MINNESOTA HOUSING
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DATE: September 20, 2018

TO: Minnesota Housing Board Members

FROM: Mary Tingerthal, Commissioner

SUBJECT: **FINANCE AND AUDIT COMMITTEE MEETING**

A meeting of the **Finance and Audit Committee** has been scheduled for **11:30 a.m.** on **Thursday, September 27** at the offices of Minnesota Housing, 400 Wabasha Street, Suite 400, St Paul, MN 55102 in the **Lake Superior Conference Room on the fourth floor**.

The topics for discussion at this meeting are:

A. Fiscal 2018 Financial Audit, and Federal Program Single Audit
B. Fiscal 2018 Interfund Transfers
C. Fiscal 2018 Report of Transfer Funds for Reimbursement of Administrative Expenses
D. Other Business (if any)
E. Adjournment

This committee is a committee of the whole and all members are encouraged to attend.

If you have questions, please call Rachel Franco at (651) 296-2172.

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MINNESOTA HOUSING

Board Agenda Item: A.
Date: 9/27/2018

Item: Discussion, Fiscal 2018 Financial Audit, and Federal Program Single Audit

Staff Contact(s):
Kevin Carpenter, 651.297.4009, kevin.carpenter@state.mn.us
Terry Schwartz, 651.296.2404, terry.schwartz@state.mn.us
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Request Type:

☐ Approval
- ☐ Motion
- ☐ Resolution

☒ No Action Needed
- ☒ Discussion
- ☐ Information

Summary of Request:
RSM LLP, the Agency's external auditor, will discuss the results of their fiscal 2018 financial statement audit and the federal program compliance report.

Fiscal Impact:
None.

Meeting Agency Priorities:
☐ Address Specific and Critical Local Housing Needs
☐ Finance Housing Responsive to Minnesota's Changing Demographics
☐ Preserve Housing with Federal Project-Based Rent Assistance
☐ Prevent and End Homelessness
☐ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

Attachment(s):
- Auditor letters (drafts): Required Communication to the Board and Audit Opinions
- Auditor Presentation
- 2018 Annual Report (draft)
- FY 2018 Federal Compliance Report (draft)

Since concluding auditing procedures were in progress when the board report attachments were prepared, they have been marked as drafts even though they are essentially in final form. Material differences, if any, from the final versions will be noted by staff and representatives from RSM LLP at the committee meeting.

Independent Auditor's Report

To the Board of Directors
Minnesota Housing Finance Agency

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, 2018, 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, 2018, 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

Emphasis of Matters

As explained in the Summary of Significant Accounting Policies note to the financial statements, the Agency adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which resulted in the Agency restating net position for recognition of the Agency's postemployment benefits-related activity incurred prior to July 1, 2017. Our opinion is not modified with respect to this matter.

As explained in the State Appropriation-Backed Debt Obligation note to the financial statements, the beginning net position for the business-type activities and State Appropriated Fund have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

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, 2017, 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 schedule of selected pension information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 2018 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 2018 supplementary information is fairly stated, in all material respects, in relation to the 2018 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 2017 basic financial statements (not presented herein), and have issued our report thereon dated August 31, 2017, 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, 2017, 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 2017 financial statements. The accompanying 2017 supplementary information has been subjected to the auditing procedures applied in the audit of the 2017 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 2017 supplementary information is fairly stated in all material respects in relation to the 2017 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.

Minneapolis, Minnesota
September 27, 2018

Independent Auditor's Report

To the Board of Directors
Minnesota Housing Finance Agency

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, 2018, 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 and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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, 2018, 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

Emphasis of Matters

As explained in the Summary of Significant Accounting Policies note to the financial statements, the Agency adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which resulted in the Agency restating net position for recognition of the Agency's postemployment benefits-related activity incurred prior to July 1, 2017. Our opinion is not modified with respect to this matter.

As explained in the State Appropriation-Backed Debt Obligation note to the financial statements, the beginning net position for the business-type activities and State Appropriated Fund have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

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, 2017, 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 schedule of selected pension information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 2018 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 2018 supplementary information is fairly stated, in all material respects, in relation to the 2018 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 2017 basic financial statements (not presented herein), and have issued our report thereon dated August 31, 2017, 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, 2017, 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 2017 financial statements. The accompanying 2017 supplementary information has been subjected to the auditing procedures applied in the audit of the 2017 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 2017 supplementary information is fairly stated in all material respects in relation to the 2017 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.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards,* we have also issued our report dated September 27, 2018, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Minneapolis, Minnesota
September 27, 2018

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Minnesota Housing Finance Agency

Report to the Board of Directors/Audit Committee
September 27, 2018

September 27, 2018

Board of Directors/Audit Committee
Minnesota Housing Finance Agency
St. Paul, Minnesota

We are pleased to present this report related to our audit of the basic financial statements of Minnesota Housing Finance Agency (the Agency) as of and for the year ended June 30, 2018. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Agency's financial reporting process.

This report is intended solely for the information and use of the Board of Directors, Audit Committee, and management and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to be of service to the Agency.

Contents

Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance)* require the auditor to promote effective, two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the basic financial statement audit, as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Area	Comments
Our Responsibilities With Regard to the Financial Statement Audit	Our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described to you in the professional and technical services contract dated March 12, 2018.
Overview of the Planned Scope and Timing of the Financial Statement Audit	We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of, and planned audit response to, significant risks of material misstatement.
Accounting Policies and Practices	**Preferability of Accounting Policies and Practices** Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. We did not discuss with management any alternative treatments within generally accepted accounting practices related to material items during the current audit period. **Adoption of, or Change in, Accounting Policies** Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Agency. During the year ended June 30, 2018, the Agency was required to recognize a liability for the State appropriation-backed bonds that have been issued in the Agency's name under the State appropriated-backed bond program. The beginning net positon as of July 1, 2016 was restated by a decrease of $118,365,000 and the change in operations for the year ended June 30, 2017 decreased by $14,620,000 in the State Appropriated Fund and Business-type Activities opinion units. In addition, the Agency adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which resulted in a decrease in beginning net position as of July 1, 2017 of $1,671,000. **Significant or Unusual Transactions** Since November 2017, discussions were held with both State of Minnesota and GASB representatives to determine the appropriate accounting for the State appropriation-backed bonds. **Management's Judgments and Accounting Estimates** Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.

Area	Comments
Audit Adjustments	There was one adjustment made to the financial statements which related to the recognition of the State appropriation-backed bond liability for the State Appropriated Bond program.
Uncorrected Misstatements	There is one uncorrected misstatement relating to the reversal of the prior year understatement of provision for loan losses of $722,000 in the Residential Housing Finance Fund.
Disagreements With Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the basic financial statements.
Consultations With Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Issues Discussed With Management	No significant issues arising from the audit were discussed with or were the subject of correspondence with management.
Significant Difficulties Encountered in Performing the Audit	We did not encounter any significant difficulties in dealing with management during the audit.
Letter Communicating a Material Weakness in Internal Control Over Financial Reporting	We have separately communicated a material weakness in internal control over financial reporting identified during our audit of the financial statements as required by *Government Auditing Standards*. This communication included in the Agency's Single Audit report for the year ended June 30, 2018.
Significant Written Communication Between Management and Our Firm	A copy of the representation letter provided to us by management is attached as Exhibit A.

Summary of Significant Accounting Estimates

Accounting estimates are an integral part of the preparation of the basic financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the Agency's June 30, 2018, basic financial statements.

Estimate	Accounting Policy	Management's Estimation Process	Basis for Our Conclusions on Reasonableness of Estimate
Allowance for Loan Losses	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 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, Rural Development (RD) guarantee, Veterans Administration (VA) guarantee, or private mortgage insurance.	For multifamily loans, the Housing Management Officer responsible for monitoring the development receives monthly financial information for each development and performs an analysis of the development's risk score based upon the Agency's Loan Loss Reserve Methodology. If the score is less than 255, the loan loss reserve is 0.5 percent of the outstanding balance. If the score is 255 or greater, the credit is considered a "watchlist" credit and is further evaluated based upon additional criteria to determine the loan loss reserve percentage, ranging from 5 percent to 100 percent of the outstanding balance, to establish the specific reserve balance required for the development. For homeownership loans, the Agency utilizes 12 months of actual gains and losses by insurance type to determine the loss percentages applied to the number of delinquent loans. For home improvement loans, the Agency uses only the days delinquent to determine the loss percentage.	For multifamily loans we tested the Agency's risk-scoring methodology for 11 developments to determine that the analysis was operating as designed. We selected four watchlist credits to test the calculation of the specific loan loss. For homeownership and home improvement loans, we agreed the number of delinquent loans to system-generated reports. For the loss by insurance type, we obtained the detailed gain and loss reports for the last 12 months and recalculated by insurance type the loss amount per loan. The multifamily, homeownership and home improvement loan loss reserve calculations were tested in detail by us, and no significant errors were noted in the testing performed.

Estimate	Accounting Policy	Management's Estimation Process	Basis for Our Conclusions on Reasonableness of Estimate
Real Estate Owned Property Valuation	Real estate owned represents properties acquired through foreclosure and is recorded at the lower of the investment in the loan or estimated market value less estimated selling costs. These properties may be RD guaranteed, uninsured, or have private mortgage insurance. Real estate owned is carried at its estimated realizable value.	The Agency evaluates each of the properties acquired through foreclosure, utilizing the estimated fair value of the property and assumptions, which include foreclosure expenses, closing costs and expected reimbursement rates, to determine estimated realizable value.	We tested the valuation of real estate owned through selecting a sample of individual properties to test the reasonableness of the fair value measurements of the properties and through review of the Agency's real estate owned reserve assumptions. No significant errors were noted in the testing performed.
Interest Rate Swap Agreements Valuation	As of June 30, 2018, all of the Agency's interest rate swap agreements have been determined to be effective hedges, as defined by Government Accounting Standards Board Statement No. 53. The fair value is displayed on the statement of net position as either an asset or a liability named "interest rate swap agreements." The inception-to-date change in fair value as of June 30, 2018, is included under either deferred outflows/ inflows of resources as "deferred loss/gain on interest rate swap agreements."	BLX was engaged by the Agency to determine the fair value of these agreements and to evaluate their effectiveness as hedges as of June 30, 2018. The fair values approximate the termination payments that would have been due had the swaps been terminated as of June 30, 2018.	We tested the fair value for a sample of interest rate swap agreements through an independent third party and compared to estimated termination values to test the reasonableness of the unrealized gains/losses on the individual swaps. No significant valuation differences were noted.

Estimate	Accounting Policy	Management's Estimation Process	Basis for Our Conclusions on Reasonableness of Estimate
Fair Value of Investments	Investment securities are reported at fair value, with unrealized gains or losses reported as a separate component of revenue. Realized gains or losses, determined on the basis of the cost of specific securities sold, are included in interest earned on investments—other.	The fair value of debt securities is generally determined based on matrix pricing, which utilizes yield curves, credit ratings and prepayment speeds. Volatility in economic conditions influences bond prices.	We tested the valuation for a sample of investment securities through an independent third party and compared to quoted market prices to test the reasonableness of the unrealized gains/losses on the individual securities. No significant valuation differences were noted.

Exhibit A—Representation Letter

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MINNESOTA HOUSING FINANCE AGENCY PRESENTATION TO THE AUDIT COMMITTEE

2018 Audit Results

September 27, 2018

Agenda

Summary of required communications

Matters to be Communicated	Our Response
Our Responsibility With Regard to the Financial Statement Audit	• Our responsibility is outlined in our engagement letter
Overview of the Scope and Timing of the Financial Statement Audit	• Preliminary work was completed in May • Final work commenced end of July

Accounting Policies and Practices	• New accounting standards
	  • GASB 75 - OPEB
	• Significant or unusual transactions
	  • State Appropriated Bonds
	• Significant accounting estimates
	  – Allowance for loan losses
	  – REO property valuation
	  – Interest rate swap agreements valuation
	  – Fair value of investments

Basis of Accounting	• Prepared on assumption that the entity will continue as a going concern

RSM

Summary of required communications

Matters to be Communicated	Our Response
Audit Adjustment and Uncorrected Misstatements	• One adjustment to record $140.9 million of the State Appropriated Bonds • Reversal of prior year uncorrected misstatement
Disagreements With Management	• None
Consultation With Other Accountants	• None
Significant Issues Discussed With Management	• State appropriation-backed housing bonds
Significant Difficulties Encountered in Performing the Audit	• None
Significant Written Communications Between Management and Our Firm	• Representation letter

RSM

2018 financial report

- Unmodified (clean) opinions on agency-wide and major funds
- Agency-wide selected financial elements
  - Assets increased $308.8 million
  - Deferred outflows decreased $18.1 million
  - Liabilities increased $312.8 million
  - Deferred inflows increased $29.7 million
  - Revenues increased $4.6 million
  - Total expenses increased $30.5 million
  - Net position decreased $51.7 million

2018 compliance report

- Schedule of expenditures of federal awards
  - $211.9 million spent on federal awards (excludes loan balances)
  - Increase of $12.8 million from 2017
- Government Auditing Standards
  - Compliance based on an audit of the financial statements
  - Internal control over financial reporting
- Uniform guidance
  - Compliance with requirements applicable to the major programs
  - Internal control over compliance
- Schedule of current-year findings and questioned costs
- Summary schedule of prior-audit findings

Significant audit areas

- Revenue recognition
  - Detail tested sample of intergovernmental revenue transactions
  - Test of controls over the Agency’s cash receipts
  - Test of controls over file maintenance changes for interest income
  - Analytics over other revenue categories
- Management override of controls
  - Detail tested sample of journal entry transactions
  - Agreed financial information included in the financial statements to trial balance obtained from JD Edwards
  - Identification of related parties and potential transactions

Significant audit areas (continued)

- Loans and allowance for loan loss
  - Management provides for an allowance for loan losses for multi-family, home ownership and home improvement loans well as for other loan types. Management utilizes delinquency reports, historical loss probability analysis and historical average loss analysis to assess and compute the allowances on a monthly basis.
  - Our process involved testing of controls over loans and confirmation of loan receivable balances. Our process also involved testing of controls over the allowance process, sample testing loans for impairment, charge-off testing, and deliquent testing to determine allowances are being properly calculated.

RSM

Significant audit areas (continued)

- Real Estate Owned Property Valuation
  - The Agency evaluates each of the properties acquired through foreclosure utilizing the estimated fair value of the property and assumptions to determine estimated realizable value.
  - Our process involved selecting a sample of individual properties to test reasonableness of the fair value measurements and Agency's other assumptions.

Significant audit areas (continued)

- Interest rate swaps
  - Management engages BLX to determine fair value of interest rate swaps on a monthly basis and to evaluate the effectiveness of the swaps.
  - Our process involved confirmation of fair value of swaps and swap terms. We tested a sample of swaps to determine if the swaps qualified as a hedge derivative instrument, to evaluate hedge effectiveness, and to test hedge terminations. In addition, a sample of swaps were independently priced to determine if fair value determined by BLX was reasonable.

Based on our testing, we believe management's recorded balances are reasonable

Control deficiency definitions

Control deficiencies are evaluated individually and in aggregate as follows:

Type of Deficiency	Likelihood	Potential Impact	Reporting Impact
Material Weakness	Reasonable Possibility	Material	Included in Single Audit Report
Significant Deficiency	Reasonable Possibility	Merits attention by those charged with governance	Included in Single Audit Report
Control Deficiency	Remote Possibility	Inconsequential	Audit Committee Presentation Only

Government Auditing Standards

Internal Control Over Financial Reporting

- Material Weakness
  - 2018-001 – Restatement for recognition of the State Appropriated Bonds not previously recorded as a liability

Compliance with laws and regulations

- No findings identified.

Uniform guidance audit

- 2018 major program
  - Performance-Based Contractor Administration
    - CFDA 14.327
    - $145.5 million spent in 2018
    - Increase of $4.0 million from 2017
- Internal control over compliance
  - No material weaknesses or significant deficiencies identified
- Major program compliance
  - Unmodified (clean) opinion
  - No findings identified

Educational topics

- Third-party risk
  - Discuss key factors the County should consider to effectively manage third-party relationship risk and evolve third-party controls and monitoring strategies.
- Spend Analysis and Savings Programs
  - Discuss how spend management can help identify savings opportunities for MN Housing through utilization of spend analysis and consumption strategies.
- Performance Improvement related
  - Discuss optimizing your ERP system, shared service opportunities and/or spend management and analytics
- Fraud related
  - Discuss overall trending of reported fraud schemes, importance of fraud hotlines, top five reported fraud schemes for governments, top 10 ways to combat vendor fraud schemes, understanding the perpetrator/fraudster and/or ACFE fraud prevention checklist
- Contract compliance related
  - Discuss construction risk management, procurement/supply contract reviews, telecommunications/utility contract reviews and/or software license reviews

General comments and feedback

Thank you for allowing us to serve Minnesota Housing.

Our goal is to not only meet, but exceed, your expectations.

Your feedback is important to us in achieving that goal.

Presented by: Corey Topp, Bart Rodberg and Dave Antonson

QUESTIONS AND ANSWERS?

RSM

Minnesota Housing Finance Agency

2018 Financial Report

MINNESOTA HOUSING FINANCE AGENCY
Annual Financial Report as of and for the year ended June 30, 2018

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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.

Economic conditions in the State of Minnesota remain robust, with very low unemployment and strong job growth. With a relatively stable inventory of homes statewide, significant upward pressure on home sales prices remains, as evidenced by the fact that the average sales price again increased by more than 6% from a year ago. In addition, the demand for affordable rental housing options remains substantial. In this economic environment, Minnesota Housing has capitalized on these market conditions and continuing low long-term 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 a less than two month supply in the Twin Cities metropolitan area. Minnesota Housing financed a high volume of home mortgages last year, with almost 4,400 loans purchased and nearly $750 million in lending. To support this large volume of home mortgage production, Minnesota Housing increased the amount of related lending for down payment and closing cost assistance to almost $34 million this year, roughly 40% more than last year. Over 95% of homebuyers using Minnesota Housing homeownership programs also use our down payment and closing cost assistance programs. About 90% of overall homeownership mortgage loans originated through the Agency went to first time homebuyers and more than 35% of these loans were for households of color and Hispanic ethnicity (up from 32% last year).

- Minnesota Housing continues to fund its single-family home mortgage production using a "best execution" strategy, using bond sales as well as selling loans directly into the capital markets. As the demand for tax-exempt bonding authority to be used for multifamily transactions has grown, the Agency has 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 transactions by Minnesota Housing and local communities that finance new construction or preservation of rental housing by using tax exempt bonds, as well as 4% housing tax credits.

- Minnesota Housing saw delinquency and foreclosure rates across its entire single-family portfolio remain relatively steady, with loans 60+ days delinquent at 3.54% and foreclosures at 0.84%. The Agency has remained focused on monitoring its small REO portfolio, which stood at only 25 loans at year end, and we continue to see a strong market for disposing, at reasonable prices, of REO properties we acquire. To mitigate future real estate ownership risk, the Agency continues its strategy of placing virtually all new home mortgage loan production into mortgage-backed securities.

- 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. In response, Minnesota Housing continues to develop its multifamily first mortgage lending capacity, as well as seeing increased interest in our deferred loan and tax credit programs to support senior and workforce housing, as well as supportive housing. The Agency continues to bring new multifamily loans, generally insured under the FHA Risk Share program, onto its balance sheet, as well as continuing to process loans under the FHA MAP (Multifamily Accelerated Processing) program and the FFB/Risk Share program.
- Last year, Minnesota Housing closed almost $88 million of loans that provided capital for approximately 2,000 units of affordable rental housing, including units designated specifically to serve long-term homeless households. Overall, the loan quality of the Agency's multifamily loan portfolio remains quite strong, with a diminishing number of properties on the watch list, and no payment defaults in the first mortgage rental loan portfolio.

MINNESOTA HOUSING FINANCE AGENCY
Commissioner's Report (continued)

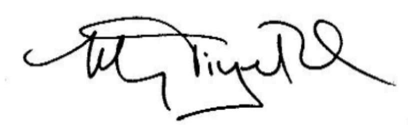
- Minnesota Housing continues to enjoy strong support from the State Legislature, with the Agency receiving over $100 million in state appropriations for Agency programs for the 2018-2019 biennium. In addition, the 2018 State Legislative session included an additional authorization for $80 million in Housing Infrastructure bonds and also broadened the eligible uses for these bonds to include senior housing, manufactured home park improvements and permanent supportive housing for individuals with behavioral health issues. The State also authorized an additional $10 million in State general obligations bonds for public housing renovations.

- Financially, Minnesota Housing's results for the fiscal year ended June 30, 2018 were impressive. Overall assets and deferred outflows grew by 8% to almost $3.9 billion. Excluding the Appropriated Funds which are not part of the Agency's "sustainable core", net position remains strong, at $678.7 million. Overall, our annual net interest income remained constant at $49.1 million.

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

- Moved into our new office space in downtown Saint Paul, bringing all Agency employees onto a single floor and offering enhanced technology to support our work.
- Continued to work with the State's Interagency Council on Homelessness to implement the Statewide Plan to Prevent and End Homelessness.
- Through the Olmstead Subcabinet and the Olmstead Implementation Office, shepherded the implementation of the State's Olmstead Plan that seeks to increase opportunities for individuals with disabilities to live and work in integrated settings.
- Made significant investments in the redesign of business processes and the technology to support them, including in particular advancing towards the implementation of a new mortgage origination system for our single family division.

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 2019.



Mary Tingerthal, Commissioner
Minnesota Housing

Independent Auditor's Report

To the Board of Directors

Minnesota Housing Finance Agency

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, 2018, 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, 2018, 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

Emphasis of Matters

As explained in the Summary of Significant Accounting Policies note to the financial statements, the Agency adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which resulted in the Agency restating net position for recognition of the Agency's postemployment benefits-related activity incurred prior to July 1, 2017. Our opinion is not modified with respect to this matter.

As explained in the State Appropriation-Backed Debt Obligation note to the financial statements, the beginning net position for the business-type activities and State Appropriated Fund have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

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, 2017, 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 schedule of selected pension information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 2018 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 2018 supplementary information is fairly stated, in all material respects, in relation to the 2018 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 2017 basic financial statements (not presented herein), and have issued our report thereon dated August 31, 2017, 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, 2017, 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 2017 financial statements. The accompanying 2017 supplementary information has been subjected to the auditing procedures applied in the audit of the 2017 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 2017 supplementary information is fairly stated in all material respects in relation to the 2017 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.

Minneapolis, Minnesota

September 27, 2018

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

Introduction

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.

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: Housing is the foundation for success, so we collaborate with individuals, communities and partners to create, preserve and finance affordable housing.

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 Development 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, HOMES℠ and Multifamily Housing.

The basic financial statements also include comparative totals as of and for the year ended June 30, 2017. 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 2018 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 HOMES[SM] (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.

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, 2018. 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 and the 2018 Index Bank Note 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 2018.

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 2018 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, 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 and index bank note 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 2018 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 (HOMES^{SM})

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 (HOMES^{SM} certificates), each secured by a mortgage-backed security guaranteed by FNMA or GNMA. Minnesota Housing is not committed to sell any HOMES^{SM} certificates but has the option to accept the investment bank's bid for HOMES^{SM} certificates, which may be a higher price than the Agency could achieve by selling the mortgage-backed security in the open market. The HOMES^{SM} 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. All funds appropriated by the State and Federal government must be used for specific uses as set forth in the state appropriations or federal contracts and except for funds appropriated to pay debt service on state appropriation-backed bonds are not pledged or available to secure the bondholders or creditors of Minnesota Housing. Because the Agency is the issuer of the state appropriation-backed bonds they are shown in bonds payable section even though they are not a general obligation of the Agency. These bonds are payable solely from appropriations from the State of Minnesota. Per the offering disclosures for these appropriation-backed bonds the Agency will not use resources to redeem or repay the bonds.

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			Combined General Reserve and Bond Funds					Combined State and Federal Appropriations Funds		
				Fiscal 2018							
	Fiscal 2018	Fiscal 2017	Change	Excluding Pool 3	Pool 3	Total	Fiscal 2017	Change	Fiscal 2018	Fiscal 2017	Change
Assets and Deferred Outflows											
Cash and Investments	$ 2,796,213	$ 2,416,942	$ 379,271	$ 2,633,988	$ 36,545	$ 2,670,533	$ 2,294,451	$ 376,082	$ 125,680	$ 122,491	$ 3,189
Loans receivable, Net	992,733	1,071,058	(78,325)	884,827	66,067	950,894	1,031,614	(80,720)	41,839	39,444	2,395
Interest Receivable	12,063	11,646	417	11,630	131	11,761	11,391	370	302	255	47
Deferred Pension and OPEB Expense	38,618	53,275	(14,657)	38,618	-	38,618	53,275	(14,657)	-	-	-
Total Assets and Deferred Outflows	3,859,078	3,568,338	290,740	3,587,188	102,744	3,689,932	3,405,837	284,095	169,146	162,501	6,645
Liabilities and Deferred Inflows											
Bonds Payable	2,828,697	2,502,508	326,189	2,687,792	-	2,687,792	2,369,523	318,269	140,905	132,985	7,920
Interest Payable	23,984	24,523	(539)	23,984	-	23,984	24,523	(539)	-	-	-
Pension and OPEB Liability	47,879	76,077	(28,198)	47,879	-	47,879	76,077	(28,198)	-	-	-
Accounts Payable & Other Liabilities	31,020	12,397	18,623	25,226	112	25,338	10,265	15,073	5,682	2,132	3,550
Funds Held for Others	78,493	78,345	148	66,515	-	66,515	65,308	1,207	11,978	13,037	(1,059)
Deferred Pension and OPEB Credit	27,699	5,554	22,145	27,699	-	27,699	5,554	22,145	-	-	-
Total Liabilities and Deferred Inflows	3,061,113	2,718,661	342,452	2,908,537	(7,996)	2,900,541	2,569,909	330,632	160,572	148,752	11,820
Net Position											
Restricted by Bond Resolution	318,512	360,383	(41,871)	318,512	-	318,512	360,383	(41,871)	-	-	-
Restricted by Covenant	465,169	471,700	(6,531)	354,429	110,740	465,169	471,700	(6,531)	-	-	-
Restricted by Law	149,609	146,734	2,875	-	-	-	-	-	149,466	146,734	2,732
Unrestricted - State Appropriation-backed Debt	(140,892)	(132,985)	(7,907)	-	-	-	-	-	(140,892)	(132,985)	
Total Net Position	797,965	849,677	(51,712)	678,651	110,740	789,391	835,928	(46,537)	8,574	13,749	(5,175)

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

	Agency-wide Total			Combined General Reserve and Bond Funds					Combined State and Federal Appropriations Funds		
				Fiscal 2018							
	Fiscal 2018	Fiscal 2017	Change	Excluding Pool 3	Pool 3	Total	Fiscal 2017	Change	Fiscal 2018	Fiscal 2017	Change
Revenues											
Interest Earned	$ 126,677	$ 119,321	$ 7,356	$ 122,200	$ 1,326	$ 123,526	$ 117,276	$ 6,250	$ 3,151	$ 2,045	$ 1,106
Appropriations Received	258,071	243,897	14,174	-	-	-	-	-	258,071	243,897	14,174
Fees and Reimbursements	18,060	14,929	3,131	18,778	(1,171)	17,607	15,628	1,979	1,730	842	888
Net G/L on Sale of MBS Held for Sale/HOMES Certificates	2,240	2,521	(281)	2,240	-	2,240	2,521	(281)	-	-	-
Total Revenues (1)	367,840	363,272	4,568	103,484	914	104,398	117,028	(12,630)	262,619	246,244	16,375
Expenses											
Interest Expense	80,172	71,394	8,778	80,172	-	80,172	71,394	8,778	-	-	-
Appropriations Disbursed	231,313	218,151	13,162	-	-	-	-	-	231,313	218,151	13,162
Fees	3,872	3,898	(26)	3,763	16	3,779	3,772	7	93	126	(33)
Payroll, Gen. & Admin.	44,655	51,083	(6,428)	40,465	2,339	42,804	48,992	(6,188)	1,851	2,091	(240)
Loan Loss/Value Adjust's	26,130	12,456	13,674	(147)	2,309	2,162	898	1,264	23,968	11,558	12,410
Total Expenses (1)	409,469	378,983	30,486	144,164	5,980	150,144	145,516	4,628	259,325	233,467	25,858
Revenues Over/Under Expenses	(41,629)	(15,711)	(25,918)	(40,680)	(5,066)	(45,746)	(28,488)	(17,258)	3,294	12,777	(9,483)
Beginning Net Position, as restated	847,501	880,006	(32,505)	724,162	110,095	834,257	862,372	(28,115)	13,244	17,634	(4,390)
Ending Net Position	797,965	849,677	(51,712)	677,828	110,740	788,568	835,928	(47,360)	8,574	28,369	(19,795)

(1) Agency-wide totals include interfund amounts

General Reserve and Bond Funds-Statement of Net Position

FINANCIAL HIGHLIGHTS

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 2018 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, deferred loss on refunding and interest rate swap agreements comprise the majority of deferred outflows of resources in the General Reserve and bond funds. Capital assets, real estate owned and other assets 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 held in acquisition accounts pledged to bond holders as security for bonds. This category of investments increased 25.8% to $2,151.4 million. Single Family production was very strong in FY2018.

Mortgage-backed Securities Portfolio Delinquency
Actual Loan Count

	June 30, 2018		June 30, 2017	
Current	20,683	97.7%	18,144	98.0%
60-89 Days	233	1.1%	186	1.0%
90-119 Days	111	0.5%	66	0.4%
120+ Days	152	0.7%	140	0.8%
Total Count	21,179		18,536	
Total Past Due	496	2.3%	392	2.1%

The 60+ day delinquency rate as of June 30, 2018 for the MBS portfolio was approximately 0.8 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 2.6% to $340.3 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 23.7% to $178.9 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 7.8% to $950.9 million at June 30, 2018 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

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)

time of loan commitment. The reduction in loans receivable during fiscal year 2018 was attributable to the runoff of the homeownership loan portfolio. The reserve for loan loss for the homeownership loan portfolio increased slightly. The reserve for loan loss for the home improvement loan portfolio increased due to a slight increase in the 120 day category. 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, 2018		June 30, 2017	
Current	6,093	94.5%	7,025	94.7%
60-89 Days	138	2.1%	99	1.3%
90-119 Days	49	0.8%	41	0.6%
120+ Days	167	2.6%	250	3.4%
Total Count	6,447		7,415	
Total Past Due	354	5.5%	390	5.3%

Home Improvement Loan Portfolio Delinquency
Actual Loan Count

	June 30, 2018		June 30, 2017	
Current	4,906	97.9%	5,363	98.3%
60-89 Days	24	0.5%	37	0.7%
90-119 Days	21	0.4%	27	0.5%
120+ Days	53	1.1%	31	0.6%
Total Count	5,004		5,458	
Total Past Due	98	2.0%	95	1.7%

The 60+ day delinquency rate as of June 30, 2018 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, 2018 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 16.9% to $1.3 million at June 30, 2018 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 increased 61.5% to $2.0 million at June 30, 2018 as a result of a decreased amount of foreclosure properties held within the homeownership portfolio on June 30, 2018.

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 2018, the combined net total of FHA/VA insurance claims and real estate owned remains immaterial compared to total loans receivable at June 30, 2018, 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 increased 3.2% to $11.8 million at June 30, 2018. The increase is mainly a result of an increase in interest receivable on Program MBS homeownership loans. Bonds payable is the largest single category of liabilities, resulting primarily from debt issued to fund housing-related lending. Bonds payable increased 13.4% to $2,687.8 million at June 30, 2018 because new bonding issuance outpaced scheduled redemptions and early bond redemptions of existing debt.

The companion category of interest payable decreased 2.2% to $24.0 million at June 30, 2018, 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 HOMES^{SM} increased in .3% in FY18 to $65.5 million at June 30, 2018.

On the statement of net position there are three accounts that report the overall pension picture. The Net Pension Liability decreased by $28.2 million to $47.9 million as of June 30, 2018 from $76.1 million on June 30, 2017. Deferred Pension Expense (Deferred Outflow) decreased by $14.7 million to $38.6 million as of June 30, 2018 from $53.3 million at June 30, 2017. Deferred Pension Credit (Deferred Inflow) increased by $22.1 million to $27.7 million as of June 30, 2018 from $5.6 million at June 30, 2017. This increase was due to MSRS making changes to the assumptions that were used for the plans actuarial reports. GASB 68 prescribed how these accounts will be recorded and how income and expense will be recognized. With the decrease in Deferred Pension Expense (Deferred Outflow) of $14.7 million, the decrease in Net Pension Liability of $28.2 million and the increase in Deferred Pension Credit (Deferred Inflow) of $22.1 million the result is an overall decrease of $8.6 million to the net position. GASB 75 prescribes that other Post Retirement Employee Benefits (OPEB) are now included in these numbers. The total amount of OPEB expense in fiscal year 2018 was $1.7 million

Accounts payable and other liabilities increased to $25.3 million at June 30, 2018. During FY 2018 the increase is due to the closing of two FFB loans and outstanding development disbursements in Rental Housing.

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 57.7 % to ($44.9) million. Revenues over expenses excluding unrealized gains and losses increased 47.4% to $15.3 million for fiscal year 2018.

Total Revenues decreased 10.5% to $105.2 million. Revenue excluding unrealized gains and losses on investments increased 6.1% to $165.4 million.

Total expenses increased 3.2% to $150.1 million.

General Reserve and Bond Funds-Revenues over Expenses

The largest revenue component, interest earned on MBS and investments increased 23.6% to $72.4 million. This is due to the increase in production as well as interest rate increases. Loan interest revenue decreased 12.9% to $51.2 million as repayments and prepayments decreased the size of the homeownership

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

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 5.9% to $163.9 million. Expenses decreased 4.8% to $144.2 million

Administrative reimbursements to General Reserve from bond funds were $21.2 million in fiscal year 2018 compared to $20.5 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 $3.2 million from the State and Federal Appropriated funds to recover certain overhead expenses incurred during fiscal year 2018 compared to $2.0 million during the prior fiscal year.

Other fee income to General Reserve and bond funds of $15.2 million increased by $1.6 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 $ 2.2 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 2018 are $60.2 million compared to $38.9 of unrealized gains for fiscal year 2017. 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 93% 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 increased 9.7% to $73.1 million compared to the prior fiscal year as a result of new bond issues outpacing scheduled redemptions and early bond redemptions of existing debt.

Financing costs increased 49.0% to $7.1 million. The majority of the increase is due to strong bonding activity.

Expenses for loan administration and trustee fees in the bond funds remained at $3.8 million for current fiscal year. Of the total administrative reimbursement revenue in General Reserve of $24.5 million, the interfund charge to the bond funds and State Appropriated fund of $23.3 million was eliminated for purposes of financial reporting in the Agency-wide financial statements.

Salaries and benefits in General Reserve of $33.1 million decreased 8.8% from the prior year. A large component of the Salaries and Benefits change is due to a decrease in pension expense to $7.6 million at June 30, 2018 from $11.0 million at June 30, 2017. Changes in assumptions by MSRS account for all of this change.

Other general operating expense in General Reserve and bond funds decreased 23.6% compared to the prior fiscal year to $9.7 million. The majority of the decrease relates to a reduction in general operating expenses.

Reductions in carrying value of certain low interest rate deferred loans in the bond funds decreased from $2.4 million to $1.8 million. The decrease was due to the leveling off of Pool 3 loan closings.

The provision for loan loss expense in the bond funds decreased from ($1.5) million to $.4 million. Delinquencies and foreclosures have increased over the fiscal year.

The provision for loan loss expense for the homeownership loan portfolio increased $1.9 million because the delinquencies increased.

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

The provision for loan loss expense for the home improvement loan portfolio decreased $1.5 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 decreased $0.6 million due to the mix of loans on the watch-list, when compared to the prior fiscal year and the number of loans on the watch list dropped 50% compared to prior 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 2018, $4.1 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 $5.0 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 $14.6 million in bond sale contributions to the Homeownership Finance bond fund.

Total combined net position of General Reserve and bond funds decreased 5.6% to $789.4 million as of June 30, 2018. A portion of that decrease is a result of current fiscal year unrealized gains on investments, without which the combined net position would have increased $4.1 million. Capital Assets increased by $1.9 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. For fiscal year 2018 the Agency has added a new Unrestricted - State Appropriation-backed Bonds. This line shows the amount of outstanding Appropriation-backed Bonds issued by the Agency. 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.

Investments, cash, and cash equivalents combined are the largest category of assets in the appropriated funds. The June 30, 2018 combined balance increased 2.6% to $125.7 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.

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, 2018 State Appropriated fund net loans receivable decreased 6.1% to $41.8 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, 2018 increased $0.3 million. Accounts payable and other liabilities represent amounts payable to program participants as of year-end. The balance of payables at June 30, 2018 was $5.7 million compared to $2.1 million at June 30, 2017. 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

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

accrued overhead expense payable to General Reserve. At June 30, 2018 the combined net interfund payable was $2.0 million.

At June 30, 2018 the balance of funds held for others was $12.0 million. All of which represents the proceeds of state appropriation-backed housing bonds which are held for disbursement to certain multifamily affordable housing developments.

State and Federal Appropriated Funds-Statement of Net Position

The appropriated net position is broken into two categories. 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. Unrestricted - State Appropriation-backed Bonds shows the amount of state appropriation-backed bonds outstanding. These bonds are backed solely by the State of Minnesota and the Agency's resources are not pledged or available to secure the bondholders. Per GASB, as the issuer, the Agency is required to show these bonds as bonds payable and there by the reduction in net position. The combined net position of the appropriated funds decreased from $13.7 million as June 30, 2017 to $8.7 million as of June 30, 2018. This decrease is predominately due to the appropriation-backed bonds being recorded in the state appropriated fund as a restatement of the ending balance for fiscal year 2017. There was an increase in restricted by law net position of $2.7 million for 2018. This shows that combined receipts exceeds expenses during fiscal year 2018. The principal amount outstanding of the state appropriation-backed bonds was $133.0 million as of June 30, 2017, and $140.9 million as of June 30, 2018.

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 increased from $253.2 million in fiscal year 2017 to $258.1 million in fiscal year 2018. Federal appropriations received increased by $11.8 million. State appropriations received remained stable at net $3.5 million.

The combined interest income from investments increased 43.8% to $2.3 million for fiscal year 2018.

Loan interest income from State Appropriations loan assets continues to be minimal at $0.9 million as relatively few loans bear interest.

Fees earned and other income, in the amount of $1.7 million were recorded in the State Appropriated fund during fiscal year 2018. This consisted mainly of private donations and the receipt of interagency transfers to support certain state housing programs.

Combined unrealized losses of $0.3 million were recorded at June 30, 2018 compared to $0.5 million of unrealized losses at June 30, 2017. 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 36.3% to $2.1 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 2018 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.

Combined appropriations disbursed increased 6.3% to $231.3 million compared to the prior fiscal year, reflecting State Appropriations disbursed of $29.1 million and federal appropriations disbursed of $202.2 million.

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)

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 increased 109.1% to $23.5 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 decreased 11.5% to $1.9 million at June 30, 2018.

Combined expenses were less than combined revenue of the appropriated funds by $3.3 million at June 30, 2018. Ultimately, the entire existing State Restricted by Law and Federal Appropriated funds' net position is likely to be expended for housing programs.

Significant Long Term Debt Activities

Minnesota Housing issues a significant amount of bonds (does not include state appropriation-backed bonds), having outstanding at June 30, 2018 long-term bonds totaling $2,687.8 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, 2018, amounts held by the trustee in principal, interest, redemption, and reserve accounts represented full funding of those requirements as of that date. In addition, at year-end we had $140.9 million state appropriation-backed bonds.

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 2018 fiscal year, Minnesota Housing issued twenty-two series of bonds aggregating $935.8 million (excluding state 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 $523.9 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 $12.7 million in state appropriation-backed bonds were issued in fiscal year 2018.

A total of $591.4 million (does not include state appropriation-backed bonds) in bond principal repayments and $80.2 million of bond-related interest expense occurred during fiscal year 2018. Of the total bond principal repayments, $285.1 million were repayments made on bonds prior to the scheduled maturity date using a combination of optional and special redemption provisions. A total of $4.8 million in bond principal repayments for state appropriation-backed bonds were made in fiscal year 2018.

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 bond 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 private activity bond volume cap 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, 2017 and 2018 and in fiscal year 2018 SIFMA Floating Rate Term Bonds were also incorporated 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

Significant Long Term Debt Activities (continued)

Agency issued two new series of variable rate bonds in fiscal year 2018 in a principal amount totaling $80.0 million with an interest rate swap with the equivalent notional amount. One of the series, 2017C in the amount of $40.0 million, is also hedged with a forward starting SWAP which will become effective on January 1, 2019. (See Interest Rate Swaps under the notes to the financial statements for further discussion of interest-rate swaps and their risks.) The Agency also issued one new series of SIFMA Floating Rate Term Bonds in the principal amount of $35.0 million. (See Floating Rate Term Bonds in the notes to financial statements for more information.)

Significant Factors that May Affect Financial Conditions and/or Operations

Legislative Actions

In even-numbered years, the Legislature typically passes a bonding bill to fund capital projects around the state. The Agency’s top priority this session was to secure the Governor’s Capital Budget recommendation of $100 million in Housing Infrastructure Bonds and $15 million in State of Minnesota General Obligation Bonds for public housing rehabilitation.

Minnesota Housing’s recommendation was 8% of the Governor Dayton’s $1.5 billion proposal. On the last day of the legislative session, the Legislature passed a bonding bill and it was signed by the Governor (Laws of 2018, Chapter 214). Overall, the bill included $90 million for affordable housing.

The bonding bill included $80 million in new Housing Infrastructure Bonds authority to increase the supply of and preserve affordable housing in communities throughout the state. Housing Infrastructure Bond proceeds historically have been used for loans 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

The Legislature authorized two new uses of Housing Infrastructure Bond proceeds. This includes making loans to finance the costs of acquisition, rehabilitation, adaptive reuse, or new construction of senior housing and making loans to the improvement and infrastructure of manufactured home parks.

In addition, of the $80 million that was authorized for Housing Infrastructure proceeds, $30 million must be used to make loans to finance permanent supportive housing for people with behavioral health needs.

With the exception of the new uses for manufactured home parks, loans to be funded with the proceeds of authorized Housing Infrastructure Bonds are expected to be awarded to housing projects as part of Minnesota Housing’s consolidated Request for Proposal (RFP) in 2018 and 2019.

The bonding bill also included $10 million in State of Minnesota General Obligation Bonds for rehabilitation of existing public housing. Funds will be used for health, safety and energy efficiency improvements in existing public housing in all 87 counties. These funds are expected to be awarded to public housing agencies through a separate RFP process in the upcoming year.

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, 2018 (with comparative totals as of June 30, 2017)

		Agency wide Total as of June 30, 2018	Agency wide Total as of June 30, 2017
Assets	Cash and cash equivalents	$ 414,280	$ 439,184
	Investments-program mortgage-backed securities	2,151,385	1,710,715
	Investment securities-other	230,548	267,043
	Loans receivable, net	992,733	1,071,058
	Interest receivable on loans and program mortgage-backed securities	10,771	10,381
	Interest receivable on investments	1,292	1,265
	Interest rate swap agreements	4,623	-
	FHA/VA insurance claims, net	1,309	1,575
	Real estate owned, net	1,985	1,229
	Capital assets, net	5,710	3,845
	Other assets	3,870	3,367
	Total assets	3,818,506	3,509,662
Deferred Outflows of Resources	Deferred loss on refunding	1,785	137
	Deferred loss on interest rate swap agreements	169	5,264
	Deferred pension and OPEB expense	38,618	53,275
	Total deferred outflows of resources	40,572	58,676
Liabilities	Bonds payable, net	2,828,697	2,502,508
	Interest payable	23,984	24,523
	Interest rate swap agreements	1,862	5,264
	Net pension and OPEB liability	47,879	76,077
	Accounts payable and other liabilities	31,020	12,397
	Funds held for others	78,493	78,345
	Total liabilities	3,011,935	2,699,114
Deferred Inflows of Resources	Deferred gain on interest rate swap agreements	4,623	-
	Deferred service release fee	16,856	13,993
	Deferred pension and OPEB credit	27,699	5,554
	Total deferred inflows of resources	49,178	19,547
Net Position	Restricted by bond resolution	318,512	360,383
	Restricted by covenant	465,169	471,700
	Restricted by law	149,466	146,734
	Invested in capital assets	5,710	3,845
	Unrestricted - State Appropriation-Backed Debt	(140,892)	(132,985)
	Total net position	797,965	849,677
	Total liabilities, deferred inflows of resources, and net position	$ 3,859,078	$ 3,568,338

See accompanying notes to financial statements

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Activities (in thousands)
Year-ended June 30, 2018 (with comparative total for year ended June 30, 2017)

		Agency-wide Total for Year Ended June 30, 2018	Agency-wide Total for Year Ended June 30, 2017
Revenue	Interest earned on loans	$ 52,054	$ 59,183
	Interest earned on investments-program mortgage-backed securities	61,996	50,825
	Interest earned on investments-other	12,627	9,313
	Net G/L on Sale of MBS Held for Sale/HOMES Certificates	2,240	2,521
	Appropriations received	258,071	243,897
	Administrative reimbursement	1,152	481
	Fees earned and other income	16,908	14,448
	Unrealized gains/losses on investments	(60,535)	(39,397)
	Total revenues	344,513	341,271
Expenses	Interest	73,057	66,620
	Financing, net	7,115	4,774
	Loan administration and trustee fees	3,872	3,898
	Salaries and benefits	33,114	36,311
	Other general operating	11,541	14,772
	Appropriations disbursed	231,313	218,151
	Reduction in carrying value of certain low interest rate deferred loans	25,219	13,626
	Provision for loan losses	911	(1,170)
	Total expenses	386,142	356,982
	Revenues over (under) expenses	(41,629)	(15,711)
	Non-Operating Expenses	(7,907)	(14,618)
Net Position	Change in Net Position	(49,536)	(30,329)
	Total net position, beginning of period, as restated	847,501	880,006
	Total net position, end of year	$ 797,965	$ 849,677

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, 2018 (with comparative totals as of June 30, 2017)

			Bond Funds					Appropriated Funds			
		General Reserve	Rental Housing	Residential Housing Finance	Homeownership Finance	Multifamily Housing	HOMES SM	State Appropriated	Federal Appropriated	Total as of June 30, 2018	Total as of June 30, 2017
Assets	Cash and cash equivalents	$ 56,385	$ 28,926	$ 210,567	$ 42,916	$ 1,468	$ -	$ 67,294	$ 6,724	$ 414,280	$ 439,184
	Investments-program mortgage-backed securities	-	-	747,700	1,403,685	-	-	-	-	2,151,385	1,710,715
	Investment securities-other	29,706	20,636	110,314	-	-	18,230	47,312	4,350	230,548	267,043
	Loans receivable, net	-	140,234	796,716	-	13,944	-	41,839	-	992,733	1,071,058
	Interest receivable on loans and program mortgage-backed securities	-	625	5,699	4,366	51	-	30	-	10,771	10,381
	Interest receivable on investments	130	112	687	41	2	48	260	12	1,292	1,265
	Interest rate swap agreements	-	-	4,623	-	-	-	-	-	4,623	-
	FHA/VA insurance claims, net	-	-	1,309	-	-	-	-	-	1,309	1,575
	Real estate owned, net	-	-	1,985	-	-	-	-	-	1,985	1,229
	Capital assets, net	5,710	-	-	-	-	-	-	-	5,710	3,845
	Other assets	2,183	4	325	33	-	-	-	1,325	3,870	3,367
	Total assets	94,114	190,537	1,879,925	1,451,041	15,465	18,278	156,735	12,411	3,818,506	3,509,662
Deferred Outflows of Resources	Deferred loss on refunding	-	-	1,785	-	-	-	-	-	1,785	137
	Deferred loss on interest rate swap agreements	-	-	169	-	-	-	-	-	169	5,264
	Deferred pension and OPEB expense	38,618	-	-	-	-	-	-	-	38,618	53,275
	Total deferred outflows of resources	38,618	-	1,954	-	-	-	-	-	40,572	58,676
Liabilities	Bonds payable, net	-	39,530	1,200,197	1,415,873	13,720	18,472	140,905	-	2,828,697	2,502,508
	Interest payable	-	498	17,506	5,898	34	48	-	-	23,984	24,523
	Interest rate swap agreements	-	-	1,862	-	-	-	-	-	1,862	5,264
	Net pension and OPEB liability	47,879	-	-	-	-	-	-	-	47,879	76,077
	Accounts payable and other liabilities	4,840	6,864	13,557	77	-	-	4,555	1,127	31,020	12,397
	Interfund payable (receivable)	(27,812)	122	25,683	-	-	-	1,801	206	-	-
	Funds held for others	65,507	-	1,250	-	-	(242)	11,976	2	78,493	78,345
	Total liabilities	90,414	47,014	1,260,055	1,421,848	13,754	18,278	159,237	1,335	3,011,935	2,699,114
Deferred Inflows of Resources	Deferred gain on interest rate swap agreements	-	-	4,623				-	-	4,623	-
	Deferred service release fee	-	-	9,921	6,935	-	-	-	-	16,856	13,993
	Deferred pension and OPEB credit	27,699	-	-	-	-	-	-	-	27,699	5,554
	Total deferred inflows of resources	27,699	-	14,544	6,935	-	-	-	-	49,178	19,547
Net Position	Restricted by bond resolution	-	143,523	151,020	22,258	1,711	-	-	-	318,512	360,383
	Restricted by covenant	8,909	-	456,260	-	-	-	-	-	465,169	471,700
	Restricted by law	-	-	-	-	-	-	138,390	11,076	149,466	146,734
	Invested in capital assets	5,710	-	-	-	-	-	-	-	5,710	3,845
	Unrestricted - State Appropriation-backed Debt			-				(140,892)		(140,892)	(132,985)
	Total net position	$ 14,619	$ 143,523	$ 607,280	$ 22,258	$ 1,711	$ -	$ (2,502)	$ 11,076	$ 797,965	$ 849,677

See accompanying notes to financial statements

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Revenue, Expenses and Changes in Net Position (in thousands)
Proprietary Funds
Year ended June 30, 2018 (with comparative totals for year ended June 30, 2017)

			Bond Funds					Appropriated Funds			
		General Reserve	Rental Housing	Residential Housing Finance	Homeownership Finance	Multifamily Housing	HOMES SM	State Appropriated	Federal Appropriated	Total for the Year Ended June 30, 2018	Total for the Year Ended June 30, 2017
Revenues	Interest earned on loans	$ -	$ 7,266	$ 43,277	$ -	$ 616	$ -	$ 895	$ -	$ 52,054	$ 59,183
	Interest earned on investments-program mortgage-backed securities	-	-	16,527	45,469	-	-	-	-	61,996	50,825
	Interest earned on investments-other	419	537	8,480	312	17	606	2,097	159	12,627	9,313
	Net G/L on Sale of MBS Held for Sale/HOMES Certificates	-	-	2,240	-	-	-	-	-	2,240	2,521
	Appropriations received	-	-	-	-	-	-	55,291	202,780	258,071	243,897
	Administrative reimbursement	24,479	-	-	-	-	-	-	-	24,479	22,482
	Fees earned and other income	11,936	253	2,034	955	-	-	1,730	-	16,908	14,448
	Unrealized gains (losses) on investments	-	(180)	(13,980)	(46,042)	-	-	(324)	(9)	(60,535)	(39,397)
	Total revenues	36,834	7,876	58,578	694	633	606	59,689	202,930	367,840	363,272
Expenses	Interest	-	1,190	32,823	38,022	416	606	-	-	73,057	66,620
	Financing, net	-	-	4,958	2,157	-	-	-	-	7,115	4,774
	Loan administration and trustee fees	-	133	3,157	485	4	-	93	-	3,872	3,898
	Administrative reimbursement	-	1,129	12,136	7,868	94	-	2,100	-	23,327	22,001
	Salaries and benefits	33,114	-	-	-	-	-	-	-	33,114	36,311
	Other general operating	6,338	3	3,327	22	-	-	1,851	-	11,541	14,772
	Appropriations disbursed	-	-	-	-	-	-	29,094	202,219	231,313	218,151
	Reduction in carrying value of certain low interest	-	-	-	-	-	-	-	-	-	
	rate deferred loans	-	-	1,758	-	-	-	23,461	-	25,219	13,626
	Provision for loan losses	-	(525)	930	-	(1)	-	507	-	911	(1,170)
	Total expenses	39,452	1,930	59,089	48,554	513	606	57,106	202,219	409,469	378,983
	Revenues over (under) expenses	(2,618)	5,946	(511)	(47,860)	120	-	2,583	711	(41,629)	(15,711)
Other changes	Non-operating transfer of assets between funds & Adj.	5,192	53	(19,822)	14,634	-	-	(7,907)	(57)	(7,907)	(14,618)
	Change in net position	2,574	5,999	(20,333)	(33,226)	120	-	(5,324)	654	(49,536)	(30,329)
Net Position	Total net position, beginning of Year, as restated	12,045	137,524	627,613	55,484	1,591	-	2,822	10,422	847,501	880,006
	Total net position, end of Year	$ 14,619	$ 143,523	$ 607,280	$ 22,258	$ 1,711	$ -	$ (2,502)	$ 11,076	$ 797,965	$ 849,677

See accompanying notes to financial statements

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds
Year ended June 30, 2018 (with comparative totals for year ended June 30, 2017)

Cash flows from operating activities

	General Reserve	Bond Funds: Rental Housing	Bond Funds: Residential Housing Finance	Bond Funds: Homeownership Finance	Bond Funds: Multifamily Housing	Bond Funds: HOMES SM	Appropriated Funds: State Appropriated	Appropriated Funds: Federal Appropriated	Total for the Year Ended June 30, 2018	Total for the Year Ended June 30, 2017
Cash flows from operating activities:										
Principal repayments on loans and program mortgage-backed securities	$ -	$ 29,846	$ 205,157	$ 150,465	$ 185	$ -	$ 14,292	$ -	$ 399,945	$396,786
Investment in loans/loan modifications and program mortgage-backed securities	-	(10,151)	(391,767)	(400,100)	-	-	(29,873)	-	(831,891)	(579,455)
Interest received on loans and program mortgage-backed securities	-	7,178	59,755	47,444	617	-	895	-	115,889	111,131
Fees and other income received	11,548	253	12,890	-	-	-	1,730	-	26,421	23,986
Salaries, benefits and other operating	(32,332)	(134)	(14,069)	(563)	(4)	-	(1,940)	-	(49,042)	(47,889)
Appropriations received	-	-	-	-	-	-	55,291	201,766	257,057	253,479
Appropriations disbursed	-	-	-	-	-	-	(29,289)	(201,209)	(230,498)	(228,933)
Administrative reimbursement from funds	24,467	(1,129)	(12,198)	(7,868)	(94)	-	(1,908)	-	1,270	788
Deposits into funds held for others	30,420	-	1,250	-	-	-	14,806	-	46,476	45,872
Disbursements made from funds held for others	(30,831)	-	-	-	-	-	(16,554)	-	(47,385)	(83,106)
Interfund transfers and other assets	(5,147)	4	133	(1)	-	-	-	-	(5,011)	(2,752)
Net cash provided (used) by operating activities	(1,875)	25,867	(138,849)	(210,623)	704	-	7,450	557	(316,769)	(110,093)

Cash flows from non-capital financing activities

	General Reserve	Rental Housing	Residential Housing Finance	Homeownership Finance	Multifamily Housing	HOMES SM	State Appropriated	Federal Appropriated	Total for the Year Ended June 30, 2018	Total for the Year Ended June 30, 2017
Cash flows from noncapital financing activities:										
Proceeds from sale of bonds and notes	-	14,675	1,481,342	392,432	-	-	-	-	1,888,449	1,524,846
Principal repayment on bonds and notes	-	(12,485)	(1,404,550)	(146,355)	(240)	(2,749)	-	-	(1,566,379)	(1,457,294)
Interest paid on bonds and notes	-	(1,180)	(37,122)	(37,947)	(417)	(614)	-	-	(77,280)	(74,115)
Financing costs paid related to bonds issued	-	-	(5,425)	(3,083)	-	-	-	-	(8,508)	(5,314)
Interest paid/received between funds	54	-	(54)	-	-	-	-	-	-	
Agency contribution to program funds	-	175	(11,934)	11,770	-	-	-	(11)	-	-
Transfer of cash between funds	198	-	(198)	-	-	-	-	-	-	-
Net cash provided (used) by noncapital financing activities	252	1,185	22,059	216,817	(657)	(3,363)	-	(11)	236,282	(11,877)

Cash flows from investing activities

	General Reserve	Rental Housing	Residential Housing Finance	Homeownership Finance	Multifamily Housing	HOMES SM	State Appropriated	Federal Appropriated	Total for the Year Ended June 30, 2018	Total for the Year Ended June 30, 2017
Cash flows from investing activities:										
Investment in real estate owned	-	-	(2,030)	-	-	-	-	-	(2,030)	(2,198)
Interest received on investments	1,222	454	8,347	288	15	614	2,122	159	13,221	9,870
Net gain (loss) on Sale of MBS Held for Sale and HOMES Certificates	-	-	4,040	-	-	-	-	-	4,040	3,532
Proceeds from sale of mortgage insurance claims/real estate owned	-	-	10,697	-	-	-	-	-	10,697	19,653
Proceeds from maturity, sale or transfer of investment securities	20,000	177	825,381	1,400	-	2,749	20,000	190	869,897	604,905
Purchase of investment securities	(29,689)	(19,014)	(752,079)	-	-	-	(39,460)	-	(840,242)	(604,780)
Purchase of loans between funds	-	(24,601)	31,481	-	-	-	(6,880)	-	-	-
Net cash provided (used) by investing activities	(8,467)	(42,984)	125,837	1,688	15	3,363	(24,218)	349	55,583	30,982

Cash and cash equivalents

	General Reserve	Rental Housing	Residential Housing Finance	Homeownership Finance	Multifamily Housing	HOMES SM	State Appropriated	Federal Appropriated	Total for the Year Ended June 30, 2018	Total for the Year Ended June 30, 2017
Net increase (decrease) in cash and cash equivalents	(10,090)	(15,932)	9,047	7,882	62	-	(16,768)	895	(24,904)	(90,988)
Cash and cash equivalents:										
Beginning of period	66,475	44,858	201,520	35,034	1,406	-	84,062	5,829	439,184	530,172
End of period	$ 56,385	$ 28,926	$ 210,567	$ 42,916	$ 1,468	$ -	$ 67,294	$ 6,724	$ 414,280	$ 439,184

See accompanying notes to financial statements

(Continued)

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds (continued)
Year ended June 30, 2018 (with comparative totals for year ended June 30, 2017)

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

		Bond Funds					Appropriated Funds			
	General Reserve	Rental Housing	Residential Housing Finance	Homeownership Finance	Multifamily Housing	HOMES^{SM}	State Appropriated	Federal Appropriated	Total for the Year Ended June 30, 2018	Total for the Year Ended June 30, 2017
Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities:										
Revenues over (under) expenses	$ (2,618)	$ 5,946	$ (511)	$ (47,860)	$ 120	$ -	$ 2,583	$ 711	$ (41,629)	$ (15,709)
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	-	(58)	929	2,744	-	-	-	-	3,615	2,431
Amortization of proportionate share-Pension	54	-	-	-	-	-	-	-	54	(12)
Depreciation	2,241	-	-	-	-	-	-	-	2,241	2,370
Gain (loss) on sale of MBS held for sale and HOMES Certificates	-	-	(2,240)	-	-	-	-	-	(2,240)	(2,521)
Realized losses (gains) on sale of securities, net	-	-	(229)	-	-	-	-	-	(229)	(65)
Unrealized losses (gains) on securities, net	-	180	13,980	46,042	-	-	324	9	60,535	39,397
Salaries and Benefits-Pensions	6,879	-	-	-	-	-	-	-	6,879	11,042
Provision for loan losses	-	(525)	930	-	(1)	-	507	-	911	(1,170)
Reduction in carrying value of certain low interest rate and/or deferred loans	-	-	1,758	-	-	-	23,461	-	25,219	13,626
Capitalized interest on loans and real estate owned	-	-	(1,386)	-	-	-	-	-	(1,386)	(1,742)
Interest earned on investments	(419)	(537)	(8,251)	(312)	(17)	(606)	(2,097)	(159)	(12,398)	(9,226)
Interest expense on bonds and notes	-	1,190	32,823	38,022	416	606	-	-	73,057	66,620
Financing expense on bonds	-	-	4,927	2,157	-	-	-	-	7,084	4,772
Decrease (increase) in appropriated disbursed	-	-	-	-	-	-	-	(46)	(46)	(1,736)
Changes in assets and liabilities:										
Decrease (increase) in loans receivable and program mortgage backed securities, excluding loans transferred between funds	-	19,695	(186,610)	(249,635)	185	-	(15,581)	-	(431,946)	(182,669)
Decrease (increase) in interest receivable on loans	-	(30)	408	(769)	1	-	-	-	(390)	435
Increase (decrease) in accounts payable	(1,241)	2	3,302	(1,011)	-	-	(191)	-	861	2,222
Increase (decrease) in interfund payable, affecting operating activities only	(1,266)	-	(62)	-	-	-	192	42	(1,094)	(292)
Increase (decrease) in funds held for others	(411)	-	1,250	-	-	-	(1,748)	-	(909)	(37,234)
Other	(5,094)	4	133	(1)	-	-		-	(4,958)	(632)
Total	743	19,921	(138,338)	(162,763)	584	-	4,867	(154)	(275,140)	(94,384)
Net cash provided (used) by operating activities	$ (1,875)	$ 25,867	$ (138,849)	$ (210,623)	$ 704	$ -	$ 7,450	$ 557	$ (316,769)	$ (110,093)

See accompanying notes to financial statements

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2018

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 HOMES^{SM} 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 and index bank note issued under a separate trust indentures 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 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 2018 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 2018 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 and index bank note trust indentures 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 or the Federal Home Loan Mortgage Corporation.

Home Ownership Mortgage-backed Exempt Securities (HOMES^{SM})

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 (HOMES^{SM} certificates), each secured by a mortgage-backed security guaranteed by FNMA or GNMA. The HOMES^{SM} 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 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

Nature of Business and Fund Structure (continued)

Agency's bond funds or creditors of the Agency. State appropriations received for debt service payments on State appropriation-backed bonds is restricted for that use only and is not pledged or available for any other purpose. The unrestricted – state appropriated-backed bonds will be eliminated through future appropriations from the State

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. The provisions of statement were adopted for fiscal year ended June 30, 2018. The effects on the agency financials are as follows: The beginning net position was adjusted by $1.671 million, a net OPEB liability of $1.742 million was added and a deferred OPEB expense of $.087 million were added. Details can be found in the footnote for Post-Employment Benefits Other than Pensions. With respect to the comparative information as of and for the year ended June 30, 2017, 2017 balances could not be restated as information required to adopt the standard is not available to the Agency.

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.

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.

In April 2018, the GASB issued Statement No. 88 *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.* The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements for this Statement are effective for reporting periods beginning after June 15, 2018. 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 HOMES^{SM} 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.

Summary of Significant Accounting Policies (continued)

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, 2018.

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.

Interest Rate Swap Agreements

Agency interest rate swap agreements with positive fair value as of the end of fiscal year 2018 are recorded here as an asset.

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.

Deferred Loss on Refunding

The Agency's interest rate swap agreement that is still effective without associated bonds, requires that the fair value of these swaps be recorded as a deferred loss on refunding. This loss will reduce over time until the swap is terminated.

Deferred Loss on Interest Rate Swap Agreements

The Agency's interest rate swap agreements with a negative fair value as of the end of fiscal year 2018. 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.

Summary of Significant Accounting Policies (continued)

Bonds Payable

Bonds payable are carried at their unpaid principal balances. Because the Agency is the issuer of the state appropriation-backed bonds they are included in this category but are not pledged or available to secure bondholders or creditors of Minnesota Housing.

Interest Rate Swap Agreements

Agency interest rate swap agreements with a negative fair value as of the end of fiscal year 2018 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.

Post Employment Benefits Other than Pension

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Benefits Plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by MSRS. For this purpose, MSRS recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

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, appropriations received for the payment of debt service and expenseof state appropriation-backed 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 HOMES^{SM} certificates, and funds held for, and reimbursable to, HUD, such as Section 8 payments. In addition, investment income on unspent Section 8 funds is credited directly to Funds Held for Others and not included in the investment income of Federal Appropriated.

Summary of Significant Accounting Policies (continued)

Deferred Gain on Interest Rate Swap

The Agency's interest rate swap agreements with a positive fair value as of the end of fiscal year 2018. Because these agreements have been determined to be effective hedges under applicable accounting guidance, the positive fair value is recorded as a deferred gain.

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, 2018. 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.

Unrestricted - State Appropriation-backed Bonds

The Restricted by State Appropriation-backed Bond Net Position represents outstanding non-profit housing and housing infrastructure bonds that are not a general obligation of the Agency and are not pledged or available to secure the bondholders or creditors of Minnesota Housing.

Summary of Significant Accounting Policies (continued)

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, does not indicate that the combined assets are available in any manner other than that provided for in either the bond resolutions, Board resolutions or the legislation for the separate funds or groups of funds. The totals for fiscal year 2017 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 $1.152 million are reflected as administrative reimbursement revenues in the General Reserve.

Administrative reimbursements in the amount of $23.327 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

Summary of Significant Accounting Policies (continued)

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. In the appropriated fund this account is used to record the receipt of bond sale proceeds, debt service receipts from the State and disbursements to bond holders.

Non-Cash Activities

Transfers from loans receivable to FHA/VA insurance claims receivable and real estate owned for fiscal year 2018 were $9.1million 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, Cash Equivalents and Investment Securities

Cash and Cash Equivalents are generally stated at cost, which approximates fair value. The balances were composed of the following at June 30, 2018 (in thousands):

Cash and Cash Equivalents

Funds	Deposits	Money Market Funds	State Investment Pool	Investment Agreements	Combined Totals
General Reserve Account	$ -	$ -	$ 56,385	$ -	$ 56,385
Rental Housing	-	28,926	-	-	28,926
Residential Housing Finance	1,611	208,055	-	901	210,567
Homeownership Finance Bonds	-	42,916	-	-	42,916
Multifamily Housing Bonds	-	1,468	-	-	1,468
HOMES[SM]	-	-	-	-	-
State Appropriated Accounts	171	10,432	56,691	-	67,294
Federal Appropriated Accounts	-	3,712	3,012	-	6,724
Combined Totals	$ 1,782	$ 295,509	$ 116,088	$ 901	$ 414,280

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.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2018 (continued)

Cash, Cash Equivalents and Investment Securities (continued)

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.

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, 2018 (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	$ 29,706	$ -	$ -	$ 29,706
Rental Housing	20,646	-	(10)	20,636
Residential Housing Finance	112,114	755,913	(10,013)	858,014
Homeownership Finance Bonds	-	1,420,139	(16,454)	1,403,685
Multifamily Housing Bonds	-	-	-	-
HOMES[SM]	18,472	-	(242)	18,230
State Appropriated Accounts	46,988	-	324	47,312
Federal Appropriated Accounts	4,350	-	-	4,350
Combined Totals	$ 232,276	$ 2,176,052	$ (26,395)	$ 2,381,933

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, 2018 were (in thousands):

Credit Ratings of Investment Securities

Type	Par Value	AA+/Aaa	AA/Aa2
U.S. Agencies	$ 2,273,645	$ 2,273,645	$ -
Municipal Bonds	26,165	-	26,165
Agency-wide Totals	$ 2,299,810	$ 2,273,645	$ 26,165
U.S. Treasuries	76,110		
Agency-wide Totals	$ 2,375,920		

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2018 (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 depreciation of $26.396 million and net discounts of $32.409 million), along with the weighted average maturities (in years) as of June 30, 2018, consisted of the following (in thousands):

		Weighted Average Maturity, in Years							
Type	Par Value	General Reserve	Rental Housing	Residential Housing Finance	Homeownership Finance	Multifamily Housing	HOMES[SM]	State Appropriated	Federal Appropriated
Deposits	$ 1,782	-	-	-	-	-	-	-	-
Money market fund	295,509	-	-	-	-	-	-	-	-
State investment pool	116,088	-	-	-	-	-	-	-	-
Investment agreements	901	-	-	-	-	-	-	-	-
US agencies	2,273,645	-	10.0	28.0	27.0	-	25.2	-	-
US treasuries	76,110	0.5	-	3.5	-	-	-	0.6	-
Municipal bonds	26,165	-	-	-	-	-	-	6.7	-
Agency-wide Totals	$ 2,790,200								
Weighted Average Maturity		0.2	4.2	22.0	26.2	-	25.2	0.6	-

Investments in any one issuer, excluding $1,456 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, 2018 were as follows (in thousands):

Investment Issuer	**Amount**
Federal National Mortgage Association, U.S. Agencies	$ 756,702

The Agency maintained certain deposits and investments throughout fiscal year 2018 that were subject to custodial credit risk. As of June 30, 2018, the amounts subject to this risk consisted of the following (in thousands):

	Amount
Deposits not covered by depository insurance and uncollateralized (including $295,509 in a money market fund and $116,088 in the State investment pool)	$ 413,379
Investment securities uninsured, uncollateralized.	2,376,821
Agency-wide Total	$ 2,790,200

Net realized gain on sale of investment securities of $0.229 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, 2018 were as follows (in thousands).

Funds	Amount
Rental Housing	$ 1,386
Residential Housing Finance	24,360
Multifamily Housing	488
Combined Totals	$ 26,234

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2018 (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, 2018:

Investments at par	Level 1	Level 2	Level 3	Total
U.S. Agencies	$ 1,991	$ 2,271,654	$ -	$ 2,273,645
U.S. Treasuries	76,110	-	-	76,110
Municipal Bonds	-	26,165	-	26,165
Total	$ 78,101	$ 2,297,819	$ -	$ 2,375,920
Prem/Disc & Unrealized Appr/Depr				6,013
Fair Market Value				$ 2,381,933

Loans Receivable, Net

Loans receivable, net at June 30, 2018 consisted of (in thousands):

Funds	Outstanding Principal	Allowance for Loan Losses	Loans Receivable, Net
General Reserve	$ -	$ -	$ -
Homeownership Finance	-	-	-
Rental Housing	143,197	(2,963)	140,234
HOMES[SM]	-	-	-
Residential Housing Finance	804,418	(7,702)	796,716
Multifamily Housing	14,014	(70)	13,944
State Appropriated	43,029	(1,190)	41,839
Federal Appropriated	-	-	-
Agency-wide Totals	$ 1,004,658	$ (11,925)	$ 992,733

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 2018 aggregated $4.843 million in the Residential Housing Finance Housing Affordability Fund (Pool 3) and $33.517 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, 2017 was $53.8 million compared to $54.3 million on June 30, 2018.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2018 (continued)

Loans Receivable, Net (continued)

Loans receivable, net and gross in Residential Housing Finance at June 30, 2018 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	$ 458,965	$ 460,442
Other homeownership loans, generally secured by a second mortgage	824	853
Alternative Loan Fund, Housing Investment Fund (Pool 2):		
Home Improvement loans, generally secured by a second mortgage	66,414	67,545
Homeownership, first mortgage loans	28,597	29,018
Other homeownership loans, generally secured by a second mortgage	32,687	33,698
Multifamily, first mortgage loans	143,162	144,241
Alternative Loan Fund, Housing Affordability Fund (Pool 3):		
Other homeownership loans, generally secured by a second mortgage	65,426	67,977
Multifamily, other	641	644
Residential Housing Finance Totals	$ 796,716	$ 804,418

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, 2018 consisted of the following (in thousands):

Funds	Receivables Due from the Federal Government	Other Assets and Receivables	Total
General Reserve Account	$ 1,360	$ -	$ 1,360
Rental Housing	-	4	4
Residential Housing Finance	-	325	325
Homeownership Finance	-	33	33
Multifamily Housing	-	-	-
HOMES^{SM}	-	-	-
State Appropriated	-	-	-
Federal Appropriated	1,325	-	1,325
Combined Totals	$ 2,685	$ 362	$ 3,047

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2018 (continued)

Bonds Payable

Summary of bonds payable activity at June 30, 2018 is as follows (in thousands):

Funds	June 30, 2017 Bonds Outstanding	Bonds Issued	Bonds Repaid	June 30, 2018 Bonds Outstanding
Rental Housing	$ 37,340	$ 14,675	$ 12,485	$ 39,530
Residential Housing Finance	1,058,905	397,565	271,375	1,185,095
Homeownership Finance Bonds	1,169,796	392,432	146,355	1,415,873
Multifamily Housing Bonds	13,960	-	240	13,720
HOMES[SM]	21,221	-	2,749	18,472
Drawdown Index Bonds	27,070	106,585	133,655	-
2018 Index Bank Note	-	24,520	24,520	-
Total	$ 2,328,292	$ 935,777	$ 591,379	$ 2,672,690
Bond Premium-Residential Housing Finance				15,102
State Appropriation-backed Bonds	132,985	12,690	4,770	140,905
				$ 2,828,697

The Drawdown Index Bonds, Index Bank Note and notes payable are part of the Residential Housing Finance Fund. State appropriation-backed bonds are included in the State Appropriated fund.

Bonds payable at June 30, 2018 were as follows (in thousands):

Series	Interest rate	Final Maturity	Original amount	Outstanding amount
Rental Housing Bonds				
2010 Series A-1	3.75% to 5.25%	2040	3,605	3,395
2011 Series A	3.40% to 5.45%	2041	8,890	6,780
2012 Series A-1	3.75%	2048	4,175	3,930
2013 Series A-1	3.50% to 5.30%	2049	3,710	3,570
2013 Series B-1	3.65% to 5.30%	2044	2,040	1,935
2016 Series C	1.60%	2018	5,245	5,245
2017 Series A	1.20%	2019	5,750	5,750
2017 Series B	1.35%	2019	2,250	2,250
2017 Series C	1.80%	2019	3,565	3,565
2018 Series A	1.95%	2020	3,110	3,110
			$ 42,340	$ 39,530

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2018 (continued)

Bonds Payable (continued)

Series	Interest rate	Final Maturity	Original amount	Outstanding amount
Residential Housing Finance Bonds				
2006 Series N	5.76%	2037	18,000	730
2007 Series M	6.345%	2038	70,000	19,790
2009 Series D	3.875% to 4.05%	2020	19,830	3,235
2009 Series E	4.15% to 5.10%	2040	103,960	42,895
2012 Series A	2.85% to 3.90%	2023	50,945	14,820
2012 Series B	3.30% to 3.45%	2024	8,830	4,840
2012 Series C	3.625% to 3.85%	2029	30,975	16,985
2012 Series D	3.90% to 4.00%	2040	60,000	19,630
2013 Series A	3.00%	2031	33,305	8,190
2013 Series B	1.55% to 1.80%	2019	9,555	3,275
2013 Series C	1.80% to 3.90%	2043	42,310	32,645
2014 Series A	1.35% to 4.00%	2038	50,000	23,080
2014 Series B	1.35% to 4.00%	2038	50,000	22,775
2014 Series C	1.40% to 4.00%	2045	143,145	79,390
2014 Series D	3.00% to 3.10%	2026	6,585	4,685
2014 Series E	2.00% to 3.50%	2032	76,000	53,870
2015 Series A	4.00%	2041	43,070	28,495
2015 Series C	1.20% to 3.60%	2031	61,780	38,935
2015 Series D	Variable	2046	18,225	18,225
2015 Series E	1.35% to 3.50%	2046	96,930	62,535
2015 Series F	2.35% to 3.30%	2029	39,515	27,545
2015 Series G	Variable	2034	35,000	35,000
2016 Series A	1.10% to 3.20%	2033	63,135	48,000
2016 Series B	3.10% to 3.50%	2046	74,985	57,140
2016 Series C	1.85% to 4.20%	2037	15,590	9,765
2016 Series D	1.50% to 2.30%	2021	11,340	7,310
2016 Series E	2.00% to 4.00%	2047	75,005	64,955
2016 Series F	Variable	2041	50,000	50,000
2017 Series A	1.10% to 3.20%	2030	43,455	36,365
2017 Series B	3.4% to 4.00%	2047	37,390	34,930
2017 Series C	Variable	2038	40,000	40,000
2017 Series D	1.45% to 3.30%	2030	41,145	40,570
2017 Series E	3.30% to 4.00%	2048	63,075	61,990
2017 Series F	Variable	2041	40,000	40,000
2018 Series A	1.8% to 3.625%	2032	28,820	28,820
2018 Series B	1.70% to 4.00%	2048	43,680	43,680
2018 Series C	2.65% to 4.45%	2040	25,000	25,000
2018 Series D	Variable	2045	35,000	35,000
			$ 1,755,580	$ 1,185,095

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2018 (continued)

Bonds Payable (continued)

Series	Interest rate	Final Maturity	Original amount	Outstanding amount
Homeownership Finance Bonds				
2009 Series A-1	3.01%	2041	108,000	47,260
2009 Series A-4A	2.48%	2041	21,910	10,200
2009 Series A-4B	2.48%	2041	13,090	6,160
2009 Series A-5	2.49%	2041	21,990	11,960
2010 Series A	2.75% to 4.25%	2028	72,000	12,245
2011 Series B	3.375% to 5.00%	2031	63,760	23,400
2011 Series C	3.10% to 3.850%	2022	8,310	1,755
2011 Series D	2.90% to 4.70%	2034	33,690	12,445
2011 Series E	2.60% to 4.45%	2035	65,000	23,030
2011 Series F	2.70% to 3.45%	2022	13,575	3,600
2011 Series G	4.00% to 4.40%	2035	29,110	13,560
2012 Series A	2.60%	2042	50,000	24,366
2012 Series B	2.25%	2042	75,000	40,728
2013 Series A	2.35%	2043	75,000	43,060
2013 Series B	2.70%	2041	85,148	36,654
2013 Series C	3.00%	2043	37,000	20,801
2014 Series A	3.00%	2044	38,527	20,229
2014 Series B	2.95%	2044	18,868	11,331
2014 Series C	3.25%	2044	13,663	8,205
2014 Series D	2.88%	2044	39,934	24,995
2015 Series A	2.80%	2045	60,013	44,025
2015 Series B	3.00%	2045	54,530	39,574
2015 Series C	3.05%	2045	40,226	27,802
2015 Series D	2.90%	2045	52,365	43,827
2016 Series A	2.95%	2046	97,274	79,133
2016 Series B	2.70%	2046	50,971	43,650
2016 Series C	2.33%	2046	35,390	31,594
2016 Series D	2.73%	2046	35,390	31,732
2016 Series E	2.35%	2046	35,495	32,841
2016 Series F	2.68%	2046	65,918	61,494
2016 Series G	2.30%	2046	20,445	18,708
2016 Series H	2.65%	2046	30,668	28,410
2017 Series A	2.93%	2047	24,966	23,618
2017 Series B	3.25%	2047	24,966	23,850
2017 Series C	3.08%	2047	23,904	22,705
2017 Series D	3.43%	2047	23,904	22,887
2017 Series E	2.85%	2047	39,283	38,000
2017 Series F	3.20%	2047	19,349	18,606
2017 Series G	2.65%	2047	84,998	83,348
2017 Series H	3.00%	2047	64,998	63,736
2017 Series I	2.80%	2047	69,238	68,247
2017 Series J	3.10%	2047	46,159	45,467
2018 Series A	3.30%	2048	38,247	38,083
2018 Series B	3.65%	2048	38,247	38,082
2018 Series C	3.30%	2048	30,326	30,282
2018 Series D	3.65%	2048	20,217	20,188
			$ 2,011,062	$ 1,415,873
Multifamily Housing Bonds				
2009	3.01%	2051	15,000	13,720
			$ 15,000	$ 13,720
HOMES SM				
2013 Series A-1	3.50%	2043	3,359	1,927
2013 Series B-1	3.00%	2043	24,471	13,631
2013 Series C-1	3.50%	2043	4,713	2,914
			$ 32,543	$ 18,472
Drawdown Index Bonds				
2016 Draw Down Index Bonds	Variable	2046	-	-
2018 Index Bank Note		2021	-	-
				-
Combined Totals			$ 3,856,525	$ 2,672,690

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2018 (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, 2018, are as follows (in thousands):

	Rental Housing		Residential Housing Finance	
Fiscal Year	Principal	Interest	Principal	Interest
2019	$ 5,595	$ 1,185	$ 31,345	$ 34,850
2020	15,045	1,073	34,190	36,102
2021	385	917	35,190	35,373
2222	395	902	36,440	34,543
2023	415	886	37,745	33,585
2024-2028	2,435	4,118	202,830	150,518
2029-2032	3,105	3,471	245,515	114,000
2033-2038	4,070	2,591	256,135	75,328
2039-2043	5,495	1,271	163,925	39,106
2044-2048	2,150	370	138,075	12,973
2049-2053	440	20	3,705	74
Total	$ 39,530	$ 16,804	$ 1,185,095	$ 566,452

	Multifamily Housing		Homeownership Finance	
Fiscal Year	Principal	Interest	Principal	Interest
2019	$ 240	$ 410	$ 5,480	$ 41,600
2020	240	402	5,620	41,429
2021	240	395	5,740	41,241
2222	240	388	5,835	41,038
2023	240	381	6,270	40,821
2024-2028	1,290	1,794	33,555	199,939
2029-2032	1,790	1,558	36,815	192,251
2033-2038	1,950	1,285	36,340	186,227
2039-2043	2,400	950	174,767	177,713
2044-2048	2,910	556	1,105,451	110,140
2049-2053	2,180	114	-	-
Total	$ 13,720	$ 8,233	$ 1,415,873	$ 1,072,399

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2018 (continued)

Bonds Payable (continued)

	HOMES℠		DDIB/IBN	
Fiscal Year	Principal	Interest	Principal	Interest
2019	$ -	$ 578	$ -	$ -
2020	-	578	-	-
2021	-	579	-	-
2222	-	578	-	-
2023	-	578	-	-
2024-2028	-	2,892	-	-
2029-2032	-	2,892	-	-
2033-2038	-	2,892	-	-
2039-2043	-	2,892	-	-
2044-2048	18,472	97	-	-
2049-2053	-	-		
Total	$ 18,472	$ 14,556	$ -	$ -

	Combined Totals	
Fiscal Year	Principal	Interest
2019	$ 42,660	$ 78,623
2020	55,095	79,584
2021	41,555	78,505
2222	42,910	77,449
2023	44,670	76,251
2024-2028	240,110	359,261
2029-2032	287,225	314,172
2033-2038	298,495	268,323
2039-2043	346,587	221,932
2044-2048	1,267,058	124,136
2049-2053	6,325	208
Total	$ 2,672,690	$ 1,678,444

Residential Housing Finance Bonds Series 2015 D and G; Series 2016 F and Series 2017 C and F accrue interest at rates that change weekly as determined by a remarketing agent for such series based on market conditions. Residential Housing Finance Bonds 2018 Series D accrues interest at a rate equal to the SIFMA (Securities Industry and Financial Markets Association) Index plus 0.43%. The 2018 Index Bank Note accrues interest at a rate equal to one month LIBOR (London Inter-Bank Offered Rate) plus 0.30%. 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, 2018 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 HOMES℠ 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, 2018, it is in compliance with those covenants in all material respects and the assets of all funds and accounts in the bond funds equaled or exceeded the requirements as established by the respective bond resolutions.

Bonds Payable (continued)

Call notices were issued on or before June 30, 2018 for the redemption of certain bonds thereafter. See Subsequent Events.

On June 30, 2018 the Agency had in place a revolving line of credit with the Federal Home Loan Bank of Des Moines with an outstanding balance of zero.

Demand Bonds

The Demand 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 liquidity providers a fee of between 0.40 and 0.65 percent per annum of the liquidity provider's available commitment equal to 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 $1.136 million to the liquidity provider for fiscal year 2018.

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 $0.218 million to the remarketing agent for fiscal year 2018.

As of June 30, 2018, the following demand bonds were outstanding:

Demand Bonds

Variable Rate Series	Principal Amount Outstanding at par	Liquidity Facility Maturity-SBPA[1]	Liquidity Fee	Remarketing Agent Fee
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%
Residential Housing Finance Series 2017C	40,000,000	7/19/2024	0.600%	0.100%
Residential Housing Finance Series 2017F	40,000,000	1/2/2023	0.400%	0.100%
Combined Totals	$ 183,225,000			

[1]- SBPA-Stand By Purchase Agreement

Floating Rate Term Bonds

The Agency has issued the Residential Housing Finance Bonds 2018 Series D as floating rate term bonds in the principal amount of $35,000,000. The interest rate on the bonds is reset weekly based on the SIFMA Index plus 0.43%. The bonds are subject to mandatory purchase on July 3, 2023 at a price equal to principal plus accrued interest. On or after January 1, 2023, the Agency may redeem the bonds or may remarket the bonds with new terms.

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, 2018. The fair values approximate the termination payments that would have been due had the swaps been terminated as of June 30, 2018. 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

Floating Rate Term Bonds (continued)

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, 2018, 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, 2018 is included under deferred outflows of resources as "Deferred loss on interest rate swap agreements," or under deferred inflows of resources as "Deferred gain on interest rate swap agreements."

Derivative Instruments-Interest Rate Swaps

*Objective of Swap*s

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 2018. 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, 2018, 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.

Date	Principal	Interest	Interest Rate Swaps, Net
6/30/2019	$0	$2,830	$2,085
6/30/2020	0	3,201	2,408
6/30/2021	0	3,201	2,477
6/30/2022	0	3,201	2,478
6/30/2023	0	3,200	2,478
6/30/2028	0	16,004	12,395
6/30/2033	53,045	14,939	11,851
6/30/2038	83,880	9,494	7,904
6/30/2043	60,750	3,934	3,761
6/30/2048	20,550	423	401

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, 2018, are contained in the three 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 of the associated bond series and the right to terminate the swaps at par at approximately the 7-year anniversary date for the 2015D , 2015G, 2016F, 2017C, 2017F and 2018D swaps and the 5-year anniversary date for the 2017F and 2018D 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.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2018 (continued)

Derivative Instruments-Interest Rate Swaps (continued)

Counterparty: The Bank of New York Mellon

Moody's* Aa2 (stable outlook) / Standard & Poor's** AA- (stable outlook)[2]

Associated Bond Series	Notional Amount as of June 30, 2018 (in thousands)	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value[1] as of June 30, 2018 (in thousands)	Increase (Decrease) in Fair Value since June 30, 2017 (in thousands)
RHFB 2018D	35,000	June 28, 2018	January 1, 2045	3.1875%	70% of 1 month LIBOR + 0.43%	(171)	$ 171
Counterparty Total	$35,000					$ (171)	$ 171

Counterparty: Royal Bank Of Canada

Moody's* A1 (Negative outlook) / Standard & Poor's** AA- (Stable outlook)

Associated Bond Series	Notional Amount as of June 30, 2018 (in thousands)	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value[1] as of June 30, 2018 (in thousands)	Increase (Decrease) in Fair Value since June 30, 2017 (in thousands)
RHFB 2009C/2017C	40,000	February 12, 2009	July 1, 2036	4.215%	64% of 3 month LIBOR*** plus 0.30% per annum	(1,039)	1,392
RHFB 2015D	18,225	August 11, 2015	January 1, 2046	2.343%	67% of 1 month LIBOR	280	605
RHFB 2015G	35,000	December 8, 2015	January 1, 2034	1.953%	67% of 1 month LIBOR	773	1,134
RHFB 2016F	50,000	December 22, 2016	January 1, 2041	2.175%	67% of 1 month LIBOR	520	1,913
Counterparty Total	$ 143,225					$ 534	$ 5,044

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2018 (continued)

Derivative Instruments- Interest Rate Swaps (continued)

Counterparty: Wells Fargo Bank

Moody's* Aa2 (negative outlook) / Standard & Poor's** A+ (stable outlook)

Associated Bond Series	Notional Amount as of June 30, 2018 (in thousands)	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value[1] as of June 30, 2018 (in thousands)	Increase (Decrease) in Fair Value since June 30, 2017 (in thousands)
RHFB 2017C	-	January 1, 2019	January 1, 2038	2.180%	67% of 1 month LIBOR	657	898
RHFB 2017F	40,000	December 27, 2017	January 1, 2041	2.261%	67% of 1 month LIBOR	714	714
Counterparty Total	$ 40,000					$ 1,371	$ 1,612
Combined Totals	$ 218,225					$ 1,734	$ 6,827

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, 2018, 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, 2018, neither the Agency nor any counterparty had been required to post collateral.

Derivative Instruments-Interest Rate Swaps (continued)

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.

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, in some cases, a specified spread.. Basis risk will vary over time due to inter-market conditions. As of June 30, 2018, the interest rate on the Agency's variable rate tax-exempt debt ranged from 0.83% to 1.85% per annum while the variable interest rate on the associated swaps ranged from 0.82% to 1.52% 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, 2018, 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**	9	44,000	44,873	45,109	(236)
ED&F Man Capital Markets	A-1*/F1+**	13	94,500	96,378	96,717	(339)
Fannie Mae	Not rated*/F1+**	26	125,500	128,424	128,988	(565)
Janney Montgomery Scott	Not Rated*/Not Rated**	16	72,000	73,958	74,298	(340)
Multi-Bank Securities	A-1*/F1+**	1	4,000	4,056	4,064	(8)
Piper Jaffray	A-1*/F1+**	1	4,000	3,966	4,011	(45)
		66	$344,000	$351,655	$353,187	($1,533)

* Standad and Poor's Rating Services, Inc.
** Fitch Ratings, Ltd

* Standard and Poor's Rating Services, Inc.
** Fitch Ratings, Ltd

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2018 (continued)

State Appropriation – Backed 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, 2018, $140.892 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 including any loan repayments. 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, 2015 and 2017.

State Appropriation-Backed Bonds at June 30, 2018 consisted of the following (in thousands):

Series	Interest rate	Final Maturity	Original amount	Outstanding amount
State Appropriated				
2009 Series	3.00% to 4.00%	2029	13,270	7,915
2011 Series	3.375% to 5.25%	2031	21,750	16,805
2013 Series AB	2.00% to 5.00%	2033	15,460	12,185
2014 Series AB	2.375% to 5.00%	2035	14,540	13,295
2015 Series AB	2.15% to 5.00%	2035	37,570	30,395
2015 Series C	3.25% to 5.00%	2037	31,095	29,630
2016 Series ABC	2.00% to 4.00%	2038	18,625	17,990
2017 Series A	3.00% to 5.00%	2037	12,690	12,690
			$165,000	$140,905

State Appropriation-Backed bond debt service requirements at June 30, 2018 consisted of the following:

Fiscal Year	State Appropriated Principal	State Appropriated Interest
2019	$ 5,365	$ 5,816
2020	5,545	5,631
2021	5,740	5,437
2222	5,970	5,216
2023	6,200	4,971
2024-2028	34,975	20,904
2029-2032	40,830	12,649
2033-2038	35,840	3,997
2039-2043	440	6
2044-2048	-	-
2049-2053	-	-
Total	$ 140,905	$ 64,627

As the issuer of the state appropriation-backed debt, the Agency is required to record these bonds as bonds payable with the correlating reduction in net position. Net position of the State Appropriated Fund and the Business-type activities as of July 1, 2016 was restated by a reduction of $118.365 million and the change in net position for the year ended June 30, 2017 was reduced by $14.620 million.

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, 2018, $25.535 million of the bonds were outstanding.

On March 1, 2016, the Agency issued a long-term tax-exempt multifamily revenue note on a conduit

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2018 (continued)

Conduit Debt-Obligation (continued)

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, 2018, $27.045 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. 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, 2018, $32.364 million of the bonds were outstanding.

On December 28, 2017, the Agency issued long-term conduit tax-exempt revenue bonds and a short-term conduit tax exempt revenue note. The proceeds of the sales were used to finance the acquisition, rehabilitation and equipping of two multi-family rental housing development projects that will preserve units with federal rental assistance. As of June 30, 2018, $5.335 million of bonds and $2.779 million of the note was outstanding.

The total outstanding conduit debt as of June 30, 2018, was $93.1 million.

Accounts Payable

Accounts payable and other liabilities at June 30, 2018 consisted of the following (in thousands):

Funds	Accrued Salaries, Compensated Absences and Employee Benefits	Other Liabilities and Accounts Payable	Total
General Reserve Account	$ 3,857	$ 983	$ 4,840
Rental Housing	-	6,864	6,864
Residential Housing Finance	-	13,557	13,557
Homeownership Finance	-	77	77
Multifamily Housing	-	-	-
HOMES^{SM}	-	-	-
State Appropriated	-	4,555	4,555
Federal Appropriated	-	1,127	1,127
Combined Totals	$ 3,857	$ 27,163	$ 31,020

Interfund Balances

Interfund balances displayed as Interfund Payable (Receivable) at June 30, 2018 consisted of the following (in thousands):

Due to: Funds	Due from: General Reserve	Rental Housing	Residential Housing Finance	Homeownership Finance	Multifamily Housing	HOMES^{SM}	State Appropriated	Federal Appropriated	Total
General Reserve	$ -		$ 25,805	$ -	$ -	$ -	$ 1,801	$ 206	$27,812
Rental Housing	-	-	-	-	-	-	-	-	-
Residential Housing Finance	-	122	-	-	-	-	-	-	122
Homeownership Finance	-	-	-	-	-	-	-	-	-
Multifamily Housing	-	-	-	-	-	-	-	-	-
HOMES^{SM}	-	-	-	-	-	-	-	-	-
State Appropriated	-	-	-	-	-	-	-	-	-
Federal Appropriated	-	-	-	-	-	-	-	-	-
Agency-wide Totals	$ -	$ 122	$ 25,805	$ -	$ -	$ -	$ 1,801	$ 206	$27,934

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2018 (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, 2018 consisted of the following (in thousands):

Transfer to (rows) / Transfer from (columns)

Funds	General Reserve	Rental Housing	Residential Housing Finance	Homeownership Finance	Multifamily Housing	HOMES^{SM}	State Appropriated	Federal Appropriated	Total
General Reserve	$ -	$ 1,129	$ 12,252	$ 7,868	$ 94	$ -	$ 1,908	$ 1,270	$ 24,521
Rental Housing	-	-	-	-	-	-	-	-	-
Residential Housing Finance	-	24,601	-	-	-	-	6,936	-	31,537
Homeownership Finance	-	-	-	-	-	-	-	-	-
Multifamily Housing	-	-	-	-	-	-	-	-	-
HOMES^{SM}						-			
State Appropriated	38	-	56	-	-	-	-	-	94
Federal Appropriated	60	-	46	-	-	-	-	-	106
Agency-wide Totals	$ 98	$ 25,730	$ 12,354	$ 7,868	$ 94	$ -	$ 8,844	$ 1,270	$ 56,258

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 $6.880 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, 2018, consisted of the following (in thousands):

Transfer from

Funds	General Reserve	Rental Housing	Residential Housing Finance	Homeownership Finance	Multifamily Housing	HOMES^{SM}	State Appropriated	Federal Appropriated	Total
General Reserve	$ -	$ -	$ 5,192	$ -	$ -	$ -	$ -	$ -	$ 5,192
Rental Housing	-	-	175	-	-	-	-	-	175
Residential Housing Finance	-	122	-	-	-	-	-	57	179
Homeownership Finance	-	-	14,634	-	-	-	-	-	14,634
Multifamily Housing	-	-	-	-	-	-	-	-	-
HOMES^{SM}	-	-	-	-	-	-	-	-	-
State Appropriated	-	-	-	-	-	-	-	-	-
Federal Appropriated	-	-	-	-	-	-	-	-	-
Agency-wide Totals	$ -	$ 122	$ 20,001	$ -	$ -	$ -	$ -	$ 57	$ 20,180

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.

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

Net Position (continued)

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 $464.346 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 $724.162 million as of June 30, 2017 and $745.533 million as of June 30, 2018.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2018 (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, 2018 (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	$ 8,909	$ -	$ 8,909
Unrealized depreciation in fair market value of investments, excluding multifamily development escrow investments	-	-	-
Subtotal, Housing Endowment Fund (Pool 1), General Reserve	8,909	-	8,909
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 gudielines. Pool 2 is invested in investment-quality housing loans, as defined by the Agency, or investment-grade securities.	346,790	-	346,790
Unrealized appreciation in fair market value of investments	-	(2,093)	(2,093)
Subtotal, Housing Investment Fund (Pool 2), Residential Housing Finance	346,790	(2,093)	344,697
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.	110,661	-	110,661
Unrealized appreciation in fair market value of investments	-	79	79
Subtotal, Housing Affordability Fund (Pool 3), Residential Housing Finance	110,661	79	110,740
Agency-wide Total	$ 466,360	$ (2,014)	$ 464,346

Net Position (continued)

Restricted by Law

Undisbursed, recognized federal and state appropriations are classified as Restricted by Law under Net Position. The $11.076 million balance of Restricted by Law in the Federal Appropriated fund as of June 30, 2018 is restricted by federal requirements that control the use of the funds. The $138.390 million balance of Restricted by Law in the State Appropriated fund as of June 30, 2018 is restricted by the state laws appropriating such funds.

Unrestricted - State Appropriation-Backed Bonds

The $140.892 million balance of Unrestricted - State Appropriation-backed Bonds as of June 30, 2018 does not represent a general obligation of the Agency and is not payable from any funds or assets of the Agency.

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 2018. The Agency's contribution to the General Plan for the fiscal year ending June 30, 2018 was $1.018 million. These contributions were equal to the contractually required contributions for each year as set by state statute.

Defined Benefit Pension Plan (continued)

Actuarial Assumptions

The Agency's net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total 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, 2017, valuation were based on the results of actuarial experience studies for the period July 1, 2008, through June 30, 2016, with an update of economic assumptions in 2017.

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, September 2017 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:

Asset Class	Target Allocation	SBI's Long-Term Expected Real Rate of Return (Geometric Mean)
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	20%	0.00%

Changes in Actuarial Assumptions

The Combined Service Annuity (CSA) loads were 1.20% for active member liability and 40% for vested and non-vested deferred member liability. The revised CSA loads are no 9.99% for active member liability, 4.00% for vested deferred member liability, and 5.00% for non-vested deferred member liability. The Single Discount Rate was changed from 4.17% per annum to 5.42% per annum.

Defined Benefit Pension Plan (continued)

Single Discount Rate

A Single Discount Rate of 5.42% 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 3.56%. 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, 2049. 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, 2049, and the municipal bond rate was applied to all benefit payments after that point of asset depletion.

Net Pension Liability

At June 30, 2018, the Agency reported a liability of $46.137 million for its proportionate share of MSRS' net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of MSRS's participating employers. At June 30, 2017, the Agency's proportionate share of the entire plan was 0.62197 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 (4.42%)	Discount Rate (5.42%)	1% Increase in Discount Rate (6.42%)
Agency proportionate share of the net pension liability:	$64,644	$46,137	$31,015

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).

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

For the year ended June 30, 2018, the Agency recognized pension expense of $7.518 million. At June 30, 2018, 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	$ 326	$ 1,282
Changes of assumptions	36,987	25,180
Net difference between projected and actual earnings on investments	-	1,108
Changes in proportion and differences between actual contributions and proportionate share of contributions	187	48
Contributions paid to MSRS subsequent to the measurement date	1,018	-
Total	$ 38,518	$ 27,618

Defined Benefit Pension Plan (continued)

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
2019	3,674
2020	5,771
2021	6,397
2022	(5,960)

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 $1.742 million for fiscal year 2018.

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.

Net OPEB Liability

The Total OPEB Liability, Net OPEB Liability (Total OPEB Liability minus Fiduciary Net Position), OPEB expense, and certain sensitivity information shown are based on actuarial valuations performed as of July 1, 2016. The Total OPEB Liability was rolled-forward from the valuation date to the Measurement Date of June 30, 2017 using generally accepted actuarial principles.

As of July 1, 2016 the following assumptions were used for the actuarial valuation. The actuarial cost method was updated from Entry Age Normal as a level dollar amount to Entry Age Normal as a level percentage of pay.

Inflation	2.75 percent per year
Initial Medical Trend Rate	3.9 to 6.4 percent per year
Ultimate Medical Trend Rate	3.8 percent
Salary Increases	14.0 percent with one year of service to 3.50 percent with 25 or more years of service
Mortality Rate	Refer to the RP-2014 Employee Mortality tables

The majority of the State of Minnesota employees are participants in the Minnesota State Retirement System (MSRS), Minnesota Teacher's Retirement Association (TRA), or the Minnesota Public Employees' Retirement System (PERA). For this reason, the aggregate payroll growth, individual salary increase, mortality, withdrawal, retirement, and age of spouse assumptions are based on the assumptions used for the respective plans' Actuarial Valuation Reports as of June 30, 2016.

Post-Employment Benefits Other Than Pensions (continued)

OPEB Sensitivity Based on Trend Rate

The following presents the Agency's share of net OPEB, calculated using a discount rate disclosed above, as well as what the net OPEB calculated using 1 percentage point higher and 1 percentage point lower than the current Trend rate.

	1% Decrease in Trend Rate (2.90%)	Trend Rate (3.90%)	1% Increase in Trend Rate (4.90%)
Agency proportionate share of the net pension liability:	$1,956	$1,742	$1,559

Single Discount Rate

The State of Minnesota elected to change its discount rate methodology to be consistent with the requirements of GASB 75 which will be in effect for the fiscal year ending June 30, 2018. Since the State's retiree health benefits are not funded by assets in a separate trust the discount rate will be based on the index rate for 20-year tax-exempt general obligation municipal bond index rate with an average rating of AA/Aa or higher as of the measurement date, as prescribed by GASB No. 75. The State of Minnesota elected to determine the discount rate using the Bond Buyer 20-Bond General Obligation Index. The discount rate was 2.85% as of June 30, 2016.

OPEB Sensitivity Based on Discount Rate

The following presents the Agency's share of net OPEB, calculated using a discount rate disclosed above, as well as what the net OPEB calculated using 1 percentage point higher and 1 percentage point lower than the current Discount rate.

	1% Decrease in Discount Rate (1.85%)	Discount Rate (2.85%)	1% Increase in Discount Rate (3.85%)
Agency proportionate share of the OPEB liability:	$1,620	$1,742	$1,870

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

For the year ended June 30, 2018, the Agency recognized OPEB expense of $.170 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	$ -	$ -
Changes of assumptions	-	81
Net difference between projected and actual earnings on investments	-	-
Changes in proportion and differences between actual contributions and proportionate share of contributions	-	-
Contributions paid to OPEB subsequent to the measurement date	100	-
Total	$ 100	$ 81

Post-Employment Benefits Other Than Pensions (continued)

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, 2017. 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:	OPEB Expense Amount
2018	(12.8)
2019	(12.8)
2020	(12.8)
2021	(12.8)
2022	(12.8)
Therafter	(16.7)

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	$ 4,880
Business interruption/loss of use/extra expense	500
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.

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.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2018 (continued)

Commitments

As of June 30, 2018, 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	27,578
Residential Housing Finance	250,792
Homeownership Finance	-
Multifamily Housing	-
HOMES[SM]	-
State Appropriated	97,009
Federal Appropriated	12,330
Agency Wide Totals	$ 387,709

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 2028 and for parking through August 2028, totaling $16.780 million. Combined office facilities and parking lease expense for fiscal year 2017 was $1.236 million.

Line of Credit Federal Home Loan Bank

On June 30, 2018 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, 2018, $47.905 million of mortgage-backed securities were pledged. The advances taken during fiscal year 2018 were used to purchase and warehouse mortgage-backed securities in Pool 2.

The line of credit activity for the year ended June 30, 2018, is summarized as follows (in thousands):

Beginning Balance	Cumulative Draws	Cumulative Repayments	Ending Balance
$ 30,000	$ 945,000	$ 975,000	$ -

Litigation

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.

Subsequent Events

The Agency called for redemption or repayment subsequent to June 30, 2018 the following bonds (in thousands):

Program	Scheduled Retirement Date		Par
Homeownership Finance	July 1, 2018	$	1,490
Residential Housing Finance	July 1, 2018		17,965
Homeownership Finance	August 1, 2018		750
Residential Housing Finance	August 1, 2018		5,550
Homeownership Finance	September 1, 2018		2,365
Residential Housing Finance	September 1, 2018		5,515

On April 26, 2018, the Board of the Agency adopted a resolution authorizing the issuance of up to $200 million in cumulative principal amount of Index Bank Notes, Series 2018, of which no more than $80 million may be outstanding at any time, for the purpose of refunding portions of the Agency's RHFB and HFB Bonds. That refunding will preserve tax-exempt bonding authority for the Agency's homeownership programs until the Index Bank Note can be refunded with long-term Residential Housing Finance Bonds or Homeownership Finance Bonds. On June 1, 2018, the Agency made an advance in the principal amount of $24.520 million. On June 28, 2018, the Agency repaid the advance of $24.520 million

On August 30, 2018, the Board of the Agency adopted a resolution authorizing the issuance of additional State Appropriation Bonds (Housing Infrastructure) in the aggregate principal amount of not to exceed $40 million for the purpose of providing funds to make loans for certain statutorily-authorized purposes . The State Appropriation Bonds (Housing Infrastructure), 2018 Series ABCD in the aggregate principal amount of $24.185 million were delivered on September 25, 2018 pursuant to that authorization as well as authorizations by resolutions adopted in July 2016 and August 2017.

The Agency made, or has committed to make draws from the Index Bank notes subsequent to June 30, 2018 as shown in the table below.

Program	Series	Advance Date		Par
Index Bank Note	2018 AMT	1-Aug-18	$	976
Index Bank Note	2018 Non-AMT	1-Aug-18	$	9,663
Index Bank Note	2018 AMT	1-Sep-18	$	1,203

On July 26, 2018, the Board of the Agency adopted a series resolution authorizing the issuance of bonds in the aggregate principal amount of $300 million for the purpose of providing funds for certain of the Agency's homeownership programs. The Home Ownership Finance Bonds, 2018 Series E and 2018 Series F (Taxable) in the aggregate principle amount of $100.330 million were delivered on August 28, 2018 pursuant to that authorization. The Agency repaid $9.663 million of the Index Bank Note from the proceeds of those bonds.

The Agency has evaluated subsequent events through September 27, 2018, the date on which the financial statements were available to be issued.

MINNESOTA HOUSING FINANCE AGENCY
Required Supplementary Information
General Reserve and Bond Funds
Scheduled of Selected Pension Information-Unaudited (in thousands)
Fiscal Year 2018

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

	2014	2015	2016	2017
Employer Unit's Proportion of the Net Pension Liability	0.775%	0.781%	0.822%	0.830%
Employer Unit's Proportionate Share of the Net Pension Liability	$ 9,313	$ 8,979	$ 76,077	$ 46,137
Employer Unit's Covered-Employee Payroll	21,016	22,438	23,836	19,693
Employer Unit's proportionate share of the net pension liability as a percentage of its covered-employee payroll	44.314%	40.017%	319.168%	234.281%
Plan fiduciary net position as a percentage of the total pension liability	87.640%	88.320%	47.51%	62.73%

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	2017
Contractually Required Contribution	$ 735	$ 874	$ 968	$ 1,018
Contributions in relation to the contractually required contribution	735	874	968	1,018
Contribution deficiency (excess)	-	-		
Employer Unit's covered-employee payroll	21,016	22,438	23,836	19,693
Contributions as a percentage of covered-employee payroll	3.497%	3.895%	4.061%	5.169%

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

Schedule of Changes in the Employer's Share of Net OPEB Liability
And Related Ratios
Last 10 Fiscal Years*
(dollars in thousands)

	2018
Total OPEB Liability	
Service Cost	$ 144
Interest	52
Change in Benefit Term	-
Difference Between Expected And Actual Experience	-
Change in Assumptions - Discount rate	(94)
Change in Assumptions - Other	-
Benefit Payments	
Explicit Subsidy	(43)
Implicit Subsidy	(45)
Net Change in Total OPEB Liability	15
Total OPEB Liability-Beginning	1,727
Total OPEB Liability-Ending (a)	1,742
Plan Fiduciary Net Potition	
Contribution Employer	
Explicit Subsidy	43
Implicit Subsidy	45
Net Investment Income	
Expected Investment Earnings	-
Difference Between Projectewd And Actual Investment Earning	-
Benefit Payments	
Explicit Subsidy	(43)
Implicit Subsidy	(45)
Administrative Expense	-
Net Change In Fiducuary Net Position	-
Plan Fiduciary Net Position-Beginnig	-
Plan Fiducisry Net Position-Ending(b)	-
Employer's Net OPEB Liability-Ending(a-b)	1,742
Plan Fiduciary Net Positon as a percentage of the total OPEB Liability	-
Covered Employee Payroll	19,963
Employer's Net OPEB Liability as a percentage of covered Emplyee Payroll	8.72%

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

Schedule of Employer's Contributions-OPEB
Last 10 Fiscal Years*
(dollars in thousands)

	2018
Actuarially Required Contribution	
Explicit Subsidy	$ 43
Implicit Subsidy	$ 45
Contributions in relation to the Actuarially required contribution	
Explicit Subsidy	$ 43
Implicit Subsidy	$ 45
Contribution deficiency (excess)	-
Explicit Subsidy	-
Implicit Subsidy	-
Employer Unit's covered-employee payroll	19,963
Contributions as a percentage of covered-employee payroll	
Explicit Subsidy	0.215%
Implicit Subsidy	0.225%

* 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, 2018 (with comparative totals as of June 30, 2017)

	General Reserve	Bond Funds: Rental Housing	Bond Funds: Residential Housing Finance: Bonds	Bond Funds: Residential Housing Finance: Pool 2	Bond Funds: Homeownership Finance	Bond Funds: Multifamily Housing	Bond Funds: HOMES[SM]	General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2018	General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2017	Residential Housing Finance Pool 3 Total For The Year Ended June 30, 2018	General Reserve & Bond Funds Total For The Year Ended June 30, 2018	General Reserve & Bond Funds Total For The Year Ended June 30, 2017
Assets												
Cash and cash equivalents	$ 56,385	$ 28,926	$ 137,923	$ 66,744	$ 42,916	$ 1,468	$ -	$ 334,362	$ 345,044	$ 5,900	$ 340,262	$ 349,293
Investments-program mortgage-backed securities	-	-	747,700	-	1,403,685	-	-	2,151,385	1,710,715	-	2,151,385	1,710,715
Investment securities-other	29,706	20,636	19,909	59,760	-	-	18,230	148,241	198,428	30,645	178,886	234,443
Loans receivable, net	-	140,234	459,788	270,861	-	13,944	-	884,827	979,771	66,067	950,894	1,031,614
Interest receivable on loans and program mortgage-backed securities	-	625	4,479	1,164	4,366	51	-	10,685	10,276	56	10,741	10,351
Interest receivable on investments	130	112	384	228	41	2	48	945	969	75	1,020	1,040
Interest Rate Swap Agreements	-	-	4,623	-				4,623	-		4,623	-
FHA/VA insurance claims, net	-	-	1,309	-	-	-	-	1,309	1,575	-	1,309	1,575
Real estate owned, net	-	-	1,774	211	-	-	-	1,985	1,229	-	1,985	1,229
Capital assets, net	5,710	-	-	-	-	-	-	5,710	3,845	-	5,710	3,845
Other assets	2,183	4	32	292	33	-	-	2,544	2,055	1	2,545	3,056
Total assets	94,114	190,537	1,377,921	399,260	1,451,041	15,465	18,278	3,546,616	3,253,907	102,744	3,649,360	3,347,161
Deferred outflows of Resources												
Deferred loss on refunding	-	-	1,785	-	-	-	-	1,785	137	-	1,785	137
Deferred loss on interest rate swap agreements	-	-	169	-	-	-	-	169	5,264	-	169	5,264
Deferred pension and OPEB expense	38,618	-	-	-	-	-	-	38,618	53,275	-	38,618	53,275
Total deferred outflows of resources	38,618	-	1,954	-	-	-	-	40,572	58,676	-	40,572	58,676
Liabilities												
Bonds payable, net	$ -	$ 39,530	$ 1,200,197	$ -	$ 1,415,873	$ 13,720	$ 18,472	$ 2,687,792	$ 2,369,523	$ -	2,687,792	$ 2,369,523
Interest payable	-	498	17,499	7	5,898	34	48	23,984	24,523	-	23,984	24,523
Interest rate swap agreements	-	-	1,862	-	-	-	-	1,862	5,264	-	1,862	5,264
Net pension and OPEB liability	47,879	-	-	-	-	-	-	47,879	76,077	-	47,879	76,077
Accounts payable and other liabilities	4,840	6,864	484	12,961	77	-	-	25,226	10,083	112	25,338	10,265
Interfund payable (receivable)	(27,812)	122	(1)	33,792	-	-	-	6,101	16,425	(8,108)	(2,007)	(598)
Funds held for others	65,507	-	-	1,250	-	-	(242)	66,515	65,308	-	66,515	65,308
Total liabilities	90,414	47,014	1,220,041	48,010	1,421,848	13,754	18,278	2,859,359	2,567,203	(7,996)	2,851,363	2,550,362
Deferred inflows of Resources												
Defered gain on interest rate swap agreements	$ -	$ -	$ 4,623	$ -			$ -	4,623	$ -		4,623	$ -
Deferred service release fee	-	-	4,191	5,730	6,935	-	-	16,856	13,993	-	16,856	13,993
Deferred pension and OPEB credit	27,699	-	-	-	-	-	-	27,699	5,554	-	27,699	5,554
Total deferred inflows of resources	27,699	-	8,814	5,730	6,935	-	-	49,178	19,547	-	49,178	19,547
Net Position												
Restricted by bond resolution	-	143,523	151,020	-	22,258	1,711	-	318,512	360,383	-	318,512	360,383
Restricted by covenant	8,909	-	-	345,520	-	-	-	354,429	361,605	110,740	465,169	471,700
Invested in capital assets	5,710	-	-	-	-	-	-	5,710	3,845	-	5,710	3,845
Total net position	14,619	143,523	151,020	345,520	22,258	1,711	-	678,651	725,833	110,740	789,391	835,928
Total liabilities, deferred inflows, and net position	$ 132,732	$ 190,537	$ 1,379,875	$ 399,260	$ 1,451,041	$ 15,465	$ 18,278	$ 3,587,188	$ 3,312,583	$ 102,744	$ 3,689,932	$ 3,405,837

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, 2018 (with comparative totals for year end June 30, 2017)

			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
				Residential Housing Finance	Residential Housing Finance				Total For The Year Ended	Total For The Year Ended	Total For The Year Ended	Total For The Year Ended	Total For The Year Ended
		General Reserve	Rental Housing	Bonds	Pool 2	Homeownership Finance	Multifamily Housing	HOMES[SM]	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2018	June 30, 2017
Revenues	Interest earned on loans	$ -	$ 7,266	$ 27,090	$ 15,700	$ -	$ 616	$ -	$ 50,672	$ 58,484	$ 487	51,159	$ 58,746
	Interest earned on investments-program mortgage-backed securities	-	-	16,527	-	45,469	-	-	61,996	50,825	-	61,996	50,825
	Interest earned on investments-other	419	537	2,223	5,418	312	17	606	9,532	6,884	839	10,371	7,705
	Net G/L on Sale of MBS Held for Sale/HOMES Certificate	-	-	-	2,240	-	-	-	2,240	2,521	-	2,240	2,521
	Administrative reimbursement	24,479	-	-	-	-	-	-	24,479	22,482	-	24,479	22,482
	Fees earned and other income	11,936	253	481	1,408	955	-	-	15,033	13,571	145	15,178	13,606
	Unrealized gains (losses) on Investments	-	(180)	(19,657)	6,234	(46,042)	-	-	(59,645)	(38,060)	(557)	(60,202)	(38,857)
	Total revenues	36,834	7,876	26,664	31,000	694	633	606	104,307	116,707	914	105,221	117,028
Expenses	Interest	-	1,190	31,687	1,136	38,022	416	606	73,057	66,620	-	73,057	66,620
	Financing, net	-	-	4,855	103	2,157	-	-	7,115	4,774	-	7,115	4,774
	Loan administration and trustee fees	-	133	2,086	1,055	485	4	-	3,763	3,758	16	3,779	3,772
	Administrative reimbursement	-	1,129	7,516	3,304	7,868	94	-	19,911	19,192	1,316	21,227	20,460
	Salaries and benefits	33,114	-	-	-	-	-	-	33,114	36,311	-	33,114	36,311
	Other general operating	6,338	3	21	967	22	-	-	7,351	8,472	2,339	9,690	12,681
	Reduction in carrying value of certain low interest rate deferred loans	-	-	-	(47)	-	-	-	(47)	165	1,805	1,758	2,409
	Provision for loan losses	-	(525)	112	314	-	(1)	-	(100)	(1,840)	504	404	(1,511)
	Total expenses	39,452	1,930	46,277	6,832	48,554	513	606	144,164	137,452	5,980	150,144	145,516
Other changes	Revenue over(Under) expenses	(2,618)	5,946	(19,613)	24,168	(47,860)	120	-	(39,857)	(20,745)	(5,066)	(44,923)	(28,488)
Net Position	Non-operating transfer of assets between funds	5,192	53	4,849	(30,382)	14,634	-	-	(5,654)	(956)	5,711	57	2,044
	Change in net position	2,574	5,999	(14,764)	(6,214)	(33,226)	120	-	(45,511)	(21,701)	645	(44,866)	(26,444)
	Total net position, beginning of Year, as restated	12,045	137,524	165,784	351,734	55,484	1,591	-	724,162	747,534	110,095	834,257	862,372
	Total net position, end of Year	$ 14,619	$ 143,523	$ 151,020	$ 345,520	$ 22,258	$ 1,711	$ -	$ 678,651	$ 725,833	$ 110,740	$ 789,391	$ 835,928

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds (continued)
Year ended June 30, 2018 (with comparative totals for year ended June 30, 2017)

Cash flows from operating activities

Cash flows from non-capital financing activities

Cash flows from investing activities

Cash and cash equivalents

	General Reserve	Bond Funds: Rental Housing	Bond Funds: Residential Housing Finance Bonds	Bond Funds: Residential Housing Finance Pool 2	Bond Funds: Homeownership Finance	Bond Funds: Multifamily Housing	Bond Funds: HOMES^{SM}	General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2018	Residential Housing Finance Pool 3 Total For The Year Ended June 30, 2018	General Reserve & Bond Funds Total For The Year Ended June 30, 2018	General Reserve & Bond Funds Total For The Year Ended June 30, 2017
Cash flows from operating activities:											
Principal repayments on loans and program mortgage-backed securities	$ -	$ 29,846	$ 148,258	$ 50,071	$ 150,465	$ 185	$ -	$ 378,825	$ 6,828	$ 385,653	$ 385,694
Investment in loans and program mortgage-backed securities	-	(10,151)	(312,168)	(50,886)	(400,100)	-	-	(773,305)	(28,713)	(802,018)	(562,141)
Interest received on loans and program mortgage-backed securities	-	7,178	43,774	15,406	47,444	617	-	114,419	575	114,994	110,693
Fees and other income received	11,548	253	-	12,745	-	-	-	24,546	145	24,691	23,144
Salaries, benefits and other operating	(32,332)	(134)	(2,575)	(9,076)	(563)	(4)	-	(44,684)	(2,418)	(47,102)	(45,651)
Administrative reimbursement from funds	24,467	(1,129)	(7,517)	(3,365)	(7,868)	(94)	-	4,494	(1,316)	3,178	2,236
Deposits into funds held for others	30,420	-	-	1,250	-	-	-	31,670	-	31,670	26,468
Disbursements made from funds held for others	(30,831)	-	-	-	-	-	-	(30,831)	-	(30,831)	(29,464)
Interfund transfers and other assets	(5,147)	4	153	10	(1)	-	-	(4,981)	(30)	(5,011)	(2,712)
Net cash provided (used) by operating activities	(1,875)	25,867	(130,075)	16,155	(210,623)	704	-	(299,847)	(24,929)	(324,776)	(91,733)
Cash flows from noncapital financing activities:											
Proceeds from sale of bonds and notes	-	14,675	405,237	1,076,105	392,432	-	-	1,888,449	-	1,888,449	1,524,846
Principal repayment on bonds and notes	-	(12,485)	(271,375)	(1,133,175)	(146,355)	(240)	(2,749)	(1,566,379)	-	(1,566,379)	(1,457,294)
Interest paid on bonds and notes	-	(1,180)	(36,073)	(1,049)	(37,947)	(417)	(614)	(77,280)	-	(77,280)	(74,115)
Financing costs paid related to bonds issued	-	-	(5,323)	(102)	(3,083)	-	-	(8,508)	-	(8,508)	(5,314)
Interest paid/received between funds	54	-	-	(139)	-	-	-	(85)	85	-	-
Principal paid/received between funds	-	-	-	(11,000)	-	-	-	(11,000)	11,000	-	-
Agency contribution to program funds	-	175	4,129	(16,074)	11,770	-	-	-	11	11	308
Transfer of cash between funds	198	-	-	(3,198)	-	-	-	(3,000)	3,000	-	-
Net cash provided (used) by noncapital financing activities	252	1,185	96,595	(88,632)	216,817	(657)	(3,363)	222,197	14,096	236,293	(11,569)
Cash flows from investing activities:											
Investment in real estate owned	-	-	(2,011)	(19)	-	-	-	(2,030)	-	(2,030)	(2,198)
Interest received on investments	1,222	454	2,475	5,340	288	15	614	10,408	532	10,940	8,311
Net gain (loss) on Sale of MBS Held for Sale and HOME Certificates	-	-	-	4,040	-	-	-	4,040	-	4,040	3,532
Proceeds from sale of mortgage insurance claims/real estate owned	-	-	10,405	292	-	-	-	10,697	-	10,697	19,653
Proceeds from maturity, sale or transfer of investment securities	-	177	4,477	815,832	1,400	-	2,749	824,635	5,072	829,707	604,905
Purchase of investment securities	20,000	(19,014)	-	(752,079)	-	-	-	(751,093)	-	(751,093)	(604,780)
Purchase of loans between funds	(29,689)	(24,601)		24,601	-	-	-	(29,689)	6,880	(22,809)	2,506
Net cash provided (used) by investing activities	(8,467)	(42,984)	15,346	98,007	1,688	15	3,363	66,968	12,484	79,452	31,929
Net increase (decrease) in cash and cash equivalents	(10,090)	(15,932)	(18,134)	25,530	7,882	62	-	(10,682)	1,651	(9,031)	(71,373)
Beginning of year	66,475	44,858	156,057	41,214	35,034	1,406	-	345,044	4,249	349,293	420,666
End of year	$ 56,385	$ 28,926	$ 137,923	$ 66,744	$ 42,916	$ 1,468	$ -	$ 334,362	$ 5,900	$ 340,262	$ 349,293

(Continued)

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds (continued)
Year ended June 30, 2018 (with comparative totals for year ended June 30, 2017)

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

		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					Total For The Year Ended	Total For The Year Ended	Total For The Year Ended	Total For The Year Ended
	General Reserve	Rental Housing	Bonds	Pool 2	Homeownership Finance	Multifamily Housing	HOMES^{SM}	June 30, 2018	June 30, 2018	June 30, 2018	June 30, 2017
Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities:											
Revenues over (under) expenses	$ (2,618)	$ 5,946	$ (19,613)	$ 24,168	$ (47,860)	$ 120	$ -	$ (39,857)	$ (5,066)	$ (44,923)	$ (28,488)
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	-	(58)	1,238	(378)	2,744	-	-	3,546	69	$ 3,615	2,431
Amortization of premium (discounts) and fees on sale of HOMES Certificates	-	-	-	-	-	-	-	-	-	0	-
Amortization of proportionate share-Pension	54	-	-	-	-	-	-	54	-	54	(12)
Depreciation	2,241	-	-	-	-	-	-	2,241	-	2,241	2,370
Gain (loss) on sale of MBS held for sale and HOMES Certificates	-	-	-	(2,240)	-	-	-	(2,240)	-	(2,240)	(2,521)
Realized losses (gains) on sale of securities, net	-	-	-	(229)	-	-	-	(229)	-	(229)	(65)
Unrealized losses (gains) on securities, net	-	180	19,657	(6,234)	46,042	-	-	59,645	557	60,202	38,857
Salaries and Benefits-Pensions	6,879	-	-	-	-	-	-	6,879	-	6,879	11,042
Provision for loan losses	-	(525)	112	314	-	(1)	-	(100)	504	404	(1,511)
Reduction in carrying value of certain low interest rate										0	
and/or deferred loans	-	-	-	(47)	-	-	-	(47)	1,805	1,758	2,409
Capitalized interest on loans and real estate owned	-	-	(1,304)	(82)	-	-	-	(1,386)	-	(1,386)	(1,742)
Interest earned on investments	(419)	(537)	(2,223)	(5,189)	(312)	(17)	(606)	(9,303)	(839)	(10,142)	(7,618)
Interest expense on bonds and notes	-	1,190	31,687	1,136	38,022	416	606	73,057	-	73,057	66,620
Financing expense in bonds	-	-	4,825	102	2,157	-	-	7,084	-	7,084	4,772
Changes in assets and liabilities:										0	
Decrease (increase) in loans receivable and program mortgage										0	
backed securities, excluding loans transferred between funds	-	19,695	(163,910)	(815)	(249,635)	185	-	(394,480)	(21,885)	(416,365)	(176,447)
Decrease (increase) in interest receivable on loans	-	(30)	223	166	(769)	1	-	(409)	19	(390)	434
Increase (decrease) in accounts payable	(1,241)	2	(919)	4,284	(1,011)	-	-	1,115	(63)	1,052	1,840
Increase (decrease) in interfund payable, affecting										0	
operating activities only	(1,266)	-	(1)	(31)	-	-	-	(1,298)	(30)	(1,328)	261
Increase (decrease) in funds held for others	(411)	-	-	1,250	-	-	-	839	-	839	(2,996)
Other	(5,094)	4	153	(20)	(1)	-	-	(4,958)	-	(4,958)	(1,369)
Total	743	19,921	(110,462)	(8,013)	(162,763)	584	-	(259,990)	(19,863)	(279,853)	(63,245)
Net cash provided (used) by operating activities	$ (1,875)	$ 25,867	$ (130,075)	$ 16,155	$ (210,623)	$ 704	$ -	$ (299,847)	$ (24,929)	$ (324,776)	$ (91,733)

Other Information (Unaudited)

		2014	2015	2016	2017	2018
Loans Receivable, net (as of June 30)	Multifamily programs	$338,782	$317,655	$ 330,204	$ 298,355	$ 297,982
	Homeownership programs	1,028,918	911,788	776,255	661,630	586,498
	Home Improvement programs	85,535	82,471	76,648	71,629	66,414
	Total	$1,453,235	$1,311,914	$1,183,107	$1,031,614	$950,894
Mortgage-backed securities, net, at par (as of June 30)	Program mortgage-backed securities	$900,321	$1,106,749	$ 1,378,317	$ 1,681,474	$ 2,176,052
	Warehoused mortgaged-backed securities	$28,728	$74,425	116,256	125,372	61,853
	Total	$929,049	$1,181,174	$1,494,573	$1,806,846	$2,237,905
Bonds Payable, net (as of June 30)	Multifamily programs	$82,140	$57,360	$ 68,880	$ 51,300	$ 53,250
	Homeownership programs	1,936,772	1,975,972	2,238,342	2,318,223	2,634,542
	Home Improvement programs	-	-	-	-	-
	Total	$2,018,912	$2,033,332	$2,307,222	$2,369,523	$2,687,792
Mortgage-backed securities purchased, at par and loans purchased or originated during fiscal year	Multifamily programs	$15,867	$13,765	$42,517	$30,351	35,849
	Homeownership programs	23,912	39,269	33,351	29,687	42,807
	Program and warehoused mortgage-backed securities	160,485	358,108	489,833	493,662	648,062
	Home Improvement programs	15,202	15,417	12,283	13,239	11,366
	Total	$215,466	$426,559	$577,984	$566,939	$738,084
Net Position (as of June 30)	Total Net Position *	$696,154	$709,740	$747,534	$725,833	$ 677,828
	Percent of total assets and deferred outflows of resources *	24.0%	24.4%	23.1%	22.0%	18.9%
Revenue over Expenses	Revenues over expenses for the fiscal year *	$41,846	$35,966	$50,794	($21,701)	$ (40,680)

Notes:

* Excludes Pool 3

Other Information (continued)

Board of Directors

John DeCramer, Chair
Member

Joseph Johnson III, Vice Chair
Member

The Honorable Rebecca Otto
Ex-officio member
State Auditor, State of Minnesota

Terri Thao
Member

Craig Klausing
Member

Stephanie Klinzing
Member

Damaris Hollingsworth
Member

Legal and Financial Services

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, J.P. Morgan Securities LLC, Piper Jaffrey & Co, Wells Fargo Bank National Association

Certified Public Accountants
RSM US LLP

Location

Minnesota Housing is located at 400 Wabasha Street North, Suite 400, Saint Paul, Minnesota 55102.

For further information, please write, call or visit our web site.

(651) 296-7608 (general phone number)

(800) 657-3769 (toll free)

(651) 296-8139 (fax number)

www.mnhousing.gov

If you use a text telephone or Telecommunications Device for the Deaf, you may call (651) 297-2361.

Minnesota Housing does not discriminate on the basis of race, color, status with regard to receipt of public assistance, creed, marital status, sexual orientation, familial status, national origin, sex, religion, age, or disability in employment or the provision of services or resources. Information contained in this publication will be made available in an alternative format upon request.

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Minnesota Housing Finance Agency

Compliance Report
June 30, 2018

Contents

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Board of Directors
Minnesota Housing Finance Agency

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of the business-type activities and 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, 2018, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated September 27, 2018.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a material weakness.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Agency's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Agency's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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

Minneapolis, Minnesota
September 27, 2018

Independent Auditor's Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

To the Board of Directors
Minnesota Housing Finance Agency

Report on Compliance for Each Major Federal Program
We have audited Minnesota Housing Finance Agency (the Agency)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended June 30, 2018. The Agency's major federal programs are identified in the summary of independent auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for each of the Agency's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Agency's compliance.

Opinion on Each Major Federal Program
In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance
Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance
We have audited the financial statements of the business-type activities and each major fund of the Agency as of and for the year ended June 30, 2018, and have issued our report thereon dated September 27, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Minneapolis, Minnesota
September 27, 2018

Minnesota Housing Finance Agency

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Grant Name	Federal CFDA Number	Pass-Through Entity Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Housing and Urban Development:				
Direct:				
Interest Reduction Payments—Rental and				
Cooperative Housing for Low er Income Families	14.103		$ -	$ 17
Section 8 Project-Based Cluster:				
FA and FAF under the McKinney Act Refunding	14.182			
Agreement			-	207,600
Housing Assistance Payments Program for Low				
Income Families (MHFA Portfolio)	14.195		-	52,175,395
Total Section 8 Cluster			-	52,382,995
Performance-Based Contract Administrator Program	14.327		-	145,516,623
HOME Investment Partnerships Program	14.239		-	55,039,217
National Housing Trust Fund	14.275		-	763,501
Housing Opportunities for Persons w ith AIDS	14.241		144,328	969,035
Neighborhood Stabilization Program	14.228		491,095	491,095
Section 811 Project Rental Assitance Program	14.326		593,346	686,097
Total U.S. Department of Housing and Urban Development			1,228,769	255,848,580
U.S. Department of Treasury:				
Passed through Neighborhood Reinvestment Corporation				
(dba Neighbor Works America):				
National Foreclosure Mitigation Counseling:				
Round 6	21.000	PL112-55:95X1350	630	630
Round 7	21.000	PL113-6X1350	1,279	1,279
Round 10	21.000	PL114-113X1350	159,611	426,202
Total U.S. Department of Treasury			161,520	428,111
Total expenditures of federal aw ards			$ 1,390,289	$ 256,276,691

Minnesota Housing Finance Agency

Notes to the Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Minnesota Housing Finance Agency (the Agency) under programs of the federal government for the year ended June 30, 2018. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Because the Schedule presents only a selected portion of the operations of the Agency, it is not intended to, and does not, present the financial position, changes in net position, or cash flows of the Agency.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Agency has elected to not use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3. Loans Receivable

The Agency provides rental rehabilitation loans to approved properties via funding provided through CFDA 14.239 HOME Investment Partnerships Program (the HOME Program). These rental rehabilitation loans have continuing compliance requirements during the period of affordability, as defined by the HOME Program requirements, which vary depending on the number of HOME units at each property. The balance of rental rehabilitation loans outstanding totaled $48,540,404 at June 30, 2018.

The Agency provided loans to eligible home buyers through the HOME Program. These down-payment and closing-cost loans have continuing compliance requirements during the period of affordability, as defined by the HOME Program requirements. The balance of down-payment and closing-cost loans outstanding totaled $4,979,085 at June 30, 2018.

The Agency provided loans to approved properties via funding provided through CFDA 14.241 Housing Opportunities for Persons with AIDS (HOPWA). These capital loans have continuing compliance requirements during the period of affordability, as defined by the HOPWA program requirements. The balance of the capital loans outstanding totaled $814,531 at June 30, 2018.

Note 4. Reconciliation to the Financial Statements

The reconciliation of the schedule of expenditures of federal awards to the Agency's basic financial statements for the year ended June 30, 2018, is as follows:

Total federal awards per the schedule of expenditures of federal awards	$ 256,276,691
Beginning balance of loans included in total federal awards	(44,375,653)
Transfer of certain FA and FAF loan activity to RHFB as related properties no longer have affordability requirements	(258,264)
Administration fees received, included in fees earned and other income in the general reserve fund	(9,423,393)
Total federal appropriations disbursed per federal appropriated fund of the Agency	$ 202,219,381

Minnesota Housing Finance Agency

Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

A. Financial Statements

1. Type of auditor's report issued: Unmodified

2. Internal control over financial reporting:

• Material weakness(es) identified?	X Yes	____ No
• Significant deficiency(ies) identified?	____ Yes	X None Reported

3. Noncompliance material to financial statements noted? ____ Yes X No

B. Federal Awards

1. Internal control over major programs:

• Material weakness(es) identified?	____ Yes	X No
• Significant deficiency(ies) identified?	____ Yes	X None Reported

2. Type of auditor's report issued on compliance for major programs: Unmodified

• Any audit findings that are required to be reported in accordance with section 2 CFR 200.516(a)?	____ Yes	X No

C. Identification of Major Programs

1.

Name of Federal Program	CFDA Number
Performance-Based Contractor Administration	14.327

2. Dollar threshold used to distinguish between type A and type B programs: $3,000,000

3. Auditee qualified as low-risk auditee? X Yes ____ No

(Continued)

Minnesota Housing Finance Agency

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2018

II. FINANCIAL STATEMENT FINDINGS

FINDING 2018-001—Recognition of State appropriation-backed bonds

Criteria: State appropriation-backed bonds (State Appropriated Bonds) issued by the Agency do not meet the criteria of conduit debt as provided for in Government Accounting Standards Board (GASB) Codification Section C65, *Conduit Debt Obligations*. Because the Agency issued the bonds, the related bond liability should be reflected in the Agency's financial statements.

Condition: Since inception of the State Appropriated-backed bond program in 2009, the only source of repayment for the State Appropriated Bonds are the appropriations that are provided by the State on an annual basis. None of the Agency's resources can be used to pay the bondholders should the State decide to no longer provide appropriations for the debt service.

Context: The Agency was following GASB Concept Statement No. 4 as the Agency had determined that since none of the Agency's resources can be used to pay the State Appropriated Bond bondholders, the State Appropriated Bonds were not a liability of the Agency. The Agency believed that the State had the moral obligation to record the State Appropriated Bonds on its financial statements following GASB Concept Statement No. 4.

Cause: The loan agreements that the Agency enters into with the third parties that receive the State Appropriated Bond proceeds are specifically excluded from repaying the State Appropriated Bond bondholders. As a result, the State Appropriated Bonds do not qualify as conduit debt.

Effect: The Agency's prior-year financial statements contained a misstatement relating to the State Appropriated-backed bond liability not being reflected in the Agency's financial statements which was corrected during the current-year audit process.

Recommendation: Management should continue its efforts to work with GASB to develop specific accounting guidance for state appropriation backed bonds to ensure the liability is reflected with the appropriate financial statements.

Views of responsible officials and corrective action (auditee response): The Agency is aware of and accepts this finding and, given the limited relevant accounting guidance available, will continue our joint efforts with the State to work with GASB to develop more direct accounting guidance related to the state appropriation backed bonds to ensure the liability is reflected with the appropriate financial statements.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No matters to report.

Placeholder for client's summary schedule of prior year findings

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MINNESOTA HOUSING

Finance Committee Item: B.
Date: 9/27/2018

Item: Fiscal 2018 Interfund Transfers

Staff Contact(s):
Terry Schwartz, 651-296-2404,Terry.Schwartz@state.mn.us
Debbi Larson, 651-296-8183, Debbi.Larson@state.mn.us

Request Type:

☒ Approval
- ☒ Motion
- ☐ Resolution

☐ No Action Needed
- ☐ Discussion
- ☐ Information

Summary of Request:
Staff requests approval of fiscal 2018 interfund transfers.

Fiscal Impact:
See attached

Meeting Agency Priorities:
- ☐ Address Specific and Critical Local Housing Needs
- ☐ Finance Housing Responsive to Minnesota's Changing Demographics
- ☐ Preserve Housing with Federal Project-Based Rent Assistance
- ☐ Prevent and End Homelessness
- ☐ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

Attachment(s):
- Background
- Exhibit

During the course of the fiscal year, various transfers occur in the normal course of executing approved Agency transactions. Annually these transfers are summarized to provide the Board an occasion for final review and approval. However, per Board resolution No. MHFA 13-059, the transfers of funds for reimbursement of administrative expenses has been delegated to staff, and therefore Board approval is not required (although periodic reporting is mandatory).

The following categories of transfers of assets between Agency funds occur.

1. **Transfers to maintain Pool 1 required balance**: Pool 1 is a liquidity reserve maintained within the General Reserve fund per the Board's investment guidelines. The liquidity reserve requirement is 1% of all loans pledged in support of the Agency's credit ratings. Since the Agency shifted in 2009 from acquiring single family whole loans to acquiring mortgage-backed securities, principal repayments of whole loans have steadily reduced the Pool 1 required balance. Excess Pool 1 balances are transferred by Board policy to Pool 2.

2. **Contributions to Pool 3**: Annually, as the Agency's final net earnings are confirmed, management determines what portion of those earnings is to be contributed to Pool 3. Pool 3 is the Agency's most flexible source of capital to address the most challenging housing needs. Other than an incidental amount of investment earnings, Pool 3 is funded almost solely from periodic transfers of Agency earnings that are in excess of the Board's investment guidelines.

3. Bond sale contributions: Each time bonds are issued additional collateralization may be contributed to the applicable bond resolution to achieve the parity of assets to liabilities necessary to meet ratings tests and to permit the transfer of monthly administrative fees. Bond sale contributions of this nature are an investment of Agency funds or other assets and are funded from Pool 2. In addition to the contributions just described, each time bonds are issued additional contributions between the applicable bond resolution and Pool 2 may be required to record the unrealized gain or loss on MBS that are purchased at par by the bond series from Pool 2.

4. Transfer of loans from Federal Appropriated: Loans that were originally funded with Financing Adjustment Factor/Financing Adjustment (FAF/FA) federal McKinney Act funds that are expended pursuant to a refunding agreement are transferred to Pool 2 for the remainder of their loan term once they have reached the end of the affordability period. Per the refunding agreement for this program the loan repayments are deposited in Pool 2 to be used for affordable housing.

Minnesota Housing Finance Agency
Interfund Transfers excluding Administrative Reimbursements
Fiscal Year 2018
$ thousands

Amount	Transfer from	Transfer to	Category	Description
$ (3,521)	Residential Housing Finance bond resolution- Pool 2	General Reserve - Pool 1	1	Transfer of excess funds from Pool 2 to maintain the target Pool 1 balance in accordance with Board investment guidelines.
$ (1,671)	Residential Housing Finance bond resolution- Pool 2	General Reserve - Pool 1	1	Transfer to maintain fund balance in Pool 1 due to Post Retirement Benefits-Other than Pension (OPEB) beginning balance adjustment per GASB 75.
$ (5,000)	Residential Housing Finance Bond resolution- Pool 2	Residential Housing Finance bond resolution- Pool 3	2	Contribution, based upon General Reserve and bond funds revenue over expense, from Pool 2 to Pool 3 for use in mission-intensive housing programs.
$ (9,776)	Residential Housing Finance Bond resolution- Pool 2	Homeownership Finance bond resolution	3	Bond sale contribution to HFB 2017GH
$ (6,284)	Residential Housing Finance Bond resolution- Pool 2	Homeownership Finance bond resolution	3	Bond sale contribution to HFB 2017IJ
$ (433)	Residential Housing Finance Bond resolution- Pool 2	Homeownership Finance bond resolution	3	Bond sale contribution to HFB 2018AB
$ (1,357)	Residential Housing Finance Bond resolution- Pool 2	Homeownership Finance bond resolution	3	Bond sale contribution to HFB 2018CD
$ (14)	Residential Housing Finance Bond resolution- Pool 2	Rental Housing bond Resolution	3	Bond sale contribution to RH 2017A
$ (13)	Residential Housing Finance Bond resolution- Pool 2	Rental Housing bond Resolution	3	Bond sale contribution to RH 2017B
$ (14)	Residential Housing Finance Bond resolution- Pool 2	Rental Housing bond Resolution	3	Bond sale contribution to RH 2017C
$ (12)	Residential Housing Finance Bond resolution- Pool 2	Rental Housing bond Resolution	3	Bond sale contribution to RH 2018A
$ (3,216)	Homeownership Finance bond resolution	Residential Housing Finance Bond resolution- Pool 2	3	For current year bond sales the amortization of the Servicer Release Premium must be transferred from the resolution to make Pool2 whole for the transfer of MBS.
$ (2,417)	Residential Housing Finance Bond resolution- Pool 2	Residential Housing Finance Bond resolution- Bonds	3	Bond sale contribution to RHFB2017ABC.
$ (467)	Residential Housing Finance Bond resolution- Bonds	Residential Housing Finance Bond resolution- Pool 2	3	Bond sale contribution from RHFB2017DEF.
$ (2,899)	Residential Housing Finance Bond resolution- Pool 2	Residential Housing Finance Bond resolution- bonds	3	Bond sale contribution to RHFB2018ABCD.
$ (52)	Residential Housing Finance Bond resolution- Pool 2	Residential Housing Finance bond resolution- Pool 3	4	Transfer of loan receipts for loans that have reached the end of their affordability period.
$ (602)	Residential Housing Finance Bond resolution- Pool 2	Residential Housing Finance bond resolution- Pool 3	4	Transfer of loans that reached the end their affordability period.
$ (11)	Federal Appropriation	Residential Housing Finance bond resolution- Pool 3	4	Transfer of loan receipts for loans that have reached the end of their affordability period.
$ (46)	Federal Appropriation	Residential Housing Finance bond resolution- Pool 3	4	Transfer of loans that reached the end their affordability period.

Categories	
1	Transfers to maintain Pool 1 required balance
2	Contributions to Pool 3
3	Bond sale contributions
4	Loan and cash transfers from Federal

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MINNESOTA HOUSING

Finance Committee Item: C.
Date: 8/30/2018

Item: Fiscal 2018 Report of Transfers of Funds for Reimbursement of Administrative Expenses

Staff Contact(s):
Terry Schwartz, 651-296-2404,Terry.Schwartz@state.mn.us
Debbi Larson, 651-296-8183, Debbi.Larson@state.mn.us

Request Type:

☐ Approval
- ☐ Motion
- ☐ Resolution

☒ No Action Needed
- ☐ Discussion
- ☒ Information

Summary of Request:
The transfer of funds for reimbursement of Agency administrative expenses has been delegated to staff by board resolution no. MHFA 13-059 and, therefore, does not require board approval. However, that same resolution requires a written annual report to the board describing actions taken utilizing that delegated authority and whether the parameters of that delegated authority merit revision.

Fiscal Impact:
The FY2018 administrative reimbursement of $24.479 million was sufficient to support the Agency's administrative expenses in the General Reserve, net of fees earned and interest earned on investments.

Meeting Agency Priorities:
☐ Address Specific and Critical Local Housing Needs
☐ Finance Housing Responsive to Minnesota's Changing Demographics
☐ Preserve Housing with Federal Project-Based Rent Assistance
☐ Prevent and End Homelessness
☐ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

Attachment(s):
- Exhibit

Minnesota Housing Finance Agency
Administrative Reimbursements
Fiscal Year 2018
$ thousands

Amount		Transfer from	Transfer to
$ 1,129		Rental Housing bond resolution	General Reserve
7,516		Residential Housing Finance Bond resolution- bonds	General Reserve
3,304		Residential Housing Finance Bond resolution- Pool 2	General Reserve
1,316		Residential Housing Finance Bond resolution- Pool 3	General Reserve
7,868		Homeownership Finance Bond resolution	General Reserve
94		Multifamily Housing Bond resolution	General Reserve
-	1	HOMES[SM] resolution	General Reserve
2,100	2	State Appropriated fund	General Reserve
1,152	3	Federal Appropriated fund	General Reserve
$ 24,479		**Total Administrative Reimbursements**	

Notes

1. The HOMES[SM] resolution holds only assets funded by limited obligation debt and, therefore, has no basis upon which to calculate administrative reimbursement.

2. Reimbursement of administrative expenses incurred for state appropriation -funded programs is limited to investment earnings on unexpended state appropriations .

3. Reimbursement of administrative expenses related to federal appropriation-funded programs is defined through an approved federal indirect cost recovery rate but the amount actually recovered is limited by the amount of federal funds specifically available for such reimbursement. Certain other direct administrative costs are also recovered and included in the amount displayed.