Minnesota Housing Finance Agency

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Equal Opportunity Housing and Equal Opportunity Employment

DATE: August 18, 2016

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 **11:00 a.m.** on **Thursday, August 25** at the offices of Minnesota Housing, 400 Sibley Street, Suite 300, St. Paul, MN in the **State Street Conference on the first floor**.

The topics for discussion at this meeting are:

A. Discussion, Fiscal 2016 Financial Results, Financial Audit, and Federal Program Single Audit
B. Approval, Fiscal 2016 Interfund Transfers
C. Information, Fiscal 2016 Report of Transfers of Funds for Reimbursement of Administrative Expenses
D. Approval of any necessary related administrative matters
E. Adjournment

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

If you have questions, please call Becky Schack at (651) 296-2172.

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Agenda Item: A
MINNESOTA HOUSING FINANCE & AUDIT COMMITTEE
Date: 8/25/2016

Item: Fiscal 2016 Financial Results, Financial Audit, and Federal Program Compliance Report

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	☒ No Action Needed
☐ Motion	☒ Discussion
☐ Resolution	☐ Information

Summary of Request:
Staff will discuss fiscal year 2016 financial results. RSM LLP, the Agency's external auditor, will discuss the results of their fiscal 2016 financial statement audit, 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):
- FY 2016 Operating Results for the Sustainable Core and Pool 3
- FY 2016 Balance Sheet for the Sustainable Core and Pool 3
- FY 2016 Financial Results, Noteworthy Items
- Auditor Presentation Slides
- Auditor Opinions (two) (drafts*)
- Auditor Reports (drafts*): Required Communication to the Board, and Agreed Upon Procedures
- Management Representation Letter (draft*) (included in Auditor Reports on page 36)
- FY 2016 Annual Financial Report (draft*)
- FY 2016 Federal Program Compliance Report (draft*)

*Although marked as draft, attachments are essentially in final form. Material differences, if any, from the final versions will be noted by staff and representatives from RSM at the committee meeting.

Agenda Item: A
Operating Results

Minnesota Housing Finance Agency
Analysis of Operating Results for the Sustainable Core and Pool 3
Twelve Months Ending June 30, 2016 and June 30, 2015
Unaudited
($ millions)

line number		Sustainable Core: General Reserve and Bond Funds, Excluding Pool 3			Pool 3	Total General Reserve and Bond Funds
	Revenues	**Twelve Months Ending June 30, 2016**	**Twelve Months Ending June 30, 2015**	**Change from Prior Year, Favorable (Unfavorable)**	**Twelve Months Ending June 30, 2016**	**Twelve Months Ending June 30, 2016**
1	Interest earned on loans	$ 68.0	$ 77.9	$ (9.9) NIM	$ -	$ 68.0
1a	Interest earned on loans- yield compliance extinguishment[1]	$ -	$ 2.4	$ (2.4)	$ -	$ -
2	Interest earned on investments- program MBS	41.8	34.6	7.2 NIM	-	41.8
3	Interest earned on investments- other	7.5	7.1	0.4 NIM	0.9	8.4
4	Gain on sale of MBS held for sale and HOMES certificates	3.8	3.9	(0.1)	-	3.8
5	Administrative reimbursement	21.5	20.1	1.4	0.9	22.4
6	Fees earned and other income	13.4	12.7	0.7	-	13.4
7	Total revenue	156.0	158.7	(2.7)	1.8	157.8
	Expenses					
8	Interest	68.6	72.1	3.5 NIM	-	68.6
8a	Financing, Net	18.7	14.8	(3.9)	-	18.7
9	Loan administration and trustee fees	4.0	4.5	0.5	-	4.0
10	Administrative reimbursement	18.1	17.0	(1.1)	1.2	19.3
11	Salaries and benefits	21.3	20.5	(0.8)	-	21.3
12	Other general operating	6.6	7.0	0.4	4.3	10.9
13	Reduction in carrying value of certain low-interest rate deferred loans	(1.6)	0.0	1.6	2.1	0.5
14	Provision for loan loss- single family loans, RMIC receipt[2]	-	1.5	1.5	-	-
15	Provision for loan loss- multifamily loans	2.4	(3.3)	(5.7)	0.4	2.8
16	Total expenses	138.1	134.1	(4.0)	8.0	146.1
17	**Revenues over (under) expenses, eligible for transfer to Pool 3 at fiscal year end[3]**	**17.9**	**24.5**	**(6.6)**	NA	NA
18	Unrealized gains (losses) on securities	32.8	11.4	21.4	-	32.8
19	Realized gain/(loss) on inter-fund sale of investments	-	0.5	(0.5)	-	-
20	Revenues over (under) expenses per financial statements	50.7	36.4	14.3	(6.2)	44.5
21	Transfer between Pool 3 and Pool 2	(3.0)	(10.0)	7.0	3.0	-
22	Change in Net Position per financial statements	$ 47.7	$ 26.4	$ 21.3	$ (3.2)	$ 44.5
	Memo information:					
23	**Net Interest Margin (NIM)**	**$ 48.7**	**$ 47.5**	**1.2**		

1. Extraordinary item: The Rental Housing 2004C bond yield compliance liability of $2.3 million was extinguished on August 1, 2014 when those bonds were optionally redeemed. Because the liability was extinguished, interest earned on loans increased by the same amount.
2. Extraordinary item: RMIC receipt - Private mortgage insurer Republic Mortgage Insurance Co. made a $1.8 million payment to the Agency in September, 2014 for insurance claims covering the period January, 2012 through June, 2014.
3. FY2015 year-to-date revenue over expense is unusually high by $7.1 million because of extraordinary revenue and negative expense described in note 1) and note 2) and because of negative provision for multifamily loan loss expense on line 16.

This report is for internal use only because the format does not conform to GASB requirements.

Minnesota Housing Finance Agency
Balance Sheet for the Sustainable Core and Pool 3
As of June 30, 2016 and June 30, 2015
Unaudited
($ millions)

line number		Sustainable Core: General Reserve and Bond Funds, Excluding Pool 3			Pool 3	Total General Reserve and Bond Funds
	Assets	As of June 30, 2016	As of June 30, 2015	Change from Prior Year, Increase (Decrease)	As of June 30, 2016	As of June 30, 2016
1	Loans receivable, net	$ 1,139.3	$ 1,272.6	$ (133.3)	$ 43.8	$ 1,183.1
2	Investments- program mortgage-backed securities, ex Unreal.	1,378.4	1,106.7	271.7	-	1,378.4
3	Cash, cash equivalents, and other investments, ex Unreal.	606.5	448.5	158.0	41.3	647.8
4	Real estate owned and FHA/VA insurance claims, net	5.7	8.6	(2.9)	-	5.7
5	Interest receivable and other assets	16.0	16.1	(0.1)	0.2	16.2
6	Total assets, excluding Unrealized Appr on Investments	$ 3,145.9	$ 2,852.5	$ 293.4	$ 85.3	$ 3,231.2
7	Unrealized Appr on Investments	75.3	40.2	35.1	1.4	76.7
8	Total Assets	$ 3,221.2	$ 2,892.7	$ 328.5	$ 86.7	$ 3,307.9
	Liabilities					
10	Bonds payable	$ 2,307.2	$ 2,033.3	$ 273.9	$ -	$ 2,307.2
11	Funds held for others	68.7	66.2	2.5	-	68.7
12	Accounts payable, interest payable, and other liabilities	77.5	62.9	14.6	(28.1)	49.4
13	Total liabilities, excluding Interest Rate Swap Agreements	2,453.4	2,162.4	291.0	(28.1)	2,425.3
14	Interest rate swap agreements	11.8	12.6	(0.8)	-	11.8
15	Total Liabilities	2,465.2	2,175.0	290.2	(28.1)	2,437.1
16	Deferred inflow (outflow) of resources, net	8.5	6.9	1.6	-	8.5
	Net Position					
17	Restricted net assets, excluding unrealized inv. G/L and current year realized gain/loss in on inter-fund sale of inv.	668.2	667.6	0.6	113.4	781.6
18	Restricted net assets attributable to unrealized gain/loss on investments	75.3	40.2	35.1	1.4	76.7
19	Restricted net assets attributable to realized gain/loss on inter-fund sale of inv.	1.2	0.5	0.7	-	1.2
20	Invested in capital assets	2.8	2.5	0.3	-	2.8
21	Total net position	747.5	710.8	36.7	114.8	862.3
22	Total liabilities, deferred inflow/outflow, and net position	$ 3,221.2	$ 2,892.7	$ 328.5	$ 86.7	$ 3,307.9

This report is for internal use only because the format does not conform to GASB requirements.

Minnesota Housing Finance Agency
FY 2016 Financial Results, General Reserve and Bond Funds excluding Pool 3
Noteworthy Items

Operating Results

- Revenues over expenses of $17.9 million, a decrease of $6.6 million over prior year, mainly as a result of:
    - Three one-time transactions in FY2015 that are detailed on the "Analysis of Operating Results for the Sustainable Core and Pool 3" report totaling $7.1 million

Balance Sheet

- Single family loans continue to run off as all new production is securitized into Mortgage Backed Securities (MBS).
- Our MBS portfolio continues to increase for the same reason noted above.
- Bonds payable increased this year due to high production. Early redemption of debt and refunding continued this year at lower amount.

MINNESOTA HOUSING FINANCE AGENCY PRESENTATION TO THE AUDIT COMMITTEE

2016 Audit Results

August 25, 2016

RSM

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	• Adoption of GASB Statement No. 72 – Added disclosures relating to determination of fair value for investments and interest rate swaps. No impact on net position • No significant or unusual transactions. • 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

Summary of required communications

Matters to be Communicated	Our Response
Audit Adjustment and Uncorrected Misstatements	• No audit adjustments • No uncorrected misstatements
Disagreements With Management	• None
Consultation With Other Accountants	• None
Significant Issues Discussed With Management	• None
Significant Difficulties Encountered in Performing the Audit	• None
Significant Written Communications Between Management and Our Firm	• Representation letter

2016 financial report

- Unmodified (clean) opinions on agency-wide and major funds
- Agency-wide selected financial elements
  - Assets increased $328.8 million
  - Liabilities increased $275.1 million
  - Net deferred inflows increased $1.6 million
  - Revenues increased $34.4 million
  - Expenses increased $10.8 million
  - Net position increased $52.2 million

RSM

2016 compliance report

- Schedule of expenditures of federal awards
  - $206.3 million spent on federal awards
  - Increase of $13.8 million from 2015
- *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

2016 agreed-upon procedures report

- Covers period from July 1, 2013 through June 30, 2016
  - FAF Disbursements totaled $80.2 thousand with a remaining commitment balance of $371.4 thousand
  - FA Disbursements totaled $907.7 thousand with a remaining commitment balance of $484.1 thousand
- No findings reported relating to agreed-upon procedures performed

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

Significant deficiencies or material weaknesses

- No findings identified.

Compliance with laws and regulations

- No findings identified.

Uniform guidance audit

- 2016 major program
  - Section 8 Project Based Cluster
    - CFDAs 14.195 and 14.182
    - $56.5 million spent in 2016
    - Decrease of $8.1 million from 2015
- Internal control over compliance
  - No significant deficiencies or material weaknesses identified
- Major program compliance
  - Unmodified (clean) opinion
  - No findings identified

RSM

Control deficiencies

(These matters are not included in the compliance report or other formal letters)

- Boarding of new loans in the BGI multifamily loan servicing system and set-up of loan journal is not formally reviewed.
- Schedule of Expenditures of Federal Awards did not include the Section 8 administrative fees reflected in the Agency's General Reserve Fund.

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

RSM

General comments and feedback

Thank you for allowing us to serve Minnesota Housing Finance Agency.

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 and Diana Chance

QUESTIONS AND ANSWERS?

RSM

Independent Auditor's Report

To the Board of Directors
Minnesota Housing Finance Agency
Saint Paul, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of Minnesota Housing Finance Agency (the Agency), a component unit of the State of Minnesota, as of and for the year ended June 30, 2016, 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.

Unmodified 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, 2016, and the respective changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

The financial statements include summarized prior-year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended June 30, 2015, 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 GASB, 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 2016 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 2016 supplementary information is fairly stated, in all material respects, in relation to the 2016 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 2015 basic financial statements (not presented herein), and have issued our report thereon dated August 19, 2015, 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, 2015, 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 2015 financial statements. The accompanying supplementary information has been subjected to the auditing procedures applied in the audit of the 2015 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 2015 supplementary information is fairly stated in all material respects in relation to the 2015 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 August 25, 2016, 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 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 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
August 25, 2016

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Independent Auditor's Report

To the Board of Directors
Minnesota Housing Finance Agency
Saint Paul, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of Minnesota Housing Finance Agency (the Agency), a component unit of the State of Minnesota, as of and for the year ended June 30, 2016, 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.

Unmodified 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, 2016, and the respective changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

The financial statements include summarized prior-year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended June 30, 2015, 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 GASB, 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 2016 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 2016 supplementary information is fairly stated, in all material respects, in relation to the 2016 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 2015 basic financial statements (not presented herein), and have issued our report thereon dated August 19, 2015, 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, 2015, 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 2015 financial statements. The accompanying supplementary information has been subjected to the auditing procedures applied in the audit of the 2015 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 2015 supplementary information is fairly stated in all material respects in relation to the 2015 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
August 25, 2016

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Minnesota Housing Finance Agency

Report to the Board of Directors/Audit Committee
August 25, 2016

August 25, 2015

Board of Directors/Audit Committee
Minnesota Housing Finance Agency
Saint 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) for the year ended June 30, 2016. 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.

[Firm Signature]

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 1, 2016.
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, the Agency adopted Governmental Accounting Standards Board (GASB) Statement No. 72, which resulted in additional disclosures in the notes to the financial statements relating to how fair value is determined for the Agency's investments and interest rate swaps. There was no impact on the Agency-wide net position as a result of the adoption. **Significant or Unusual Transactions** We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. **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.
Audit Adjustments	We did not propose any adjustments as part of our audit.
Uncorrected Misstatements	We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

Area	Comments
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.
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, 2016, 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 eight 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, 2016, 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, 2016, is included under deferred outflows of resources as "Deferred loss 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, 2016. The fair values approximate the termination payments that would have been due had the swaps been terminated as of June 30, 2016.	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.
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

August 23, 2016

RSM US LLP
801 Nicollet Mall, 11th Floor – West Tower
Minneapolis, MN 55402-2526

This representation letter is provided in connection with your audit of 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, 2016 the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

We confirm, to the best of our knowledge and belief, as of August 23, 2016:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated March 1, 2016, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. We are a component unit of the State of Minnesota as this term is defined in Section 2100 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards.
6. Related-party transactions, including those with the primary government having accountability for Minnesota Housing Finance Agency are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete and interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, interfund transfers, long-term loans, leasing arrangements, and guarantees, have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
7. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

8. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
9. The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the financial statements:
    a. The extent, nature and terms of financial instruments with off-balance-sheet risk.
    b. The amount of credit risk of financial instruments with off-balance-sheet risk and information about the collateral supporting such financial instruments.
    c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.
10. We have no direct or indirect, legal or moral obligation for any debt of any organization, public or private that is not disclosed in the financial statement.
11. We have no knowledge of any uncorrected misstatements in the financial statements.

Information Provided

12. We have provided you with:
    a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.
    b. Additional information that you have requested from us for the purpose of the audit.
    c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
    d. Minutes of the meetings of the governing board and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
13. All transactions have been recorded in the accounting records and are reflected in the financial statements.
14. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
15. We have no knowledge of allegations of fraud or suspected fraud, affecting the entity’s financial statements involving:
    a. Management.
    b. Employees who have significant roles in the internal control.
    c. Others where the fraud could have a material effect on the financial statements.
16. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity’s financial statements received in communications from employees, former employees, analysts, regulators, or others.
17. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects were considered when preparing financial statements.
18. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.
19. We have disclosed to you the identity of the entity’s related parties and all the related-party relationships and transactions of which we are aware.

20. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Entity's ability to record, process, summarize, and report financial data.

21. We are aware of no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

Supplementary Information

22. With respect to supplementary information presented in relation to the financial statements as a whole:

    a. We acknowledge our responsibility for the presentation of such information.

    b. We believe such information, including its form and content, is fairly presented in accordance with U.S. GAAP.

    c. The methods of measurement or presentation have not changed from those used in the prior period.

    d. When supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and the auditor's report thereon.

23. With respect to Management Discussion & Analysis and the Schedule of Selected Pension information presented as required by GASB to supplement the basic financial statements:

    a. We acknowledge our responsibility for the presentation of such required supplementary information.

    b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by U.S. GAAP.

    c. The methods of measurement or presentation have not changed from those used in the prior period.

24. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Compliance Considerations

In connection with your audit, conducted in accordance with Government Auditing Standards, we confirm that management:

25. Is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.

26. Is responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the auditee.

27. Has identified and disclosed to the auditor all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.

28. Has identified and disclosed to the auditor all instances that have occurred, or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that have a material effect on the determination of financial statement amounts.

29. Has identified and disclosed to the auditor all instances that have occurred, or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements.
30. Is responsible for 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.
31. Acknowledges its responsibility for the design, implementation and maintenance of internal controls to prevent and detect fraud.
32. Has taken timely and appropriate steps to remedy fraud; noncompliance with provisions of laws, regulations, contracts, and grant agreements; or abuse that the auditor reports.
33. Has a process to track the status of audit findings and recommendations.
34. Has identified for the auditor previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
35. Has provided views on the auditor's reported findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report.
36. Acknowledges its responsibilities as it relates to non-audit services performed by the auditor, including a statement that it assumes all management responsibilities; that it oversees the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; that it evaluates the adequacy and results of the services performed; and that it accepts responsibility for the results of the services.

In connection with your audit of federal awards conducted in accordance with Subpart F of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), we confirm:

37. Management is responsible for complying, and has complied, with the requirements of Uniform Guidance.
38. Management is responsible for understanding and complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of its federal programs.
39. Management is responsible for establishing and maintaining, and has established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on its federal programs.
40. Management has prepared the schedule of expenditures of federal awards in accordance with Uniform Guidance and has included expenditures made during the period being audited for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.
41. Management has identified and disclosed all of its government programs and related activities subject to the Uniform Guidance compliance audit.
42. Management has identified and disclosed to the auditor the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.

43. Management has made available all federal awards (including amendments, if any) and any other correspondence relevant to federal programs and related activities that have taken place with federal agencies or pass-through entities.
44. Management has identified and disclosed to the auditor all amounts questioned and all known noncompliance with the direct and material compliance requirements of federal awards.
45. Management believes that the auditee has complied with the direct and material compliance requirements (except for noncompliance it has disclosed to the auditor).
46. Management has made available all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
47. Management has provided to the auditor its interpretations of any compliance requirements that are subject to varying interpretations.
48. Management has disclosed to the auditor any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
49. Management has disclosed to the auditor the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
50. Management is responsible for taking corrective action on audit findings of the compliance audit.
51. Management has provided the auditor with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
52. Management has disclosed the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.
53. Management has disclosed all known noncompliance with direct and material compliance requirements occurring subsequent to the period covered by the auditor's report or stating that there were no such known instances.
54. Management has disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses in internal control over compliance, have occurred subsequent to the period covered by the auditor's report.
55. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared.
56. The copies of federal program financial reports provided to the auditor are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
57. Management has monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and the terms and conditions of the subaward and have met the other pass-through entity requirements of the Uniform Guidance.

58. Management has issued management decisions for audit findings that relate to federal awards it makes to subrecipients and that such management decisions are issued within six months of acceptance of the audit report by the FAC. Additionally, management has followed up to ensure that the subrecipient takes timely and appropriate action on all deficiencies detected through audits, on-site reviews and other means that pertain to the federal award provided to the subrecipient from the pass-through entity.
59. Management has considered the results of subrecipient monitoring and audits, and has made any necessary adjustments to the auditee's own books and records.
60. Management has charged costs to federal awards in accordance with applicable cost principles and the Uniform Guidance.
61. Management is responsible for, and has accurately prepared, the summary schedule of prior audit findings to include all findings required to be included by Uniform Guidance.
62. The reporting package does not contain protected personally identifiable information.
63. Management has accurately completed the appropriate sections of the data collection form.
64. If applicable, management has disclosed all contracts or other agreements with service organizations.
65. If applicable, management has disclosed to the auditor all communications from service organizations relating to noncompliance at those organizations.

Minnesota Housing Finance Agency

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Mary Tingerthal, Commissioner

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Kevin Carpenter, Chief Financial Officer

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Terry Schwartz, Finance Director/Director of Operations

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Jessica Deegan, Director of Federal Affairs

Minnesota Housing Finance Agency

2016 Financial Report

MINNESOTA HOUSING FINANCE AGENCY
Annual Financial Report as of and for the year ended June 30, 2016

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MINNESOTA HOUSING FINANCE AGENCY
Commissioner's Report

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

Minnesota continues to enjoy strong economic activity, with unemployment at 3.8% and with Minnesota adding 26,000 jobs in the past year bringing the total to nearly 3 million jobs in the State. Home sales prices continue to increase, especially in the Twin Cities metropolitan area, where they rose more than 4% from last year from $235,950 in June 2015 to $245,900 in June 2016. In this marketplace environment, Minnesota Housing has capitalized on strong market conditions and continuing low interest rates to improve both its product offerings and its financial condition with positive programmatic results:

- During the current fiscal year, Minnesota Housing continued to offer its suite of single family home mortgage programs. First time homebuyers continued to enter the market in bigger numbers in the past year, putting pressure on housing inventory in the lower price ranges, as existing homes with values below $300,000 currently represent less than a two-month supply. Minnesota Housing had one of its highest home mortgage volume years ever, with almost 4,200 loans up from 3,900 loans last year with loan purchase approvals topping $630 million. The Agency increased its allocation of deferred loans for downpayment and closing costs during the year to support this production and to ensure that the Agency is reaching its targeted borrowers. More than 93% of mortgage loans went to first time homebuyers and more than 31% were for households of color and Hispanic ethnicity.

- Minnesota Housing continued to manage its single family production using a "best execution" strategy, using bond sales as well as selling loans directly into the capital markets. As the use of tax-exempt bonding authority for multifamily transactions grew over the past year, the Agency increased the amount of taxable bonds used to support single family bond transactions. These and other strategies allowed the Agency to grow its balance sheet in the past year to a level of $3.5 billion, and to increase its net position to $998 million.

- Minnesota Housing has seen delinquency rates across its entire portfolio continue to drop from 4.45% in June of last year to 3.75% this year for 60+ days, and the foreclosure rate also fell from 1.25% to 0.97%. The Agency continues its strategy of placing virtually all new loan production into mortgage-backed securities.

- The State of Minnesota continues to carry a large budget surplus at the same time that it has substantially increased its budget reserves. One rating agency recently upgraded the State's credit rating to AAA. Minnesota Housing continues to enjoy strong support from the State Legislature, but the 2016 Legislative session failed to take action on a capital investment bill, so the Agency has not yet received an additional allocation of appropriation bonds for housing as it has in the three of the past four years.

- Minnesota Housing continues to develop its multifamily first mortgage lending capacity. It continues to bring new multifamily loans, generally insured under the FHA Risk Share program, onto the balance sheet, while continuing to process loans under the FHA MAP (Multifamily Accelerated Processing) program and completing approval of the Agency to participate in the new Treasury/Risk Share program.

- Minnesota Housing closed 132 loans and grants on 123 multifamily properties and providing capital or operating subsidies for affordable housing to 6,452 households (units). Of these, 237 units were designated to serve long-term homeless households and 669 units were for supportive housing.

- In partnership with the non-profit Minnesota Homeownership Center, Minnesota Housing supports pre-purchase education and counseling, foreclosure prevention counseling and reverse mortgage counseling. Over 13,000 households throughout the state used these services last year. More than 4,800 of those households received their counseling through an on-line homebuyer counseling program called Framework, which makes homebuyer counseling accessible and convenient for many more households.

MINNESOTA HOUSING FINANCE AGENCY
Commissioner's Report (continued)

Foreclosure prevention counseling fell from 2,600 to 1,700 over the past year. In addition, the Agency continued a new, intensive coaching and counseling program targeted primarily for households of color and Hispanic ethnicity who often experience difficulty accessing mortgage loans through conventional channels. Since its start, 891 households have started this program, of which 90% are households of color and Hispanic ethnicity.

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

- Completed a detailed review of single family master servicing needs and options and issued a Request for Proposals for master servicing.
- Worked with the Interagency Council on Homelessness comprised of 11 state agency commissioners to implement the Statewide Plan to Prevent and End Homelessness. Based on the annual census of homeless individuals conducted in January, 2016, the state saw a 3% decline in homeless households compared to the previous year, to levels not seen since before the great recession.

- Continued its significant investment in the redesign of business processes and the technology to support them. During the year, Minnesota Housing:
    - Began detailed system design work for a new single family loan origination system with its selected vendor, Mortgage Cadence.
    - Put in place the infrastructure to support improved management of both data and documents.
    - Streamlined submission processes for multifamily developers submitting applications for Agency financing.
    - Continued the build out of its new comprehensive loan servicing system to include more extensive use of its invoicing functions.

Mary Tingerthal, Commissioner
Minnesota Housing
August 12, 2016

Independent Auditors' Report

Independent Auditor's Report

To the Board of Directors
Minnesota Housing Finance Agency
Saint Paul, Minnesota

Report on the Financial Statements
We have audited the accompanying financial statements of the businesstype 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, 2016, 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.

Unmodified 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, 2016, 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.

Independent Auditors' Report (continued)

Other Matters

Report on Summarized Comparative Information

The financial statements include summarized prior-year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended June 30, 2015, 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 GASB, 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 2016 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 2016 supplementary information is fairly stated, in all material respects, in relation to the 2016 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 2015 basic financial statements (not presented herein), and have issued our report thereon dated August 19, 2015, 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, 2015, is presented for purposes of additional analysis and

Independent Auditors' Report (continued)

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 2015 financial statements. The accompanying supplementary information has been subjected to the auditing procedures applied in the audit of the 2015 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 2015 supplementary information is fairly stated in all material respects in relation to the 2015 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

August 25, 2016

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

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

Introduction

The Minnesota Housing Finance Agency (Minnesota Housing or the Agency) was created in 1971 by the Minnesota legislature through the enactment of Minnesota Statutes, Chapter 462A, which has been amended from time to time. The Agency was established to facilitate the construction and rehabilitation of housing in Minnesota for families of low- and moderate-income by providing mortgage loans, development loans, and technical assistance to qualified housing sponsors. Minnesota Housing is a component unit of the State of Minnesota and receives appropriations from the state legislature, substantially all of which are used to make loans or grants under specified state-defined programs and to pay debt service and related expenses on state appropriation-backed housing bonds. Minnesota Housing also receives funds appropriated by the federal government for similar program purposes. The Agency's mission is to finance affordable housing for low- and moderate-income Minnesotans while fostering strong communities.

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

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

Discussion of Financial Statements

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

- Agency-wide financial statements provide information about Minnesota Housing's overall financial position and results of operations. These statements consist of the Statement of Net Position and the Statement of Activities. Significant interfund transactions have been eliminated within the Agency-wide statements. Assets and revenues of the separate funds that comprise the Agency-wide financial statements are generally restricted as to use and the reader should not assume they may be used for every corporate purpose.
- The fund financial statements provide information about the financial position and results of operations for Minnesota Housing's eight proprietary funds.
- The financial statements also include "Notes to Financial Statements" which provide more detailed explanations of certain information contained in the Agency-wide and fund financial statements.

Required and other Supplementary Information is presented following the Notes to Financial Statements for certain funds of Minnesota Housing, which have been established under the bond resolutions under which Minnesota Housing issues bonds and other debt for its programs. These funds consist of General Reserve and the bond funds, which are Rental Housing, Residential Housing Finance, Homeownership Finance, HOMES^{SM} and Multifamily Housing.

The basic financial statements also include comparative totals as of and for the year ended June 30, 2015. 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 2016 in comparison to the prior fiscal year.

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.

Discussion of Individual Funds (continued)

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 or receives a significant amount of oversight.

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, 2016. 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, then limited obligation drawdown index bonds issued under a separate bond trust indenture and the restricted by covenant Alternative Loan Fund which consists of the Housing

Investment Fund (Pool 2), and the Housing Affordability Fund (Pool 3). The Alternative Loan Fund is not pledged as security for any bonds of the Agency but is available to pay debt service on any bonds except appropriation-backed bonds and conduit bonds.

Bonds have been issued for the purpose of funding purchases of single family first mortgage loans, mortgage-backed securities backed by single family mortgage loans, certain entry cost housing assistance loans, and unsecured and secured subordinated home improvement mortgage loans. The majority of the single family loans financed by these bond issues are insured by private mortgage insurance or the Federal Housing Administration (FHA), or guaranteed by the U.S. Department of Veterans Affairs (VA) or the U.S. Department of Agriculture Rural Development (RD). While mortgage insurance and guarantees help mitigate the risk of loss to the Agency, inherent risks remain including the impact of declining home values on default recoveries and the risk of deterioration to the credit worthiness of insurers. The Agency's collection experience among mortgage insurers has been generally favorable.

This bond resolution, along with the Homeownership Finance bond resolution (see Homeownership Finance below), were the principal sources of financing for bond-financed homeownership programs. Minnesota Housing may also issue bonds for its home improvement loan program under this bond resolution although no bonds were issued to support home improvement lending during fiscal year 2016.

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 2016 this fund provided capital for several Agency programs including its home improvement loan program and its multifamily first-mortgage loan program. It also provided capital for warehousing purchases of mortgage-backed securities secured by single family first mortgage loans before those securities are permanently financed by issuing bonds, permanently financed with HOMES^{SM} certificates (see below for a description of the HOMES^{SM} program), or sold into the TBA market. In addition, it provided capital for amortizing second lien homeownership loans made in conjunction with the Agency's single family first mortgage loans, for tax credit bridge loans, for loans to partner organizations to acquire, rehabilitate and sell foreclosed homes and to develop new affordable housing, contributions for drawdown index bond expenses, and for bond sale contributions. The fund may also provide interim financing for construction and rehabilitation of single family housing and may be used to advance funds to retire debt.

Assets of the Housing Affordability Fund (Pool 3) consist of investment-grade securities when not utilized for program purposes. Program purposes include, but are not limited to: no-interest loans, loans at interest rates substantially below market, high risk loans, deferred loans, revolving funds, and grants. During fiscal year 2016 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.

Discussion of Individual Funds (continued)

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.

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 either the Government National Mortgage Association or the Federal National Mortgage Association. 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. The entire balance of the appropriated funds' net position is restricted by law for specified uses set forth in the state appropriations or federal contracts and are not pledged or available to secure the bondholders or creditors of Minnesota Housing.

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

The Federal Appropriated fund was established to account for funds received from the federal government which are to be used for programs for low- and moderate-income persons and families and multifamily housing developments in the form of no-interest deferred loans and grants in support of foreclosure counseling and remediation efforts, assistance to tax credit developments, and other housing-related program costs.

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

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

		Agency-wide Total			Combined General Reserve and Bond Funds					Combined State and Federal Appropriations Funds		
					Fiscal 2016							
		Fiscal 2016	Fiscal 2015	Change	Excluding Pool 3	Pool 3	Total	Fiscal 2015	Change	Fiscal 2016	Fiscal 2015	Change
Assets	Cash and Investments	$ 2,245,460	$ 1,787,690	$ 457,770	$ 2,060,163	$ 42,778	$ 2,102,941	$ 1,644,011	$ 458,930	$ 142,519	$ 143,679	$ (1,160)
	Loans receivable, Net	1,224,448	1,348,525	(124,077)	1,139,295	43,812	1,183,107	1,311,914	(128,807)	41,341	36,611	4,730
	Interest Receivable	11,905	12,134	(229)	11,529	154	11,683	11,914	(231)	222	220	2
	Total Assets	3,492,798	3,163,984	328,814	3,221,232	86,748	3,307,980	2,980,760	327,220	184,818	183,224	1,594
Liabilities	Bonds Payable	2,307,222	2,033,332	273,890	2,307,222	-	2,307,222	2,033,332	273,890	-	-	-
	Interest Payable	26,900	29,980	(3,080)	26,900	-	26,900	29,980	(3,080)	-	-	-
	Accounts Payable & Other Liabilities	15,206	8,453	6,753	14,428	11	14,439	4,625	9,814	767	3,828	(3,061)
	Funds Held for Others	115,854	117,060	(1,206)	68,691	-	68,691	67,062	1,629	47,163	49,998	(2,835)
	Total Liabilities	2,485,925	2,210,787	275,138	2,465,196	(28,090)	2,437,106	2,155,983	281,123	48,819	54,804	(5,985)
Net Position	Restricted by Bond Resolution	382,133	339,091	43,042	382,133	-	382,133	339,091	43,042	-	-	-
	Restricted by Covenant	477,456	476,252	1,204	362,618	114,838	477,456	476,252	1,204	-	-	-
	Restricted by Law	135,999	128,420	7,579	-	-	-	-	-	135,999	128,420	7,579
	Total Net Position	998,371	946,212	52,159	747,534	114,838	862,372	817,792	44,580	135,999	128,420	7,579

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 2016							
		Fiscal 2016	Fiscal 2015	Change	Excluding Pool 3	Pool 3	Total	Fiscal 2015	Change	Fiscal 2016	Fiscal 2015	Change
Revenues	Interest Earned	$ 120,373	$ 124,655	$ (4,282)	$ 117,333	$ 889	$ 118,222	$ 122,975	$ (4,753)	$ 2,151	$ 1,680	$ 471
	Appropriations Received	261,144	245,137	16,007	-	-	-	-	-	261,144	245,137	16,007
	Fees and Reimbursements	16,269	15,675	594	16,860	(887)	15,973	14,643	1,330	296	1,032	(736)
	Net G/L on Sale of MBS Held for Sale/HOMES Certificates	3,756	3,904	(148)	3,756	-	3,756	3,904	(148)	-	-	-
	Total Revenues (1)	455,813	420,202	35,611	188,882	1,839	190,721	171,134	19,587	265,092	249,068	16,024
Expenses	Interest Expense	87,274	86,869	405	87,274	-	87,274	86,869	405	-	-	-
	Appropriations Disbursed	235,135	227,117	8,018	-	-	-	-	-	235,135	227,117	8,018
	Fees	4,182	4,579	(397)	4,039	17	4,056	4,485	(429)	126	94	32
	Payroll, Gen. & Admin.	34,128	33,206	922	27,855	4,322	32,177	31,063	1,114	1,951	2,143	(192)
	Loan Loss/Value Adjust's	22,186	20,287	1,899	806	2,468	3,274	116	3,158	18,912	20,171	(1,259)
	Total Expenses (1)	403,654	391,526	12,128	138,088	8,053	146,141	140,801	5,340	257,513	250,725	6,788
	Revenues over Expenses	52,159	28,676	23,483	50,794	(6,214)	44,580	30,333	14,247	7,579	(1,657)	9,236
	Beginning Net Position	946,212	917,536	28,676	699,740	118,052	817,792	787,459	30,333	128,420	130,077	(1,657)
	Ending Net Position	998,371	946,212	52,159	747,534	114,838	862,372	817,792	44,580	135,999	128,420	7,579

(1) Agency-wide totals include interfund amounts

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FINANCIAL HIGHLIGHTS

General Reserve and Bond Funds-Statement of Net Position

The following financial highlights section refers to the General Reserve and bond funds. The reader is encouraged to review the Fund Financial Statements as well as supplementary information in this 2016 Financial Report.

Loans receivable, investments, cash and cash equivalents, deferred loss on interest rate swap agreements, real estate owned, and interest receivable comprise the majority of assets and deferred outflows of resources in the General Reserve and bond funds. Capital assets, other assets, deferred loss on refunding and deferred pension expense continue to be insignificant in relation to the total General Reserve and bond fund assets and deferred outflows of resources.

Loans receivable, net is one of the largest 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 9.8% to $1,183.1 million at June 30, 2016 as a result of repayments, prepayments, and loss reserves net of new loan purchases and originations. Amortizing homeownership loans at fixed interest rates, secured by first mortgages, continue to be the dominant loan product offered by Minnesota Housing. In the last half of 2009, the Agency changed its business model from purchasing homeownership loans to purchasing mortgage-backed securities (MBS) secured by homeownership loans. As a result, the homeownership loan portfolio, now in runoff, will continue to shrink as repayments and prepayments are no longer offset by new loans. Instead, the portion of investments represented by MBS may increase as they are purchased in place of loans. The Agency also sells a portion of those MBS directly into the TBA market after hedging the interest rate risk with forward sales contracts at the time of loan commitment. The reduction in loans receivable during fiscal year 2016 was attributable to the runoff of the homeownership loan portfolio. The reserve for loan loss for the homeownership loan portfolio decreased due to reduced delinquency and a decrease in the estimated loss per delinquent loan. Minnesota Housing also has simple interest home improvement, amortizing down payment assistance and simple interest rental rehabilitation loans which are no-interest, low-interest, and market-rate loans generally secured with second or subordinate mortgages. The reserve for loan loss for the home improvement loan portfolio decreased due to reduced amount of loans being delinquent while the reserve for the down payment assistance loans increased slightly due to an increase in production. Amortizing multifamily loans at fixed interest rates, secured by first mortgages (referred to as the multifamily portfolio) exhibited little change in delinquency rate and the aggregate loan receivable balance. Minnesota Housing's primary loan programs offer fixed interest rate financing and therefore differ from the high risk characteristics associated with some adjustable payment loan products.

Homeownership Loan Portfolio Delinquency
Actual Loan Count

	June 30, 2016		June 30, 2015	
Current and less than 60 days past due	8,226	94.5%	9,443	94.3%
60-89 days past due	113	1.3%	129	1.3%
90-119 days past due	63	0.7%	51	0.5%
120+ days past due and foreclosures(1)	302	3.5%	394	3.9%
Total count	8,704		10,017	
Total past due(1)	478	5.5%	574	5.7%

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

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)

Home Improvement Loan Portfolio Delinquency
Actual Loan Count

	June 30, 2016		June 30, 2015	
Current and less than 60 days past due	5,775	98.2%	6,283	98.0%
60-89 days past due	45	0.8%	58	0.9%
90-119 days past due	26	0.4%	26	0.4%
120+ days past due	36	0.6%	45	.7%
Total count	5,882		6,412	
Total past due	107	1.8%	129	2.0%

The 60+ day delinquency rate as of June 30, 2016 for the entire Minnesota Housing homeownership loan portfolio, excluding those loans not customarily included in foreclosure statistics, exceed by approximately one and one half percentage points the delinquency rates of similar loan data available as of March 31, 2016 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 42.7% to $2.6 million at June 30, 2016 as a result of a decrease in the amount of loans with outstanding claims.

Real estate owned, net consists of properties acquired upon foreclosure of homeownership loans. Real estate owned decreased 22.4% to $3.1 million at June 30, 2016 as a result of a decreased amount of foreclosure properties held within the homeownership portfolio on June 30, 2016.

While the delinquency rates and foreclosures in the Agency's loan portfolio remained above historical norms during fiscal year 2016, the combined net total of FHA/VA insurance claims and real estate owned remains immaterial compared to total loans receivable at June 30, 2016, 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.

Investments, cash, and cash equivalents are the next largest categories of assets and are carefully managed to provide adequate resources for future debt service requirements and liquidity needs. The combined investments, cash, and cash equivalents increased 27.9% to $2,102.9 million at June 30, 2016. The increase is principally a result of an increase in the balance of program mortgage-backed securities which are financed with mortgage revenue bonds. Mortgage-backed securities that are pledged as security for the payment of certain Agency mortgage revenue bonds and held in an acquisition account are classified on the statement of net position as "Investments- program mortgage-backed securities." All other mortgage-backed securities, including those held in anticipation of the Agency issuing mortgage revenue bonds or selling them into the TBA market (warehoused mortgage-backed securities), are classified as "Investment securities-other."

Interest receivable on loans and investments is a function of the timing of interest payments and the general level of interest rates. Combined loan and investment interest receivable decreased 1.9% to $11.7 million at June 30, 2016. The decrease is mainly a result of a decrease in interest receivable on homeownership loans due to the runoff of that portfolio.

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)

Bonds payable is the largest single category of liabilities, resulting primarily from debt issued to fund housing-related lending. Bonds payable increased 13.5% to $2,307.2 million at June 30, 2016 because new bonding issuance outpaced scheduled redemptions and early bond redemptions of existing debt.

The companion category of interest payable decreased 10% to $27.0 million at June 30, 2016, 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} remained about the same at $68.7 million at June 30, 2016.

Accounts payable and other liabilities increased to $14.4 million at June 30, 2016. The largest component of accounts payable is related to the presentation of the Rental Housing loans funded by short term bonds. The undisbursed amount of loan funds are shown as accounts payable, with the increased issuance of these types of bonds accounts for the increase in the category.

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.

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. Net position increased 5.5% to $862.4 million at June 30, 2016 due to revenues over expenses for the fiscal year.

General Reserve and Bond Funds-Revenues over Expenses

Revenues over expenses of General Reserve and bond funds increased 47% from fiscal year 2015 when considering Pool 3 net expenses and the net effect of unrealized gains and losses that resulted from market valuation adjustments to certain investment assets. Ignoring the effects of unrealized gains and losses on investments, total revenues decreased 1.6%. Total expenses, excluding Pool 3, increased 3% compared to the prior fiscal year. The largest revenue component, interest earned, decreased during fiscal year 2016. Loan interest revenue decreased 15% in fiscal year 2016 as repayments and prepayments decreased the size of the homeownership loan portfolio. That portfolio is in runoff because of the change to the mortgage-backed securities business model during fiscal 2010. Investment interest revenue increased 17% in fiscal year 2016. Reinvestment rates for funds from other maturing and called investment securities rebounded as well as the rates on MBS, compared to the prior year.

Administrative reimbursements to General Reserve from bond funds were $19.4 million in fiscal year 2016 compared to $18.3 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 $2.1 million from the State and Federal Appropriated funds to recover certain overhead expenses incurred during fiscal year 2016 compared to $1.9 million during the prior fiscal year. Investment earnings within the State Appropriated fund were insufficient to reimburse the Agency for the full amount of overhead expense incurred for the state programs.

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

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

Other fee income to General Reserve and bond funds of $13.8 million increased by $1.0 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 $3.8 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..

Minnesota Housing recorded $33.0 million of unrealized gains on investment securities during fiscal year 2016, compared to $11.3 million of unrealized gains during the prior year, an increase of $22.1 million.

Interest expense of the bond funds decreased 4.9% to $68.6 million compared to the prior year as a result of a smaller amount of long-term outstanding debt, and refundings that replaced higher rate bonds with lower rate bonds.

Financing costs increased 0.4% to $87.3 million. The majority of the increase is due to hedging pair off cost associated with the MBS securitization in the Residential Housing Finance and Homeownership Finance resolutions.

Expenses for loan administration and trustee fees in the bond funds decreased by 9.6% to $4.1 million compared to the prior fiscal year. Of the total administrative reimbursement revenue in General Reserve of $21.5 million, the interfund charge to the bond funds and State Appropriated fund of $20.7 million was eliminated for purposes of financial reporting in the Agency-wide financial statements.

Salaries and benefits in General Reserve of $21.3 million increased 3.9% from the prior year. Other general operating expense in General Reserve and bond funds increased 2.9% to $10.9 million compared to the prior fiscal year. The majority of the increase relates to contract expenses for the 3 major system projects.

Reductions in carrying value of certain low interest rate deferred loans in the bond funds decreased 66.8% to $0.5 million. The decrease related to the change in presentation for the Home Improvement inactive loans, moving from the provision line to this line. Provision for loan loss expense in the bond funds increased $4.2 million or 287% to $2.7 million. The provision for loan loss expense for the homeownership loan portfolio increased $2.2 million because the delinquencies increased.

The provision for loan loss expense for the home improvement loan portfolio increased $0.5 million as a result of increased loan delinquencies during the year, a portion of which became inactive loans. The provision for loan loss expense for the homeownership down payment assistance loan portfolio was essentially unchanged from the prior fiscal year. The provision for loan loss expense for the multifamily loan portfolio increased $1.5 million due to the mix of loans on the watchlist, when compared to the prior fiscal year.

Non-operating transfers occur as a result of bond sale contributions related to new debt issues, the periodic transfer of assets to maintain the Housing Endowment Fund (Pool 1) requirement, periodic fiscal year end transfers to the Housing Affordability Fund (Pool 3), if any, and periodic transfers from the bond funds of amounts in excess of bond resolution requirements. During fiscal year 2016, $6.7 million of Pool 1 funds in excess of requirements were transferred to Pool 2. Revenues over expenses in General Reserve that are in excess of the Pool 1 requirement are transferred periodically to Pool 2 for use in housing programs. Pool 2 also recorded a $3.0 million contribution to Pool 3 to be used for highly subsidized housing programs. Revenues over expenses plus non-operating transfers in Pool 2 may be transferred periodically, with approval of the Board, to Pool 3 for use in more highly subsidized housing programs. Board investment guidelines establish required balances for Pool 1 and Pool 2. In addition, Pool 2 made $16.7 million in bond sale contributions to the Homeownership Finance bond fund.

Combined revenues over expenses, including unrealized gains and losses for General Reserve and the bond funds, increased $14.2 million to $44.6 million when compared to the prior fiscal year. After removing

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

the effects of unrealized gains and losses and Pool 3 revenues and expenses, the combined revenues over expenses decreased 26.9% to $18 million.

Total combined net position of General Reserve and bond funds increased 5.4% to $862.4 million as of June 30, 2016. A portion of that increase is a result of current year unrealized gains on investments, without which the combined net position would have increased 2.8%. The net position of each individual bond fund increased. Pool 2, which resides in Residential Housing Finance, increased because of its $3.0 million contribution to Pool 3. After the $6.1 million transfer of Pool 1 excesses to Pool 2, the net position of General Reserve decreased $1.0 million as a result of a $1.3 million decrease in the Pool 1 requirement (which resides in General Reserve) which, in turn, was caused by a decrease in the balance of outstanding loans on which its requirement is based, netted against a $0.03 million increase in the balance of Invested in Capital Assets.

State and Federal Appropriated Funds-Statement of Net Position

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.

Investments, cash, and cash equivalents combined are the largest category of assets in the appropriated funds. The June 30, 2016 combined balance decreased .8% to $142.5 million as a result of the combined appropriations received and other revenues exceeding the combined disbursements for programs, loans and expenses during the fiscal year.

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, 2016 State Appropriated fund net loans receivable increased 12.9% to $41.3 million, reflecting higher net loan program activity.

Interest receivable in appropriated funds is a function of the timing of interest payments and the general level of interest rates on investments. Interest receivable on appropriated funds at June 30, 2016 increased .002 million. Accounts payable and other liabilities represent amounts payable for HUD's share of savings from certain debt refinancing activities and accrued expenses for federal and state housing programs. The balance payable at June 30, 2016 was $0.7 million compared to $3.8 million at June 30, 2015. Interfund payable occurs in the Federal Appropriated fund as a result of overhead expense and indirect cost recoveries owed to General Reserve. Interfund payable occurs in the State Appropriated fund because of accrued overhead expense payable to General Reserve. At June 30, 2016 the combined net interfund payable was $0.9 million.

At June 30, 2016 the balance of funds held for others was $47.1 million. Of that amount, $47.1 million is comprised of the proceeds of appropriation-backed housing bonds which are held for disbursement to certain multifamily affordable housing developments. The entire net position of the appropriated funds is restricted by law for use with housing programs only and is not pledged or available to secure bonds issued under any of the Agency's bond funds or other obligations of the Agency or its general obligation pledge in respect thereof. The combined net position of the appropriated funds increased to $136.0 million as of June 30, 2016, reflecting that combined receipts and revenues exceeded expenses during fiscal year 2016.

State and Federal Appropriated Funds-Revenues over Expenses

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

The largest revenue category is appropriations received, and is a function of the fiscal, legislative, and political environment of the State of Minnesota and the federal government. The combined appropriations received increased from $245.1 million in fiscal year 2015 to $261.1 million in fiscal year 2016. Federal appropriations received remained the same. State appropriations received increased by a net $15.4 million due

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)

to a $6.7 million increase in Housing Infrastructure Bonds issued along with a $9.1 million increase in appropriations received for the Economic Development and Housing Challenge program and the HECAT program.

The combined interest income from investments increased 19.5% to $1.4 million for fiscal year 2016.

Loan interest income from State Appropriations loan assets continues to be minimal at $0.7 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 2016. This consisted mainly of private donations and the receipt of interagency transfers to support certain state housing programs.

Unrealized gains or losses on investments are recorded to reflect current market valuations of investments, and may be reversed over time as investments are held. Combined unrealized gains of $0.11 million were recorded at June 30, 2016 compared to $0.001 million of unrealized losses at June 30, 2015.

Administrative reimbursements to General Reserve of overhead expenses to administer State Appropriated fund programs increased 15.7% to $1.4 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 fund to the extent of investment earnings on unexpended state appropriations. During fiscal year 2016 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 3.5% to $235.1 million compared to the prior fiscal year, reflecting State Appropriations disbursed of $39.5 million and federal appropriations disbursed of $195.6 million.

Increased expenditures of State Appropriated funds for fully-reserved below-market and zero-percent interest rate loans resulted in higher expense from reductions in carrying value of certain loans. Net reductions of carrying value decreased 6.0% to $18.3 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 9.0% to $1.9 million at June 30, 2016.

Combined expenditures were less than combined revenue of the appropriated funds by $7.6 million at June 30, 2016. Ultimately, the entire State and Federal Appropriated funds' net position will be expended for housing programs.

Significant Long Term Debt Activities

Minnesota Housing issues a significant amount of bonds, having outstanding at June 30, 2016 long-term bonds totaling $2,307.2 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, 2016, amounts held by the trustee in principal, interest, redemption, and reserve accounts represented full funding of those requirements as of that date.

Minnesota Housing continually investigates and utilizes financing and debt management techniques designed to achieve its goals of reducing interest expense and efficiently utilizing bonding authority while managing risk and responding to changing capital markets. During 2016 fiscal year, Minnesota Housing issued eighteen series of bonds aggregating $684.7 million (excluding appropriation-backed housing bonds, conduit bonds, limited obligation drawdown index bonds, and short-term borrowing against a line of credit), compared to the issuance of nine series totaling $453.0 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.

Significant Long Term Debt Activities (continued)

A total of $441.4 million in bond principal repayments and $87.3 million of bond-related interest expense occurred during fiscal year 2016. Of the total bond principal repayments, $341.6 million were repayments made on bonds prior to the scheduled maturity date using a combination of optional and special redemption provisions.

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

While most of the Agency's bonds are tax-exempt, taxable bonds have been issued to supplement limited tax-exempt authority in order to meet demand for 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. One series of bonds was issued to refund existing debt in fiscal year 2016. 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 year 2016 enabling the Agency to provide below-market mortgage financing at synthetically fixed interest rates. Interest-rate swaps help to hedge the mismatch between fixed-rate loans and variable-rate bonds. The Agency issued two new series of variable rate bonds in fiscal year 2016 in a principal amount totaling $53.2 million each with an interest rate swap with the equivalent notional amount.(See Interest Rate Swaps under the notes to the financial statements for further discussion of interest-rate swaps and their risks.)

The Agency also had outstanding at June 30, 2016 certain conduit bonds and appropriation-backed housing bonds which are not payable from any funds of the Agency (other than from funds received specifically to pay debt service on those bonds), and certain limited obligation drawdown index bonds, only the interest on which is payable from funds of the Agency, and which are discussed in the notes to the financial statements. Board policy governs the process Minnesota Housing follows to issue and manage debt. State statute limits total outstanding bonds and notes of Minnesota Housing to $5.0 billion.

At June 30, 2016 Minnesota Housing's issuer ratings were "AA+" and "Aa1" from Standard and Poor's Ratings Services and Moody's Investors Service, Inc., respectively. Minnesota Housing's credit ratings are separate from, and are not directly dependent on, ratings on debt issued by the State of Minnesota. Ongoing reporting to and communications with the bond rating agencies are priorities for the Agency.

Significant Factors that May Affect Financial Conditions and/or Operations

Legislative Actions

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 recommendation for $70 million in Housing Infrastructure Bonds and $20 million in General Obligation Bonds for public housing rehabilitation as part of a bonding bill. After an 11 week session, a busy final weekend of negotiations, and attempts at a last-minute passage of a bonding bill, the 2016 Regular Legislative Session ended without passage of a bonding bill. Legislative leaders and the Governor are in discussions for a possible special session in August. The agenda for the special session could include a bonding bill. The special session has not been scheduled as of August 25, 2016.

The Legislature did approve a supplemental budget bill, which was signed by the Governor. It included several appropriations to Minnesota Housing. These appropriations are all one-time funding for State Fiscal Year 2017, with the exception of the appropriation to Build Wealth Minnesota, which is for ongoing funding.

Significant Factors that May Affect Financial Conditions and/or Operations (continued)

The appropriations are for programs that are not currently part of the agency's state appropriated base budget. They include:

- $250,000 for a Landlord Risk Mitigation Fund Pilot within the Family Homeless Prevention and Assistance Program
- $500,000 for a Rental Assistance for Exploited Families Pilot Program
- $750,000 for a Workforce and Affordable Homeownership Program
- $500,000 for housing in an area with a job training center (student housing)
- $500,000 for a direct appropriation to Build Wealth Minnesota for intensive homebuyer counseling (ongoing funding)

In addition to these appropriations, there was a policy change to the Family Homeless Prevention and Assistance Program that allows tribal nations to apply for funding and changes the definition of homeless youth from age 22 and under to age 24 and under.

Additional Information

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

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Net Position (in thousands)
As of June 30, 2016 (with comparative totals as of June 30, 2015)

		Agency wide Total as of June 30, 2016	Agency wide Total as of June 30, 2015
Assets	Cash and cash equivalents	$ 530,172	$ 383,438
	Investments-program mortgage-backed securities	1,444,863	1,140,834
	Investment securities-other	270,425	263,418
	Loans receivable, net	1,224,448	1,348,525
	Interest receivable on loans and program mortgage-backed securities	10,816	11,118
	Interest receivable on investments	1,089	1,016
	FHA/VA insurance claims, net	2,634	4,600
	Real estate owned, net	3,103	4,002
	Capital assets, net	2,783	2,449
	Other assets	2,465	4,584
	Total assets	3,492,798	3,163,984
Deferred Outflows of Resources	Deferred loss on refunding	199	267
	Deferred loss on interest rate swap agreements	11,764	12,649
	Deferred pension expense	2,980	1,042
	Total deferred outflows of resources	14,943	13,958
Liabilities			
	Bonds payable, net	2,307,222	2,033,332
	Interest payable	26,900	29,980
	Interest rate swap agreements	11,764	12,649
	Net pension liability	8,979	9,313
	Accounts payable and other liabilities	15,206	8,453
	Funds held for others	115,854	117,060
	Total liabilities	2,485,925	2,210,787
Deferred Inflows of Resources	Deferred service release fee	12,118	9,122
	Deferred pension credit	11,327	11,821
	Total deferred inflows of resources	23,445	20,943
	Commitments and contingencies		
Net Position	Restricted by bond resolution	382,133	339,091
	Restricted by covenant	477,456	476,252
	Restricted by law	135,999	128,420
	Invested in capital assets	2,783	2,449
	Total net position	998,371	946,212
	Total liabilities, deferred inflows of resources, and net position	$ 3,507,741	$ 3,177,942

See accompanying notes to financial statements

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Activities (in thousands)
Year-ended June 30, 2016 (with comparative total for year ended June 30, 2015)

		Agency-wide Total for Year Ended June 30, 2016	Agency-wide Total for Year Ended June 30, 2015
Revenue	Interest earned on loans	$ 68,884	$ 80,692
	Interest earned on investments-program mortgage-backed securities	41,846	34,648
	Interest earned on investments-other	9,643	9,315
	Net G/L on Sale of MBS Held for Sale/HOMES Certificates	3,756	3,904
	Appropriations received	261,144	245,137
	Administrative reimbursement	774	674
	Fees earned and other income	15,495	15,001
	Unrealized gains on investments	33,522	11,363
	Total revenues	435,064	400,734
Expenses	Interest	68,580	72,105
	Financing, net	18,694	14,764
	Loan administration and trustee fees	4,182	4,579
	Salaries and benefits	21,258	20,457
	Other general operating	12,870	12,749
	Appropriations disbursed	235,135	227,117
	Reduction in carrying value of certain low interest rate deferred loans	18,831	21,046
	Provision for loan losses	3,355	(759)
	Total expenses	382,905	372,058
Net Position	Change in net position	52,159	28,676
	Total net position, beginning of period	946,212	917,536
	Total net position, end of year	$ 998,371	$ 946,212

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, 2016 (with comparative totals as of June 30, 2015)

		General Reserve	Bond Funds					Appropriated Funds			
			Rental Housing	Residential Housing Finance	Homeownership Finance	Multifamily Housing	HOMES^{SM}	State Appropriated	Federal Appropriated	Total as of June 30, 2016	Total as of June 30, 2015
Assets	Cash and cash equivalents	$ 58,048	$ 47,552	$ 267,896	$ 45,808	$ 1,362	$ -	$ 105,418	$ 4,088	$ 530,172	$ 383,438
	Investments-program mortgage-backed securities	-	-	476,868	967,995	-	-	-	-	1,444,863	1,140,834
	Investment securities-other	20,068	2,097	187,059	1,400	-	26,788	28,442	4,571	270,425	263,418
	Loans receivable, net	-	146,783	1,022,019	-	14,305	-	41,341	-	1,224,448	1,348,525
	Interest receivable on loans and program mortgage-backed securities	-	620	7,232	2,881	52	-	31	-	10,816	11,118
	Interest receivable on investments	78	19	727	7	-	67	187	4	1,089	1,016
	FHA/VA insurance claims, net	-	-	2,634	-	-	-	-	-	2,634	4,600
	Real estate owned, net	-	-	3,103	-	-	-	-	-	3,103	4,002
	Capital assets, net	2,783	-	-	-	-	-	-	-	2,783	2,449
	Other assets	1,285	59	359	26	-	-	-	736	2,465	4,584
	Total assets	82,262	197,130	1,967,897	1,018,117	15,719	26,855	175,419	9,399	3,492,798	3,163,984
Deferred Outflows of Resources	Deferred loss on refunding	-	-	199	-	-	-	-	-	199	267
	Deferred loss on interest rate swap agreements	-	-	11,764	-	-	-	-	-	11,764	12,649
	Deferred pension expense	2,980	-	-	-	-	-	-	-	2,980	1,042
	Total deferred outflows of resources	2,980	-	11,963	-	-	-	-	-	14,943	13,958
Liabilities	Bonds payable, net	-	54,680	1,277,263	935,606	14,200	25,473	-	-	2,307,222	2,033,332
	Interest payable	-	592	20,061	6,144	36	67	-	-	26,900	29,980
	Interest rate swap agreements	-	-	11,764	-	-	-	-	-	11,764	12,649
	Net pension liability	8,979	-	-	-	-	-	-	-	8,979	9,313
	Accounts payable and other liabilities	4,028	9,431	917	63	-	-	642	125	15,206	8,453
	Interfund payable (receivable)	(20,748)	-	19,859	-	-	-	277	612	-	-
	Funds held for others	67,376	-	-	-	-	1,315	47,161	2	115,854	117,060
	Total liabilities	59,635	64,703	1,329,864	941,813	14,236	26,855	48,080	739	2,485,925	2,210,787
Deferred Inflows of Resources	Deferred service release fee	-	-	10,098	2,020	-	-	-	-	12,118	9,122
	Deferred pension credit	11,327	-	-	-	-	-	-	-	11,327	11,821
	Total deferred inflows of resources	11,327	-	10,098	2,020	-	-	-	-	23,445	20,943
	Commitments and contingencies										
Net Position	Restricted by bond resolution	-	132,427	173,939	74,284	1,483	-	-	-	382,133	339,091
	Restricted by covenant	11,497	-	465,959	-	-	-	-	-	477,456	476,252
	Restricted by law	-	-	-	-	-	-	127,339	8,660	135,999	128,420
	Invested in capital assets	2,783	-	-	-	-	-	-	-	2,783	2,449
	Total net position	$ 14,280	$ 132,427	$ 639,898	$ 74,284	$ 1,483	$ -	$ 127,339	$ 8,660	$ 998,371	$ 946,212

See accompanying notes to financial statements

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MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Revenue, Expenses and Changes in Net Position (in thousands)
Proprietary Funds
Year ended June 30, 2016 (with comparative totals for year ended June 30, 2015)

		General Reserve	Bond Funds: Rental Housing	Bond Funds: Residential Housing Finance	Bond Funds: Homeownership Finance	Bond Funds: Multifamily Housing	HOMES[SM]	Appropriated Funds: State Appropriated	Appropriated Funds: Federal Appropriated	Total for the Year Ended June 30, 2016	Total for the Year Ended June 30, 2015
Revenues	Interest earned on loans	$ -	$ 8,336	$ 59,189	$ -	$ 632	$ -	$ 727	$ -	$ 68,884	$ 80,692
	Interest earned on investments-program mortgage-backed securities	-	-	10,783	31,063	-	-	-	-	41,846	34,648
	Interest earned on investments-other	161	101	7,092	27	1	837	1,389	35	9,643	9,315
	Net G/L on Sale of MBS Held for Sale/HOMES Certificates	-	-	3,756	-	-	-	-	-	3,756	3,904
	Appropriations received	-	-	-	-	-	-	65,718	195,426	261,144	245,137
	Administrative reimbursement	21,523	-	-	-	-	-	-	-	21,523	20,142
	Fees earned and other income	11,252	313	2,043	202	-	-	1,685	-	15,495	15,001
	Unrealized gains (losses) on investments	-	119	22,826	10,465	-	-	121	(9)	33,522	11,363
	Total revenues	32,936	8,869	105,689	41,757	633	837	69,640	195,452	455,813	420,202
Expenses	Interest	-	1,580	39,656	26,076	431	837	-	-	68,580	72,105
	Financing, net	-	-	10,477	8,217	-	-	-	-	18,694	14,764
	Loan administration and trustee fees	-	79	3,624	348	5	-	126	-	4,182	4,579
	Administrative reimbursement	-	1,102	12,837	5,326	95	-	1,389	-	20,749	19,468
	Salaries and benefits	21,258	-	-	-	-	-	-	-	21,258	20,457
	Other general operating	6,010	5	4,877	27	-	-	1,951	-	12,870	12,749
	Appropriations disbursed	-	-	-	-	-	-	39,504	195,631	235,135	227,117
	Reduction in carrying value of certain low interest rate deferred loans	-	(18)	544	-	-	-	18,305	-	18,831	21,046
	Provision for loan losses	-	(322)	3,071	-	(1)	-	607	-	3,355	(759)
	Total expenses	27,268	2,426	75,086	39,994	530	837	61,882	195,631	403,654	391,526
	Revenues over (under) expenses	5,668	6,443	30,603	1,763	103	-	7,758	(179)	52,159	28,676
Other changes	Non-operating transfer of assets between funds	(6,682)	71	(10,057)	16,668	-	-	-	-	-	-
	Change in net position	(1,014)	6,514	20,546	18,431	103	-	7,758	(179)	52,159	28,676
Net Position	Total net position, beginning of Year	15,294	125,913	619,352	55,853	1,380	-	119,581	8,839	946,212	917,536
	Total net position, end of Year	$ 14,280	$ 132,427	$ 639,898	$ 74,284	$ 1,483	$ -	$ 127,339	$ 8,660	$ 998,371	$ 946,212

See accompanying notes to financial statements

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MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds
Year ended June 30, 2016 (with comparative totals for year ended June 30, 2015)

Cash flows from operating activities

Cash flows from non-capital financing activities

Cash flows from investing activities

Cash and cash equivalents

		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, 2016	Total for the Year Ended June 30, 2015
Cash flows from operating activities:										
Principal repayments on loans and program mortgage-backed securities	$ -	$ 30,893	$ 209,807	$ 111,625	$ 169	$ -	$ 8,966	$ -	$ 361,460	$295,606
Investment in loans/loan modifications and program mortgage-backed securities	-	(23,490)	(281,495)	(203,708)	-	-	(29,888)	-	(538,581)	(405,038)
Interest received on loans and program mortgage-backed securities	-	8,272	68,889	32,339	633	-	509	-	110,642	111,569
Fees and other income received	11,181	313	13,862	-	-	-	1,685	-	27,041	23,975
Salaries, benefits and other operating	(27,277)	(43)	(17,598)	(417)	(5)	-	(2,056)	-	(47,396)	(45,737)
Appropriations received	-	-	-	-	-	-	65,718	197,404	263,122	243,209
Appropriations disbursed	-	-	-	-	-	-	(39,740)	(197,610)	(237,350)	(225,543)
Administrative reimbursement from funds	21,617	(1,110)	(12,837)	(5,326)	(95)	-	(1,513)	-	736	752
Deposits into funds held for others	28,083	-	-	-	-	-	33,782	-	61,865	69,466
Disbursements made from funds held for others	(27,902)	-	-	-	-	-	(36,672)	-	(64,574)	(41,538)
Interfund transfers and other assets	(2,542)	94	212	(1)	67	-	(1)	-	(2,171)	(789)
Net cash provided (used) by operating activities	3,160	14,929	(19,160)	(65,488)	769	-	790	(206)	(65,206)	25,932
Cash flows from noncapital financing activities:										
Proceeds from sale of bonds and notes	-	28,340	1,253,892	200,610	-	-	-	-	1,482,842	946,508
Principal repayment on bonds and notes	-	(16,590)	(1,084,975)	(101,455)	(230)	(3,195)	-	-	(1,206,445)	(931,361)
Interest paid on bonds and notes	-	(1,750)	(44,674)	(26,473)	(431)	(845)	-	-	(74,173)	(75,675)
Financing costs paid related to bonds issued	-	-	(5,241)	(1,686)	-	-	-	-	(6,927)	(6,071)
Agency contribution to program funds	-	71	(5,387)	5,316	-	-	-	-	-	-
Transfer of cash between funds	(8,585)	-	8,585	-	-	-	-	-	-	-
Net cash provided (used) by noncapital financing activities	(8,585)	10,071	122,200	76,312	(661)	(4,040)	-	-	195,297	(66,599)
Cash flows from investing activities:										
Investment in real estate owned	-	-	(2,189)	-	-	-	-	-	(2,189)	(3,825)
Interest received on investments	701	96	6,686	21	1	845	1,157	38	9,545	8,933
Net gain (loss) on Sale of MBS Held for Sale and HOMES Certificates	-	-	(7,577)	-	-	-	-	-	(7,577)	(3,690)
Proceeds from sale of mortgage insurance claims/real estate owned	-	-	21,321	-	-	-	-	-	21,321	32,323
Proceeds from maturity, sale or transfer of investment securities	10,000	25	624,403	670	-	3,195	10,000	-	648,293	505,285
Purchase of investment securities	-	-	(652,750)	-	-	-	-	-	(652,750)	(511,484)
Purchase of loans between funds	-	-	3,348	-	-	-	(3,348)	-	-	-
Net cash provided (used) by investing activities	10,701	121	(6,758)	691	1	4,040	7,809	38	16,643	27,542
Net increase (decrease) in cash and cash equivalents	5,276	25,121	96,282	11,515	109	-	8,599	(168)	146,734	(13,125)
Cash and cash equivalents:										
Beginning of period	52,772	22,431	171,614	34,293	1,253	-	96,819	4,256	383,438	396,563
End of period	$ 58,048	$ 47,552	$ 267,896	$ 45,808	$ 1,362	$ -	$ 105,418	$ 4,088	$ 530,172	$ 383,438

See accompanying notes to financial statements

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MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds (continued)
Year ended June 30, 2016 (with comparative totals for year ended June 30, 2015)

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, 2016	Total for the Year Ended June 30, 2015
Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities:										
Revenues over (under) expenses	$ 5,668	$ 6,443	$ 30,603	$ 1,763	$ 103	$ -	$ 7,758	$ (179)	$ 52,159	$ 28,676
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	-	(135)	413	1,535	-	-	-	-	1,813	763
Amortization of proportionate share-Pension	(80)	-	-	-	-	-	-	-	(80)	(47)
Depreciation	2,224	-	-	-	-	-	-	-	2,224	2,131
Gain (loss) on sale of MBS held for sale and HOMES Certificates	-	-	(3,756)	-	-	-	-	-	(3,756)	(3,904)
Realized losses (gains) on sale of securities, net	-	-	(715)	-	-	-	(140)	-	(855)	(367)
Unrealized losses (gains) on securities, net	-	(119)	(22,826)	(10,465)	-	-	(121)	9	(33,522)	(11,363)
Salaries and Benefits-Pensions	(2,686)	-	-	-	-	-	-	-	(2,686)	(2,241)
Provision for loan losses	-	(322)	3,071	-	(1)	-	607	-	3,355	(759)
Reduction in carrying value of certain low interest rate and/or deferred loans	-	(18)	544	-	-	-	18,305	-	18,831	21,046
Capitalized interest on loans and real estate owned	-	(14)	(1,986)	-	-	-	(203)	-	(2,203)	(2,616)
Interest earned on investments	(161)	(101)	(6,377)	(27)	(1)	(837)	(1,249)	(35)	(8,788)	(8,328)
Interest expense on bonds and notes	-	1,580	39,656	26,076	431	837	-	-	68,580	72,105
Financing expense on bonds	-	-	10,429	8,217	-	-	-	-	18,646	14,764
Changes in assets and liabilities:										
Decrease (increase) in loans receivable and program mortgage backed securities, excluding loans transferred between funds	-	7,403	(71,688)	(92,083)	169	-	(20,922)	-	(177,121)	(109,432)
Decrease (increase) in interest receivable on loans	-	85	490	(259)	1	-	(15)	-	302	384
Increase (decrease) in arbitrage rebate liability	-	-	-	-	-	-	-	-	-	(2,920)
Increase (decrease) in accounts payable	1,096	41	2,770	(244)	-	-	(215)	(2,142)	1,306	3,255
Increase (decrease) in interfund payable, affecting operating activities only	97	6	(6)	-	-	-	(125)	(573)	(601)	7
Increase (decrease) in funds held for others	181	-	-	-	-	-	(2,890)	-	(2,709)	27,928
Other	(3,179)	80	218	(1)	67	-	-	2,714	(101)	(3,150)
Total	(2,508)	8,486	(49,763)	(67,251)	666	-	(6,968)	(27)	(117,365)	(2,744)
Net cash provided (used) by operating activities	$ 3,160	$ 14,929	$ (19,160)	$ (65,488)	$ 769	$ -	$ 790	$ (206)	$ (65,206)	$ 25,932

See accompanying notes to financial statements

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MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2016

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 issued under a separate trust indenture and the Alternative Loan Fund which consists of the Housing Investment Fund (Pool 2) and the Housing Affordability Fund (Pool 3). All of these funds are restricted by a covenant with bondholders as to their use.

The bond resolution within Residential Housing Finance, along with the Homeownership Finance bond resolution, were the principal sources of financing for bond-financed homeownership programs (see Homeownership Finance below). Bonds were issued for the purpose of funding purchases of single family first mortgage loans, mortgage-backed securities backed by single family first mortgage loans, some related entry cost housing assistance loans, and subordinated home improvement loans. The majority of the single family first mortgage loans financed by these bond issues are insured by private mortgage insurers or the Federal Housing Administration (FHA) or guaranteed by the U.S. Department of Veterans Affairs (VA) or the U.S. Department of Agriculture Rural Development (RD). Assets financed by the bonds issued and outstanding under the Residential Housing Finance bond resolution are pledged to the repayment of Residential Housing Finance bonds.

The Alternative Loan Fund has been established in Residential Housing Finance and residing therein are two sub funds: Housing Investment Fund (Pool 2) and Housing Affordability Fund (Pool 3). Funds deposited therein would otherwise be available to be transferred to General Reserve. The Alternative Loan Fund is not pledged to the payment of the Residential Housing Finance bonds or any other debt obligation of the Agency

Nature of Business and Fund Structure (continued)

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 2016 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 2016 funds from Pool 3 were used for entry cost assistance for first-time homebuyers, below-market interim financing for construction and rehabilitation of single family housing, capital costs and rental assistance for permanent supportive housing, advances for certain multifamily housing developments in anticipation of permanent funding through state appropriation-backed housing bonds, and deferred, subordinated multifamily loans.

The Residential Housing Finance bond resolution prescribes the application of bond proceeds, debt service requirements of the bond indebtedness, permitted investments, and eligible loans to be financed from the bond proceeds. The limited obligation drawdown index bonds trust indenture prescribes the application of debt proceeds and permitted investments.

Homeownership Finance

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

Home Ownership Mortgage-backed Exempt Securities (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

Nature of Business and Fund Structure (continued)

position of the State Appropriated fund is not pledged or available to secure bonds issued under any of the Agency's bond funds or creditors of the Agency.

Federal Appropriated

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

Summary of Significant Accounting Policies

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

Basis of Accounting

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

Generally Accepted Accounting Principles

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

New Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72 *Fair Value Measurement and Application.* This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount. Valuation techniques should be applied consistently, though a change may be appropriate in certain circumstances. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The provisions of this statement

Summary of Significant Accounting Policies (continued)

were implemented in fiscal year ended June 30, 2016.

In June 2015, the GASB issued Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter period equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* establishes new accounting and financial reporting requirements for OPEB plans. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a non employer entity provides financial support for OPEB of employees of another entity. In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria: Contributions from employers and non employer contributing entities to the OPEB plan and earnings on those contributions are irrevocable. OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged

In December 2015, the GASB issued Statement No. 79 *Certain External Investment Pools and Pool Participants.* This Statement supersedes *Implementation Guide No. 2015-1*. It also amends Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*; Statement No. 40, *Deposit and Investment Risk Disclosures*; Statement No. 59, *Financial Instruments Omnibus*; and Statement No. 72, *Fair Value Measurement and Application*. The objective of this Statement is to address for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. This Statement establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement also establishes accounting and financial reporting standards for state and local governments that participate in qualifying external investment pool that measures for financial reporting purposes all of its investments at amortized cost.

This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

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

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

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.

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, 2016.

Interest Receivable on Loans and Program Mortgage-Backed Securities

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

FHA/VA Insurance Claims Receivable, Net

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

Real Estate Owned, Net

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

Deferred Loss on Interest Rate Swap Agreements

The Agency's interest rate swap agreements have a negative fair value as of the end of fiscal year 2016. Because these agreements have been determined to be effective hedges under applicable accounting guidance, the negative fair value is recorded as a deferred loss.

Deferred Pension Expense and Credits

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

Bonds Payable

Bonds payable are carried at their unpaid principal balances.

Interest Rate Swap Agreements

Because the Agency's interest rate swap agreements have a negative fair value as of the end of fiscal year 2016, they are recorded here as a liability.

Net Pension Liability

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

Pension

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

Inter fund Payable (Receivable)

Inter fund payable (receivable) primarily reflects pending transfers of cash and assets between funds. The more significant activities that flow through this fund may include funds advanced for purposes of optionally redeeming bonds when economically advantageous; funds advanced for loan warehousing; administrative fees receivable and payable between funds; non-operating transfers among the Housing Endowment Fund (Pool 1), the Housing Investment Fund (Pool 2), and the Housing Affordability Fund (Pool 3); and certain mortgage payments received but not yet transferred to their respective funds.

Funds Held for Others

Funds Held for Others are primarily escrow amounts held by the Agency on behalf of multifamily housing developments where the Agency holds the first mortgages. These amounts are held under the terms of the related loans and federal regulations regarding subsidized housing. Investment income relating to these funds is credited directly to the escrow funds and is not included in the investment income of General Reserve.

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

Also included in funds held for others are unrealized gains and losses on investments of the multifamily housing development escrow fund investments, unrealized gains and losses on the mortgage-backed securities supporting 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.

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, 2016. 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.

Summary of Significant Accounting Policies (continued)

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

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

Restricted by Bond Resolution

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

Restricted by Covenant

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

Restricted by Law

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

Invested in Capital Assets

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

Agency-wide Total

The Agency-wide Total columns reflect the totals of the similar accounts of the various funds. Since the assets of certain of the funds are restricted by either the related bond resolutions or legislation, the totaling of the accounts, including assets therein, and does not indicate that the combined assets are available in any 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 2015 are for comparative purposes only.

Administrative Reimbursement

The largest source of funding for the Agency's administrative operations is a monthly transfer from each of the bond funds to General Reserve based on adjusted assets. Adjusted assets are defined as total assets excluding the reserve for loan loss, proceeds of limited obligation debt and unrealized appreciation and depreciation on investments including all mortgage-backed securities. Additional funding for the Agency's administrative operations is provided by a monthly transfer from Residential Housing Finance Pool 2 based on a portion of the net gain on the sale of mortgage-backed securities held for sale.

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

For programs funded by federal appropriations, the Agency recovers the cost of administering programs through an approved federal indirect cost recovery rate but only to the extent that funds are available. Certain other direct costs are also recovered. Total direct and indirect costs recovered from the federal government in the amount of $0.606 million are reflected as administrative reimbursement revenues in the General Reserve.

Administrative reimbursements in the amount of $20.749 million between the Agency's funds have been eliminated from the respective administrative reimbursement revenues and expenses line items for purposes of presentation in the Agency-wide statement of activities.

Fees Earned and Other Income

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

Reduction in Carrying Value of Certain Low-Interest Rate Deferred Loans

The carrying value of certain Housing Affordability Fund (Pool 3) loans and State Appropriated loans which are originated at below market interest rates and for which repayment is deferred for up to 30 years, is written down to zero at the time of origination by providing for a Reduction in Carrying Value of Certain Low Interest Rate Deferred Loans because of the nature of these loans and the risks associated with them. Certain of these loans may be forgiven at maturity.

Other Changes

The Agency utilizes the Other Changes section of the Statement of Revenues, Expenses and Changes in Net Position to describe various non-operating transfers of assets between funds.

Non-operating Transfer of Assets Between Funds

Non-operating transfers occur as a result of bond sale contributions related to new debt issues; transfers between the Housing Endowment Fund (Pool 1), the Housing Investment Fund (Pool 2), and the Housing Affordability Fund (Pool 3) to maintain the Pool 1 required balance; and periodic transfers from the bond funds of assets in excess of bond resolution requirements.

Non-Cash Activities

Transfers from loans receivable to FHA/VA insurance claims receivable and real estate owned for fiscal year 2016 were $17.2 million in Residential Housing Finance.

Use of Estimates

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

Income Taxes

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

Rebatable Arbitrage

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

Permitted Agency investments include government obligations, commercial paper, repurchase agreements, money market funds, guaranteed investment contracts (i.e., investment agreements), the State investment pool, corporate obligations, municipal bonds and other investments consistent with requirements of safety and liquidity that comply with applicable provisions of the bond resolutions, state law and Board policy.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2016 (continued)

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, 2016 (in thousands):

Cash and Cash Equivalents

Funds	Deposits	Money Market Funds	State Investment Pool	Investment Agreements	Combined Totals
General Reserve Account	$ -	$ -	$ 58,048	$ -	$ 58,048
Rental Housing	-	47,552	-	-	47,552
Residential Housing Finance	1,603	261,708	-	4,585	267,896
Homeownership Finance Bonds	-	45,808	-	-	45,808
Multifamily Housing Bonds	-	1,362	-	-	1,362
HOMES^{SM}	-	-	-	-	-
State Appropriated Accounts	271	47,067	58,080	-	105,418
Federal Appropriated Accounts	726	3,360	2	-	4,088
Combined Totals	$ 2,600	$ 406,857	$ 116,130	$ 4,585	$ 530,172

Deposits were cash awaiting investment, consisting of interest earned on investments received too late on the last day of the fiscal year to be invested and loan servicer deposits in transit.

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

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, 2016 (in thousands):

Cash, Cash Equivalents and Investment Securities (continued)

Investment Securities

Funds	Investment Securities- Other at Amortized Cost	Program Mortgage-backed Securities at Amortized Cost	Unrealized Appreciation (Depreciation) in Fair Market Value	Estimated Fair Market Value
General Reserve Account	$ 19,774	$ -	$ 294	$ 20,068
Rental Housing	1,827	-	270	2,097
Residential Housing Finance	181,296	456,288	26,343	663,927
Homeownership Finance Bonds	1,400	922,027	45,968	969,395
Multifamily Housing Bonds	-	-	-	-
HOMES^SM	25,473	-	1,315	26,788
State Appropriated Accounts	27,268	-	1,174	28,442
Federal Appropriated Accounts	4,548	-	23	4,571
Combined Totals	$ 261,586	$ 1,378,315	$ 75,387	$ 1,715,288

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, 2016 were (in thousands):

Credit Ratings of Investment Securities

Type	Par Value	AA+/Aaa	AA/Aa2
U.S. Agencies	$ 1,580,201	$ 1,580,201	$ -
Municipal Bonds	31,565	-	31,565
Agency-wide Totals	$ 1,611,766	$ 1,580,201	$ 31,565
U.S. Treasuries	10,520		
Agency-wide Totals	$ 1,622,286		

Examining the weighted average maturities of the Agency's investment securities can reveal information about interest rate risk. Cash, Cash Equivalents and Investment Securities (excluding unrealized appreciation of \$75.387 million and net discounts of \$17.615 million), along with the weighted average maturities (in years) as of June 30, 2016, consisted of the following (in thousands):

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2016 (continued)

Cash, Cash Equivalents and Investment Securities (continued)

Type	Par Value	General Reserve	Rental Housing	Residential Housing Finance	Homeownership Finance	Multifamily Housing	HOMES[SM]	State Appropriated	Federal Appropriated
		Weighted Average Maturity, in Years							
Deposits	$ 2,600	-	-	-	-	-	-	-	-
Money market fund	406,858	-	-	-	-	-	-	-	-
State investment pool	116,129	-	-	-	-	-	-	-	-
Investment agreements	4,585	-	-	-	-	-	-	-	-
US agencies	1,580,201	1.8	20.6	27.7	26.9	-	27.1	1.8	-
US treasuries	10,520	-	-	3.7	-	-	-	-	1.9
Municipal bonds	31,565	-	-	-	-	-	-	8.7	-
Agency-wide Totals	$2,152,458								
Weighted Average Maturity		0.5	0.8	18.6	25.6	-	27.1	0.8	-

Investments in any one issuer, excluding $1,135 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, 2016 were as follows (in thousands):

Investment Issuer	Amount
Federal National Mortgage Association, U.S. Agencies	$ 408,292

The Agency maintained certain deposits and investments throughout fiscal year 2016 that were subject to custodial credit risk. As of June 30, 2016, the amounts subject to this risk consisted of the following (in thousands):

	Amount
Deposits not covered by depository insurance and uncollateralized (including $406,859 in a money market fund and $116,129 in the State investment pool)	$ 525,590
Investment securities uninsured, uncollateralized and not held in the Agency's name	1,626,869
Agency-wide Total	$ 2,152,459

Net realized loss on sale of investment securities of $0.855 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, 2016 were as follows (in thousands).

Funds	Amount
Rental Housing	$ 1,829
Residential Housing Finance	34,463
Multifamily Housing	488
Combined Totals	$ 36,780

Cash, Cash Equivalents and Investment Securities (continued)

The following table summarizes Minnesota Housing's investments with in the fair value hierarchy at June 30, 2016:

Investments (at par value)	Level 1	Level 2	Level 3	Total
US Agencies	54,866	1,525,334	-	1,580,200
US Treasuries	10,520	-	-	10,520
Municipal Bonds	-	31,565	-	31,565
Total	65,386	1,556,899	-	1,622,285
Prem/Disc & Unrealized Appr/Depr				93,002
Fair Market Value				1,715,287

Loans Receivable, Net

Loans receivable, net at June 30, 2016 consisted of (in thousands):

Funds	Outstanding Principal	Allowance for Loan Losses	Loans Receivable, Net
General Reserve	$ -	$ -	$ -
Homeownership Finance	-	-	-
Rental Housing	150,365	(3,582)	146,783
HOMES[SM]	-	-	-
Residential Housing Finance	1,032,745	(10,726)	1,022,019
Multifamily Housing	14,376	(71)	14,305
State Appropriated	42,404	(1,063)	41,341
Federal Appropriated	-	-	-
Agency-wide Totals	$ 1,239,890	$ (15,442)	$ 1,224,448

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 2016 aggregated $5.467 million in the Residential Housing Finance Housing Affordability Fund (Pool 3) and $29.059 million in State Appropriated. Loans with net carrying values of zero are excluded from the tables above and below.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2016 (continued)

Loans Receivable, Net (continued)

Loans receivable, net and gross in Residential Housing Finance at June 30, 2016 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	$ 675,938	$ 681,167
Other homeownership loans, generally secured by a second mortgage	1,071	1,110
Alternative Loan Fund, Housing Investment Fund (Pool 2):		
Home Improvement loans, generally secured by a second mortgage	76,648	77,678
Homeownership, first mortgage loans	33,007	33,657
Other homeownership loans, generally secured by a second mortgage	22,427	23,121
Multifamily, first mortgage loans	169,116	170,410
Alternative Loan Fund, Housing Affordability Fund (Pool 3):		
Other homeownership loans, generally secured by a second mortgage	43,812	45,602
Residential Housing Finance Totals	$ 1,022,019	$ 1,032,745

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, 2016 consisted of the following (in thousands):

Funds	Receivables Due from the Federal Government	Other Assets and Receivables	Total
General Reserve Account	$ 1,285	$ -	$ 1,285
Rental Housing	-	59	59
Residential Housing Finance	-	359	359
Homeownership Finance	-	26	26
Multifamily Housing	-	-	-
HOMES^{SM}	-	-	-
State Appropriated	-	-	-
Federal Appropriated	736	-	736
Combined Totals	$ 2,021	$ 444	$ 2,465

Bonds Payable

Summary of bonds payable activity at June 30, 2016 is as follows (in thousands):

Funds	June 30, 2015 Bonds Outstanding	Bonds Issued	Bonds Repaid	June 30, 2016 Bonds Outstanding
Rental Housing	$ 42,930	$ 28,340	$ 16,590	$ 54,680
Residential Housing Finance	1,104,035	449,705	319,975	1,233,765
Homeownership Finance	836,451	200,610	101,455	935,606
Multifamily Housing	14,430	-	230	14,200
HOMES^{SM}	28,668	-	3,195	25,473
Drawdown Index Bonds	-	6,000	-	6,000
Totals	$ 2,026,514	$ 684,655	$ 441,445	2,269,724
Bond Premium-Residential Housing Finance				14,498
Notes Payable				23,000
				$ 2,307,222

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

Bonds payable at June 30, 2016 were as follows (in thousands):

Series	Interest rate	Final Maturity	Original amount	June 30, 2016 Bonds Outstanding, at Par
Rental Housing Bonds				
2006 Series C-1	4.96%	2037	2,860	2,435
2007 Series A-1	4.65%	2038	3,775	3,265
2010 Series A-1	3.75% to 5.25%	2040	3,605	3,480
2011 Series A	1.70% to 5.45%	2041	8,890	7,275
2012 Series A-1	3.75%	2048	4,175	4,065
2013 Series A-1	3.50% to 5.30%	2049	3,710	3,650
2013 Series B-1	3.65% to 5.30%	2044	2,040	1,995
2014 Series A	0.625%	2016	5,550	175
2015 Series A	0.800%	2017	6,620	6,620
2015 Series B	0.750%	2017	7,450	7,450
2015 Series C	0.750%	2017	3,070	3,070
2015 Series D	0.750%	2017	1,700	1,700
2016 Series A	0.900%	2018	9,500	9,500
			62,945	54,680

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2016 (continued)

Bonds Payable (continued)

Series	Interest rate	Final Maturity	Original amount	June 30, 2016 Bonds Outstanding, at Par
Residential Housing Finance Bonds				
2003 Series A	3.70% to 4.30%	2023	40,000	1,265
2003 Series B	Variable	2033	25,000	9,365
2003 Series I	4.70% to 5.10%	2020	25,000	1,050
2003 Series J	Variable	2033	25,000	7,640
2006 Series J	6.00% to 6.51%	2038	45,000	280
2006 Series N	5.46% to 5.76%	2037	18,000	1,585
2007 Series C	3.85% to 3.95%	2017	12,515	2,085
2007 Series D	4.60% to 5.50%	2038	62,485	27,750
2007 Series E	Variable	2038	25,000	5,610
2007 Series H	3.80% to 3.95%	2017	12,230	2,770
2007 Series I	4.65% to 5.50%	2038	100,270	38,425
2007 Series J	Variable	2038	37,500	8,365
2007 Series L	4.45% to 5.50%	2048	105,000	44,215
2007 Series M	6.345%	2038	70,000	30,050
2007 Series P	3.60% to 3.90%	2017	4,305	855
2007 Series Q	5.00% to 5.50%	2038	42,365	12,055
2007 Series S	Variable	2038	18,975	17,280
2007 Series T	Variable	2048	37,160	12,480
2008 Series A	3.70% to 4.65%	2023	25,090	1,435
2008 Series B	5.50% to 5.65%	2033	34,910	4,075
2008 Series C	Variable	2048	40,000	30,345
2009 Series A	3.05% to 5.20%	2023	26,795	1,650
2009 Series B	5.45% to 5.90%	2038	33,205	1,730
2009 Series C	Variable	2036	40,000	40,000
2009 Series D	3.65% to 4.00%	2020	19,830	5,910
2009 Series E	2.55% to 5.10%	2040	103,960	59,350
2009 Series F	Variable	2031	34,120	6,285
2012 Series A	1.2% to 3.90%	2023	50,945	25,875
2012 Series B	3.30% to 3.45%	2024	8,830	6,210
2012 Series C	3.625% to 3.85%	2029	30,975	21,800
2012 Series D	3.90% to 4.00%	2040	60,000	32,720
2013 Series A	0.50% to 3.00%	2031	33,305	15,735
2013 Series B	0.90% to 1.80%	2019	9,555	8,635
2013 Series C	1.80% to 3.90%	2043	42,310	38,260
2014 Series A	0.25% to 4.00%	2038	50,000	39,085
2014 Series B	0.20% to 4.00%	2038	50,000	39,635
2014 Series C	0.35% to 4.00%	2045	143,145	118,805
2014 Series D	3.00% to 3.10%	2026	6,585	5,840
2014 Series E	2.00% to 3.50%	2032	76,000	67,300
2015 Series A	4.00%	2041	43,070	39,925
2015 Series B	0.40% to 0.50%	2016	1,475	170
2015 Series C	0.40% to 3.60%	2031	61,780	59,560
2015 Series D	Variable	2046	18,225	18,225
2015 Series E	0.60% to 3.50%	2046	96,930	94,070
2015 Series F	2.35% to 3.30%	2029	39,515	39,300

Bonds Payable (continued)

2015 Series G	Variable	2034	35,000	35,000
2016 Series A	0.85% to 3.20%	2031	63,135	63,135
2016 Series B	3.10% to 3.50%	2046	74,985	74,985
2016 Series C	1.20% to 4.20%	2037	15,590	15,590
			2,075,070	1,233,765

Series	Interest rate	Final Maturity	Original amount	June 30, 2016 Bonds Outstanding, at Par
Homeownership Finance Bonds				
2009 Series A-1	3.01%	2041	108,000	66,310
2009 Series A-4A	2.48%	2041	21,910	14,270
2009 Series A-4B	2.48%	2041	13,090	8,560
2009 Series A-5	2.49%	2041	21,990	15,910
2010 Series A	1.40% to 4.25%	2028	72,000	30,895
2011 Series B	1.625% to 4.50%	2031	63,760	36,000
2011 Series C	1.80% to 3.850%	2031	8,310	3,575
2011 Series D	1.35% to 4.70%	2034	33,690	21,665
2011 Series E	1.05% to 4.45%	2035	65,000	38,425
2011 Series F	1.15% to 3.45%	2022	13,575	7,110
2011 Series G	4.00% to 4.25%	2035	29,110	20,300
2012 Series A	2.60%	2042	50,000	35,468
2012 Series B	2.25%	2042	75,000	54,952
2013 Series A	2.35%	2043	75,000	59,104
2013 Series B	2.70%	2041	85,148	54,987
2013 Series C	3.00%	2043	37,000	27,872
2014 Series A	3.00%	2044	38,527	32,238
2014 Series B	2.95%	2044	18,868	16,086
2014 Series C	3.25%	2044	13,663	11,649
2014 Series D	2.88%	2044	39,934	35,127
2015 Series A	2.80%	2045	60,013	56,588
2015 Series B	3.00%	2045	54,530	52,105
2015 Series C	3.05%	2045	40,226	38,037
2015 Series D	2.90%	2045	52,365	51,421
2016 Series A	2.95%	2046	97,274	96,217
2016 Series B	2.70%	2046	50,971	50,735
			1,238,954	935,606
Multifamily Housing Bonds				
2009	3.01%	2051	15,000	14,200
			15,000	14,200
HOMES SM				
2013 Series A-1	3.50%	2043	3,359	3,080
2013 Series B-1	3.00%	2043	24,471	18,443
2013 Series C-1	3.50%	2043	4,713	3,950
			32,543	25,473
Drawdown Index Bonds				
2016 Drawdown Index Bonds	Variable	2046	6,000	6,000
			6,000	6,000
Combined Totals			$ 3,430,512	$ 2,269,724

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2016 (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, 2016, are as follows (in thousands):

	Rental Housing		Residential Housing Finance	
Fiscal Year	**Principal**	**Interest**	**Principal**	**Interest**
2017	19,675	1,449	34,420	35,960
2018	9,985	1,305	35,905	37,551
2019	510	1,201	34,630	36,861
2020	530	1,180	35,725	36,094
2021-2025	565	1,158	37,040	35,213
2026-2030	3,225	5,395	206,850	158,924
2031-2035	4,140	4,544	258,755	121,386
2036-2040	5,390	3,410	299,880	77,618
2041-2045	7,085	1,938	199,085	29,313
2046-2050	2,300	576	87,265	6,577
2051-2055	1,275	111	4,210	43
2056-2060	-	-	-	-
Total	$ 54,680	$ 22,267	$ 1,233,765	$ 575,540

	Multifamily Housing		Homeownership Finance	
Fiscal Year	**Principal**	**Interest**	**Principal**	**Interest**
2017	240	424	7,780	27,834
2018	240	417	7,975	27,642
2019	240	410	8,200	27,419
2020	240	402	8,445	27,165
2021-2025	1,200	1,904	8,720	26,885
2026-2030	1,520	1,710	49,380	129,096
2031-2035	1,800	1,450	58,170	117,905
2036-2040	2,190	1,160	49,530	106,940
2041-2045	2,550	802	60,030	98,710
2046-2050	3,080	376	677,376	59,855
2051-2055	900	18	-	-
2056-2060	-	-	-	-
Total	$ 14,200	$ 9,074	$ 935,606	$ 649,451

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2016 (continued)

Bonds Payable (continued)

	HOMES[SM]		DDIB	
Fiscal Year	Principal	Interest	Principal	Interest
2017	-	799	-	48
2018	-	799	-	49
2019	-	799	-	48
2020	-	799	-	48
2021-2025	-	799	-	49
2026-2030	-	3,997	-	243
2031-2035	-	3,997	-	243
2036-2040	-	3,997	-	244
2041-2045	-	3,997	-	243
2046-2050	25,473	1,732	6,000	243
2051-2055	-	-	-	-
2056-2060	-	-	-	-
Total	25,473	21,715	6,000	1,458

	Combined Totals	
Fiscal Year	Principal	Interest
2017	62,115	66,514
2018	54,105	67,763
2019	43,580	66,738
2020	44,940	65,688
2021-2025	47,525	66,008
2026-2030	260,975	299,365
2031-2035	322,865	249,525
2036-2040	356,990	193,369
2041-2045	268,750	135,003
2046-2050	801,494	69,359
2051-2055	6,385	172
2056-2060	-	-
Total	2,269,724	1,279,504

Residential Housing Finance Bonds 2003 Series B and J;; 2007 Series E (Taxable), J (Taxable), S and T (Taxable); 2008 Series C; 2009 Series C and F; and Series 2015 D and G accrue interest at rates that change weekly as determined by a remarketing agent for such series based on market conditions. Future interest due for these bonds, as displayed above in the annual debt service requirements table, assumes that the respective rates in effect on June 30, 2016 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[SM] 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, 2016, 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.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2016 (continued)

Call notices were issued on or before June 30, 2016 for the redemption of certain bonds thereafter. See Subsequent Events.

On June 30, 2016 the Agency had in place a revolving line of credit with the Federal Home Loan Bank of Des Moines with an outstanding balance of $23.000 million.

Derivative Instruments- Interest Rate Swaps

The Agency has entered into certain interest rate swap agreements that are considered to be derivative instruments under Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). A consultant was engaged by the Agency to determine the fair value of these agreements and to evaluate their effectiveness as hedges as of June 30, 2016. The fair values approximate the termination payments that would have been due had the swaps been terminated as of June 30, 2016. Under GASB 53, instruments, in whole or in part, such as interest rate swaps and similar transactions that fall under the definition of Derivative Instruments must be reported on the statement of net assets, the classification of which depends on whether they represent assets or liabilities, and Derivative Instruments generally should be measured at "Fair Value". Fair Values were determined pursuant to GASB 72: Fair Value Measurement and Application. The fair value hierarchy of interest rate swap agreements is determined to be level 2. The fair values exclude accrued interest. As of June 30, 2016, 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, 2016 is included under deferred outflows of resources as "Deferred loss on interest rate swap agreements."

Objective of Swaps

The Agency entered into interest rate swap agreements in connection with its issuance of variable rate mortgage revenue bonds under the Residential Housing Finance Bond Resolution from 2003 through 2009, and in 2015. 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, 2016, debt service requirements of the Residential Housing Finance outstanding variable rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows (in thousands). As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year	Principal	Interest	Interest Rate Swaps, Net	Total
06/30/2017	4,845	448	5,360	10,653
06/30/2018	745	317	4,549	5,611
06/30/2019	700	344	4,462	5,506
06/30/2020	910	343	4,395	5,648
06/30/2021	1,185	341	4,327	5,853
06/30/2026	10,260	1,661	20,445	32,366
06/30/2031	41,080	1,529	17,776	60,385
06/30/2036	74,015	811	11,978	86,804
06/30/2041	30,975	480	2,781	34,236
06/30/2046	22,470	218	874	23,562
06/30/2051	3,410	5	137	3,552

Terms of Swaps

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2016 (continued)

Derivative Instruments-Interest Rate Swaps (continued)

Terms of the swaps, the fair values, changes in fair values, and the credit ratings of the two counterparties thereto as of June 30, 2016, are contained in the two tables below (in thousands). All swaps are pay-fixed, receive-variable. Initial swap notional amounts matched original principal amounts of the associated debt. The Agency's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximate scheduled or anticipated reductions in outstanding principal amounts of the associated bond series. With respect to the outstanding swaps (except for the 2009 F swap), 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, except for the 2003B, 2003J, and 2009F swaps, the right to terminate the swaps at par at approximately the 10-year anniversary date of the swap (7-year anniversary date for the 2015D and 2015G swaps). The Agency also has the right to terminate outstanding swaps in whole or in part at fair value at any time if it is not in default thereunder.

Counterparty: The Bank of New York Mellon

Moody's* Aa1 (stable outlook) / Standard & Poor's** AA- (stable outlook)[2]

Associated Bond Series	Notional Amount as of June 30, 2016 (in thousands)	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value[1] as of June 30, 2016 (in thousands)	Increase (Decrease) in Fair Value since June 30, 2015 (in thousands)
RHFB 2003B	$9,365	July 23, 2003	January 1, 2033	3.532%	65% of 1 month LIBOR*** plus 0.23% per annum	$ (1,028)	$ (83)
RHFB 2003J	7,640	October 15, 2003	July 1, 2033	4.183%	65% of 1 month LIBOR*** plus 0.23% per annum	(1,161)	(45)
RHFB 2007S	17,280	December 19, 2007	July 1, 2038	4.340%	100% of SIFMA**** Index plus 0.06% per annum	(601)	436
RHFB 2007T (Taxable)	12,480	December 19, 2007	July 1, 2026	4.538%	100% of 1 month LIBOR*	(416)	465
Counterparty Total	$46,765					$ (3,206)	$ 773

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2016 (continued)

Derivative Instruments- Interest Rate Swaps (continued)

Counterparty: Royal Bank Of Canada

Moody's* Aa3 (Negative outlook) / Standard & Poor's** AA- (Negative outlook[3])

Associated Bond Series	Notional Amount as of June 30, 2016 (in thousands)	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value[1] as of June 30, 2016 (in thousands)	Increase (Decrease) in Fair Value since June 30, 2015 (in thousands)
RHFB 2007E (Taxable)	5,610	March 7, 2007	July 1, 2038	5.738%	100% of 1 month LIBOR***	(5)	169
RHFB 2007J (Taxable)	8,365	May 17, 2007	July 1, 2038	5.665%	100% of 1 month LIBOR***	(7)	250
RHFB 2008C	30,345	August 7, 2008	July 1, 2048	4.120%	64% of 1 month LIBOR*** plus 0.30% per annum	(1,802)	494
RHFB 2009C	40,000	February 12, 2009	July 1, 2039	4.215%	64% of 3 month LIBOR*** plus 0.30% per annum	(3,616)	407
RHFB 2009F	6,285	December 1, 2009	July 1, 2039	2.365%	100% of weekly SIFMA****plus 0.08% per annum	(23)	561
RHFB 2015D	18,225	August 15, 2015	January 1, 2046	2.343%	67% of 1 month LIBOR	(1,210)	(1,184)
RHFB 2015G	35,000	December 8, 2015	January 1, 2034	1.953%	67% of 1 monthLIBOR	(1,895)	(1,874)
Counterparty Total	143,830					(8,558)	(1,177)
Combined Totals	$ 190,595					$ (11,764)	$ (404)

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.
2 Moody’s Investors Services, Inc. has given the “Aa1” rating of this counterparty (The Bank of New York Mellon) a stable outlook and Standard & Poor’s Ratings Services has given the “AA-” rating of this counterparty (The Bank of New York Mellon) a stable outlook.
3. Moody’s Investors Services, Inc. has given the “Aa3” rating of this counterparty (Royal Bank of Canada) a negative outlook and Standard & Poor’s Ratings Services has given the “AA-” rating of this counterparty (Royal Bank of Canada) a negative outlook.* Moody’s Investor Service, Inc.

* 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, 2016, 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, 2016, neither the Agency nor any counterparty had been required to post collateral.

Amortization Risk

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

Basis Risk

The potential for basis risk exists when variable interest payments on the Agency's bonds do not equal variable interest receipts payable by the counterparty under the associated swap. The variable rate the Agency pays on its bonds resets weekly, but the variable rate received on its swaps is based upon a specified percentage of the one-month taxable LIBOR rate or the SIFMA index rate, plus a specified spread if the swap relates to tax-exempt bonds. Basis risk will vary over time due to inter-market conditions. As of June 30, 2016, the interest rate on the Agency's variable rate tax-exempt debt ranged from 0.44% to 0.46% per annum while the variable interest rate on the associated swaps ranged from 0.18% to 0.40% per annum. As of June 30, 2016, the interest rate on the Agency's variable rate taxable debt was 0.45% per annum while the variable interest rate on the corresponding swaps was 0.46% 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, 2016, are as follows: (in thousands):

Counter Party Short-term Rating	Number of Contracts	Notional Amount	Original Price	Market Price	Fair Value
A-1*/F1**	34	$ 81,000	$ 84,232	$ 84,955	$ (723)
A-2*/F1**	21	48,000	49,969	50,386	(417)
A-2*/F1**	14	88,000	91,609	92,331	(722)
Not rated*/F1+**	48	50,155	52,137	52,567	(430)
A-1*/F1+**	3	5,000	5,216	5,250	(34)
Not Rated*/F3**	1	2,000	2,099	2,122	(23)
	121	$ 274,155	$ 285,262	$ 287,610	$ (2,348)

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

Conduit Debt-Obligation

On December 21, 2005, the Agency issued tax-exempt bonds on a conduit basis to assist a Minnesota nonprofit organization in preserving assisted elderly rental housing. The proceeds of the bonds were used by the organization to refinance certain HUD Section 202 elderly housing projects. The bonds were sold on a private placement basis. As of June 30, 2016, $27.161 million of the bonds were outstanding.

On December 12, 2014 and February 18, 2015 the Agency issued short-term tax-exempt bonds on a conduit basis to enable the owner to obtain Low Income Housing Tax Credit 4% credits in connection with the acquisition and rehabilitation of HUD Section 8 multifamily permanent supportive housing developments in Minnesota. As of June 30, 2016, $0.00 million of the bonds were outstanding.

On January 29, 2016, the Agency issued short-term tax-exempt bonds on a conduit basis to enable the owner to obtain Low Income Housing Tax Credit 4% credits in connection with the acquisition and rehabilitation of HUD Section 8 multifamily housing developments. As of June 30, 2016, $7.000 million of the bonds were outstanding.

On March 1, 2016, the Agency issued a long-term tax-exempt multifamily revenue note on a conduit basis that will be purchased by Freddie Mac under their Tax Exempt Loan Program. The proceeds of the sale were lent to the owner to pay for a portion of the costs of the acquisition, construction, and equipping of a multifamily senior rental housing development. As of June 30, 2016, $27.515 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, 2016, $33.100 million of the bonds were outstanding.

Neither the Agency, the State of Minnesota, nor any political subdivision thereof is obligated in any manner for repayment of these conduit bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

Appropriation Debt Obligation

The Agency has outstanding bonds under two indentures of trust that permit capital funding for loans for permanent supportive housing for long-term homeless households, preservation of federally assisted housing and other purposes. As of June 30, 2016, $118.365 million of bonds were outstanding. This debt is not a general obligation of the Agency and is not payable from any funds or assets of the Agency. These bonds are payable solely from the appropriations the Agency expects to receive from the State General Fund pursuant to standing appropriations to be made by the Legislature as authorized by state laws adopted in 2008, 2012 and 2014. Thus, the bonds are not recorded as a liability in the accompanying financial statements.

Accounts Payable

Accounts payable and other liabilities at June 30, 2016 consisted of the following (in thousands):

Funds	Accrued Salaries, Compensated Absences and Employee Benefits	Other Liabilities and Accounts Payable	Total
General Reserve Account	$ 3,603	$ 425	$ 4,028
Rental Housing	-	9,431	9,431
Residential Housing Finance	-	917	917
Homeownership Finance	-	63	63
Multifamily Housing	-	-	-
HOMES^{SM}	-	-	-
State Appropriated	-	642	642
Federal Appropriated	-	125	125
Combined Totals	$ 3,603	$ 11,603	$ 15,206

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2016 (continued)

Interfund Balances

Interfund balances displayed as Interfund Payable (Receivable) at June 30, 2016 consisted of the following (in thousands):

	Funds	Due from								
		General Reserve	Rental Housing	Residential Housing Finance	Homeownership Finance	Multifamily Housing	HOMES^{SM}	State Appropriated	Federal Appropriated	Total
Due to	General Reserve	$ -	$ -	$ 19,859	$ -	$ -	$ -	$ 277	$ 612	$20,748
	Rental Housing	-	-	-	-	-	-	-	-	-
	Residential Housing Finance	-	-	-	-	-	-	-	-	-
	Homeownership Finance	-	-	-	-	-	-	-	-	-
	Multifamily Housing	-	-	-	-	-	-	-	-	-
	HOMES^{SM}	-	-	-	-	-	-	-	-	-
	State Appropriated	-	-	-	-	-	-	-	-	-
	Federal Appropriated	-	-	-	-	-	-	-	-	-
	Agency-wide Totals	$ -	$ -	$ 19,859	$ -	$ -	$ -	$ 277	$ 612	$20,748

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, 2016 consisted of the following (in thousands):

	Funds	Transfer from								
		General Reserve	Rental Housing	Residential Housing Finance	Homeownership Finance	Multifamily Housing	HOMES^{SM}	State Appropriated	Federal Appropriated	Total
Transfer to	General Reserve	$ -	$ 1,110	$ 12,837	$ 5,326	$ 95	$ -	$ 1,513	$ 736	$ 21,617
	Rental Housing	14	-	-	-	-	-	-	-	14
	Residential Housing Finance	-	-	-	-	-	-	3,388	-	3,388
	Homeownership Finance	-	-	-	-	-	-	-	-	-
	Multifamily Housing	-	-	-	-	-	-	-	-	-
	HOMES^{SM}						-			
	State Appropriated	-	-	39	-	-	-	-	-	39
	Federal Appropriated	-	2	-	-	-	-	-	-	2
	Agency-wide Totals	$ 14	$ 1,112	$ 12,876	$ 5,326	$ 95	$ -	$ 4,901	$ 736	$ 25,060

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 $3.348 million of entry cost assistance loans transferred from Residential Housing Finance to State Appropriated.

Interfund Transfers (continued)

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds for the year ended June 30, 2016, consisted of the following (in thousands):

Transfer to		Transfer from								
	Funds	General Reserve	Rental Housing	Residential Housing Finance	Homeownership Finance	Multifamily Housing	HOMES^{SM}	State Appropriated	Federal Appropriated	Total
	General Reserve	$ -	$ -	$ 1,903	$ -	$ -	$ -	$ -	$ -	$ 1,903
	Rental Housing	-	-	71	-	-	-	-	-	71
	Residential Housing Finance	8,585	-	-	-	-	-	-	-	8,585
	Homeownership Finance	-	-	16,668	-	-	-	-	-	16,668
	Multifamily Housing	-	-	-	-	-	-	-	-	-
	HOMES^{SM}	-	-	-	-	-	-	-	-	-
	State Appropriated	-	-	-	-	-	-	-	-	-
	Federal Appropriated	-	-	-	-	-	-	-	-	-
	Agency-wide Totals	$ 8,585	$ -	$ 18,642	$ -	$ -	$ -	$ -	$ -	$ 27,227

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 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 $477.456 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.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2016 (continued)

Net Position (continued)

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 $708.840 million as of June 30, 2015 and $721.570 million as of June 30, 2016.

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, 2016 (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	$ 11,497	$ -	$ 11,497
Unrealized depreciation in fair market value of investments, excluding multifamily development escrow investments	-	-	-
Subtotal, Housing Endowment Fund (Pool 1), General Reserve	11,497	-	11,497
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 2016, $3,000 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.	348,987	-	348,987
Unrealized appreciation in fair market value of investments	-	2,134	2,134
Subtotal, Housing Investment Fund (Pool 2), Residential Housing Finance	348,987	2,134	351,121
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.	113,405	-	113,455
Unrealized appreciation in fair market value of investments	-	1,433	1,433
Subtotal, Housing Affordability Fund (Pool 3), Residential Housing Finance	113,405	1,433	114,888
Agency-wide Total	$ 473,889	$ 3,567	$ 477,456

Net Position (continued)

Restricted by Law

Undisbursed, recognized federal and state appropriations are classified as Restricted by Law under Net Position. The $8.660 million balance of Restricted by Law in the Federal Appropriated fund as of June 30, 2016 is restricted by federal requirements that control the use of the funds. The $127.339 million balance of Restricted by Law in the State Appropriated fund as of June 30, 2016 is restricted by the state laws appropriating such funds.

Defined Benefit Pension Plan

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

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

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

Benefits Provided

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

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

Contributions

Minnesota Statutes Chapter 352 sets the rates for employer and employee contributions. Eligible General Plan members and participating employers are required to contribute 5.5 percent of their annual covered salary in fiscal year 2016. The Agency's contribution to the General Plan for the fiscal year ending June 30, 2016 was $1.003 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, 2015, 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	2.75 percent per year
Active Member Payroll Growth	3.50 percent per year
Investment Rate of Return	7.90 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 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 through 2043 and 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies for the period July 1, 2008, through June 30, 2014, with an update of economic assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9 percent. The rate assumption was selected as the result of a 2015 actuarial review of economic assumptions. The review combined the asset class target allocations and long-term rate of return expectations from the State Board of Investment (SBI) with return expectations from eight other investment consultants. The review also factored in information from the Social Security Trustees Report, U.S. Department of the Treasury yield curve rates, and historical observations of inflation statistics and investment returns.

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	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2015, was 7.9 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the pension plan's fiduciary net position at June 30, 2015, was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A similar analysis was performed as of July 1, 2015, based on a long-term expected rate of return of 7.90 percent and a municipal bond rate of 3.80 percent.

Defined Benefit Pension Plan (continued)

Net Pension Liability

At June 30, 2016, the Agency reported a liability of $8.979 million for its proportionate share of MSRS' net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of MSRS's participating employers. At June 30, 2015, the Agency's proportion of the entire plan was 0.58325 percent.

One change in assumptions affected the measurement of the total pension liability since the prior measurement date. The post-retirement benefit increase changed from 2 percent through 2015 and 2.5 percent thereafter, to 2 percent through 2043 and 2.5 percent thereafter.

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 (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Agency proportionate share of the net pension liability:	$ 18,379	$ 8,979	$ 1,156

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, 2016, the Agency recognized pension expense of $2.053 million. At June 30, 2016, 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	$ -	$ 2,454
Changes of assumptions	-	5,131
Net difference between projected and actual earnings on investments	1,833	3,651
Changes in proportion and differences between actual contributions and proportionate share of contributions	273	91
Contributions paid to MSRS subsequent to the measurement date	874	-
Total	$ 2,980	$ 11,327

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, 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:	Pension Expense Amount
2017	3,038
2018	3,038
2019	3,039
2020	106
2021	-
Thereafter	-

Post-Employment Benefits Other Than Pensions

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

The State of Minnesota obtains an actuarial valuation from an independent firm of its postretirement medical benefits and to determine its other postemployment benefits (OPEB) liability. The state intends to fund the OPEB liability on a "pay as you go" basis. The net other postemployment benefit obligation (NOO) for the Agency is $0.260 million for fiscal year 2016. The NOO was recorded as an expense and a corresponding liability by the Agency. This is a cost sharing plan. The State of Minnesota has not prepared separate financial statements for the plan. The actuarial method used to determine the actuarial accrued liability and the annual required contribution was the entry age normal method. The assumed discount rate was 4.10% and the assumed payroll growth rate was 3.75%. Future retirees who are eligible for an implicit subsidy are assumed to elect coverage at a 70% rate. The projected annual medical claims cost trend rate is 6.80% initially, reduced by decrements to an ultimate rate of 4.0% for the year 2074 and beyond. Mortality was determined using RP2000 Nonannuitant Generational Mortality Table.

The funding status, from the report dated July 31, 2014, which is the latest available, is described in the following tables on a plan-wide basis. The Agency portion is not separately determinable. The State of Minnesota also subsidizes the healthcare and dental premium rates for certain other state agency retirees. That liability is reflected in the tables along with the implicit rate subsidy.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2016 (continued)

Post-Employment Benefits Other Than Pensions (continued)

Schedule of Funding Progress (dollars in thousands)

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

Schedule of Employer Contributions (dollars in thousands)

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
6/30/2013	$ 59,317	$ 33,772	56.93%	$ 193,986
6/30/2014	62,409	30,222	48.43%	226,173
6/30/2015	62,192	27,324	43.93%	261,041
6/30/2016	65,289	30,372	46.52%	295,958

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

Fiscal Year Ended	Annual Required Contribution (ARC)	Employer Contribution	Interest on NOO	ARC Adjustment with Interest	Amortization Factor	Annual OPEB Cost	Change in NOO	NOO Balance
6/30/2013	$ 58,052	$ 33,772	$ 8,001	$ 6,736	26.1946	$ 59,317	$ 25,545	$ 193,986
6/30/2014	60,952	30,222	9,214	7,757	26.1946	62,409	32,187	226,173
6/30/2015	61,156	27,324	9,273	8,237	28.5823	62,192	34,868	261,041
6/30/2016	64,093	30,372	10,703	9,507	28.5823	65,289	34,917	295,958

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	$ 4,690
Business interruption/loss of use/extra expense	75,000
Bodily injury and property damage per person	500
Bodily injury and property damage per occurrence	1,500
Faithful performance/commercial crime	14,000
Employee dishonesty	250

Risk Management (continued)

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.

Commitments

As of June 30, 2016, 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	22,071
Residential Housing Finance	220,564
Homeownership Finance	-
Multifamily Housing	-
HOMES^{SM}	-
State Appropriated	90,946
Federal Appropriated	2,909
Agency Wide Totals	$ 336,490

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 2017 and for parking through March 2018, totaling $1.605 million. Combined office facilities and parking lease expense for fiscal year 2016 was $1.233 million.

On June 30, 2016 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, 2016, $78.797 million of mortgage-backed securities were pledged. The advances taken during fiscal year 2016 were used to purchase and warehouse mortgage-backed securities in Pool 2. The line of credit activity for the year ended June 30, 2016, is summarized as follows (in thousands):

Beginning Balance	Draws	Repayments	Ending Balance
$ -	$ 788,000	$ 765,000	$ 23,000

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

Subsequent Events

The Agency called for redemption or repayment subsequent to June 30, 2016 the following bonds (in thousands):

Program	Retirement Date	Par
Homeownership Finance	July 1, 2016	8,390
Residential Housing Finance	July 1, 2016	120,110
Draw Down Index Bond	July 27, 2016	35,390
Homeownership Finance	August 1, 2016	2,125
Residential Housing Finance	August 1, 2016	3,060
Rental Housing	August 1, 2016	2,405
Homeownership Finance	September 1, 2016	3,450
Residential Housing Finance	September 1, 2016	5,390

On March 2, 2016, the Board of the Agency adopted a series resolution authorizing the issuance of bonds in the maximum aggregate principal amount of $200,000,000 for the purpose of providing funds for certain of the Agency's homeownership programs. The Homeownership Finance Bonds, 2016 Series C and 2016 Series D (Taxable), in the aggregate principal amount of $70.779 million were delivered on July 27, 2016 pursuant to that authorization.

On May 26, 2016, the Board of the Agency adopted a series resolution authorizing the issuance of bonds for the purpose of providing funds for certain of the Agency's multifamily programs. The Rental Housing Bonds, 2016 Series B, in the principal of amount $2.650 million were delivered on July 14, 2016.

On April 28, 2016, the Board of the Agency adopted a resolution authorizing the issuance of up to $300 million in cumulative principal amount of Drawdown Index Bonds, Series 2016, of which no more than $80 million may be outstanding at any time, for the purpose of refunding portions of the Agency’s Residential Housing Finance Bonds and Homeownership Finance Bonds. That refunding will preserve tax-exempt bonding authority for the Agency’s homeownership programs until the Drawdown Bonds can be refunded with long-term Residential Housing Finance Bonds or Homeownership Finance Bonds. In fiscal year 2015 the Agency made one draw on the Drawdown Index Bonds, Subseries 2016B-1 (Non-AMT/Non-ACE) in the principal amount of $6.0 million. After June 30, 2016, the Agency made draws on the Drawdown Index Bonds, Subseries 2016A-1 (AMT), in the principal amounts of $13.250 million and $0.935 million on July 1, 2016 and August 1, 2016, respectively. The Agency also made draws on the Drawdown Index Bonds, Subseries 2016B-1 (Non-AMT/Non-ACE), in the principal amounts of $29.760 million and $8.370 million on July 1, 2016 and August 1, 2016, respectively.

The Agency has evaluated subsequent events through August 25, 2016, the date on which the financial statements were available to be issued.

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MINNESOTA HOUSING FINANCE AGENCY
Required Supplementary Information
General Reserve and Bond Funds
Schedule of Selected Pension Information-Unaudited (in thousands)
Fiscal Year 2016

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

	2014	2015
Employer Unit's Proportion of the Net Pension Liability	0.775%	0.781%
Employer Unit's Proportionate Share of the Net Pension Liability	$ 9,313	$ 8,979
Employer Unit's Covered-Employee Payroll	22,438	23,836
Employer Unit's proportionate share of the net pension liability as a percentage of its covered-employee payroll	41.505%	37.670%
Plan fiduciary net position as a percentage of the total pension liability	87.640%	88.320%

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
Contractually Required Contribution	$ 735	$ 874
Contributions in relation to the contractually required contribution	735	874
Contribution deficiency (excess)	-	-
Employer Unit's covered-employee payroll	22,438	23,836
Contributions as a percentage of covered-employee payroll	3.276%	3.667%

* 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
General Reserve and Bond Funds
Five Year Financial Summary (in thousands)
Fiscal Years 2012-2016

		2012	2013	2014	2015	2016
Loans Receivable, net (as of June 30)	Multifamily programs	$339,306	$354,059	$338,782	$317,655	$330,204
	Homeownership programs	1,372,835	1,166,480	1,028,918	911,788	776,255
	Home Improvement programs	98,987	87,973	85,535	82,471	76,648
	Total	$1,811,128	$1,608,512	$1,453,235	$1,311,914	$1,183,107
Mortgage-backed securities, net, at par (as June 30)	Program mortgage-backed securities	$621,678	$801,771	$900,321	$1,106,749	$1,378,317
	Warehoused mortgaged-backed securities	$5,081	$56,007	$28,728	$74,425	$116,256
	Total	$626,759	$857,778	$929,049	$1,181,174	$1,494,573
Bonds Payable, net (as of June 30)	Multifamily programs	$119,667	$86,655	$82,140	$57,360	$68,880
	Homeownership programs	2,050,422	2,034,472	1,936,772	1,975,972	2,238,342
	Home Improvement programs	-	-	-	-	-
	Total	$2,170,089	$2,121,127	$2,018,912	$2,033,332	$2,307,222
Mortgage-backed securities purchased, at par and loans purchased or originated during fiscal year	Multifamily programs	$51,091	$36,757	$15,867	$13,765	$42,517
	Homeownership programs	12,736	18,999	23,912	39,269	33,351
	Program and warehoused mortgage-backed securities	248,423	296,751	160,485	358,108	489,833
	Home Improvement programs	11,245	10,627	15,202	15,417	12,283
	Total	$323,495	$363,134	$215,466	$426,559	$577,984
Net Position (as of June 30)	Total Net Position *	$724,098	$682,308	$696,154	$709,740	$747,534
	Percent of total assets and deferred outflows of resources *	23.5%	23.0%	24.0%	24.4%	23.1%
Revenue over Expenses	Revenues over expenses for the fiscal year *	$57,460	($19,587)	$41,846	$35,966	$50,794

Notes:

* Excludes Pool 3

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information
Statement of Net Position (in thousands)
General Reserve and Bond Funds
As of June 30, 2016 (with comparative totals as of June 30, 2015)

		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									
	General Reserve	Rental Housing	Bonds	Pool 2	Homeownership Finance	Multifamily Housing	HOMES[SM]	Total For The Year Ended June 30, 2016	Total For The Year Ended June 30, 2015	Total For The Year Ended June 30, 2016	Total For The Year Ended June 30, 2016	Total For The Year Ended June 30, 2015
Assets												
Cash and cash equivalents	$ 58,048	$ 47,552	$ 247,832	$ 15,200	$ 45,808	$ 1,362	$ -	$ 415,802	$ 273,116	$ 4,864	$ 420,666	$ 282,363
Investments-program mortgage-backed securities	-	-	476,868	-	967,995	-	-	1,444,863	1,140,834	-	1,444,863	1,140,834
Investment securities-other	20,068	2,097	30,755	118,390	1,400	-	26,788	199,498	181,534	37,914	237,412	220,814
Loans receivable, net	-	146,783	677,009	301,198	-	14,305	-	1,139,295	1,272,603	43,812	1,183,107	1,311,914
Interest receivable on loans and program mortgage-backed securities	-	620	5,855	1,295	2,881	52	-	10,703	11,023	82	10,785	11,102
Interest receivable on investments	78	19	337	318	7	-	67	826	745	72	898	812
FHA/VA insurance claims, net	-	-	2,567	67	-	-	-	2,634	4,600	-	2,634	4,600
Real estate owned, net	-	-	3,088	15	-	-	-	3,103	4,002	-	3,103	4,002
Capital assets, net	2,783	-	-	-	-	-	-	2,783	2,449	-	2,783	2,449
Other assets	1,285	59	149	206	26	-	-	1,725	1,869	4	1,729	1,870
Total assets	82,262	197,130	1,444,460	436,689	1,018,117	15,719	26,855	3,221,232	2,892,775	86,748	3,307,980	2,980,760
Deferred outflows of Resources												
Deferred loss on refunding	-	-	199	-	-	-	-	199	267	-	199	267
Deferred loss on interest rate swap agreements	-	-	11,794	-	-	-	-	11,764	12,649	-	11,764	12,649
Deferred pension expense	2,980	-	-	-	-	-	-	2,980	1,042	-	2,980	1,042
Total deferred outflows of resources	2,980	-	11,993	-	-	-	-	14,943	13,958	-	14,943	13,958
Liabilities												
Bonds payable, net	$ -	$ 54,680	$ 1,248,263	$ 29,000	$ 935,606	$ 14,200	$ 25,473	$ 2,307,222	$ 2,033,332	$ -	$ 2,307,222	$ 2,033,332
Interest payable	-	592	20,044	17	6,144	36	67	26,900	29,980	-	26,900	29,980
Interest rate swap agreements	-	-	11,764	-	-	-	-	11,764	12,649	-	11,764	12,649
Net pension liability	8,979	-	-	-	-	-	-	8,979	9,313	-	8,979	9,313
Accounts payable and other liabilities	4,028	9,431	484	422	63	-	-	14,428	4,614	11	14,439	4,625
Interfund payable (receivable)	(20,748)	-	-	47,960	-	-	-	27,212	29,100	(28,101)	(889)	(978)
Funds held for others	67,376	-	-	-	-	-	1,315	68,691	67,062	-	68,691	67,062
Total liabilities	59,635	64,703	1,280,555	77,399	941,813	14,236	26,855	2,465,196	2,186,050	(28,090)	2,437,106	2,155,983
Deferred inflows of Resources												
Deferred service release fee	-	-	1,929	8,169	2,020	-	-	12,118	9,122	-	12,118	9,122
Deferred pension credit	11,327	-	-	-	-	-	-	11,327	11,821	-	11,327	11,821
Total deferred inflows of resources	11,327	-	1,929	8,169	2,020	-	-	23,445	20,943	-	23,445	20,943
Commitments and contingencies												
Net Position												
Restricted by bond resolution	-	132,427	173,939	-	74,284	1,483	-	382,133	339,091	-	382,133	339,091
Restricted by covenant	11,497	-	-	351,121	-	-	-	362,618	358,200	114,838	477,456	476,252
Invested in capital assets	2,783	-	-	-	-	-	-	2,783	2,449	-	2,783	2,449
Total net position	14,280	132,427	173,939	351,121	74,284	1,483	-	747,534	699,740	111,838	862,372	817,792
Total liabilities, deferred inflows, and net position	$ 85,242	$ 197,130	$ 1,456,423	$ 436,689	$ 1,018,117	$ 15,719	$ 26,855	$ 3,236,175	$ 2,906,733	$ 86,748	$ 3,322,923	$ 2,994,718

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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, 2016 (with comparative totals for year end June 30, 2015)

			Bond Funds						General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2016	General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2015	Residential Housing Finance Pool 3 Total For The Year Ended June 30, 2016	General Reserve & Bond Funds Total For The Year Ended June 30, 2016	General Reserve & Bond Funds Total For The Year Ended June 30, 2015
			esidential Housing Financ										
		General Reserve	Rental Housing	Bonds	Pool 2	Homeownership Finance	Multifamily Housing	HOMES^{SM}					
	Interest earned on loans	$ -	$ 8,336	$ 41,023	$ 18,036	$ -	$ 632	$ -	$ 68,027	$ 80,168	$ 130	68,157	$ 80,203
	Interest earned on investments-program mortgage-backed securities	-	-	10,783	-	31,063	-	-	41,846	34,648	-	41,846	34,648
Revenues	Interest earned on investments-other	161	101	1,505	4,828	27	1	837	7,460	7,075	759	8,219	8,124
	Net G/L on Sale of MBS Held for Sale/HOMES Certificate	-	-	-	3,756	-	-	-	3,756	3,904	-	3,756	3,904
	Administrative reimbursement	21,523	-	-	-	-	-	-	21,523	20,142	-	21,523	20,142
	Fees earned and other income	11,252	313	153	1,531	202	-	-	13,451	12,699	359	13,810	12,769
	Unrealized gains (losses) on Investments	-	119	9,954	12,281	10,465	-	-	32,819	11,382	591	33,410	11,344
	Total revenues	32,936	8,869	63,418	40,432	41,757	633	837	188,882	170,018	1,839	190,721	171,134
	Interest	-	1,580	39,250	406	26,076	431	837	68,580	72,105	-	68,580	72,105
	Financing, net	-	-	10,360	117	8,217	-	-	18,694	14,764	-	18,694	14,764
Expenses	Loan administration and trustee fees	-	79	2,443	1,164	348	5	-	4,039	4,473	17	4,056	4,485
	Administrative reimbursement	-	1,102	7,752	3,839	5,326	95	-	18,114	17,022	1,246	19,360	18,268
	Salaries and benefits	21,258	-	-	-	-	-	-	21,258	20,457	-	21,258	20,457
	Other general operating	6,010	5	36	519	27	-	-	6,597	7,068	4,322	10,919	10,606
	Reduction in carrying value of certain low interest										-		
	rate deferred loans	-	(18)	-	(1,567)	-	-	-	(1,585)	(44)	2,111	526	1,583
	Provision for loan losses	-	(322)	695	2,019	-	(1)	-	2,391	(1,793)	357	2,748	(1,467)
	Total expenses	27,268	2,426	60,536	6,497	39,994	530	837	138,088	134,052	8,053	146,141	140,801
Other changes	Revenue over(Under) expenses	5,668	6,443	2,882	33,935	1,763	103	-	50,794	35,966	(6,214)	44,580	30,333
	Non-operating transfer of assets between funds	(6,682)	71	15,112	(28,169)	16,668	-	-	(3,000)	(10,000)	3,000	-	-
	Change in net position	(1,014)	6,514	17,994	5,766	18,431	103	-	47,794	25,966	(3,214)	44,580	30,333
Net Position													
	Total net position, beginning of Year	15,294	125,913	155,945	345,355	55,853	1,380	-	699,740	673,774	118,052	817,792	787,459
	Total net position, end of Year	$ 14,280	$ 132,427	$ 173,939	$ 351,121	$ 74,284	$ 1,483	$ -	$ 747,534	$ 699,740	$ 114,838	$ 862,372	$ 817,792

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MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds (continued)
Year ended June 30, 2016 (with comparative totals for year ended June 30, 2015)

Cash flows from operating activities

Cash flows from non-capital financing activities

Cash flows from investing activities

Cash and cash equivalents

		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, 2016	June 30, 2016	June 30, 2016	June 30, 2015
Cash flows from operating activities:											
Principal repayments on loans and program mortgage-backed securities	$ -	$ 30,893	$ 157,091	$ 43,163	$ 111,625	$ 169	$ -	$ 342,941	$ 9,553	$ 352,494	$ 287,129
Investment in loans and program mortgage-backed securities	-	(23,490)	(217,167)	(43,977)	(203,708)	-	-	(488,342)	(20,351)	(508,693)	(379,429)
Interest received on loans and program mortgage-backed securities	-	8,272	50,844	17,657	32,339	633	-	109,745	388	110,133	111,073
Fees and other income received	11,181	313	-	13,503	-	-	-	24,997	359	25,356	21,743
Salaries, benefits and other operating	(27,277)	(43)	(2,755)	(10,504)	(417)	(5)	-	(41,001)	(4,339)	(45,340)	(43,501)
Administrative reimbursement from funds	21,617	(1,110)	(7,752)	(3,839)	(5,326)	(95)	-	3,495	(1,246)	2,249	1,901
Deposits into funds held for others	28,083	-	-	-	-	-	-	28,083	-	28,083	27,732
Disbursements made from funds held for others	(27,902)	-	-	-	-	-	-	(27,902)	-	(27,902)	(30,424)
Interfund transfers and other assets	(2,542)	94	9	210	(1)	67	-	(2,163)	(7)	(2,170)	(789)
Net cash provided (used) by operating activities	3,160	14,929	(19,730)	16,213	(65,488)	769	-	(50,147)	(15,643)	(65,790)	(4,565)
Cash flows from noncapital financing activities:											
Proceeds from sale of bonds and notes	-	28,340	459,892	794,000	200,610	-	-	1,482,842	-	1,482,842	946,508
Principal repayment on bonds and notes	-	(16,590)	(319,975)	(765,000)	(101,455)	(230)	(3,195)	(1,206,445)	-	(1,206,445)	(931,361)
Interest paid on bonds and notes	-	(1,750)	(44,310)	(364)	(26,473)	(431)	(845)	(74,173)	-	(74,173)	(75,675)
Financing costs paid related to bonds issued	-	-	(5,155)	(86)	(1,686)	-	-	(6,927)	-	(6,927)	(6,071)
Agency contribution to program funds	-	71	6,142	(11,529)	5,316	-	-	-	-	-	-
Transfer of cash between funds	(8,585)	-	-	3,585	-	-	-	(5,000)	5,000	-	-
Net cash provided (used) by noncapital financing activities	(8,585)	10,071	96,594	20,606	76,312	(661)	(4,040)	190,297	5,000	195,297	(66,599)
Cash flows from investing activities:											
Investment in real estate owned	-	-	(2,146)	(43)	-	-	-	(2,189)	-	(2,189)	(3,825)
Interest received on investments	701	96	1,966	4,183	21	1	845	7,813	537	8,350	7,869
Net gain (loss) on Sale of MBS Held for Sale and HOME Certificates	-	-	-	(7,577)	-	-	-	(7,577)	-	(7,577)	(3,690)
Proceeds from sale of mortgage insurance claims/real estate owned	-	-	20,888	433	-	-	-	21,321	-	21,321	32,323
Proceeds from maturity, sale or transfer of investment securities	10,000	25	10,819	611,429	670	-	3,195	636,138	2,155	638,293	500,486
Purchase of investment securities	-	-	-	(652,750)	-	-	-	(652,750)	-	(652,750)	(509,086)
Purchase of loans between funds	-	-	-	(220)	-	-	-	(220)	3,568	3,348	2,724
Net cash provided (used) by investing activities	10,701	121	31,527	(44,545)	691	1	4,040	2,536	6,260	8,796	26,801
Net increase (decrease) in cash and cash equivalents	5,276	25,121	108,391	(7,726)	11,515	109	-	142,686	(4,383)	138,303	(44,363)
Beginning of year	52,772	22,431	139,441	22,926	34,293	1,253	-	273,116	9,247	282,363	326,726
End of year	$ 58,048	$ 47,552	$ 247,832	$ 15,200	$ 45,808	$ 1,362	$ -	$ 415,802	$ 4,864	$ 420,666	$ 282,363

(Continued)

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MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds (continued)
Year ended June 30, 2016 (with comparative totals for year ended June 30, 2015)

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

		Bond Funds						General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2016	Residential Housing Finance Pool 3 Total For The Year Ended June 30, 2016	General Reserve & Bond Funds Total For The Year Ended June 30, 2016	General Reserve & Bond Funds Total For The Year Ended June 30, 2015
			Residential Housing Finance								
	General Reserve	Rental Housing	Bonds	Pool 2	Homeownership Finance	Multifamily Housing	HOMES[SM]				
Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities:											
Revenues over (under) expenses	$ 5,668	$ 6,443	$ 2,882	$ 33,935	$ 1,763	$ 103	$ -	$ 50,794	$ (6,214)	$ 44,580	$ 30,333
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	-	(135)	613	(461)	1,535	-	-	1,552	261	1,813	763
Amortization of premium (discounts) and fees on sale of HOMES Certificates	-	-	-	-	-	-	-	-	-	-	-
Amortization of proportionate share-Pension	(80)	-	-	-	-	-	-	(80)	-	(80)	(47)
Depreciation	2,224	-	-	-	-	-	-	2,224	-	2,224	2,131
Gain (loss) on sale of MBS held for sale and HOMES Certificates	-	-	-	(3,756)	-	-	-	(3,756)	-	(3,756)	(3,904)
Realized losses (gains) on sale of securities, net	-	-	-	(715)	-	-	-	(715)	-	(715)	(366)
Unrealized losses (gains) on securities, net	-	(119)	(9,954)	(12,281)	(10,465)	-	-	(32,819)	(591)	(33,410)	(11,344)
Salaries and Benefits-Pensions	(2,686)	-	-	-	-	-	-	(2,686)	-	(2,686)	(2,241)
Provision for loan losses	-	(322)	695	2,019	-	(1)	-	2,391	357	2,748	(1,467)
Reduction in carrying value of certain low interest rate			-								
and/or deferred loans	-	(18)	-	(1,567)	-	-	-	(1,585)	2,111	526	1,583
Capitalized interest on loans and real estate owned	-	(14)	(1,957)	(29)	-	-	-	(2,000)	-	(2,000)	(2,616)
Interest earned on investments	(161)	(101)	(1,505)	(4,113)	(27)	(1)	(837)	(6,745)	(759)	(7,504)	(7,138)
Interest expense on bonds and notes	-	1,580	39,250	406	26,076	431	837	68,580	-	68,580	72,105
Financing expense in bonds	-	-	10,343	86	8,217	-	-	18,646	-	18,646	14,764
Changes in assets and liabilities:											
Decrease (increase) in loans receivable and program mortgage backed securities, excluding loans transferred between funds	-	7,403	(60,076)	(814)	(92,083)	169	-	(145,401)	(10,798)	(156,199)	(92,300)
Decrease (increase) in interest receivable on loans	-	85	382	111	(259)	1	-	320	(3)	317	386
Increase (decrease) in arbitrage rebate liability	-	-	-	-	-	-	-	-	-	-	(2,920)
Increase (decrease) in accounts payable	1,096	41	(412)	3,182	(244)	-	-	3,663	-	3,663	1,601
Increase (decrease) in interfund payable, affecting operating activities only	97	6	-	(2)	-	-	-	101	(4)	97	26
Increase (decrease) in funds held for others	181	-	-	-	-	-	-	181	-	181	(2,692)
Other	(3,179)	80	9	212	(1)	67	-	(2,812)	(3)	(2,815)	(1,222)
Total	(2,508)	8,486	(22,612)	(17,722)	(67,251)	666	-	(100,941)	(9,429)	(110,370)	(34,898)
Net cash provided (used) by operating activities	$ 3,160	$ 14,929	$ (19,730)	$ 16,213	$ (65,488)	$ 769	$ -	$ (50,147)	$ (15,643)	$ (65,790)	$ (4,565)

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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, Piper Jaffray & Co, Wells Fargo Bank National Association

Certified Public Accountants
RSM US LLP

Location

Minnesota Housing is located at 400 Sibley Street, Suite 300, Saint Paul, Minnesota 55101-1998.

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.

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Minnesota Housing Finance Agency

Compliance Report
June 30, 2016

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
Saint Paul, Minnesota

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, 2016, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated August 25, 2016.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.*

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
August 25, 2016

Independent Auditor's Report on Compliance for Each 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
Saint Paul, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Minnesota Housing Finance Agency's (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, 2016. 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 the requirements of laws, regulations, contracts and grants 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 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, 2016.

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, 2016, and have issued our report thereon dated August 25, 2016, 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 expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Minneapolis, Minnesota
August 25, 2016

Minnesota Housing Finance Agency

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

Federal Funding Source	Federal CFDA Number	Grant Name	Pass-through Entity Number	Federal Expenditures	Passed Through to Subrecipients
U.S. Department of Housing and Urban Development:					
Direct:					
	14.103	Interest Reduction Payments—Rental and Cooperative Housing for Lower Income Families		$ 532,822	$ 65,284
Section 8 Project-Based Cluster:					
	14.195	Housing Assistance Payments Program for Low Income Families (MHFA Portfolio)		55,934,125	-
	14.182	FA and FAF under the McKinney Act Refunding Agreements		563,500	-
		Total Section 8 Cluster		56,497,625	-
	14.327	Performance-Based Contract Administrator Program		138,111,904	-
	14.239	HOME Investment Partnerships Program		10,384,662	-
	14.241	Housing Opportunities for Persons with AIDS		167,029	162,557
	14.228	Neighborhood Stabilization Program		358,377	358,377
	14.323	Emergency Homeownership Loan Program		311	-
	14.326	Section 811 Project Rental Assitance Program		34,327	34,327
		Total U.S. Department of Housing and Urban Development		206,087,057	620,545
U.S. Department of Treasury:					
Passed through Neighborhood Reinvestment Corporation (d.b.a. Neighbor Works America):					
National Foreclosure Mitigation Counseling:					
	21.000	Round 8	PL113-6X1350	15,947	14,914
	21.000	Round 9	PL113-76X1350	154,404	145,907
	21.000	Making Home Affordable Outreach and Intake Project	Not Available	43	-
		Total U.S. Department of Treasury		170,394	160,821
		Total expenditures of federal awards		$206,257,451	$ 781,366

See notes to the schedule of expenditures of federal awards.

Minnesota Housing Finance Agency

Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

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, 2016. 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 Authority, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Authority.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the cash 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.

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 $42,530,522 at June 30, 2016.

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 $13,248,702 at June 30, 2016.

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, 2016, is as follows:

Total federal awards per the schedule of expenditures of federal awards	$ 206,257,451
Administration fees received, included in fees earned and other income in the general reserve fund	(8,359,582)
Difference due to timing of recognition of expenditures under cash basis versus accrual basis of accounting	(2,267,223)
Total federal appropriations disbursed per federal appropriated fund of the Agency	$ 195,630,646

Minnesota Housing Finance Agency

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

I. 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? ______ Yes ___X___ No

- Significant deficiency(ies) identified that are not considered to be material weaknesses? ______ 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 that are not considered to be material weaknesses? ______ 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
Section 8 Cluster:	
Housing Assistance Payments Program for Low Income Families (MHFA Portfolio)	14.195
FA and FAF under the McKinney Act Refunding Agreements	14.182

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)
For the Year Ended June 30, 2016

II. FINANCIAL STATEMENT FINDINGS

A. Internal Control

None reported.

B. Compliance

None reported.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

A. Internal Control

None reported.

B. Compliance

None reported.

Minnesota Housing Finance Agency

Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2016

Prior-Year Findings: None reported.

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Agenda Item: B.
MINNESOTA HOUSING FINANCE & AUDIT COMMITTEE
Date: 8/25/2016

Item: Fiscal 2016 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	☒ No Action Needed
☐ Motion	☐ Discussion
☐ Resolution	☐ Information

Summary of Request:
Staff requests approval of fiscal 2016 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
- Fiscal Year 2016 Interfund Transfers excluding Administrative Reimbursements

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 in the normal course of Agency business but require Board approval.

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.

Minnesota Housing Finance Agency
Interfund Transfers excluding Administrative Reimbursements
Fiscal Year 2016
$ thousands

Amount	Transfer from	Transfer to	Category	Description
$ 6,682	General Reserve - Pool 1	Residential Housing Finance bond resolution- Pool 2	1	Transfer of excess funds to Pool 2 to maintain the Pool 1 balance in accordance with Board investment guidelines.
$ 3,000	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.
$ 4,747	Residential Housing Finance Bond resolution- Pool 2	Homeownership Finance bond resolution	3	Bond sale contribution to HFB 2015D
$ 8,374	Residential Housing Finance Bond resolution- Pool 2	Homeownership Finance bond resolution	3	Bond sale contribution to HFB 2016A
$ 5,268	Residential Housing Finance Bond resolution- Pool 2	Homeownership Finance bond resolution	3	Bond sale contribution to HFB 2016B.
$ 15	Residential Housing Finance Bond resolution- Pool 2	Rental Housing bond Resolution	3	Bond sale contribution to RH 2015A.
$ 13	Residential Housing Finance Bond resolution- Pool 2	Rental Housing bond Resolution	3	Bond sale contribution to RH 2015B.
$ 13	Residential Housing Finance Bond resolution- Pool 2	Rental Housing bond Resolution	3	Bond sale contribution to RH 2015C.
$ 15	Residential Housing Finance Bond resolution- Pool 2	Rental Housing bond Resolution	3	Bond sale contribution to RH 2015D.
$ 15	Residential Housing Finance Bond resolution- Pool 2	Rental Housing bond Resolution	3	Bond sale contribution to RH 2016A.
$ 1,721	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.
$ 5,012	Residential Housing Finance Bond resolution- Pool 2	Residential Housing Finance Bond resolution- bonds	3	Bond sale contribution to RHFB2015ABC.
$ 321	Residential Housing Finance Bond resolution- Pool 2	Residential Housing Finance Bond resolution- bonds	3	SWAP termination for RHFB 2006C
$ 3,715	Residential Housing Finance Bond resolution- Pool 2	Residential Housing Finance Bond resolution- bonds	3	Bond sale contribution to RHFB2015EFG.
$ 618	Residential Housing Finance Bond resolution- Pool 2	Residential Housing Finance Bond resolution- bonds	3	SWAP termination for RHFB 2004G
$ 486	Residential Housing Finance Bond resolution- Pool 2	Residential Housing Finance Bond resolution- bonds	3	Bond sale contribution to RHFB2015EFG.
$ 4,960	Residential Housing Finance Bond resolution- Pool 2	Residential Housing Finance Bond resolution- bonds	3	Bond sale contribution to RHFB2016ABC.

Categories	
1	Transfers to maintain Pool 1 required balance
2	Contributions to Pool 3
3	Bond sale contributions

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Agenda Item: C
MINNESOTA HOUSING FINANCE & AUDIT COMMITTEE MEETING
Date: 8/25/2016

Item: Fiscal 2016 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 FY2016 administrative reimbursement of $21.523 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):
- FY 2016 Administrative Reimbursements

Minnesota Housing Finance Agency
Administrative Reimbursements
Fiscal Year 2016
$ thousands

Amount		Transfer from	Transfer to
$ 1,102		Rental Housing bond resolution	General Reserve
7,752		Residential Housing Finance Bond resolution- bonds	General Reserve
3,839		Residential Housing Finance Bond resolution- Pool 2	General Reserve
1,246		Residential Housing Finance Bond resolution- Pool 3	General Reserve
5,326		Homeownership Finance Bond resolution	General Reserve
96		Multifamily Housing Bond resolution	General Reserve
-	1	HOMES^{SM} resolution	General Reserve
1,389	2	State Appropriated fund	General Reserve
773	3	Federal Appropriated fund	General Reserve
$ 21,523		**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.