0.03 million. Accounts payable and other liabilities represent amounts payable to program participants as of year-end. The balance of payables at June 30, 2017 was \$2.1 million compared to \$0.7 million at June 30, 2016. Interfund payable occurs in the Federal Appropriated fund as a result of overhead expense and indirect cost recoveries owed to General Reserve. Interfund payable occurs in the State Appropriated fund because of accrued overhead expense payable to General Reserve. At June 30, 2017 the combined net interfund payable was \$0.6 million.

At June 30, 2017 the balance of funds held for others was \$13.0 million. All of which represents the proceeds of appropriation-backed housing bonds which are held for disbursement to certain multifamily affordable housing developments.

The entire net position of the appropriated funds is restricted by law for use with housing programs only and is not pledged or available to secure bonds issued under any of the Agency's bond funds or other obligations of the Agency or its general obligation pledge in respect thereof. The combined net position of the appropriated funds increased to \$146.7 million as of June 30, 2017, reflecting that combined receipts and revenues exceeded expenses during fiscal year 2017.

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 Minnesota Housing, the State of Minnesota or agencies of the federal government. Unexpended appropriations 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 decreased from \$261.1 million in fiscal year 2016 to \$253.2 million in fiscal year 2017. Federal appropriations received increased by \$4.4 million. State appropriations received decreased by a net \$3.5 million.

The combined interest income from investments increased 12.9% to \$1.6 million for fiscal year 2017.

Loan interest income from State Appropriations loan assets continues to be minimal at \$0.4 million as relatively few loans bear interest.

Fees earned and other income, in the amount of \$0.8 million were recorded in the State Appropriated fund during fiscal year 2017. This consisted mainly of private donations and the receipt of interagency transfers to support certain state housing programs.

Combined unrealized losses of \$0.5 million were recorded at June 30, 2017 compared to \$0.1 million of unrealized gains at June 30, 2016. The unrealized gains and losses arise due to the GASB fair value and mark-to-market pronouncements. The fair value adjustments are booked quarterly and fluctuate based on market conditions.

Administrative reimbursements to General Reserve of overhead expenses to administer State Appropriated fund programs increased 10.9% to \$1.5 million compared to the prior fiscal year. The Agency incurs the overhead expense in General Reserve. General Reserve is reimbursed for these overhead expenses by the State Appropriated funds to the extent of investment earnings on unexpended state appropriations. During fiscal year 2017 investment earnings in the State Appropriated fund were insufficient to reimburse all of the overhead expenses incurred in General Reserve for State Appropriated programs during this fiscal year.

MINNESOTA HOUSING FINANCE AGENCY

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

State and Federal Appropriated Funds-Revenues over Expenses (continued)

Combined appropriations disbursed decreased 3.3% to \$227.4 million compared to the prior fiscal year, reflecting State Appropriations disbursed of \$40.2 million and federal appropriations disbursed of \$187.2 million.

Increased expenditures of State Appropriated funds for fully-reserved below-market and zero-percent interest rate loans resulted in higher expense from reductions in carrying value of certain loans. Net reductions of carrying value decreased 38.7% to \$11.2 million compared to the prior fiscal year.

Other general operating expenses in the State Appropriation fund represent fees for professional and technical support to implement and administer certain housing programs. Other general operating expenses in the State Appropriation fund increased 7.1% to \$2.1 million at June 30, 2017.

Combined expenditures were less than combined revenue of the appropriated funds by \$12.8 million at June 30, 2017. Ultimately, the entire State and Federal Appropriated funds' net position will be expended for housing programs.

Significant Long Term Debt Activities

Minnesota Housing issues a significant amount of bonds, having outstanding at June 30, 2017 long-term bonds totaling \$2,369.5 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 may require funding debt service reserve accounts and insurance reserve accounts. At June 30, 2017, 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 financing and debt management techniques designed to achieve its goals of reducing interest expense and efficiently utilizing bonding authority while managing risk and responding to changing capital markets. During 2017 fiscal year, Minnesota Housing issued seventeen series of bonds aggregating \$523.9 million (excluding appropriation-backed housing bonds, conduit bonds, limited obligation drawdown index bonds, and short-term borrowing against a line of credit), compared to the issuance of seventeen series totaling \$678.7 million the previous fiscal year. 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 and other indebtedness may be issued to preserve tax-exempt bonding authority for future program use and to warehouse purchases of mortgage-backed securities in advance of permanent financing. In the past, the Agency also has converted a portion of its bonding authority to Mortgage Credit Certificate authority in another effort to support first-time homebuyers.

A total of \$486.4 million in bond principal repayments and \$71.4 million of bond-related interest expense occurred during fiscal year 2017. Of the total bond principal repayments, \$426.3 million were repayments made on bonds 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 requires mortgage repayments and prepayments received more than ten years after the date of issuance of the bonds that financed those mortgage loans to be used to redeem bonds.

While most of the Agency's bonds are tax-exempt, taxable bonds have been issued to supplement limited tax-exempt bonding authority in order to meet demand for financing mortgage loans. Taxable bonds may also be issued to refund existing debt or to finance lending programs where federal tax-exempt bond restrictions are inconsistent with program goals. Variable-rate bonds and interest-rate swaps were incorporated into Minnesota Housing's financings from fiscal year 2003 through fiscal year 2010, and again in fiscal years 2016

MINNESOTA HOUSING FINANCE AGENCY

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Significant Long Term Debt Activities (continued)

and 2017 enabling the Agency to provide below-market mortgage financing at synthetically fixed interest rates. Interest-rate swaps help to hedge the mismatch between fixed-rate loans and variable-rate bonds. The Agency issued one new series of variable rate bonds in fiscal year 2017 in a principal amount totaling \$50.0 million with an interest rate swap with the equivalent notional amount. (See Interest Rate Swaps under the notes to the financial statements for further discussion of interest-rate swaps and their risks.)

The Agency also had outstanding at June 30, 2017 certain conduit bonds and appropriation-backed housing bonds, which are not payable from any funds of the Agency (other than from funds received specifically to pay debt service on those bonds), and certain limited obligation drawdown index bonds, only the interest on which is payable from funds of the Agency and which are discussed in the notes to the financial statements. Board policy governs the process Minnesota Housing follows to issue and manage debt. State statute limits total outstanding bonds and notes of Minnesota Housing to \$5.0 billion.

At June 30, 2017 Minnesota Housing's issuer ratings were "AA+" and "Aa1" from Standard and Poor's Ratings Services and Moody's Investors Service, Inc., respectively. Minnesota Housing's credit 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.

Significant Factors that May Affect Financial Conditions and/or Operations

Legislative Actions

The primary purpose of the Legislative session in odd-numbered years is to enact a two-year state budget. Minnesota Housing's state appropriated budget passed on May 26, 2017 and was signed into law by Governor Dayton.

Minnesota Housing's total state appropriations for the state fiscal year 2018-19 biennium are \$107,596,000. This is a \$3 million increase over FY2016-17 funding levels. The FY2018-19 budget includes \$2 million in one-time funding for Homework Starts with Home, a continuation of the Rental Assistance for Highly Mobile Families initiative, which provides rental assistance to families with school-aged children who are homeless or who have moved frequently.

The budget also includes \$4 million in ongoing funding for the Workforce Housing Development Program. This is a new appropriation for Minnesota Housing. This program was previously administered by the Minnesota Department of Employment and Economic Development. It funds the development of rental housing in Greater Minnesota.

In addition to the biennial budget, the Legislature also approved a \$988 million bonding bill. The bill included \$65 million for Minnesota Housing:

- \$35 million in new authorization for Housing Infrastructure Bonds
- \$20 million in Housing Infrastructure Bond authorization from previously appropriated debt service
- \$10 million in State of Minnesota General Obligation bond proceeds for public housing rehabilitation

Housing Infrastructure Bonds can be used for:

- New construction or acquisition and rehabilitation of permanent supportive housing
- Preservation of federally-assisted housing
- Land acquisition for single family homes to be sold as part of a community land trust

Loans to be funded with the proceeds of authorized Housing Infrastructure Bonds will be awarded for housing projects as part of Minnesota Housing's consolidated Request for Proposal (RFP) in 2017. The General Obligation bond proceeds will be awarded to public housing agencies through a separate RFP process.

Additional Information

Questions and inquiries may be directed to Mr. Terry Schwartz at Minnesota Housing Finance Agency, 400 Wabasha Street North, Suite 400, St. Paul, MN 55102 (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 Position (in thousands)

As of June 30, 2017 (with comparative totals as of June 30, 2016)

		Agency wide Total as of June 30, 2017	Agency wide Total as of June 30, 2016
Assets	Cash and cash equivalents	\$ 439,184	\$ 530,172
	Investments-program mortgage-backed securities	1,710,715	1,444,863
	Investment securities-other	267,043	270,425
	Loans receivable, net	1,071,058	1,224,448
	Interest receivable on loans and program mortgage-backed securities	10,381	10,816
	Interest receivable on investments	1,265	1,089
	FHA/VA insurance claims, net	1,575	2,634
	Real estate owned, net	1,229	3,103
	Capital assets, net	3,845	2,783
	Other assets	3,367	2,465
	Total assets	<u>3,509,662</u>	<u>3,492,798</u>
Deferred Outflows of Resources	Deferred loss on refunding	137	199
	Deferred loss on interest rate swap agreements	5,264	11,764
	Deferred pension expense	53,275	2,980
	Total deferred outflows of resources	<u>58,676</u>	<u>14,943</u>
Liabilities	Bonds payable, net	2,369,523	2,307,222
	Interest payable	24,523	26,900
	Interest rate swap agreements	5,264	11,764
	Net pension liability	76,077	8,979
	Accounts payable and other liabilities	12,397	15,206
	Funds held for others	78,345	115,854
	Total liabilities	<u>2,566,129</u>	<u>2,485,925</u>
Deferred Inflows of Resources	Deferred service release fee	13,993	12,118
	Deferred pension credit	5,554	11,327
	Total deferred inflows of resources	<u>19,547</u>	<u>23,445</u>
Net Position	Restricted by bond resolution	360,383	382,133
	Restricted by covenant	471,700	477,456
	Restricted by law	146,734	135,999
	Invested in capital assets	3,845	2,783
	Total net position	<u>982,662</u>	<u>998,371</u>
	Total liabilities, deferred inflows of resources, and net position	<u>\$3,568,338</u>	<u>\$3,507,741</u>

See accompanying notes to financial statements

MINNESOTA HOUSING FINANCE AGENCY**Agency-wide Financial Statements****Statement of Activities (in thousands)****Year ended June 30, 2017 (with comparative total for year ended June 30, 2016)**

		Agency-wide Total for Year Ended June 30, 2017	Agency-wide Total for Year Ended June 30, 2016
Revenue	Interest earned on loans	\$ 59,183	\$ 68,884
	Interest earned on investments-program mortgage-backed securities	50,825	41,846
	Interest earned on investments-other	9,313	9,643
	Net G/L on Sale of MBS Held for Sale/HOMES SM Certificates	2,521	3,756
	Appropriations received	253,196	261,144
	Administrative reimbursement	481	774
	Fees earned and other income	14,448	15,495
	Unrealized gains on investments	(39,397)	33,522
	Total revenues	<u>350,570</u>	<u>435,064</u>
Expenses	Interest	66,620	68,580
	Financing, net	4,774	18,694
	Loan administration and trustee fees	3,898	4,182
	Salaries and benefits	36,311	21,258
	Other general operating	14,772	12,870
	Appropriations disbursed	227,448	235,135
	Reduction in carrying value of certain low interest rate deferred loans	13,626	18,831
	Provision for loan losses	(1,170)	3,355
	Total expenses	<u>366,279</u>	<u>382,905</u>
	Change in net position	(15,709)	52,159
Net Position	Total net position, beginning of period	<u>998,371</u>	<u>946,212</u>
	Total net position, end of year	<u><u>\$982,662</u></u>	<u><u>\$998,371</u></u>

See accompanying notes to financial statements

MINNESOTA HOUSING FINANCE AGENCY

Fund Financial Statements

Statement of Net Position (in thousands)

Proprietary Funds

As of June 30, 2017 (with comparative totals as of June 30, 2016)

		<u>Bond Funds</u>	
		<u>General Reserve</u>	<u>Rental Housing</u>
Assets	Cash and cash equivalents	\$66,475	\$ 44,858
	Investments-program mortgage-backed securities	-	-
	Investment securities-other	19,946	1,970
	Loans receivable, net	-	130,279
	Interest receivable on loans and program mortgage-backed securities	-	595
	Interest receivable on investments	102	38
	FHA/VA insurance claims, net	-	-
	Real estate owned, net	-	-
	Capital assets, net	3,845	-
	Other assets	1,792	8
	Total assets	<u>92,160</u>	<u>177,748</u>
Deferred Outflows of Resources	Deferred loss on refunding	-	-
	Deferred loss on interest rate swap agreements	-	-
	Deferred pension expense	53,275	-
	Total deferred outflows of resources	<u>53,275</u>	<u>-</u>
Liabilities	Bonds payable, net	-	37,340
	Interest payable	-	488
	Interest rate swap agreements	-	-
	Net pension liability	76,077	-
	Accounts payable and other liabilities	6,678	2,396
	Interfund payable (receivable)	(21,492)	-
	Funds held for others	64,902	-
	Total liabilities	<u>126,165</u>	<u>40,224</u>
Deferred Inflows of Resources	Deferred service release fee	-	-
	Deferred pension credit	5,554	-
	Total deferred inflows of resources	<u>5,554</u>	<u>-</u>
Net Position	Restricted by bond resolution	-	137,524
	Restricted by covenant	9,871	-
	Restricted by law	-	-
	Invested in capital assets	3,845	-
	Total net position	<u>\$13,716</u>	<u>\$137,524</u>

See accompanying notes to financial statements

Bond Funds				Appropriated Funds			
Residential							
Housing	Homeownership	Multifamily		State	Federal	Total as of	Total as of
Finance	Finance	Housing	HOMES SM	Appropriated	Appropriated	June 30, 2017	June 30, 2016
\$201,520	\$ 35,034	\$ 1,406	\$ -	\$ 84,062	\$ 5,829	\$ 439,184	\$ 530,172
514,885	1,195,830	-	-	-	-	1,710,715	1,444,863
189,500	1,400	-	21,627	28,047	4,553	267,043	270,425
887,207	-	14,128	-	39,444	-	1,071,058	1,224,448
6,107	3,597	52	-	30	-	10,381	10,816
827	17	-	56	217	8	1,265	1,089
1,575	-	-	-	-	-	1,575	2,634
1,229	-	-	-	-	-	1,229	3,103
-	-	-	-	-	-	3,845	2,783
1,227	29	-	-	-	311	3,367	2,465
1,804,077	1,235,907	15,586	21,683	151,800	10,701	3,509,662	3,492,798
137	-	-	-	-	-	137	199
5,264	-	-	-	-	-	5,264	11,764
-	-	-	-	-	-	53,275	2,980
5,401	-	-	-	-	-	58,676	14,943
1,127,206	1,169,796	13,960	21,221	-	-	2,369,523	2,307,222
18,121	5,823	35	56	-	-	24,523	26,900
5,264	-	-	-	-	-	5,264	11,764
-	-	-	-	-	-	76,077	8,979
1,060	131	-	-	2,119	13	12,397	15,206
20,894	-	-	-	334	264	-	-
-	-	-	406	13,035	2	78,345	115,854
1,172,545	1,175,750	13,995	21,683	15,488	279	2,566,129	2,485,925
9,320	4,673	-	-	-	-	13,993	12,118
-	-	-	-	-	-	5,554	11,327
9,320	4,673	-	-	-	-	19,547	23,445
165,784	55,484	1,591	-	-	-	360,383	382,133
461,829	-	-	-	-	-	471,700	477,456
-	-	-	-	136,312	10,422	146,734	135,999
-	-	-	-	-	-	3,845	2,783
\$627,613	\$ 55,484	\$ 1,591	\$ -	\$136,312	\$10,422	\$ 982,662	\$ 998,371

MINNESOTA HOUSING FINANCE AGENCY

Fund Financial Statements

Statement of Revenues, Expenses and Changes in Net Position (in thousands)

Proprietary Funds

Year ended June 30, 2017 (with comparative totals for year ended June 30, 2016)

		<u>Bond Funds</u>	
		<u>General Reserve</u>	<u>Rental Housing</u>
Revenues	Interest earned on loans	\$ -	\$ 6,981
	Interest earned on investments-program mortgage-backed securities	-	-
	Interest earned on investments-other	254	266
	Net G/L on Sale of MBS Held for Sale/HOMES SM Certificates	-	-
	Appropriations received	-	-
	Administrative reimbursement	22,482	-
	Fees earned and other income	11,077	228
	Unrealized gains (losses) on investments	-	(100)
	Total revenues	<u>33,813</u>	<u>7,375</u>
Expenses	Interest	-	1,315
	Financing, net	-	-
	Loan administration and trustee fees	-	83
	Administrative reimbursement	-	1,192
	Salaries and benefits	36,311	-
	Other general operating	7,690	5
	Appropriations disbursed	-	-
	Reduction in carrying value of certain low interest rate deferred loans	-	-
	Provision for loan losses	-	(295)
	Total expenses	<u>44,001</u>	<u>2,300</u>
	Revenues over (under) expenses	(10,188)	5,075
Other changes	Non-operating transfer of assets between funds	9,624	22
	Change in net position	<u>(564)</u>	<u>5,097</u>
Net Position	Total net position, beginning of Year	<u>14,280</u>	<u>132,427</u>
	Total net position, end of Year	<u>\$13,716</u>	<u>\$137,524</u>

See accompanying notes to financial statements

Bond Funds				Appropriated Funds		Total for the	Total for the
Residential	Homeownership	Multifamily		State	Federal	Year Ended	Year Ended
Finance	Finance	Housing	HOMES SM	Appropriated	Appropriated	June 30, 2017	June 30, 2016
\$ 51,140	\$ -	\$ 625	\$ -	\$ 437	\$ -	\$ 59,183	\$ 68,884
13,949	36,876	-	-	-	-	50,825	41,846
6,345	124	5	711	1,537	71	9,313	9,643
2,521	-	-	-	-	-	2,521	3,756
-	-	-	-	62,200	190,996	253,196	261,144
-	-	-	-	-	-	22,482	21,523
1,703	598	-	-	842	-	14,448	15,495
(6,772)	(31,985)	-	-	(526)	(14)	(39,397)	33,522
68,886	5,613	630	711	64,490	191,053	372,571	455,813
33,128	31,043	423	711	-	-	66,620	68,580
507	4,267	-	-	-	-	4,774	18,694
3,255	430	4	-	126	-	3,898	4,182
12,718	6,455	95	-	1,541	-	22,001	20,749
-	-	-	-	-	-	36,311	21,258
4,955	31	-	-	2,091	-	14,772	12,870
-	-	-	-	40,201	187,247	227,448	235,135
2,409	-	-	-	11,217	-	13,626	18,831
(1,216)	-	-	-	341	-	(1,170)	3,355
55,756	42,226	522	711	55,517	187,247	388,280	403,654
13,130	(36,613)	108	-	8,973	3,806	(15,709)	52,159
(25,415)	17,813	-	-	-	(2,044)	-	-
(12,285)	(18,800)	108	-	8,973	1,762	(15,709)	52,159
639,898	74,284	1,483	-	127,339	8,660	998,371	946,212
\$627,613	\$55,484	\$1,591	\$ -	\$136,312	\$ 10,422	\$982,662	\$998,371

MINNESOTA HOUSING FINANCE AGENCY

Fund Financial Statements

Statement of Cash Flows (in thousands)

Proprietary Funds

Year ended June 30, 2017 (with comparative totals for year ended June 30, 2016)

		<u>Bond Funds</u>	
		<u>General Reserve</u>	<u>Rental Housing</u>
Cash flows from operating activities	Principal repayments on loans and program mortgage-backed securities	\$ -	\$44,407
	Investment in loans/loan modifications and program mortgage-backed securities	-	(14,861)
	Interest received on loans and program mortgage-backed securities	-	6,970
	Fees and other income received	10,571	228
	Salaries, benefits and other operating	(28,490)	(125)
	Appropriations received	-	-
	Appropriations disbursed	-	-
	Administrative reimbursement from funds	22,696	(1,192)
	Deposits into funds held for others	26,468	-
	Disbursements made from funds held for others	(29,464)	-
	Interfund transfers and other assets	(2,818)	55
	<u>(1,037)</u>	<u>35,482</u>	
Cash flows from non-capital financing activities	Proceeds from sale of bonds and notes	-	7,895
	Principal repayment on bonds and notes	-	(25,235)
	Interest paid on bonds and notes	-	(1,419)
	Financing costs paid related to bonds issued	-	-
	Interest paid/received between funds	43	-
	Agency contribution to program funds	-	22
	Transfer of cash between funds	8,585	-
	<u>8,628</u>	<u>(18,737)</u>	
Cash flows from investing activities	Investment in real estate owned	-	-
	Interest received on investments	836	250
	Net gain (loss) on Sale of MBS Held for Sale and HOMES SM Certificates	-	-
	Proceeds from sale of mortgage insurance claims/real estate owned	-	-
	Proceeds from maturity, sale or transfer of investment securities	-	24
	Purchase of investment securities	-	-
	Purchase of loans between funds	-	(19,713)
	<u>836</u>	<u>(19,439)</u>	
	<u>8,427</u>	<u>(2,694)</u>	
Cash and cash equivalents	Beginning of period	58,048	47,552
	End of period	<u>\$66,475</u>	<u>\$44,858</u>

See accompanying notes to financial statements

Bond Funds				Appropriated Funds		Total for the	Total for the
Residential	Homeownership	Multifamily		State	Federal	Year Ended	Year Ended
Finance	Finance	Housing	HOMES SM	Appropriated	Appropriated	June 30, 2017	June 30, 2016
\$ 207,714	\$133,396	\$ 177	\$ -	\$11,092	\$ -	\$ 396,786	\$ 361,460
(160,337)	(386,943)	-	-	(17,314)	-	(579,455)	(538,581)
64,613	38,486	624	-	438	-	111,131	110,642
12,345	-	-	-	842	-	23,986	27,041
(16,577)	(455)	(4)	-	(2,238)	-	(47,889)	(47,396)
-	-	-	-	62,200	191,279	253,479	263,122
-	-	-	-	(39,673)	(189,260)	(228,933)	(237,350)
(12,718)	(6,455)	(95)	-	(1,448)	-	788	736
-	-	-	-	19,404	-	45,872	61,865
-	-	-	-	(53,642)	-	(83,106)	(64,574)
51	-	-	-	1	(41)	(2,752)	(2,171)
95,091	(221,971)	702	-	(20,338)	1,978	(110,093)	(65,206)
1,137,274	379,677	-	-	-	-	1,524,846	1,482,842
(1,282,080)	(145,487)	(240)	(4,252)	-	-	(1,457,294)	(1,206,445)
(40,186)	(31,364)	(424)	(722)	-	-	(74,115)	(74,173)
(2,122)	(3,192)	-	-	-	-	(5,314)	(6,927)
(43)	-	-	-	-	-	-	-
(11,163)	11,449	-	-	-	(308)	-	-
(8,585)	-	-	-	-	-	-	-
(206,905)	211,083	(664)	(4,974)	-	(308)	(11,877)	195,297
(2,198)	-	-	-	-	-	(2,198)	(2,189)
6,383	114	6	722	1,488	71	9,870	9,545
3,532	-	-	-	-	-	3,532	(7,577)
19,653	-	-	-	-	-	19,653	21,321
600,629	-	-	4,252	-	-	604,905	648,293
(604,780)	-	-	-	-	-	(604,780)	(652,750)
22,219	-	-	-	(2,506)	-	-	-
45,438	114	6	4,974	(1,018)	71	30,982	16,643
(66,376)	(10,774)	44	-	(21,356)	1,741	(90,988)	146,734
267,896	45,808	1,362	-	105,418	4,088	530,172	383,438
\$ 201,520	\$ 35,034	\$1,406	\$ -	\$84,062	\$ 5,829	\$ 439,184	\$ 530,172

(Continued)

MINNESOTA HOUSING FINANCE AGENCY

Fund Financial Statements

Statement of Cash Flows (in thousands)

Proprietary Funds (continued)

Year ended June 30, 2017 (with comparative totals for year ended June 30, 2016)

		<u>Bond Funds</u>	
		<u>General Reserve</u>	<u>Rental Housing</u>
Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities	Revenues over (under) expenses	\$ (10,188)	\$ 5,075
	Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:		
	Amortization of premiums (discounts) and fees on program mortgage-backed securities	-	(36)
	Amortization of proportionate share-Pension	(12)	-
	Depreciation	2,370	-
	Gain (loss) on sale of MBS held for sale and HOMES SM Certificates	-	-
	Realized losses (gains) on sale of securities, net	-	-
	Unrealized losses (gains) on securities, net	-	100
	Salaries and Benefits-Pensions	11,042	-
	Provision for loan losses	-	(295)
	Reduction in carrying value of certain low interest rate and/or deferred loans	-	-
	Capitalized interest on loans and real estate owned	-	-
	Interest earned on investments	(254)	(266)
	Interest expense on bonds and notes	-	1,315
	Financing expense on bonds	-	-
	Decrease (increase) in appropriated disbursed	-	-
	Changes in assets and liabilities:		
	Decrease (increase) in loans receivable and program mortgage-backed securities, excluding loans transferred between funds	-	29,546
	Decrease (increase) in interest receivable on loans	-	25
	Increase (decrease) in accounts payable	192	(37)
	Increase (decrease) in interfund payable, affecting operating activities only	290	-
	Increase (decrease) in funds held for others	(2,996)	-
	Other	(1,481)	55
	Total	<u>9,151</u>	<u>30,407</u>
	Net cash provided (used) by operating activities	<u>\$ (1,037)</u>	<u>\$35,482</u>

See accompanying notes to financial statements

Bond Funds				Appropriated Funds		Total for the	Total for the
Residential	Homeownership	Multifamily		State	Federal	Year Ended	Year Ended
Housing	Finance	Housing	HOMES SM	Appropriated	Appropriated	June 30, 2017	June 30, 2016
Finance							
\$13,130	\$ (36,613)	\$108	\$ -	\$ 8,973	\$ 3,806	\$ (15,709)	\$ 52,159
141	2,326	-	-	-	-	2,431	1,813
-	-	-	-	-	-	(12)	(80)
-	-	-	-	-	-	2,370	2,224
(2,521)	-	-	-	-	-	(2,521)	(3,756)
(65)	-	-	-	-	-	(65)	(855)
6,772	31,985	-	-	526	14	39,397	(33,522)
-	-	-	-	-	-	11,042	(2,686)
(1,216)	-	-	-	341	-	(1,170)	3,355
2,409	-	-	-	11,217	-	13,626	18,831
(1,742)	-	-	-	-	-	(1,742)	(2,203)
(6,257)	(124)	(6)	(711)	(1,537)	(71)	(9,226)	(8,788)
33,128	31,043	423	711	-	-	66,620	68,580
505	4,267	-	-	-	-	4,772	18,646
-	-	-	-	-	(1,736)	(1,736)	-
47,377	(253,547)	177	-	(6,222)	-	(182,669)	(177,121)
1,125	(716)	-	-	1	-	435	302
2,277	(592)	-	-	507	(125)	2,222	1,306
(29)	-	-	-	94	(647)	(292)	(601)
-	-	-	-	(34,238)	-	(37,234)	(2,709)
57	-	-	-	-	737	(632)	(101)
81,961	(185,358)	594	-	(29,311)	(1,828)	(94,384)	(117,365)
\$95,091	\$(221,971)	\$702	\$ -	\$(20,338)	\$ 1,978	\$(110,093)	\$ (65,206)

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2017

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 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 programs. The Agency also receives funds from the federal government and other entities for similar program purposes.

The Agency is authorized to issue bonds and notes to fulfill its corporate purposes up to a total outstanding amount of \$5.0 billion and to incur other indebtedness. None of the bonds, notes or other indebtedness is 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 to 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 general obligation 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 position of General Reserve is available to support the following funds which are further described below: Rental Housing, Residential Housing Finance, Homeownership Finance and Multifamily Housing. Also described below is the HOMESSM fund which carries limited obligations of the Agency and is therefore not supported by General Reserve.

Rental Housing

Activities relating to bond-financed 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 bond funds, which include bonds issued and outstanding under the Residential Housing Finance bond resolution, limited obligation drawdown index bonds issued under a separate trust indenture and the Alternative Loan Fund which consists of the Housing Investment Fund (Pool 2) and the Housing Affordability Fund (Pool 3). All of these funds are restricted by a covenant with bondholders as to their use.

The bond resolution within Residential Housing Finance, along with the Homeownership Finance bond resolution were the principal sources of financing for bond-financed homeownership programs (see Homeownership Finance below). Bonds were issued for the purpose of funding purchases of single family first mortgage loans, mortgage-backed securities backed by single family first mortgage loans, some related entry cost housing assistance loans, and subordinated home improvement loans. 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 financed by the bonds issued and outstanding under the Residential Housing Finance bond resolution are pledged to the repayment of Residential Housing Finance bonds.

The Alternative Loan Fund has been established in Residential Housing Finance and residing therein are two sub funds: Housing Investment Fund (Pool 2) and Housing Affordability Fund (Pool 3). Funds deposited therein would otherwise be available to be transferred to General Reserve. The Alternative Loan Fund is not

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2017 (continued)

Nature of Business and Fund Structure (continued)

pledged to the payment of the Residential Housing Finance bonds or any other debt obligation of the Agency but, 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) consist of investment quality housing loans, as defined by the Agency, and investment grade securities. During fiscal year 2017 this fund provided capital for several Agency programs including its home improvement loan program and its multifamily first-mortgage loan program. It also provided capital for warehousing purchases of mortgage-backed securities secured by single family first mortgage loans before these securities are permanently financed by issuing bonds, or sold into the TBA market. In addition, it provided capital for amortizing second lien homeownership loans made in conjunction with the Agency's single family first mortgage loans, for tax credit bridge loans, for loans to partner organizations to acquire, rehabilitate and sell foreclosed homes and to develop new affordable housing, and bond sale contributions. The fund may also provide interim financing for construction and rehabilitation of single family housing and may be used to advance funds to retire Agency high interest-rate debt.

Assets of the Housing Affordability Fund (Pool 3) consist of investment-grade securities when not utilized for program purposes. Program purposes include, but are not limited to: no-interest loans; loans at interest rates substantially below market, high risk loans, deferred loans, revolving funds, and grants. During fiscal year 2017 funds 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, capital costs and rental assistance for permanent supportive housing, advances for certain multifamily housing developments in anticipation of permanent funding through state appropriation-backed housing bonds, and deferred, subordinated multifamily loans.

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 drawdown index bonds trust indenture prescribes the application of debt proceeds and permitted investments.

Homeownership Finance

This bond resolution was originally adopted for the purpose of issuing mortgage revenue bonds under the United States Treasury's Single Family New Issue Bond Program (NIBP). Non-NIBP mortgage revenue bonds, which also meet resolution requirements, have also been issued under this resolution. Bonds issued under this resolution fund mortgage-backed securities backed by single family first mortgage loans. These securities are guaranteed as to payment of principal and interest by either the Government National Mortgage Association or the Federal National Mortgage Association.

Home Ownership Mortgage-backed Exempt Securities (HOMESSM)

This bond indenture implements a program developed by the investment banking division of a major bank whereby the Agency issues and sells to the investment bank limited obligations of the Agency (HOMESSM certificates), each secured by a mortgage-backed security guaranteed by FNMA or GNMA. The HOMESSM Certificates are not secured by the general obligation pledge of the Agency and are not protected by the moral obligation backing from the State of Minnesota.

Multifamily Housing

This bond resolution was adopted for the purpose of issuing multifamily housing bonds under the United States Treasury's Multifamily New Issue Bond Program. Bonds were issued during a prior fiscal year for one rental housing project.

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

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2017 (continued)

Nature of Business and Fund Structure (continued)

form of low-interest loans, no-interest deferred loans, low-interest amortizing loans, debt service and other costs associated with appropriation-backed housing bonds, and other housing-related program costs. The net position of the State Appropriated fund is not pledged or available to secure bonds issued under any of the Agency's bond funds or creditors of the Agency.

Federal Appropriated

The Federal Appropriated fund was established to account for funds received from the federal government which are to be used for programs for low- and moderate-income persons and families in the form of no-interest deferred loans and grants in support of foreclosure counseling and remediation efforts, assistance to tax credit developments and other housing-related program costs. The net position of the Federal Appropriated fund is not pledged or available to secure 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 accrual basis utilizing 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

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 position is not presented in a classified format.

New Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter period equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a non employer entity provides financial support for OPEB of employees of another entity. In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria: Contributions from employers and non employer contributing entities to the OPEB plan and earnings on those contributions are irrevocable. OPEB plan assets are dedicated to

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2017 (continued)

Summary of Significant Accounting Policies (continued)

providing OPEB to plan members in accordance with the benefit terms. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

In March 2016, the GASB issued Statement No. 82 *Pension Issues an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement clarifies that payments made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

In May 2017, the GASB issued Statement No. 86 *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The requirements of this Statement will increase consistency in accounting and financial reporting for debt extinguishments by establishing uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. The requirements of this Statement also will enhance consistency in financial reporting of prepaid insurance related to debt that has been extinguished. In addition, this Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

In June 2017, the GASB issued Statement No. 87 *Lease*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2017 (continued)

Summary of Significant Accounting Policies (continued)

Leases should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation (or, if applied to earlier periods, the beginning of the earliest period restated). However, lessors should not restate the assets underlying their existing sales-type or direct financing leases. Any residual assets for those leases become the carrying values of the underlying assets. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Cash and Cash Equivalents

Cash equivalents may include commercial paper, money market funds, repurchase agreements, State investment pool holdings and any other investments, primarily U.S. treasury and agency securities, that have 90 or less days remaining to maturity at the time of purchase. Investment agreements are also classified as cash and cash equivalents.

Investments- Program Mortgage-backed Securities and Investment Securities- Other

The Agency generally carries investment securities at fair market value. Unrealized gains and losses on investment securities resulting from changes in market valuation are generally recorded as revenue. However, unrealized gains and losses on investments of multifamily development escrow funds resulting from changes in market valuation, as well as unrealized gains and losses on MBS held in the HOMESSM fund, are recorded as funds held for others. Mortgage-backed securities held for sale are carried at the lower of cost or market. Investments- program mortgage-backed securities, as previously described, are shown separately on the statement of net position.

Loans Receivable, Net

Loans receivable are carried at their unpaid principal balances, net of an allowance for loan losses.

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 estimated amount of loss per delinquent loan, the number of days delinquent and the type of insurance coverage in force, if any: FHA insurance, RD guarantee, VA guarantee, or private mortgage insurance. Actual gains and losses are posted to 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, 2017.

Interest Receivable on Loans and Program Mortgage-Backed Securities

The Agency accrues interest on its amortizing loans until they become 90 days or more delinquent in the case of multifamily loans, until they become "real estate owned" (described below) for homeownership loans, or until they are classified by the Agency as inactive for home improvement loans.

FHA/VA Insurance Claims Receivable, Net

Mortgages that are FHA insured or VA guaranteed, and for which insurance claims have been filed, are included in this category. FHA/VA insurance claims receivable, net is carried at its estimated realizable value.

Real Estate Owned, Net

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. Real estate owned, net is carried at its estimated realizable value.

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2017 (continued)

Summary of Significant Accounting Policies (continued)

Deferred Loss on Interest Rate Swap Agreements

The Agency's interest rate swap agreements have a negative fair value as of the end of fiscal year 2017. Because these agreements have been determined to be effective hedges under applicable accounting guidance, the negative fair value is recorded as a deferred loss.

Deferred Pension Expense and Credits

The deferred inflows and outflows of pension resources are amounts used under applicable accounting guidance in developing the annual pension expense. They arise with differences between expected and actual experience, investment differences, changes of assumptions and changes in proportions. The portion of these amounts not included in pension expense should be included in the deferred inflows or outflows of resources.

Bonds Payable

Bonds payable are carried at their unpaid principal balances.

Interest Rate Swap Agreements

Because the Agency's interest rate swap agreements have a negative fair value as of the end of fiscal year 2017, they are recorded here as a liability.

Net Pension Liability

The Net Pension Liability is the liability of employers and non-employer contribution entities to plan members for benefits provided through a defined benefit pension plan.

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Minnesota State Retirement System (MSRS) and additions to/deductions from MSRS's fiduciary net position have been determined on the same basis as they are reported by MSRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 and is not included in the investment income of General Reserve.

Undisbursed proceeds of state appropriation-backed housing bonds are recorded in Funds Held for Others until disbursed for their intended purpose.

Also included in funds held for others are unrealized gains and losses on investments of the multifamily housing development escrow fund investments, unrealized gains and losses on the mortgage-backed securities supporting HOMESSM certificates, and funds held for, and reimbursable to, HUD, such as Section

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2017 (continued)

Summary of Significant Accounting Policies (continued)

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.

Deferred Service Release Fees

The Agency's master servicer pays the Agency a fee for the right to service the loans backing mortgage-backed securities that are purchased and retained by the Agency. These fees are initially recorded as deferred inflows of resources and then amortized to Fees Earned and Other Income using the effective interest method over the expected life of the loans.

Fair Value Reporting

To the extent available, the Minnesota Housing investments are recorded at fair value as of June 30, 2017. GASB No. 72-Fair Value Measurement and Application, defines fair value as the price that would be received to sell an asset between market participants at the measure date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the market place.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1: Investments whose values are based on quoted prices (unadjusted) for identical assets (liabilities) in active markets that a government can access at measurement date.

Level 2: Investments with inputs—other than quoted prices included within Level 1 that are observable for an asset (liabilities), either directly or indirectly.

Level 3: Investments classified as Level 3 have unobservable inputs for an asset (liabilities) and may require a degree of professional judgement.

Restricted by Bond Resolution

The Restricted by Bond Resolution portion of Net Position represents the amount restricted within the respective bond resolution due to the specific provisions of the bond resolutions.

Restricted by Covenant

The Restricted by Covenant portion of Net Position represents those assets in General Reserve and those assets that would otherwise be available to be transferred to General Reserve under the applicable bond resolutions. 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 Minnesota Housing's enabling legislation, including reserves for the payment of bonds and notes and of loans made from the proceeds thereof, and will accumulate and maintain therein such balance of funds and investments as will be sufficient for the purpose. The Agency's Board establishes investment guidelines for these funds.

Restricted by Law

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

Invested in Capital Assets

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

Agency-wide Total

The Agency-wide Total columns reflect the totals of the similar accounts of the various funds. Since the assets of certain of the funds are restricted by either the related bond resolutions or legislation, the totaling of the accounts, including assets therein, and does not indicate that the combined assets are available in any

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2017 (continued)

Summary of Significant Accounting Policies (continued)

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 2016 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 excluding the reserve for loan loss, proceeds of limited obligation debt and unrealized appreciation and depreciation on investments including all mortgage-backed securities. Additional funding for the Agency's administrative operations is provided by a monthly transfer from Residential Housing Finance Pool 2 based on a portion of the net gain on the sale of mortgage-backed securities held for sale.

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

For programs funded by federal appropriations, the Agency recovers the cost of administering programs through an approved federal indirect cost recovery rate but only to the extent that funds are available. Certain other direct costs are also recovered. Total direct and indirect costs recovered from the federal government in the amount of \$0.481 million are reflected as administrative reimbursement revenues in the General Reserve.

Administrative reimbursements in the amount of \$22.001 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, acquisition fees earned from the sale of mortgage servicing rights, 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 Classification program, private contributions restricted to use in the Agency's Homeownership Education, Counseling and Training Program, housing development operating subsidies received from other state agencies, fees received for reimbursement for the cost of issuance for certain bonds, 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 Position to describe various non-operating transfers of assets 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 between the Housing Endowment Fund (Pool 1), the Housing Investment Fund (Pool 2), and the Housing Affordability Fund (Pool 3) to maintain the Pool 1 required balance; and periodic transfers from the bond funds of assets in excess of bond resolution requirements.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2017 (continued)

**Summary of
Significant
Accounting
Policies
(continued)**

Non-Cash Activities

Transfers from loans receivable to FHA/VA insurance claims receivable and real estate owned for fiscal year 2017 were \$14.3 million in Residential Housing Finance.

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, liabilities, deferred inflows and outflows, 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.

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.

Rebatable 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.

Permitted Agency investments include government obligations, commercial paper, repurchase agreements, money market funds, guaranteed investment contracts (i.e., investment agreements), the 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 and Board policy.

Cash and Cash Equivalents are generally stated at cost, which approximates fair value. The balances were composed of the following at June 30, 2017 (in thousands):

Cash and Cash Equivalents

Funds	Deposits	Money Market Funds	State Investment Pool	Investment Agreements	Combined Totals
General Reserve Account	\$ -	\$ -	\$ 66,475	\$ -	\$ 66,475
Rental Housing	-	44,858	-	-	44,858
Residential Housing Finance	1,616	196,645	-	3,259	201,520
Homeownership Finance Bonds	-	35,034	-	-	35,034
Multifamily Housing Bonds	-	1,406	-	-	1,406
HOMES SM	-	-	-	-	-
State Appropriated Accounts	198	13,035	70,829	-	84,062
Federal Appropriated Accounts	2,406	3,422	1	-	5,829
Combined Totals	<u>\$4,220</u>	<u>\$294,400</u>	<u>\$137,305</u>	<u>\$3,259</u>	<u>\$439,184</u>

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.

The State investment pool is an internal investment pool managed by the Minnesota State Board of Investment (SBI). The SBI invests in debt securities, including U.S. treasury securities, U.S. agency securities, bankers' acceptances, high grade corporates, and commercial paper. This investment pool is unrated.

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2017 (continued)

Cash, Cash Equivalents and Investment Securities (continued)

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.

Investment securities (comprising U.S. Treasury securities, U.S. Agency securities, mortgage-backed securities and municipal bonds) are recorded at fair market value and were allocated to the following funds at June 30, 2017 (in thousands):

Investment Securities

Funds	Investment Securities- Other at Amortized Cost	Program Mortgage-backed Securities at Amortized Cost	Unrealized Appreciation (Depreciation) in Fair Market Value	Estimated Fair Market Value
General Reserve Account	\$ 19,900	\$ -	\$ 46	\$ 19,946
Rental Housing	1,800	-	170	1,970
Residential Housing Finance	185,188	508,225	10,972	704,385
Homeownership Finance Bonds	1,400	1,173,248	22,582	1,197,230
Multifamily Housing Bonds	-	-	-	-
HOMES SM	21,221	-	406	21,627
State Appropriated Accounts	27,399	-	648	28,047
Federal Appropriated Accounts	4,544	-	9	4,553
Combined Totals	\$261,452	\$1,681,473	\$34,833	\$1,977,758

U.S. Treasury securities, U.S. Agency securities, and municipal bonds in General Reserve, State Appropriated and Federal Appropriated are held by the Agency's agent in the name of the State of Minnesota. U.S. treasury and U.S. agency securities in the remainder of the funds are held by the trustees under the Agency's bond resolutions in the Agency's name.

Investment securities are subject to credit risk. The following table classifies investment securities, except U.S. Treasuries, by their lowest Standard & Poor's/Moody's rating. Investment securities' credit rating categories (without qualifiers) at June 30, 2017 were (in thousands):

Credit Ratings of Investment Securities

Type	Par Value	AA+/Aaa	AA/Aa2
U.S. Agencies	\$1,878,806	\$1,878,805	\$ -
Municipal Bonds	31,365	-	31,365
Agency-wide Totals	\$1,910,171	\$1,878,805	\$31,365
U.S. Treasuries	8,265		
Agency-wide Totals	\$1,918,436		

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2017 (continued)

Cash, Cash Equivalents and Investment Securities (continued)

Examining the weighted average maturities of the Agency's investment securities can reveal information about interest rate risk. Cash, Cash Equivalents and Investment Securities (excluding unrealized appreciation of \$34.833 million and net discounts of \$24.490 million), along with the weighted average maturities (in years) as of June 30, 2017, consisted of the following (in thousands):

Type	Par Value	Weighted Average Maturity, in Years							
		General Reserve	Rental Housing	Residential Housing Finance	Home-ownership Finance	Multifamily Housing	HOMES SM	State Appropriated	Federal Appropriated
Deposits	\$ 4,220	-	-	-	-	-	-	-	-
Money market fund	294,400	-	-	-	-	-	-	-	-
State investment pool	137,305	-	-	-	-	-	-	-	-
Investment agreements	3,259	-	-	-	-	-	-	-	-
US agencies	1,878,806	0.8	19.5	27.2	27.1	-	26.1	0.8	-
US treasuries	8,265	-	-	3.6	-	-	-	-	0.9
Municipal bonds	31,365	-	-	-	-	-	-	7.7	-
Agency-wide Totals	<u>\$2,357,620</u>								
Weighted Average Maturity		0.2	0.8	20.2	26.3	-	26.1	0.7	-

Investments in any one issuer, excluding \$1,277 million of investments issued or explicitly guaranteed by the U.S. Government, that represent five percent or more of the par value of total investments, as defined by GASB Statement No. 40, as of June 30, 2017 were as follows (in thousands):

Investment Issuer	Amount
Federal National Mortgage Association, U.S. Agencies	\$552,651

The Agency maintained certain deposits and investments throughout fiscal year 2017 that were subject to custodial credit risk. As of June 30, 2017, the amounts subject to this risk consisted of the following (in thousands):

	Amount
Deposits not covered by depository insurance and uncollateralized (including \$294,400 in a money market fund and \$137,305 in the State investment pool)	\$ 435,925
Investment securities uninsured, uncollateralized.	1,921,695
Agency-wide Total	<u><u>\$2,357,620</u></u>

Net realized gain on sale of investment securities of \$0.071 million is included in interest earned on investments.

Certain balances are required to be maintained under the various bond resolutions. These balances represent debt service and insurance reserves. The required balances at June 30, 2017 were as follows (in thousands).

Funds	Amount
Rental Housing	\$ 1,386
Residential Housing Finance	28,322
Multifamily Housing	488
Combined Totals	<u><u>\$30,196</u></u>

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2017 (continued)

**Cash, Cash
Equivalents
and Investment
Securities
(continued)**

The following table summarizes Minnesota Housing's investments with in the fair value hierarchy at June 30, 2017:

Investments at par	Level 1	Level 2	Level 3	Total
U.S. Agencies	\$41,761	\$1,837,045	\$ -	\$1,878,806
U.S. Treasuries	8,265	-	\$ -	8,265
Municipal Bonds	-	31,365	\$ -	31,365
Total	<u>\$50,026</u>	<u>\$1,868,410</u>	<u>\$ -</u>	<u>\$1,918,436</u>
Prem/Disc & Unrealized Appr/Depr				59,322
Fair Market Value				<u>\$1,977,758</u>

**Loans
Receivable, Net**

Loans receivable, net at June 30, 2017 consisted of (in thousands):

Funds	Outstanding Principal	Allowance for Loan Losses	Loans Receivable, Net
General Reserve	\$ -	\$ -	\$ -
Homeownership Finance	-	-	-
Rental Housing	133,644	(3,365)	130,279
HOMES SM	-	-	-
Residential Housing Finance	895,286	(8,079)	887,207
Multifamily Housing	14,199	(71)	14,128
State Appropriated	40,454	(1,010)	39,444
Federal Appropriated	-	-	-
Agency-wide Totals	<u>\$1,083,583</u>	<u>\$(12,525)</u>	<u>\$1,071,058</u>

Substantially all loans in the table above are secured by first or second mortgages on the real property financed. 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 reduces, but does not eliminate, loan losses.

In addition to the loans in the table above, certain loans are carried 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. The principal amount of loans with such characteristics originated during fiscal year 2017 aggregated \$7.589 million in the Residential Housing Finance Housing Affordability Fund (Pool 3) and \$18.285 million in State Appropriated. Loans with net carrying values of zero are excluded from the tables above and below. The Agency also has deferred and/or forgivable loans with net carrying values of zero in the Federal Appropriated, HOME and HOPWA programs. These loans are tracked for affordability by staff. The balance of these loans at June 30, 2016 was \$56.5 million and at June 30, 2017 \$53.8 million.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2017 (continued)

Loans Receivable, Net (continued) Loans receivable, net and gross in Residential Housing Finance at June 30, 2017 consist of a variety of loans as follows (in thousands):

Description	Net Outstanding Amount	Gross Outstanding Amount
Residential Housing Finance Bonds:		
Homeownership, first mortgage loans	\$551,559	\$553,671
Other homeownership loans, generally secured by a second mortgage	903	936
Alternative Loan Fund, Housing Investment Fund (Pool 2):		
Home Improvement loans, generally secured by a second mortgage	71,629	72,621
Homeownership, first mortgage loans	28,537	29,131
Other homeownership loans, generally secured by a second mortgage	28,788	29,679
Multifamily, first mortgage loans	153,948	155,335
Alternative Loan Fund, Housing Affordability Fund (Pool 3):		
Other homeownership loans, generally secured by a second mortgage	51,843	53,913
Residential Housing Finance Totals	<u>\$887,207</u>	<u>\$895,286</u>

The Agency is limited by statute to financing real estate located within the State of Minnesota. Collectability depends on, among other things, local economic conditions.

Other Assets Other assets, including receivables, at June 30, 2017 consisted of the following (in thousands):

Funds	Receivables Due from the Federal Government	Other Assets and Receivables	Total
General Reserve Account	\$1,792	\$ -	\$1,792
Rental Housing	-	8	8
Residential Housing Finance	-	1,227	1,227
Homeownership Finance	-	29	29
Multifamily Housing	-	-	-
HOMES SM	-	-	-
State Appropriated	-	-	-
Federal Appropriated	311	-	311
Combined Totals	<u>\$2,103</u>	<u>\$1,264</u>	<u>\$3,367</u>

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2017 (continued)

Bonds Payable

Summary of bonds payable activity at June 30, 2017 is as follows (in thousands):

Funds	June 30, 2016			June 30, 2017
	Bonds Outstanding	Bonds Issued	Bonds Repaid	Bonds Outstanding
Rental Housing	\$ 54,680	\$ 7,895	\$ 25,235	\$ 37,340
Residential Housing Finance	1,233,765	136,345	311,205	1,058,905
Homeownership Finance	935,606	379,677	145,487	1,169,796
Multifamily Housing	14,200	-	240	13,960
HOMES SM	25,473	-	4,252	21,221
Drawdown Index Bonds	6,000	145,945	124,875	27,070
Totals	<u>\$2,269,724</u>	<u>\$669,862</u>	<u>\$611,294</u>	<u>2,328,292</u>
Bond Premium-Residential Housing Finance				11,231
Notes Payable				<u>30,000</u>
				<u>\$2,369,523</u>

The Drawdown Index Bonds series and notes payable are part of the Residential Housing Finance Fund.

Bonds payable at June 30, 2017 were as follows (in thousands):

Series	Interest rate	Final Maturity	Original Amount	Outstanding Amount
<u>Rental Housing Bonds</u>				
2010 Series A-1	3.75% to 5.25%	2040	\$ 3,605	\$ 3,440
2011 Series A	3.10% to 5.45%	2041	8,890	6,930
2012 Series A-1	3.75%	2048	4,175	4,000
2013 Series A-1	3.50% to 5.30%	2049	3,710	3,610
2013 Series B-1	3.65% to 5.30%	2044	2,040	1,965
2016 Series A	0.90%	2018	9,500	9,500
2016 Series B	0.85%	2018	2,650	2,650
2016 Series C	1.60%	2018	5,245	5,245
			<u>\$39,815</u>	<u>\$37,340</u>
<u>Residential Housing Finance Bonds</u>				
2003 Series B	Variable	2033	\$25,000	\$ 7,725
2003 Series I	5.10%	2020	25,000	320
2003 Series J	Variable	2033	25,000	6,790
2006 Series N	5.76% to 5.76%	2037	18,000	1,095
2007 Series M	6.345%	2038	70,000	24,415
2007 Series P	3.60% to 3.90%	2017	4,305	330
2007 Series Q	5.00% to 5.25%	2038	42,365	9,395
2007 Series S	Variable	2038	18,975	15,235
2007 Series T	Variable	2048	37,160	9,615
2008 Series A	4.05% to 4.65%	2023	25,090	1,125
2008 Series B	5.50% to 5.65%	2033	34,910	3,755
2008 Series C	Variable	2048	40,000	25,475
2009 Series A	3.80% to 5.20%	2023	26,795	390
2009 Series B	5.45% to 5.90%	2038	33,205	470

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2017 (continued)

Bonds Payable
(continued)

Series	Interest rate	Final Maturity	Original Amount	Outstanding Amount
<u>Residential Housing Finance Bonds (continued)</u>				
2009 Series C	Variable	2036	\$ 40,000	\$ 40,000
2009 Series D	3.65% to 4.05%	2020	19,830	5,070
2009 Series E	4.15% to 5.10%	2040	103,960	50,935
2012 Series A	1.20% to 3.90%	2023	50,945	19,515
2012 Series B	3.30% to 3.45%	2024	8,830	5,390
2012 Series C	3.625% to 3.85%	2029	30,975	18,910
2012 Series D	3.90% to 4.00%	2040	60,000	25,510
2013 Series A	0.50% to 3.00%	2031	33,305	11,275
2013 Series B	1.20% to 1.80%	2019	9,555	5,860
2013 Series C	1.80% to 3.90%	2043	42,310	34,490
2014 Series A	0.95% to 4.00%	2038	50,000	29,810
2014 Series B	0.95% to 4.00%	2038	50,000	30,860
2014 Series C	1.05% to 4.00%	2045	143,145	97,940
2014 Series D	3.00% to 3.10%	2026	6,585	5,140
2014 Series E	2.00% to 3.50%	2032	76,000	59,210
2015 Series A	4.00%	2041	43,070	34,660
2015 Series C	0.80% to 3.60%	2031	61,780	47,755
2015 Series D	Variable	2046	18,225	18,225
2015 Series E	1.11% to 3.50%	2046	96,930	77,715
2015 Series F	2.35% to 3.30%	2029	39,515	32,410
2015 Series G	Variable	2034	35,000	35,000
2016 Series A	0.95% to 3.20%	2033	63,135	54,625
2016 Series B	3.10% to 3.50%	2046	74,985	66,455
2016 Series C	1.55% to 4.20%	2037	15,590	12,250
2016 Series D	1.30% to 2.30%	2021	11,340	11,050
2016 Series E	2.00% to 4.00%	2047	75,005	72,710
2016 Series F	Variable	2041	50,000	50,000
			\$1,735,820	\$1,058,905
<u>Homeownership Finance Bonds</u>				
2009 Series A-1	3.01%	2041	\$ 108,000	\$ 54,710
2009 Series A-4A	2.48%	2041	21,910	11,890
2009 Series A-4B	2.48%	2041	13,090	7,160
2009 Series A-5	2.49%	2041	21,990	13,730
2010 Series A	2.50% to 4.25%	2028	72,000	18,640
2011 Series B	3.00% to 4.50%	2031	63,760	28,455
2011 Series C	2.80% to 3.850%	2031	8,310	2,460
2011 Series D	2.60% to 4.70%	2034	33,690	15,625
2011 Series E	2.20% to 4.45%	2035	65,000	28,770
2011 Series F	2.35% to 3.45%	2022	13,575	4,960
2011 Series G	4.00% to 4.40%	2035	29,110	16,195

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2017 (continued)

Bonds Payable
(continued)

Series	Interest rate	Final Maturity	Original Amount	Outstanding Amount
<u>Homeownership Finance Bonds (continued)</u>				
2012 Series A	2.60%	2042	\$ 50,000	\$ 30,171
2012 Series B	2.25%	2042	75,000	48,099
2013 Series A	2.35%	2043	75,000	50,734
2013 Series B	2.70%	2041	85,148	44,788
2013 Series C	3.00%	2043	37,000	24,122
2014 Series A	3.00%	2044	38,527	25,697
2014 Series B	2.95%	2044	18,868	13,257
2014 Series C	3.25%	2044	13,663	9,600
2014 Series D	2.88%	2044	39,934	29,684
2015 Series A	2.80%	2045	60,013	52,456
2015 Series B	3.00%	2045	54,530	45,622
2015 Series C	3.05%	2045	40,226	34,016
2015 Series D	2.90%	2045	52,365	48,465
2016 Series A	2.95%	2046	97,274	89,102
2016 Series B	2.70%	2046	50,971	47,676
2016 Series C	2.33%	2046	35,390	34,023
2016 Series D	2.73%	2046	35,390	34,119
2016 Series E	2.35%	2046	35,495	34,658
2016 Series F	2.68%	2046	65,918	64,736
2016 Series G	2.30%	2046	20,445	20,036
2016 Series H	2.65%	2046	30,668	30,227
2017 Series A	2.93%	2047	24,966	24,776
2017 Series B	3.25%	2047	24,966	24,851
2017 Series C	3.08%	2047	23,904	23,827
2017 Series D	3.43%	2047	23,904	23,828
2017 Series E	2.85%	2047	39,283	39,283
2017 Series F	3.20%	2047	19,349	19,348
			\$1,618,632	\$1,169,796
<u>Multifamily Housing Bonds</u>				
2009	3.01%	2051	\$ 15,000	\$ 13,960
			\$ 15,000	\$ 13,960
<u>HOMESSM</u>				
2013 Series A-1	3.50%	2043	\$ 3,359	\$ 2,560
2013 Series B-1	3.00%	2043	24,471	15,220
2013 Series C-1	3.50%	2043	4,713	3,441
			\$ 32,543	\$ 21,221
<u>Drawdown Index Bonds</u>				
2016 Draw Down Index Bonds	Variable	2046	\$ -	\$ 27,070
			\$ -	\$ 27,070
Combined Totals			\$3,441,810	\$2,328,292

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2017 (continued)

Bonds Payable
(continued)

The Agency uses special 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.

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

Annual debt service requirements to maturity for bonds outstanding as of June 30, 2017, are as follows (in thousands):

Fiscal Year	Rental Housing		Residential Housing Finance	
	Principal	Interest	Principal	Interest
2018	\$12,485	\$ 1,156	\$ 28,620	\$ 31,173
2019	5,595	986	29,420	30,808
2020	370	931	30,395	30,234
2021	385	917	31,535	29,557
2022	395	902	32,520	28,786
2023-2027	2,320	4,226	182,110	128,902
2028-2032	2,950	3,615	227,850	96,591
2033-2037	3,870	2,791	247,875	61,159
2038-2042	5,910	1,568	155,505	26,024
2043-2047	2,195	471	91,340	6,996
2048-2052	865	56	1,735	18
2053-2058		-	-	-
Total	\$37,340	\$17,619	\$1,058,905	\$470,248

Fiscal Year	Multifamily Housing		Homeownership Finance	
	Principal	Interest	Principal	Interest
2018	\$ 240	\$ 417	\$ 6,200	\$ 33,968
2019	240	410	6,330	33,761
2020	240	402	6,505	33,564
2021	240	395	6,670	33,347
2022	240	388	6,875	33,111
2023-2027	1,200	1,832	38,915	161,060
2028-2032	1,760	1,612	45,440	152,029
2033-2037	1,840	1,341	41,140	144,038
2038-2042	2,390	1,022	89,308	136,422
2043-2047	2,790	642	922,413	85,348
2048-2052	2,780	189	-	-
2053-2058		-	-	-
Total	\$13,960	\$ 8,650	\$1,169,796	\$846,648

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2017 (continued)

Bonds Payable
(continued)

Fiscal Year	HOMESSM		DDIB	
	Principal	Interest	Principal	Interest
2018	\$ -	\$ 667	\$ -	\$ 363
2019	-	667	-	368
2020	-	666	-	364
2021	-	667	-	365
2022	-	667	-	366
2023-2027	-	3,333	-	1,828
2028-2032	-	3,333	-	1,829
2033-2037	-	3,333	-	1,828
2038-2042	-	3,333	-	1,829
2043-2047	21,221	778	27,070	1,462
2048-2052	-	-	-	-
2053-2058	-	-	-	-
Total	\$ 21,221	\$ 17,444	\$27,070	\$10,602

Fiscal Year	Combined Totals	
	Principal	Interest
2018	\$ 47,545	\$ 67,744
2019	41,585	67,000
2020	37,510	66,161
2021	38,830	65,248
2022	40,030	64,220
2023-2027	224,545	301,181
2028-2032	278,000	259,009
2033-2037	294,725	214,490
2038-2042	253,113	170,198
2043-2047	1,067,029	95,697
2048-2052	5,380	263
2053-2058	-	-
Total	\$2,328,292	\$1,371,211

Residential Housing Finance Bonds 2003 Series B and J; 2007 Series S and T (Taxable); 2008 Series C; 2009 Series C; Series 2015 D and G; and Series 2016 F accrue interest at rates that change weekly as determined by a remarketing agent for such series based on market conditions. Future interest due for these bonds, as displayed above in the annual debt service requirements table, assumes that the respective rates in effect on June 30, 2017 continue for the term of the bonds. Variable rate bond interest payments will vary as general short-term interest 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.

The income and assets of each of the bond funds, except for the HOMESSM fund, are pledged on a parity basis for the payment of principal and interest on the bonds issued, and to be issued, under the respective resolutions. All but one of the bond resolutions contains covenants that require the Agency to maintain certain reserves. The Agency believes that as of June 30, 2017, it is in compliance with those covenants in all material

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2017 (continued)

**Bonds Payable
(continued)**

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, 2017 for the redemption of certain bonds thereafter. See Subsequent Events.

Demand Bonds

On June 30, 2017 the Agency had in place a revolving line of credit with the Federal Home Loan Bank of Des Moines with an outstanding balance of \$30.000 million.

The bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with seven days' notice and delivery to the Agency's remarketing agent. The remarketing agent is authorized to use its best efforts to sell the bonds at a price equal to 100 percent of the principal amount. In the event the remarketing agent does not sell the bonds, the liquidity provider has agreed to purchase the bonds at a price equal to principal plus accrued interest. While held by the liquidity provider the bonds bear interest at a bank rate.

If the remarketing agent is unable to resell bonds purchased by the liquidity provider within one year of the purchase date the principal amount of these bonds together with interest at a bank rate will be payable to the liquidity provider in quarterly or semiannual installments payable over a five-year period that begins on the purchase date.

The Agency is required to pay to the liquidity provider a fee of between 0.25 and 0.65 percent per annum of the liquidity provider's available commitment of both the outstanding principal amount of the bonds and approximately six months interest on the bonds at the rate of 12% per annum.

The Agency has paid \$0.2 million to the liquidity provider for fiscal year 2017.

In addition, the remarketing agent receives a fee of 0.1 percent of the outstanding principal amount of the bonds. The Agency has paid a fee of \$0.03 million to the remarketing agent for fiscal year 2017.

Demand Bonds

Variable Rate Series	Principal Amount Outstanding at par	Liquidity Facility Maturity- SBPA ¹	Liquidity Fee	Remarketing Agent Fee
Residential Housing Finance Series 2003B	\$ 7,725,000	7/16/2018	0.500%	0.100%
Residential Housing Finance Series 2003J	6,790,000	7/16/2018	0.500%	0.100%
Residential Housing Finance Series 2007S ²	15,235,000	2/1/2018	4.500%	0.100%
Residential Housing Finance Series 2007T ²	9,615,000	2/1/2018	4.500%	0.100%
Residential Housing Finance Series 2008C	25,475,000	8/7/2018	0.450%	0.100%
Residential Housing Finance Series 2009C	40,000,000	2/12/2019	0.450%	0.100%
Residential Housing Finance Series 2015D	18,225,000	8/11/2022	0.650%	0.100%
Residential Housing Finance Series 2015G	35,000,000	1/2/2023	0.650%	0.100%
Residential Housing Finance Series 2016F	50,000,000	1/2/2024	0.550%	0.100%
Combined Totals	<u>\$208,065,000</u>			

¹-SBPA-Stand By Purchase Agreement

²-Swaps were terminated on July 3, 2017

**Derivative
Instruments-
Interest Rate
Swaps**

The Agency has entered into certain interest rate swap agreements that are considered to be derivative instruments under Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). A consultant was engaged by the Agency to determine the fair value of these agreements and to evaluate their effectiveness as hedges as of June 30, 2017. The fair values approximate the termination payments that would have been due had the swaps been terminated as

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2017 (continued)

Derivative Instruments- Interest Rate Swaps (continued)

of June 30, 2017. Under GASB 53, instruments, in whole or in part, such as interest rate swaps and similar transactions that fall under the definition of Derivative Instruments must be reported on the statement of net assets, the classification of which depends on whether they represent assets or liabilities, and Derivative Instruments generally should be measured at "Fair Value". Fair Values were determined pursuant to GASB 72: Fair Value Measurement and Application. The fair value hierarchy of interest rate swap agreements is determined to be level 2. The fair values exclude accrued interest. As of June 30, 2017, all of the Agency's interest rate swap agreements have been determined to be effective hedges, as defined by GASB 53. The fair value is displayed on the statement of net position as a liability named "Interest rate swap agreements." The inception-to-date change in fair value as of June 30, 2017 is included under deferred outflows of resources as "Deferred loss on interest rate swap agreements."

Objective of Swaps

The Agency entered into interest rate swap agreements in connection with its issuance of variable rate mortgage revenue bonds under the Residential Housing Finance Bond Resolution from calendar year 2003 through 2009, and 2015 through 2017. Using variable-rate debt hedged with interest-rate swaps reduced the Agency's cost of capital at the time of issuance compared to using long-term fixed rate bonds and, in turn, enabled the Agency to reduce 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, 2017, 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
2018	\$ 68,720	\$ 1,023	\$ 2,995
2019	-	757	1,751
2020	-	757	1,742
2021	-	758	1,735
2022	215	757	1,729
2023-2027	4,535	3,701	8,208
2028-2032	27,535	3,270	6,880
2033-2037	27,010	1,769	4,106
2038-2042	12,625	1,045	2,344
2043-2047	16,370	353	462
2048-2052	1,055	9	32

Terms of Swaps

Terms of the swaps, the fair values, changes in fair values, and the credit ratings of the three counterparties thereto as of June 30, 2017, are contained in the two tables below (in thousands). All swaps are pay-fixed, receive-variable. Initial swap notional amounts matched original principal amounts of the associated debt. The Agency's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximate 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 right, generally 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 match the outstanding principal amount

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2017 (continued)

Derivative Instruments- Interest Rate Swaps (continued)

of the associated bond series and, except for the 2003B and 2003J swaps, the right to terminate the swaps at par at approximately the 10 year anniversary date of the swap for the 2007S, 2007T, 2008C and 2009C Swaps and the 7-year anniversary date for the 2015D, 2015G, 2016F and 2017C swaps. The Agency also has the right to terminate outstanding swaps in whole or in part at fair value at any time if it is not in default thereunder.

Counterparty: The Bank of New York Mellon

Moody's* Aa1 (stable outlook) / Standard & Poor's** AA- (stable outlook)

Associated Bond Series	Notional Amount as of June 30, 2017 (in thousands)	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value ¹ as of June 30, 2017 (in thousands)	Increase (Decrease) in Fair Value since June 30, 2016 (in thousands)
RHFB 2003B	\$ 7,725	July 23, 2003	January 1, 2033	3.532%	65% of 1 month LIBOR*** plus 0.23% per annum	\$ (664)	\$ (363)
RHFB 2003J	6,790	October 15, 2003	July 1, 2033	4.183%	65% of 1 month LIBOR*** plus 0.23% per annum	(857)	(308)
RHFB 2007S	15,235	December 19, 2007	July 1, 2038	4.340%	100% of SIFMA**** Index plus 0.06% per annum	(252)	(334)
RHFB 2007T (Taxable)	9,615	December 19, 2007	July 1, 2026	4.538%	100% of 1 month LIBOR*	(172)	(244)
Counterparty Total	\$39,365					\$ (1,945)	\$ (1,249)

Counterparty: Royal Bank Of Canada

Moody's* Aa3 (Negative outlook) / Standard & Poor's** AA- (Negative outlook)

Associated Bond Series	Notional Amount as of June 30, 2017 (in thousands)	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value ¹ as of June 30, 2017 (in thousands)	Increase (Decrease) in Fair Value since June 30, 2016 (in thousands)
RHFB 2008C	\$ 25,475	August 7, 2008	July 1, 2048	4.120%	64% of 1 month LIBOR*** plus 0.30% per annum	\$ (1,069)	\$ (714)
RHFB 2009C	40,000	February 12, 2009	July 1, 2039	4.215%	64% of 3 month LIBOR*** plus 0.26% per annum	(2,431)	(1,168)
RHFB 2015D	18,225	August 15, 2015	January 1, 2046	2.343%	67% of 1 month LIBOR	(325)	(859)
RHFB 2015G	35,000	December 8, 2015	January 1, 2034	1.953%	67% of 1 month LIBOR	(361)	(1,513)
RHFB 2016F	50,000	December 22, 2016	January 1, 2041	2.175%	67% of 1 month LIBOR	(1,393)	(481)
Counterparty Total	\$168,700					\$ (5,579)	\$ (4,735)

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2017 (continued)

**Derivative
Instruments-
Interest
Rate Swaps
(continued)**

Counterparty: Wells Fargo

Moody's* Aa1(Stable outlook) / Standard & Poor's** AA- (Negative outlook)

Associated Bond Series	Notional Amount as of June 30, 2017 (in thousands)	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value' as of June 30, 2017 (in thousands)	Increase (Decrease) in Fair Value since June 30, 2016 (in thousands)
RHFB 2017C	\$ -	January 1, 2019	January 1, 2038	2.180%	67% of 1 month LIBOR	\$ (241)	\$ 241
Counterparty Total	-					(241)	241
Combined Totals	\$208,065					\$(7,765)	\$(5,743)

1. A positive fair value represents money due to the Agency by the counterparty upon an assumed termination of the swap while a negative fair value represents the amount payable by the Agency.

* Moody's Investor Service Inc.

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

*** London Inter-Bank Offered Rate

**** Securities Industry and Financial Markets Association

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 at market, a payment is due by one party based upon the fair value of the swap even if the payment is owed to a defaulting party. 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 generally limit counterparty terminations to the following Agency actions or events: payment default, other defaults that remain uncured for 30 days after notice, substantial impairment of credit ratings, 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 potential credit exposure to the swap counterparty assuming the occurrence of a termination event. As of June 30, 2017, the Agency did not have a net credit risk exposure to any of its three counterparties because their respective combined swap positions had a negative net fair value, as set forth in the foregoing tables. Each of the swap agreements requires that, upon demand, a party post collateral to secure its obligation to make a termination payment to the extent the fair value exceeds a collateral threshold specified in the agreement. The collateral threshold for each counterparty and the Agency is \$50 million if the ratings on the unsubordinated, unsecured long-term indebtedness of the counterparty, in the case of the counterparty, or the hedged bonds, in the case of the Agency, are not less than "AA-" and "Aa3" from Standard & Poor's and Moody's, respectively, \$5 million if the ratings are not less than "A+" and "A1", \$5 million if the ratings are not less than "A" and "A2", and \$0, if either rating is lower. These bilateral requirements are established to mitigate potential credit risk exposure. As of June 30, 2017, 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 principal amount of variable rate bonds to decline faster than the amortization of the notional amount 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. (See *Terms of Swaps*.) 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.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2017 (continued)

**Derivative
Instruments-
Interest
Rate Swaps
(continued)**

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 percentage of the one-month taxable LIBOR rate or the SIFMA index 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, 2017, the interest rate on the Agency's variable rate tax-exempt debt ranged from 0.492% to 0.95% per annum while the variable interest rate on the associated swaps ranged from 0.31% to 1.08% per annum. As of June 30, 2017, the interest rate on the Agency's variable rate taxable debt was 1.17% per annum while the variable interest rate on the associated swaps was 1.226% 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 was 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.

**Derivative
Instruments-
Forward Sales
Contracts**

The Agency has entered into forward sales contracts for the future delivery of Ginnie Mae and Fannie Mae securities. The contracts offset the financial impact to the Agency of changes in interest rates between the time of loan reservations and the securitization and sale of such loans as Ginnie Mae or Fannie Mae securities. These contracts are considered investment derivative instruments. Therefore, the change in value is reported as unrealized gains (losses) on investments. Outstanding forward sales contracts, summarized by counterparty as of June 30, 2017, are as follows: (in thousands):

	Counter Party Short-term Rating	Number of Contracts	Notional Amount	Original Price	Market Price	Fair Value
Bank of Oklahoma	A-2*/F1**	8	\$ 53,000	\$ 55,303	\$ 55,220	\$82
ED&F Man Capital Markets	A-1*/F1+**	24	133,500	138,810	138,732	78
Fannie Mae	Not rated*/F1+**	16	73,000	75,470	75,560	(90)
Janney Montgomery Scott	Not Rated*/Not Rated**	3	11,000	11,429	11,463	(33)
Multi-Bank Securities	A-1*/F1+**	1	4,000	4,119	4,094	24
		<u>52</u>	<u>\$274,500</u>	<u>\$285,131</u>	<u>\$285,070</u>	<u>\$62</u>

* Standard and Poor's Rating Services, Inc.

** Fitch Ratings, Ltd

**Conduit
Debt-Obligation**

On December 21, 2005, the Agency issued tax-exempt bonds on a conduit basis to assist a Minnesota nonprofit organization in preserving assisted elderly rental housing. The proceeds of the bonds were used by the organization to refinance certain HUD Section 202 elderly housing projects. The bonds were sold on a private placement basis. As of June 30, 2017, \$26.436 million of the bonds were outstanding.

On March 1, 2016, the Agency issued a long-term tax-exempt multifamily revenue note on a conduit basis that will be purchased by Freddie Mac under their Tax Exempt Loan Program. The proceeds of the sale were lent to the owner to pay for a portion of the costs of the acquisition, construction, and equipping of a multifamily senior rental housing development. As of June 30, 2017, \$22.052 million of the bonds were outstanding.

On April 20, 2016 and May 11, 2016, the Agency issued long-term tax-exempt multifamily revenue notes on a conduit basis that will be purchased by Freddie Mac under their Tax Exempt Loan Program.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2017 (continued)

**Conduit
Debt-Obligation
(continued)**

The proceeds of the sales were lent to the owner to pay for a portion of the costs of the acquisition and rehabilitation of three HUD Section 8 multifamily housing developments. As of June 30, 2017, \$32.695 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 these conduit bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

**Appropriation
Debt Obligation**

The Agency has outstanding bonds under two indentures of trust that permit capital funding for loans for permanent supportive housing for long-term homeless households, preservation of federally assisted housing and other purposes. As of June 30, 2017, \$132.985 million of bonds were outstanding. This debt is not a general obligation of the Agency and is not payable from any funds or assets of the Agency. These bonds are payable solely from the appropriations the Agency expects to receive from the State General Fund pursuant to standing appropriations to be made by the Legislature as authorized by state laws adopted in 2008, 2012, 2014 and 2015. Thus, the bonds are not recorded as a liability in the accompanying financial statements.

**Accounts
Payable**

Accounts payable and other liabilities at June 30, 2017 consisted of the following (in thousands):

Funds	Accrued Salaries, Compensated Absences and Employee Benefits	Other Liabilities and Accounts Payable	Total
General Reserve Account	\$3,987	\$2,691	\$ 6,678
Rental Housing	-	2,396	2,396
Residential Housing Finance	-	1,060	1,060
Homeownership Finance	-	131	131
Multifamily Housing	-	-	-
HOMES SM	-	-	-
State Appropriated	-	2,119	2,119
Federal Appropriated	-	13	13
Combined Totals	<u>\$3,987</u>	<u>\$8,410</u>	<u>\$12,397</u>

**Interfund
Balances**

Interfund balances displayed as Interfund Payable (Receivable) at June 30, 2017 consisted of the following (in thousands):

Funds	Due from								Total
	General Reserve	Rental Housing	Residential Housing Finance	Home- ownership Finance	Multifamily Housing	HOMESSM	State Appropriated	Federal Appropriated	
General Reserve	\$-	\$-	\$20,894	\$-	\$-	\$-	\$334	\$264	\$21,492
Rental Housing	-	-	-	-	-	-	-	-	-
Residential Housing Finance	-	-	-	-	-	-	-	-	-
Homeownership Finance	-	-	-	-	-	-	-	-	-
Multifamily Housing	-	-	-	-	-	-	-	-	-
HOMES SM	-	-	-	-	-	-	-	-	-
State Appropriated	-	-	-	-	-	-	-	-	-
Federal Appropriated	-	-	-	-	-	-	-	-	-
Agency-wide Totals	<u>\$-</u>	<u>\$-</u>	<u>\$20,894</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$334</u>	<u>\$264</u>	<u>\$21,492</u>

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2017 (continued)

Interfund Balances (continued)

All 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, 2017 consisted of the following (in thousands):

	Transfer from								
	General Reserve	Rental Housing	Residential Housing Finance	Home-ownership Finance	Multifamily Housing	HOMES SM	State Appropriated	Federal Appropriated	Total
General Reserve	\$-	\$ 1,192	\$12,761	\$6,455	\$95	\$-	\$1,448	\$788	\$22,739
Rental Housing	-	-	-	-	-	-	-	-	-
Residential Housing Finance	-	19,713	-	-	-	-	2,577	-	22,290
Homeownership Finance	-	-	-	-	-	-	-	-	-
Multifamily Housing	-	-	-	-	-	-	-	-	-
HOMES SM	-	-	-	-	-	-	-	-	-
State Appropriated	1	-	71	-	-	-	-	-	72
Federal Appropriated	-	-	1,736	-	-	-	-	-	1,736
Agency-wide Totals	\$1	\$20,905	\$14,568	\$6,455	\$95	\$-	\$4,025	\$788	\$46,837

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 \$2.506 million of entry cost assistance loans transferred from Residential Housing Finance to State Appropriated.

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds for the year ended June 30, 2017, consisted of the following (in thousands):

	Transfer from								
	General Reserve	Rental Housing	Residential Housing Finance	Home-ownership Finance	Multifamily Housing	HOMES SM	State Appropriated	Federal Appropriated	Total
General Reserve	\$ -	\$-	\$18,209	\$-	\$-	\$-	\$-	\$ -	\$18,209
Rental Housing	-	-	22	-	-	-	-	-	22
Residential Housing Finance	8,585	-	-	-	-	-	-	2,044	10,629
Homeownership Finance	-	-	17,813	-	-	-	-	-	17,813
Multifamily Housing	-	-	-	-	-	-	-	-	-
HOMES SM	-	-	-	-	-	-	-	-	-
State Appropriated	-	-	-	-	-	-	-	-	-
Federal Appropriated	-	-	-	-	-	-	-	-	-
Agency-wide Totals	\$8,585	\$-	\$36,044	\$-	\$-	\$-	\$-	\$2,044	\$46,673

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 (Pool 1) requirement and periodic transfers from the bond funds of assets in excess of bond resolution requirements.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2017 (continued)

Net Position

Restricted by Bond Resolution

The Restricted by Bond Resolution portion of Net Position 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 excess 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 covenanted that it will use the money in General Reserve (or any 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 Minnesota Housing's 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 general obligation bonds, 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 investment guidelines. These guidelines are periodically evaluated in consideration of changes in the economy and in the Agency's specific risk profile.

The \$471.700 million restricted by covenant portion of net position is 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 portion of Net Position of the General Reserve. The Housing Investment Fund (Pool 2) and the Housing Affordability Fund (Pool 3) are maintained in the Restricted by Covenant portion of Net Position of the Residential Housing Finance fund.

The combined net position of the General Reserve and bond funds (exclusive of Pool 3, accumulated unrealized gains/losses on investments, and realized gains/losses in sale of investments between Agency funds) is required by Board investment guidelines to be not less than the combined net position of the same funds (exclusive of cumulative unrealized gains/losses on investments) as of the immediately preceding fiscal year end. That combined net position was \$721.570 million as of June 30, 2016 and \$767.914 million as of June 30, 2017.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2017 (continued)

**Net Position
(continued)**

The following table describes the restricted by covenant portion of net position, including the balances to be maintained according to the Agency's Board investment guidelines, as of June 30, 2017 (in thousands):

Net Position — Restricted By Covenant	Certain Balances Maintained According to Agency's Board Guidelines	Unrealized Appreciation (Depreciation) in Fair Market Value of Investments	Total Net Position 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 appropriation-funded loans) and must be invested in short-term, investment-grade securities at market interest rates	\$ 9,871	\$ -	\$ 9,871
Unrealized depreciation in fair market value of investments, excluding multifamily development escrow investments	-	-	-
Subtotal, Housing Endowment Fund (Pool 1), General Reserve	9,871	-	9,871
Housing Investment Fund (Pool 2), Residential Housing Finance			
An amount that causes the combined net position in the General Reserve and bond funds (exclusive of: Pool 3, unrealized gains/losses on investments, and realized gains/losses from the sale of investments between Agency funds) to be at least equal to the combined net position of the same funds for the immediately preceding audited fiscal year end (after restatements, if any, required by generally accepted accounting principles). During fiscal year 2017, \$3.0 million was transferred from Pool 2 to Pool 3 in compliance with these Board guidelines. Pool 2 is invested in investment-quality housing loans, as defined by the Agency, or investment-grade securities.	349,070	-	349,070
Unrealized appreciation in fair market value of investments	-	2,664	2,664
Subtotal, Housing Investment Fund (Pool 2), Residential Housing Finance	349,070	2,664	351,734
Housing Affordability Fund (Pool 3), Residential Housing Finance			
Funds in excess of the combined requirement of Pool 1, Pool 2 and General Reserve may be 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, pending use, investment-grade securities.	109,459	-	109,459
Unrealized appreciation in fair market value of investments	-	636	636
Subtotal, Housing Affordability Fund (Pool 3), Residential Housing Finance	109,459	636	110,095
Agency-wide Total	<u>\$468,400</u>	<u>\$3,300</u>	<u>\$471,700</u>

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2017 (continued)

Net Position (continued)

Restricted by Law

Undisbursed, recognized federal and state appropriations are classified as Restricted by Law under Net Position. The \$10.422 million balance of Restricted by Law in the Federal Appropriated fund as of June 30, 2017 is restricted by federal requirements that control the use of the funds. The \$136.312 million balance of Restricted by Law in the State Appropriated fund as of June 30, 2017 is restricted by the state laws appropriating such funds.

Defined Benefit Pension Plan

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

The State Employees Retirement Fund (SERF) is administered by the MSRS, and is established and administered in accordance with Minnesota Statutes, Chapters 352 and 356. SERF includes the General Employees Retirement Plan (General Plan), a multiple-employer, cost-sharing defined benefit plan, and three single-employer defined benefit plans: the Military Affairs Plan, the Transportation Pilots Plan, and the Fire Marshals Plan. Only certain employees of the Department of Military Affairs, the Department of Transportation, and the State Fire Marshal's Division are eligible to be members of those plans, but all state of Minnesota employees who are not members of another plan are covered by the General Plan.

MSRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at www.msrs.state.mn.us/financial-information; by writing to MSRS at 60 Empire Drive, #300, St. Paul, Minnesota, 55103; or by calling (651) 296-2761 or 1-800-657-5757.

Benefits Provided

MSRS provides retirement, disability, and death benefits through the SERF. Benefit provisions are established by state statute and can only be modified by the state legislature. Benefits are based on a member's age, years of credit, and the highest average salary for any sixty successive months of allowable service at termination of service. Benefit increases are provided to benefit recipients each January, and are related to the funded ratio of the plan. Annuitants receive benefit increases of 2.0 percent each year. When the fund reaches a 90 percent funded status for two consecutive years, annuitants will receive a 2.5 percent increase. If, after reverting to 2.5% increase, the funding ratio declines to less than 80% for the most recent actuarial valuation year or 85% for two consecutive years, the benefit increase will decrease to 2%.

Retirement benefits can be computed using one of two methods: the Step formula and the Level formula. Members hired before July 1, 1989, may use the Step or Level formula, whichever is greater. Members hired on or after July 1, 1989, must use the Level formula. Each formula converts years and months of service to a certain percentage. Under the Step formula, members receive 1.2 percent of the high-five average salary for each of the first 10 years of covered service, plus 1.7 percent for each year thereafter. It also includes full benefits under the Rule of 90 (age plus years of allowable service equals 90). In contrast, the Level formula does not include the Rule of 90. Under the Level formula, members receive 1.7 percent of the high-five average salary for all years of covered service, and full benefits are available at normal retirement age.

Contributions

Minnesota Statutes Chapter 352 sets the rates for employer and employee contributions. Eligible General Plan members and participating employers are required to contribute 5.5 percent of their annual covered salary in fiscal year 2017. The Agency's contribution to the General Plan for the fiscal year ending June 30, 2017 was \$0.968 million. These contributions were equal to the contractually required contributions for each year as set by state statute.

Actuarial Assumptions

The Agency's net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2017 (continued)

**Defined Benefit
Pension Plan
(continued)**

pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent per year
Active Member Payroll Growth	3.25 percent per year
Investment Rate of Return	7.50 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 generational mortality tables for males or females, as appropriate, with adjustments to match fund experience. Benefit increases for retirees are assumed to be 2.0 percent every January 1st.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies for the period July 1, 2008, through June 30, 2015, with an update of economic assumptions in 2016.

The long-term expected rate of return on pension plan investments is 7.5 percent. The rate assumption was selected as the result of a review of inflation and investment return assumptions dated September 11, 2014 and a recent liability study. The review combined the asset class target allocations and long-term rate of return expectations from the State Board of Investment (SBI).

The SBI, which manages the investments of MSRS, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method. Best-estimates of expected future real rates of return are developed for each major asset class. These asset class estimates and target allocations are combined to produce a geometric, expected long-term rate of return as summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>SBI's Long-Term Expected Real Rate of Return (Geometric Mean)</u>
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

Changes in Actuarial Assumptions

The changes in funding actuarial assumptions listed below have occurred since July 1, 2015. Assumption changes in the State Employee Retirement Fund are the result of an experience study dated June 30, 2015.

Assumed salary increase rates average 0.2% greater than the previous rates.

Assumed rates of retirement were resulting in fewer unreduced (Normal) retirements and fewer Rule of 90 retirements.

Assumed rates of termination were changed and are generally greater than the previous rates for years 3 – 9 and less than the previous rates after 15 years.

Assumed rates of disability are 75% of previous rates for females and rates for male members were lowered by utilizing the same disability rates as for females.

The base mortality table for healthy annuitants and employees was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2014). The mortality improvement scale was changed from Scale AA to Scale MP-2015.

The percent married assumption was changed from 85% of active male members and 70% of female members to 80% of active members and 65% of active female members.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2017 (continued)

**Defined Benefit
Pension Plan
(continued)**

The assumed number of married male new retirees electing the 75% Joint & Survivor option changed from 10% to 15%. The assumed number of married female new retirees electing the 75% and 100% Joint & Survivor options changed from 0% to 10% and from 25% to 30%, respectively. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

The assumed post-retirement benefit increase rate was changed from 2.00% per year through 2043 and 2.50% per year thereafter to 2.00% per year for all future years.

The long-term expected rate of return on pension plan investments has been reduced from 7.90% to 7.50% as of July 1, 2016.

The single discount rate changed from 7.90% as of July 1, 2015 to 4.17% as of July 1, 2016.

The inflation assumption has been reduced from 2.75% to 2.50%, and the payroll growth assumption was reduced from 3.50% to 3.25%.

Single Discount Rate

A Single Discount Rate of 4.17% was used to measure the total pension liability. This Single Discount Rate was based on an expected rate of return on pension plan investments of 7.50% and a municipal bond rate of 2.85%. The projection of cash flows used to determine this Single Discount Rate assumed that employees and employer contributions will be made at the current statutory contribution rates. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year ending June 30, 2042. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year ending June 30, 2042, and the municipal bond rate was applied to all benefit payments after that point of asset depletion.

Net Pension Liability

At June 30, 2017, the Agency reported a liability of \$76.077 million for its proportionate share of MSRS' net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Agency's proportion of the net pension liability was based on the Agency's contributions received by MSRS during the measurement period July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of MSRS's participating employers. At June 30, 2016, the Agency's proportionate share of the entire plan was 0.61359 percent.

Pension Liability Sensitivity

The following presents the Agency's proportionate share of the net pension liability, calculated using the discount rate disclosed above, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate (in thousands):

	1% Decrease in Discount Rate (3.17%)	Discount Rate (4.17%)	1% Increase in Discount Rate (5.17%)
Agency proportionate share of the net pension liability:	\$100,305	\$76,077	\$56,613

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the MSRS Comprehensive Annual Financial Report, available on the MSRS website (www.msrs.state.mn.us/financial-information).

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2017 (continued)

Defined Benefit Pension Plan (continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2017, the Agency recognized pension expense of \$11.030 million. At June 30, 2017, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 104	\$1,924
Changes of assumptions	48,652	3,626
Net difference between projected and actual earnings on investments	3,348	-
Changes in proportion and differences between actual contributions and proportionate share of contributions	203	4
Contributions paid to MSRS subsequent to the measurement date	968	-
Total	\$53,275	\$5,554

Amounts reported as deferred outflows of resources related to pensions resulting from Agency's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year ended June 30:	Pension Expense Amount
2018	\$10,705
2019	10,705
2020	12,521
2021	12,822

Post-Employment Benefits Other Than Pensions

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 obtains an actuarial valuation from an independent firm of its postretirement medical benefits and to determine its other postemployment benefits (OPEB) liability. The state intends to fund the OPEB liability on a "pay as you go" basis. The net other postemployment benefit obligation (NOO) for the Agency is \$0.300 million for fiscal year 2017. 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 2.85% and the assumed payroll growth rate was 3.50%. Future retirees who are eligible for an implicit subsidy are assumed to elect coverage at a 70% rate. The projected annual medical claims cost trend rate is 6.40% initially, reduced by decrements to an ultimate rate of 3.8% for the year 2073 and beyond. The funding status, from the report dated July 1, 2016, which is the latest available, 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.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2017 (continued)

Post-Employment
Benefits Other
Than Pensions
(continued)

Schedule of Funding Progress (dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded		Covered Payroll	UAAL as a % of Covered Payroll
			Actuarial Accrued Liability (UAAL)	Funded Ratio		
7/1/2010	\$-	\$693,297	\$693,297	0.00%	\$2,048,761	33.84%
7/1/2012	-	573,135	573,135	0.00%	1,904,671	30.09%
7/1/2014	-	574,221	574,221	0.00%	2,260,171	25.41%
7/1/2016	-	553,448	553,448	0.00%	2,680,492	20.65%

Schedule of Employer Contributions (dollars in thousands)

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
6/30/2014	\$62,409	\$30,222	48.43%	\$226,173
6/30/2015	62,192	27,324	43.93%	261,041
6/30/2016	65,289	30,372	46.52%	295,958
6/30/2017	64,081	28,526	44.52%	331,513

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

Fiscal Year Ended	Annual Required Contribution (ARC)	Employer Contribution	ARC			Annual OPEB Cost	Change in NOO	NOO Balance
			Interest on NOO	Adjustment with Interest	Amor- tization Factor			
6/30/2014	\$60,952	\$30,222	\$9,214	\$7,757	26.195	\$62,409	\$32,187	\$226,173
6/30/2015	61,156	27,324	9,273	8,237	28.582	62,192	34,868	261,041
6/30/2016	64,093	30,372	10,703	9,507	28.582	65,289	34,917	295,958
6/30/2017	64,893	28,526	8,435	9,247	32.919	64,081	35,555	331,513

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 \$2,500 deductible per claim for the following coverage limits (in thousands):

Type of Coverage	Coverage Limits
Real and personal property loss	\$ 4,788
Business interruption/loss of use/extra expense	100,000
Bodily injury and property damage per person	500
Bodily injury and property damage per occurrence	1,500
Faithful performance/commercial crime	14,000
Employee dishonesty	250

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

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2017 (continued)

Risk Management (continued)

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 fiscal years.

Commitments

As of June 30, 2017, 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 Account	\$ -
Rental Housing	16,389
Residential Housing Finance	212,577
Homeownership Finance	-
Multifamily Housing	-
HOMES SM	-
State Appropriated	105,818
Federal Appropriated	20,133
Agency Wide Totals	<u>\$354,917</u>

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 cancellable lease commitments for office facilities through August 2027 and for parking through August 2027, totaling \$15.664 million. Combined office facilities and parking lease expense for fiscal year 2017 was \$1.230 million.

On June 30, 2017 the Agency had in place a revolving line of credit with the Federal Home Loan Bank of Des Moines. Draws against the line of credit are required to be collateralized with mortgage-backed securities which reside in Pool 2. As of June 30, 2017, \$59.502 million of mortgage-backed securities were pledged. The advances taken during fiscal year 2017 were used to purchase and warehouse mortgage-backed securities in Pool 2.

Line of Credit

The line of credit activity for the year ended June 30, 2017, is summarized as follows (in thousands):

Beginning Balance	Draws	Repayments	Ending Balance
\$23,000	\$853,000	\$846,000	\$30,000

The Agency is a party to various litigations 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 the financial position or results of operations of the Agency.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2017 (continued)

**Subsequent
Events**

The Agency called for redemption or repayment subsequent to June 30, 2017 the following bonds (in thousands):

Program	Retirement Date	Par
Homeownership Finance	July 1, 2017	\$ 3,105
Residential Housing Finance	July 1, 2017	24,500
Residential Housing Finance	July 19, 2017	62,165
Residential Housing Finance	July 24, 2017	9,190
Residential Housing Finance-ALF2 Draw Down Index Bond	July 19, 2017	43,930
Residential Housing Finance	August 1, 2017	5,850
Homeownership Finance	August 1, 2017	830
Homeownership Finance	September 1, 2017	2,915
Residential Housing Finance	September 1, 2017	5,800
Rental Housing	September 18, 2017	740

The Agency made, or has committed to make draws from the Drawdown Index Bonds subsequent to June 30, 2017 as shown in the table below.

Program	Series	Draw Date	Par
Drawdown Index Bonds	2016A-1 AMT	July 3, 2017	\$ 6,260
Drawdown Index Bonds	2016B-1 Non-AMT/Non ACE	July 3, 2017	17,990
Drawdown Index Bonds	2016A-1 AMT	August 1, 2017	1,000
Drawdown Index Bonds	2016B-1 Non-AMT/Non ACE	August 1, 2017	10,435
Drawdown Index Bonds	2016A-1 AMT	September 1, 2017	1,345
Drawdown Index Bonds	2016B-1 Non-AMT/Non ACE	September 1, 2017	13,685

On June 22, 2017, the Board of the Agency adopted a series resolution authorizing the issuance of bonds for the purpose of providing funds for certain of the Agency's multifamily programs. The Rental Housing Bonds, 2017 Series A, in the principal of amount \$5.750 million were delivered on August 24, 2017.

On June 14, 2017, the Board of the Agency adopted a series resolution authorizing the issuance of variable bonds in the principal amount of \$40 million for the purpose of providing funds for certain of the Agency's homeownership programs. On July 19, 2017 the Residential Housing Finance Bonds, 2017 Series C were delivered pursuant to that authorization, and Residential Housing Finance Bonds, 2017 Series A and 2017 Series B, in the aggregate principal of amount \$80.845 million were delivered pursuant to a previous board authorization on April 28, 2016.

On July 1, 2017 the agency optionally terminated the following Swaps.

Associated Bond Sale	Effective date	Amount
RHFB 2007S	July 1, 2017	\$ 15,235
RHFB 2007T	July 1, 2017	8,275

The Agency has evaluated subsequent events through August 31, 2017, the date on which the financial statements were available to be issued.

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MINNESOTA HOUSING FINANCE AGENCY
Required Supplementary Information
General Reserve and Bond Funds
Schedule of Selected Pension Information-Unaudited (in thousands)
Fiscal Year 2017

Schedule of Employer's Share of Net Pension Liability
State Employees Retirement Fund
Last 10 Fiscal Years*
(dollars in thousands)

	2014	2015	2016
Employer Unit's Proportion of the Net Pension Liability	0.775%	0.781%	0.822%
Employer Unit's Proportionate Share of the Net Pension Liability	\$ 9,313	\$ 8,979	\$76,077
Employer Unit's Covered-Employee Payroll	21,016	22,438	23,836
Employer Unit's proportionate share of the net pension liability as a percentage of its covered-employee payroll	44.314%	40.017%	319.168%
Plan fiduciary net position as a percentage of the total pension liability	87.640%	88.320%	47.51%

The measurement date is June 30 of each fiscal year.

* This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Schedule of Employer's Contributions
State Employees Retirement Fund
Last 10 Fiscal Years*
(dollars in thousands)

	2014	2015	2016
Contractually Required Contribution	\$ 735	\$ 874	\$ 968
Contributions in relation to the contractually required contribution	735	874	968
Contribution deficiency (excess)	-	-	
Employer Unit's covered-employee payroll	21,016	22,438	23,836
Contributions as a percentage of covered-employee payroll	3.497%	3.895%	4.061%

* This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

MINNESOTA HOUSING FINANCE AGENCY

Supplementary Information

Statement of Net Position (in thousands)

General Reserve and Bond Funds

As of June 30, 2017 (with comparative totals as of June 30, 2016)

		Bond Funds			
		General Reserve	Rental Housing	Residential Housing Finance	
				Bonds	Pool 2
Assets	Cash and cash equivalents	\$ 66,475	\$ 44,858	\$ 156,057	\$ 41,214
	Investments-program mortgage-backed securities	-	-	514,885	-
	Investment securities-other	19,946	1,970	25,449	128,036
	Loans receivable, net	-	130,279	552,462	282,902
	Interest receivable on loans and program mortgage- backed securities	-	595	4,702	1,330
	Interest receivable on investments	102	38	372	384
	FHA/VA insurance claims, net	-	-	1,575	-
	Real estate owned, net	-	-	1,052	177
	Capital assets, net	3,845	-	-	-
	Other assets	1,792	8	187	39
	Total assets	<u>92,160</u>	<u>177,748</u>	<u>1,256,741</u>	<u>454,082</u>
Deferred outflows of Resources	Deferred loss on refunding	-	-	137	-
	Deferred loss on interest rate swap agreements	-	-	5,264	-
	Deferred pension expense	53,275	-	-	-
	Total deferred outflows of resources	<u>53,275</u>	<u>-</u>	<u>5,401</u>	<u>-</u>
Liabilities	Bonds payable, net	\$ -	\$ 37,340	\$1,070,136	\$ 57,070
	Interest payable	-	488	18,084	37
	Interest rate swap agreements	-	-	5,264	-
	Net pension liability	76,077	-	-	-
	Accounts payable and other liabilities	6,678	2,396	593	285
	Interfund payable (receivable)	(21,492)	-	-	37,917
	Funds held for others	64,902	-	-	-
	Total liabilities	<u>126,165</u>	<u>40,224</u>	<u>1,094,077</u>	<u>95,309</u>
Deferred inflows of Resources	Deferred service release fee	-	-	2,281	7,039
	Deferred pension credit	5,554	-	-	-
	Total deferred inflows of resources	<u>5,554</u>	<u>-</u>	<u>2,281</u>	<u>7,039</u>
Net Position	Restricted by bond resolution	-	137,524	165,784	-
	Restricted by covenant	9,871	-	-	351,734
	Invested in capital assets	3,845	-	-	-
	Total net position	<u>13,716</u>	<u>137,524</u>	<u>165,784</u>	<u>351,734</u>
	Total liabilities, deferred inflows, and net position	<u>\$145,435</u>	<u>\$177,748</u>	<u>\$1,262,142</u>	<u>\$454,082</u>

Bond Funds			General Reserve & Bond Funds Excluding Pool 3	General Reserve & Bond Funds Excluding Pool 3	Residential Housing Finance Pool 3	General Reserve & Bond Funds	General Reserve & Bond Funds
Home-ownership Finance	Multifamily Housing	HOMESSM	Total For The Year Ended June 30, 2017	Total For The Year Ended June 30, 2016	Total For The Year Ended June 30, 2017	Total For The Year Ended June 30, 2017	Total For The Year Ended June 30, 2016
\$ 35,034	\$ 1,406	\$ -	\$ 345,044	\$ 415,802	\$ 4,249	\$ 349,293	\$ 420,666
1,195,830	-	-	1,710,715	1,444,863	-	1,710,715	1,444,863
1,400	-	21,627	198,428	199,498	36,015	234,443	237,412
-	14,128	-	979,771	1,139,295	51,843	1,031,614	1,183,107
3,597	52	-	10,276	10,703	75	10,351	10,785
17	-	56	969	826	71	1,040	898
-	-	-	1,575	2,634	-	1,575	2,634
-	-	-	1,229	3,103	-	1,229	3,103
-	-	-	3,845	2,783	-	3,845	2,783
29	-	-	2,055	1,725	1,001	3,056	1,729
1,235,907	15,586	21,683	3,253,907	3,221,232	93,254	3,347,161	3,307,980
-	-	-	137	199	-	137	199
-	-	-	5,264	11,764	-	5,264	11,764
-	-	-	53,275	2,980	-	53,275	2,980
-	-	-	58,676	14,943	-	58,676	14,943
\$1,169,796	\$13,960	\$21,221	\$2,369,523	\$2,307,222	\$ -	\$2,369,523	\$2,307,222
5,823	35	56	24,523	26,900	-	24,523	26,900
-	-	-	5,264	11,764	-	5,264	11,764
-	-	-	76,077	8,979	-	76,077	8,979
131	-	-	10,083	14,428	182	10,265	14,439
-	-	-	16,425	27,212	(17,023)	(598)	(889)
-	-	406	65,308	68,691	-	65,308	68,691
1,175,750	13,995	21,683	2,567,203	2,465,196	(16,841)	2,550,362	2,437,106
4,673	-	-	13,993	12,118	-	13,993	12,118
-	-	-	5,554	11,327	-	5,554	11,327
4,673	-	-	19,547	23,445	-	19,547	23,445
55,484	1,591	-	360,383	382,133	-	360,383	382,133
-	-	-	361,605	362,618	110,095	471,700	477,456
-	-	-	3,845	2,783	-	3,845	2,783
55,484	1,591	-	725,833	747,534	110,095	835,928	862,372
\$1,235,907	\$15,586	\$21,683	\$3,312,583	\$3,236,175	\$ 93,254	\$3,405,837	\$3,322,923

MINNESOTA HOUSING FINANCE AGENCY

Supplementary Information

Statement of Revenues, Expenses and Changes in Net Position (in thousands)

General Reserve and Bond Funds

Year ended June 30, 2017 (with comparative totals for year ended June 30, 2016)

		Bond Funds			
		General Reserve	Rental Housing	Residential Housing Finance	
				Bonds	Pool 2
Revenues	Interest earned on loans	\$ -	\$ 6,981	\$ 33,389	\$ 17,489
	Interest earned on investments-program mortgage-backed securities	-	-	13,949	-
	Interest earned on investments-other	254	266	1,740	3,784
	Net G/L on Sale of MBS Held for Sale/HOMES SM Certificate	-	-	-	2,521
	Administrative reimbursement	22,482	-	-	-
	Fees earned and other income	11,077	228	339	1,329
	Unrealized gains (losses) on Investments	-	(100)	(15,080)	9,105
	Total revenues	33,813	7,375	34,337	34,228
Expenses	Interest	-	1,315	32,390	738
	Financing, net	-	-	484	23
	Loan administration and trustee fees	-	83	2,097	1,144
	Administrative reimbursement	-	1,192	7,766	3,684
	Salaries and benefits	36,311	-	-	-
	Other general operating	7,690	5	40	706
	Reduction in carrying value of certain low interest rate deferred loans	-	-	-	165
	Provision for loan losses	-	(295)	(1,936)	391
	Total expenses	44,001	2,300	40,841	6,851
	Revenue over(Under) expenses	(10,188)	5,075	(6,504)	27,377
Other changes	Non-operating transfer of assets between funds	9,624	22	(1,651)	(26,764)
	Change in net position	(564)	5,097	(8,155)	613
Net Position	Total net position, beginning of Year	14,280	132,427	173,939	351,121
	Total net position, end of Year	<u>\$13,716</u>	<u>\$137,524</u>	<u>\$165,784</u>	<u>\$351,734</u>

Bond Funds			General Reserve & Bond Funds Excluding Pool 3	General Reserve & Bond Funds Excluding Pool 3	Residential Housing Finance Pool 3	General Reserve & Bond Funds	General Reserve & Bond Funds
Home-ownership Finance	Multifamily Housing	HOMESSM	Total For The Year Ended June 30, 2017	Total For The Year Ended June 30, 2016	Total For The Year Ended June 30, 2017	Total For The Year Ended June 30, 2017	Total For The Year Ended June 30, 2016
\$ -	\$ 625	\$ -	\$ 58,484	\$ 68,027	\$ 262	\$ 58,746	\$ 68,157
36,876	-	-	50,825	41,846	-	50,825	41,846
124	5	711	6,884	7,460	821	7,705	8,219
-	-	-	2,521	3,756	-	2,521	3,756
-	-	-	22,482	21,523	-	22,482	21,523
598	-	-	13,571	13,451	35	13,606	13,810
(31,985)	-	-	(38,060)	32,819	(797)	(38,857)	33,410
5,613	630	711	116,707	188,882	321	117,028	190,721
31,043	423	711	66,620	68,580	-	66,620	68,580
4,267	-	-	4,774	18,694	-	4,774	18,694
430	4	-	3,758	4,039	14	3,772	4,056
6,455	95	-	19,192	18,114	1,268	20,460	19,360
-	-	-	36,311	21,258	-	36,311	21,258
31	-	-	8,472	6,597	4,209	12,681	10,919
-	-	-	165	(1,585)	2,244	2,409	526
-	-	-	(1,840)	2,391	329	(1,511)	2,748
42,226	522	711	137,452	138,088	8,064	145,516	146,141
(36,613)	108	-	(20,745)	50,794	(7,743)	(28,488)	44,580
17,813	-	-	(956)	(3,000)	3,000	2,044	-
(18,800)	108	-	(21,701)	47,794	(4,743)	(26,444)	44,580
74,284	1,483	-	747,534	699,740	114,838	862,372	817,792
<u>\$ 55,484</u>	<u>\$ 1,591</u>	<u>\$ -</u>	<u>\$ 725,833</u>	<u>\$ 747,534</u>	<u>\$ 110,095</u>	<u>\$ 835,928</u>	<u>\$ 862,372</u>

MINNESOTA HOUSING FINANCE AGENCY

Supplementary Information

Statement of Cash Flows (in thousands)

General Reserve and Bond Funds (continued)

Year ended June 30, 2017 (with comparative totals for year ended June 30, 2016)

		<u>Bond Funds</u>	
		<u>General Reserve</u>	<u>Rental Housing</u>
Cash flows from operating activities	Principal repayments on loans and program mortgage-backed securities	\$ -	\$ 44,407
	Investment in loans and program mortgage-backed securities	-	(14,861)
	Interest received on loans and program mortgage-backed securities	-	6,970
	Fees and other income received	10,571	228
	Salaries, benefits and other operating	(28,490)	(125)
	Administrative reimbursement from funds	22,696	(1,192)
	Deposits into funds held for others	26,468	-
	Disbursements made from funds held for others	(29,464)	-
	Interfund transfers and other assets	(2,818)	55
Net cash provided (used) by operating activities	<u>(1,037)</u>	<u>35,482</u>	
Cash flows from non-capital financing activities	Proceeds from sale of bonds and notes	-	7,895
	Principal repayment on bonds and notes	-	(25,235)
	Interest paid on bonds and notes	-	(1,419)
	Financing costs paid related to bonds issued	-	-
	Interest paid/received between funds	43	-
	Principal paid/received between funds	-	-
	Agency contribution to program funds	-	22
	Transfer of cash between funds	8,585	-
Net cash provided (used) by noncapital financing activities	<u>8,628</u>	<u>(18,737)</u>	
Cash flows from investing activities	Investment in real estate owned	-	-
	Interest received on investments	836	250
	Net gain (loss) on Sale of MBS Held for Sale and HOMES SM Certificates	-	-
	Proceeds from sale of mortgage insurance claims/real estate owned	-	-
	Proceeds from maturity, sale or transfer of investment securities	-	24
	Purchase of investment securities	-	-
	Purchase of loans between funds	-	(19,713)
Net cash provided (used) by investing activities	<u>836</u>	<u>(19,439)</u>	
	Net increase (decrease) in cash and cash equivalents	8,427	(2,694)
Cash and cash equivalents	Beginning of year	58,048	47,552
	End of year	<u>\$ 66,475</u>	<u>\$ 44,858</u>

Bond Funds					General Reserve & Bond Funds Excluding Pool 3	Residential Housing Finance Pool 3	General Reserve & Bond Funds	General Reserve & Bond Funds
Residential Housing Finance		Home-ownership Finance	Multifamily Housing	HOMES SM	Total For The Year Ended June 30, 2017	Total For The Year Ended June 30, 2017	Total For The Year Ended June 30, 2017	Total For The Year Ended June 30, 2016
Bonds	Pool 2	Finance	Housing	HOMES SM	June 30, 2017	June 30, 2017	June 30, 2017	June 30, 2016
\$ 163,567	\$ 36,759	\$ 133,396	\$177	\$ -	\$ 378,306	\$ 7,388	\$ 385,694	\$ 352,494
(102,215)	(36,456)	(386,943)	-	-	(540,475)	(21,666)	(562,141)	(508,693)
47,368	16,731	38,486	624	-	110,179	514	110,693	110,133
-	12,310	-	-	-	23,109	35	23,144	25,356
(2,465)	(10,012)	(455)	(4)	-	(41,551)	(4,100)	(45,651)	(45,340)
(7,766)	(3,684)	(6,455)	(95)	-	3,504	(1,268)	2,236	2,249
-	-	-	-	-	26,468	-	26,468	28,083
-	-	-	-	-	(29,464)	-	(29,464)	(27,902)
77	(37)	-	-	-	(2,723)	11	(2,712)	(2,170)
98,566	15,611	(221,971)	702	-	(72,647)	(19,086)	(91,733)	(65,790)
138,329	998,945	379,677	-	-	1,524,846	-	1,524,846	1,482,842
(311,205)	(970,875)	(145,487)	(240)	(4,252)	(1,457,294)	-	(1,457,294)	(1,206,445)
(39,604)	(582)	(31,364)	(424)	(722)	(74,115)	-	(74,115)	(74,173)
(2,101)	(21)	(3,192)	-	-	(5,314)	-	(5,314)	(6,927)
-	(181)	-	-	-	(138)	138	-	-
-	(11,000)	-	-	-	(11,000)	11,000	-	-
1,091	(12,254)	11,449	-	-	308	-	308	-
-	(11,585)	-	-	-	(3,000)	3,000	-	-
(213,490)	(7,553)	211,083	(664)	(4,974)	(25,707)	14,138	(11,569)	195,297
(2,166)	(32)	-	-	-	(2,198)	-	(2,198)	(2,189)
2,006	3,860	114	6	722	7,794	517	8,311	8,350
-	3,532	-	-	-	3,532	-	3,532	(7,577)
19,512	141	-	-	-	19,653	-	19,653	21,321
4,879	594,440	-	-	4,252	603,595	1,310	604,905	638,293
(1,082)	(603,698)	-	-	-	(604,780)	-	(604,780)	(652,750)
-	19,713	-	-	-	-	2,506	2,506	3,348
23,149	17,956	114	6	4,974	27,596	4,333	31,929	8,796
(91,775)	26,014	(10,774)	44	-	(70,758)	(615)	(71,373)	138,303
247,832	15,200	45,808	1,362	-	415,802	4,864	420,666	282,363
\$ 156,057	\$ 41,214	\$ 35,034	\$1,406	\$ -	\$ 345,044	\$ 4,249	\$ 349,293	\$ 420,666

(Continued)

MINNESOTA HOUSING FINANCE AGENCY

Supplementary Information

Statement of Cash Flows (in thousands)

General Reserve and Bond Funds (continued)

Year ended June 30, 2017 (with comparative totals for year ended June 30, 2016)

		<u>Bond Funds</u>	
		<u>General Reserve</u>	<u>Rental Housing</u>
Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities	Revenues over (under) expenses	\$(10,188)	\$ 5,075
	Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:		
	Amortization of premiums (discounts) and fees on program mortgage-backed securities	-	(36)
	Amortization of premium (discounts) and fees on sale of HOMES SM Certificates	-	-
	Amortization of proportionate share-Pension	(12)	-
	Depreciation	2,370	-
	Gain (loss) on sale of MBS held for sale and HOMES SM Certificates	-	-
	Realized losses (gains) on sale of securities, net	-	-
	Unrealized losses (gains) on securities, net	-	100
	Salaries and Benefits-Pensions	11,042	-
	Provision for loan losses	-	(295)
	Reduction in carrying value of certain low interest rate and/or deferred loans	-	-
	Capitalized interest on loans and real estate owned	-	-
	Interest earned on investments	(254)	(266)
	Interest expense on bonds and notes	-	1,315
	Financing expense in bonds	-	-
	Changes in assets and liabilities:		
	Decrease (increase) in loans receivable and program mortgage-backed securities, excluding loans transferred between funds	-	29,546
	Decrease (increase) in interest receivable on loans	-	25
	Increase (decrease) in accounts payable	192	(37)
	Increase (decrease) in interfund payable, affecting operating activities only	290	-
	Increase (decrease) in funds held for others	(2,996)	-
	Other	(1,481)	55
	Total	<u>9,151</u>	<u>30,407</u>
	Net cash provided (used) by operating activities	<u>\$(1,037)</u>	<u>\$35,482</u>

Bond Funds					General Reserve & Bond Funds Excluding Pool 3	Residential Housing Finance Pool 3	General Reserve & Bond Funds	General Reserve & Bond Funds
Residential Housing Finance		Home-ownership Finance	Multifamily Housing	HOMES SM	Total For The Year Ended June 30, 2017	Total For The Year Ended June 30, 2017	Total For The Year Ended June 30, 2017	Total For The Year Ended June 30, 2016
Bonds	Pool 2	Finance	Housing	HOMES SM	June 30, 2017	June 30, 2017	June 30, 2017	June 30, 2016
\$ (6,504)	\$ 27,377	\$ (36,613)	\$108	\$ -	\$ (20,745)	\$ (7,743)	\$ (28,488)	\$ 44,580
598	(702)	2,326	-	-	2,186	245	2,431	1,813
-	-	-	-	-	-	-	-	-
-	-	-	-	-	(12)	-	(12)	(80)
-	-	-	-	-	2,370	-	2,370	2,224
-	(2,521)	-	-	-	(2,521)	-	(2,521)	(3,756)
(71)	6	-	-	-	(65)	-	(65)	(715)
15,080	(9,105)	31,985	-	-	38,060	797	38,857	(33,410)
-	-	-	-	-	11,042	-	11,042	(2,686)
(1,936)	391	-	-	-	(1,840)	329	(1,511)	2,748
-	165	-	-	-	165	2,244	2,409	526
(1,721)	(21)	-	-	-	(1,742)	-	(1,742)	(2,000)
(1,646)	(3,790)	(124)	(6)	(711)	(6,797)	(821)	(7,618)	(7,504)
32,390	738	31,043	423	711	66,620	-	66,620	68,580
484	21	4,267	-	-	4,772	-	4,772	18,646
61,352	303	(253,547)	177	-	(162,169)	(14,278)	(176,447)	(156,199)
1,153	(35)	(716)	-	-	427	7	434	317
(667)	2,821	(592)	-	-	1,717	123	1,840	3,663
-	(37)	-	-	-	253	8	261	97
-	-	-	-	-	(2,996)	-	(2,996)	181
54	-	-	-	-	(1,372)	3	(1,369)	(2,815)
105,070	(11,766)	(185,358)	594	-	(51,902)	(11,343)	(63,245)	(110,370)
\$98,566	\$ 15,611	\$(221,971)	\$702	\$ -	\$ (72,647)	\$(19,086)	\$ (91,733)	\$ (65,790)

Other Information

General Reserve and Bond Funds Five Year Financial Summary (in thousands) Fiscal Years 2013-2017

		2013	2014	2015	2016	2017
Loans Receivable, net (as of June 30)	Multifamily programs	\$ 354,059	\$ 338,782	\$ 317,655	\$ 330,204	\$ 298,355
	Homeownership programs	1,166,480	1,028,918	911,788	776,255	661,630
	Home Improvement programs	87,973	85,535	82,471	76,648	71,629
	Total	<u>\$1,608,512</u>	<u>\$1,453,235</u>	<u>\$1,311,914</u>	<u>\$1,183,107</u>	<u>\$1,031,614</u>
Mortgage-backed securities, net, at par (as of June 30)	Program mortgage-backed securities	\$ 801,771	\$ 900,321	\$1,106,749	\$1,378,317	\$1,681,474
	Warehoused mortgaged-backed securities	56,007	28,728	74,425	116,256	125,372
	Total	<u>\$ 857,778</u>	<u>\$ 929,049</u>	<u>\$1,181,174</u>	<u>\$1,494,573</u>	<u>\$1,806,846</u>
Bonds Payable, net (as of June 30)	Multifamily programs	\$ 86,655	\$ 82,140	\$ 57,360	\$ 68,880	\$ 51,300
	Homeownership programs	2,034,472	1,936,772	1,975,972	2,238,342	2,318,223
	Home Improvement programs	-	-	-	-	-
	Total	<u>\$2,121,127</u>	<u>\$2,018,912</u>	<u>\$2,033,332</u>	<u>\$2,307,222</u>	<u>\$2,369,523</u>
Mortgage-backed securities purchased, at par and loans purchased or originated during fiscal year	Multifamily programs	\$ 36,757	\$ 15,867	\$ 13,765	\$ 42,517	\$ 30,351
	Homeownership programs	18,999	23,912	39,269	33,351	29,687
	Program and warehoused mortgage-backed securities	296,751	160,485	358,108	489,833	493,662
	Home Improvement programs	10,627	15,202	15,417	12,283	13,239
	Total	<u>\$ 363,134</u>	<u>\$ 215,466</u>	<u>\$ 426,559</u>	<u>\$ 577,984</u>	<u>\$ 566,939</u>
Net Position (as of June 30)	Total Net Position *	\$ 682,308	\$ 696,154	\$ 709,740	\$ 747,534	\$ 725,833
	Percent of total assets and deferred outflows of resources *	23.0%	24.0%	24.4%	23.1%	22.0%
Revenue over Expenses	Revenues over expenses for the fiscal year *	\$ (19,587)	\$ 41,846	\$ 35,966	\$ 50,794	\$ (21,701)

Notes:

* Excludes Pool 3

Other Information (continued)

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Member

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Ex-officio member
State Auditor, State of Minnesota

Terri Thao
Member

Craig Klausing
Member

Stephanie Klinzing
Member

Damaris Hollingsworth
Member

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Bond Trustee and Bond Paying Agent
Wells Fargo Bank, National Association

Bond Counsel
Kutak Rock LLP, Atlanta

Financial Advisor
CSG Advisors Incorporated

Underwriters
RBC Capital Markets, Piper Jaffray & Co, Wells Fargo Bank National Association

Certified Public Accountants
RSM US LLP

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