

# Annual Financial Report

*Fiscal Year 2019*





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# MINNESOTA HOUSING FINANCE AGENCY

## Annual Financial Report as of and for the year ended June 30, 2019

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### TABLE OF CONTENTS

	Page #
I. INTRODUCTORY SECTION (UNAUDITED)	
Commissioner's Report	3-4
II. FINANCIAL SECTION	
Independent Auditors' Report	5-6
Management's Discussion and Analysis of Financial Condition and Results of Operations (Unaudited)	7-21
Basic Financial Statements:	
Agency-wide Financial Statements:	
Statement of Net Position	22
Statement of Activities	23
Fund Financial Statements:	
Statement of Net Position — Proprietary Funds	24-25
Statement of Revenues, Expenses and Changes in Net Position — Proprietary Funds	26-27
Statement of Cash Flows — Proprietary Funds	28-31
Notes to Financial Statements	32-67
III. REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)	
General Reserve and Bond Funds, Schedules of Selected Pension and Post-Employment Benefits Other Than Pension (OPEB) Information	68-69
IV. SUPPLEMENTARY INFORMATION	
Fund Financial Statements:	
Statement of Net Position — General Reserve and Bond Funds	70-71
Statement of Revenues, Expenses and Changes in Net Position — General Reserve and Bond Funds	72-73
Statement of Cash Flows — General Reserve and Bond Funds	74-77
V. OTHER INFORMATION (UNAUDITED)	
General Reserve and Bond Funds, Five Year Financial Summary	78
Contact Information	79

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## MINNESOTA HOUSING FINANCE AGENCY

### Commissioner's Report

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We are pleased to have completed another year with strong financial and programmatic results at Minnesota Housing. Success in life starts at home for all ages and all people. Housing is the foundation for success because when we have safe, secure places to live, parents earn more, kids learn better, health and well-being improve, and communities prosper. Our homes are the foundation of our flourishing communities; they fuel the engine of our economy. Minnesota Housing is proud to have financed the following outcomes in the last year:

- It was a record year for home mortgages. Minnesota Housing continues to support strong single-family home mortgage production levels. First-time homebuyers continue to enter the market in large numbers, and our homeownership programs helped over 4,800 families and individuals become homeowners with close to \$875 million in capital for these purposes. Lack of wealth is a significant barrier to homeownership and Minnesota Housing provided almost \$42 million in down payment and closing cost loans, with almost 98% of homeowners who use Minnesota Housing programs also using our down payment/closing cost assistance programs. Taken together, these loan programs enable us to reach a substantial number of households of color, as roughly 35% of these loans were for households of color.
- Minnesota Housing remains committed to funding its single-family home mortgage production using a “best execution” strategy, using bond sales as well as selling loans directly into the capital markets. As the demand for tax-exempt bonding authority to be used for multifamily transactions has grown, the Agency has increased the amount of taxable bonds used to support single family bond transactions. These and other strategies allow the Agency to address the growing demand for mortgages and down payment assistance for first time homebuyers while also supporting an increasing demand to finance new construction or preservation of rental housing using tax exempt bonds and 4% housing tax credits.
- Minnesota Housing also provides substantial assistance to homeowners seeking to improve or rehabilitate their existing homes. In the year just ended, over 990 borrowers accessed over \$21 million in capital for these purposes.
- The demand for affordable rental housing in Minnesota remains very high. Vacancy rates are around 4% statewide and lower in many communities throughout the state. In response and to support new construction of rental housing, Minnesota Housing continues to develop its multifamily first mortgage lending capacity, and is seeing increased demand in our deferred loan and tax credit programs to support a range of communities needs including senior, workforce and supportive housing for people experiencing homelessness. In addition, the Agency continues to invest significant resources into the preservation of existing affordable housing. Overall, the Agency closed on over \$50 million in loans to owners of rental properties, enabling over 1,000 renters to have a safe home.
- In addition to direct lending, Minnesota Housing also administers a variety of programs that provide rental assistance to individuals and families who are homeless or who face housing instability, as well as individuals experiencing mental or behavioral health issues. Also, the Agency runs grant programs providing resources aimed at making homelessness rare, brief and one-time. Cumulatively, these resources reached almost 10,000 individuals/families in the last year.
- Minnesota Housing continues to receive strong support from the State Legislature, with the Agency receiving over \$120 million in state appropriations for Agency programs for the 2020-2021 biennium, an increase of almost 15%. In addition, the 2019 State Legislative session included an additional authorization for \$60 million in Housing Infrastructure bonds to further support the capital investment in affordable housing for low and moderate income individuals across the State.
- Financially, Minnesota Housing's results for the fiscal year ended June 30, 2019 were impressive. Overall assets and deferred outflows grew to over \$4.4 billion, up over \$560 million from June 30, 2018. Consolidated net position grew to \$911 million from \$798 million a year ago, with net position in the Agency's “sustainable core” (excluding appropriated funds and Pool 3) remaining strong, at \$807 million, up from \$679 million. Overall, our annual net interest income increased by more than \$5 million, to \$58.7 million.

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## MINNESOTA HOUSING FINANCE AGENCY

### Commissioner's Report (continued)

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

- Continued to work with the State's Interagency Council on Homelessness to implement, *Heading Home Together*, the Statewide Plan to Prevent and End Homelessness, with particular emphasis on people living outside and ending veteran's homelessness.
- Through the Olmstead Subcabinet and the Olmstead Implementation Office, guided the implementation of the State's Olmstead Plan that seeks to increase opportunities for individuals with disabilities to live and work in integrated settings.
- Made strides to further our investments in support of manufactured home communities, especially as it relates to financing infrastructure improvements.

We thank our partners throughout the state and our employees for their continuing commitment to helping Minnesotans have safe, stable homes they can afford in communities of their choice. We look forward to another strong year in 2020.



Jennifer Leimaile Ho, Commissioner  
Minnesota Housing  
August 29, 2019

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# MINNESOTA HOUSING FINANCE AGENCY

## Independent Auditors' Report

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### Independent Auditor's Report

To the Board of Directors  
Minnesota Housing Finance Agency

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities and each major fund of Minnesota Housing Finance Agency (the Agency), a component unit of the State of Minnesota, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

#### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Minnesota Housing Finance Agency, a component unit of the State of Minnesota, as of June 30, 2019, 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, 2018, 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 and post-employment benefits other than pension (OPEB) information, as listed in the table of contents, be presented to supplement the basic financial



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## MINNESOTA HOUSING FINANCE AGENCY

### Independent Auditors' Report (continued)

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

#### ***Other Information***

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

The 2019 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 2019 supplementary information is fairly stated, in all material respects, in relation to the 2019 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 2018 basic financial statements (not presented herein), and have issued our report thereon dated September 27, 2018, 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, 2018, 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 2018 basic financial statements. The accompanying 2018 supplementary information has been subjected to the auditing procedures applied in the audit of the 2018 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 2018 supplementary information is fairly stated in all material respects in relation to the 2018 basic financial statements taken as a whole.

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

***RSM US LLP***

Minneapolis, Minnesota  
August 29, 2019



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# MINNESOTA HOUSING FINANCE AGENCY

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

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

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

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

### Discussion of Financial Statements

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

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

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

The basic financial statements also include comparative totals as of and for the year ended June 30, 2018. 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 2019 in comparison to the prior fiscal year.

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## MINNESOTA HOUSING FINANCE AGENCY

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

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#### 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<sup>SM</sup> (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](http://www.mnhousing.gov).

#### Discussion of Individual Funds

##### *General Reserve*

The purposes of General Reserve are to maintain sufficient liquidity for Minnesota Housing operations, to hold escrowed funds and to maintain the Housing Endowment Fund (also referred to as Pool 1). The costs of administering Minnesota Housing programs are captured on the Statement of Revenues and Expenses for General Reserve. The fees earned are generally related to the administration of the federal Low Income Housing Tax Credit program, administration of the federal Housing Assistance Payment program, and contract administration of the Section 8 program for developments not financed by Minnesota Housing.

##### *Rental Housing*

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

Inherent risks remain in these portfolios, especially for multifamily developments without project-based tenant subsidies. Maintaining asset quality is a high priority for Minnesota Housing; therefore, this portfolio receives a significant amount of oversight.

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## MINNESOTA HOUSING FINANCE AGENCY

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

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#### Discussion of Individual Funds (continued)

All of Minnesota Housing's bond-financed multifamily loans, except loans financed under state appropriation-backed housing bonds, conduit bonds, and one loan under Multifamily Housing, are financed in Rental Housing as of June 30, 2019. 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, limited obligation and the 2018 Index Bank Note issued under a separate bond trust indenture and the restricted by covenant, Alternative Loan Fund which consists of the Housing Investment Fund (Pool 2), and the Housing Affordability Fund (Pool 3). The Alternative Loan Fund is not pledged as security for any bonds of the Agency but is available to pay debt service on any bonds except state 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 2019.

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 2019 this fund provided capital for several Agency programs including its home improvement loan program and its multifamily first-mortgage loan program. It also provided capital for warehousing purchases of mortgage-backed securities secured by single family first mortgage loans before those securities are permanently financed by issuing bonds, or sold into the TBA market. In addition, it provided capital for amortizing second lien homeownership loans made in conjunction with the Agency's single family first mortgage loans, for tax credit bridge loans, for loans to partner organizations to acquire, rehabilitate and sell foreclosed homes and to develop new affordable housing, contributions for drawdown index bond and index bank note expenses, and for bond sale contributions. The fund may also provide interim financing for construction and rehabilitation of single family housing and may be used to advance funds to retire debt.

Assets of the Housing Affordability Fund (Pool 3) consist of investment-grade securities when not utilized for program purposes. Program purposes include, but are not limited to: no-interest loans, loans at interest rates substantially below market, high risk loans, deferred loans, revolving funds, and grants. During fiscal year 2019 funds from Pool 3 were used for entry cost assistance for first-time homebuyers, below-market interim financing for construction and rehabilitation of single family housing, capital costs and rental assistance for permanent supportive housing, advances for certain multifamily housing developments in anticipation of permanent funding through state appropriation-backed housing bonds, and deferred, subordinated multifamily loans.

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

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## MINNESOTA HOUSING FINANCE AGENCY

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

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#### Discussion of Individual Funds (continued)

##### *Homeownership Finance*

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

##### *Home Ownership Mortgage-backed Exempt Securities (HOMES<sup>SM</sup>)*

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<sup>SM</sup> certificates), each secured by a mortgage-backed security guaranteed by FNMA or GNMA. Minnesota Housing is not committed to sell any HOMES<sup>SM</sup> certificates but has the option to accept the investment bank's bid for HOMES<sup>SM</sup> certificates, which may be a higher price than the Agency could achieve by selling the mortgage-backed security in the open market. The HOMES<sup>SM</sup> Certificates are not secured by the general obligation pledge of the Agency and are not protected by the moral obligation backing from the State of Minnesota.

##### *Multifamily Housing*

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

##### *State and Federal Appropriated Funds*

The appropriated funds are maintained by Minnesota Housing for the purpose of receiving and disbursing monies appropriated by the state and federal government for housing. All funds appropriated by the State and Federal government must be used for specific uses as set forth in the state appropriations or federal contracts and except for funds appropriated to pay debt service on state appropriation-backed bonds are not pledged or available to secure the bondholders or creditors of Minnesota Housing. Because the Agency is the issuer of the state appropriation-backed bonds they are shown in bonds payable section even though they are not a general obligation of the Agency. These bonds are payable solely from appropriations from the State of Minnesota. Per the offering disclosures for these appropriation-backed bonds, the Agency will not use its own resources to redeem or repay the bonds.

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

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

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# MINNESOTA HOUSING FINANCE AGENCY

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

### Condensed Financial Information

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

		Agency-wide Total		
		Fiscal 2019	Fiscal 2018	Change
<b>Assets and Deferred Outflows</b>	Cash and Investments	\$3,400,932	\$2,796,213	\$604,719
	Loans receivable, Net	955,435	992,733	(37,298)
	Interest Receivable	13,787	12,063	1,724
	Deferred Pension and OPEB Expense	26,658	38,618	(11,960)
	Total Assets and Deferred Outflows	4,420,003	3,859,078	560,925
<b>Liabilities and Deferred Inflows</b>	Bonds Payable	3,264,843	2,828,697	436,146
	Interest Payable	27,086	23,984	3,102
	Pension and OPEB Liability	10,441	47,879	(37,438)
	Accounts Payable & Other Liabilities	42,793	31,020	11,773
	Funds Held for Others	92,121	78,493	13,628
	Deferred Pension and OPEB Credit	42,028	27,699	14,329
	Total Liabilities and Deferred Inflows	3,508,742	3,061,113	447,629
<b>Net Position</b>	Restricted by Bond Resolution	426,482	318,512	107,970
	Restricted by Covenant	487,709	465,169	22,540
	Restricted by Law	151,823	149,466	2,357
	Unrestricted - State Appropriation-backed Debt	(160,835)	(140,892)	(19,943)
	Total Net Position	911,261	797,965	113,296

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

		Agency-wide Total		
		Fiscal 2019	Fiscal 2018	Change
<b>Revenues</b>	Interest Earned	\$ 144,514	\$ 126,677	\$ 17,837
	Appropriations Received	249,985	258,071	(8,086)
	Fees and Reimbursements	16,686	18,060	(1,374)
	Net G/L on Sale of MBS Held for Sale/HOMES <sup>SM</sup> Certificates	4,642	2,240	2,402
	Total Revenues (1)	534,311	367,840	166,471
<b>Expenses</b>	Interest Expense	97,085	80,172	16,913
	Appropriations Disbursed	224,145	231,313	(7,168)
	Fees	3,359	3,872	(513)
	Payroll, Gen. & Admin.	26,971	44,655	(17,684)
	Loan Loss/Value Adjust's	22,263	26,130	(3,867)
	Total Expenses (1)	400,735	409,469	(8,734)
	Revenues Over/Under Expenses	133,576	(41,629)	175,205
	Beginning Net Position	797,965	847,501	(49,536)
	Ending Net Position	911,261	797,965	113,296

(1) Agency-wide totals include interfund amounts

Combined General Reserve and Bond Funds					Combined State and Federal Appropriations Funds		
Fiscal 2019							
Excluding Pool 3	Pool 3	Total	Fiscal 2018	Change	Fiscal 2019	Fiscal 2018	Change
\$3,233,448	\$30,292	\$3,263,740	\$2,670,533	\$593,207	\$137,192	\$125,680	\$11,512
832,530	83,068	915,598	950,894	(35,296)	39,837	41,839	(2,002)
13,452	92	13,544	11,761	1,783	243	302	(59)
26,658	-	26,658	38,618	(11,960)	-	-	-
4,128,718	113,455	4,242,173	3,689,932	552,241	177,830	169,146	8,684
3,104,008	-	3,104,008	2,687,792	416,216	160,835	140,905	19,930
27,086	-	27,086	23,984	3,102	-	-	-
10,441	-	10,441	47,879	(37,438)	-	-	-
39,287	454	39,741	25,338	14,403	3,052	5,682	(2,630)
70,102	-	70,102	66,515	3,587	22,019	11,978	10,041
42,028	-	42,028	27,699	14,329	-	-	-
3,321,447	453	3,321,900	2,900,541	421,359	186,842	160,572	26,270
426,482	-	426,482	318,512	107,970	-	-	-
374,707	113,002	487,709	465,169	22,540	-	-	-
-	-	-	-	-	151,823	149,466	2,357
-	-	-	-	-	(160,835)	(140,892)	(19,943)
807,271	113,002	920,273	789,391	130,882	(9,012)	8,574	(17,586)

Combined General Reserve and Bond Funds					Combined State and Federal Appropriations Funds		
Fiscal 2019							
Excluding Pool 3	Pool 3	Total	Fiscal 2018	Change	Fiscal 2019	Fiscal 2018	Change
\$ 139,372	\$ 1,353	\$ 140,725	\$ 123,526	\$ 17,199	\$ 3,789	\$ 3,151	\$ 638
-	-	-	-	-	249,985	258,071	(8,086)
20,129	(1,100)	19,029	18,430	599	(2,343)	1,730	(4,073)
4,642	-	4,642	2,240	2,402	-	-	-
278,043	1,921	279,964	105,221	174,743	254,347	262,619	(8,272)
97,085	-	97,085	80,172	16,913	-	-	-
-	-	-	-	-	224,145	231,313	(7,168)
3,240	20	3,260	3,779	(519)	99	93	6
21,903	2,901	24,804	42,804	(18,000)	2,167	1,851	316
(589)	356	(233)	2,162	(2,395)	22,496	23,968	(1,472)
144,095	4,659	148,754	150,144	(1,390)	251,981	259,325	(7,344)
133,948	(2,738)	131,210	(44,923)	176,133	2,366	3,294	(928)
678,651	110,740	789,391	834,257	(44,866)	8,574	13,244	(4,670)
807,271	113,002	920,273	789,391	130,882	(9,012)	8,574	(17,586)



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# MINNESOTA HOUSING FINANCE AGENCY

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

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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 2019 Financial Report.

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

Investments- MBS is the single largest category of bond fund assets. Those assets are pledged as security for the payment of certain Agency mortgage revenue bonds held in acquisition accounts pledged to bond holders as security for bonds. This category of investments increased 24.9% to \$2,687.7 million. Single Family production was very strong in FY2019.

#### Mortgage-backed Securities Portfolio Delinquency

Actual Loan Count

	June 30, 2019		June 30, 2018	
Current	23,817	97.5%	20,683	97.8%
60-89 Days	277	1.1%	233	1.1%
90-119 Days	130	0.5%	111	0.5%
120+ Days	198	0.8%	152	0.7%
Total Count	24,422		21,179	
Total Past Due	605	2.5%	496	2.3%

The 60+ day delinquency rate as of June 30, 2019 for the MBS portfolio was approximately 0.2 points below the delinquency rates benchmark at the HFA division of US Bank.

Cash and cash equivalents are carefully managed to provide adequate resources for future debt service requirements and liquidity needs. This category increased 12.3% to \$382.0 million. Cash and Cash equivalents can fluctuate based on the timing of bond sales, the rate of production, debt repayments, purchase of investments and loan transactions.

Investments securities-other consists of MBS that are held by the Agency as investments, MBS held in the warehouse for future bond sales and MBS held for sale in the TBA market as well as other quality investments such as US agency, US treasuries, municipal bonds and government backed investment pools at the trustee, Wells Fargo, and the State Board of Investments. This category increased by 8.5% to \$194.1 million.

Loans receivable, net is another large single category of bond fund assets. Loans are limited to housing-related lending for low- and moderate-income individuals and families and multifamily housing developments. Loans receivable, net, decreased 3.7% to \$915.6 million at June 30, 2019 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 2019 was attributable to the runoff of the homeownership

# 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)

loan portfolio. The reserve for loan loss for the homeownership loan portfolio decreased slightly. The reserve for loan loss for the home improvement loan portfolio increased due to a slight increase in the 120 day category. Amortizing multifamily loans at fixed interest rates, secured by first mortgages (referred to as the multifamily portfolio) exhibited little change in delinquency rate and the aggregate loan receivable balance. Minnesota Housing's primary loan programs offer fixed interest rate financing and therefore differ from the high risk characteristics associated with some adjustable payment loan products.

#### Homeownership Loan Portfolio Delinquency

Actual Loan Count

	June 30, 2019		June 30, 2018	
Current	5,482	95.0%	6,093	94.5%
60-89 Days	105	1.8%	138	2.1%
90-119 Days	40	0.7%	49	0.8%
120+ Days	143	2.5%	167	2.6%
Total Count	5,770		6,447	
Total Past Due	288	5.0%	354	5.5%

#### Home Improvement Loan Portfolio Delinquency

Actual Loan Count

	June 30, 2019		June 30, 2018	
Current	4,693	97.8%	4,906	98.0%
60-89 Days	35	0.7%	24	0.5%
90-119 Days	17	0.4%	21	0.4%
120+ Days	51	1.1%	53	1.1%
Total Count	4,796		5,004	
Total Past Due	103	2.1%	98	2.0%

The 60+ day delinquency rate as of June 30, 2019 for the entire Minnesota Housing homeownership loan portfolio, excluding those loans not customarily included in foreclosure statistics, exceed by approximately two percentage points the delinquency rates of similar loan data available as of March 31, 2019 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 47.6% to \$.7 million at June 30, 2019 as a result of a decrease in the amount of loans with outstanding claims.

Over 60% of the principal amount of multifamily first mortgage loans receivable held in Rental Housing, and \$75.2 million of the principal amount of multifamily first mortgage loans receivable held in Residential Housing Finance, are insured by the U.S. Department of Housing and Urban Development ("HUD") pursuant to a risk sharing agreement whereby HUD agrees to assume 50% or greater of the loss upon a default of the mortgage loan.

Real estate owned, net consists of properties acquired upon foreclosure of homeownership loans. No increase in real estate owned which remains at \$2.0 million at June 30, 2019.

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## MINNESOTA HOUSING FINANCE AGENCY

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

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

While the delinquency rates and foreclosures in the Agency's loan portfolio remained above historical norms during fiscal year 2019, the combined net total of FHA/VA insurance claims and real estate owned remains immaterial compared to total loans receivable at June 30, 2019, being less than 1% of total net loans receivable. Management believes that reserves for loan losses are adequate based on the current assessment of asset quality.

No loans reside in General Reserve.

Interest receivable on loans and investments is a function of the timing of interest payments and the general level of interest rates. Combined loan and investment interest receivable increased 15.7% to \$13.5 million at June 30, 2019. The increase is mainly a result of an increase in interest receivable on Program MBS homeownership loans.

Bonds payable is the largest single category of liabilities, resulting primarily from debt issued to fund housing-related lending. Bonds payable increased 15.5% to \$3,104.0 million at June 30, 2019 because new bonding issuance outpaced scheduled redemptions and early bond redemptions of existing debt.

The companion category of interest payable increased 12.9% to \$27.1 million at June 30, 2019, 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<sup>SM</sup> increased 5.4% in FY19 to \$70.1 million at June 30, 2019.

On the statement of net position there are three accounts that report the overall pension picture. The Net Pension Liability decreased by \$37.4 million to \$10.4 million as of June 30, 2019 from \$47.9 million on June 30, 2018. Deferred Pension Expense (Deferred Outflow) decreased by \$12.0 million to \$26.7 million as of June 30, 2019 from \$38.6 million at June 30, 2018. Deferred Pension Credit (Deferred Inflow) increased by \$14.3 million to \$42.0 million as of June 30, 2019 from \$27.7 million at June 30, 2018. This increase was due to MSRS making changes to the assumptions that were used for the plans actuarial reports. GASB 68 prescribed how these accounts will be recorded and how income and expense will be recognized. With the decrease in Deferred Pension Expense (Deferred Outflow) of \$12.0 million, the decrease in Net Pension Liability of \$37.4 million and the increase in Deferred Pension Credit (Deferred Inflow) of \$14.3 million the result is an overall increase of \$ 11.2 million to the net position. GASB 75 prescribes that other Post Retirement Employee Benefits (OPEB) are now included in these numbers. The total amount of OPEB expense in fiscal year 2019 was \$1.7 million

Accounts payable and other liabilities increased to \$39.7 million at June 30, 2019. During FY 2019 the increase is due to the closing of seven Federal Financing Bank (FFB) Risk Sharing Initiative Program. Pursuant to the FFB program the Agency originates and sells a beneficial interest in each loan (consisting of principal and interest at a rate less than the loan rate paid by the borrower) to FFB. The Agency is obligated to reimburse FFB for its loss if the loan is not repaid, but since each loan is insured under HUD's risk-share program the loss is shared with HUD.

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.

#### General Reserve and Bond Funds-Revenues over Expenses

Revenues over expenses of General Reserve and bond funds increased 392.1% to 131.2 million. Revenues over expenses excluding unrealized gains and losses increased 158.4% to \$39.5 million for fiscal year 2019. The majority of the increase was the result of a pension credit.

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## MINNESOTA HOUSING FINANCE AGENCY

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

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

Total Revenues increased 166.1% to \$280.0 million. Revenue excluding unrealized gains and losses on investments increased 13.8% to \$188.2 million.

Total expenses decreased .9% to \$148.8 million.

The largest revenue component, interest earned on MBS and investments increased 30.1% to \$94.1 million. This is due to the increase in production as well as interest rate increases. Loan interest revenue decreased 8.9% to \$46.6 million as repayments and prepayments decreased the size of the homeownership loan portfolio. That portfolio is in runoff because of the change to the mortgage-backed securities business model during fiscal year 2010.

When excluding pool 3 and unrealized gains or losses revenues increased 13.8% to \$186.6 million. Expenses decreased .1% to \$144.1 million.

Administrative reimbursements to General Reserve from bond funds were \$23.8 million in fiscal year 2019 compared to \$21.2 million during the prior fiscal year. General Reserve also incurs overhead expenses to administer state and federal appropriated housing programs. General Reserve received overhead reimbursements of \$3.9 million from the State and Federal Appropriated funds to recover certain overhead expenses incurred during fiscal year 2019 compared to \$3.2 million during the prior fiscal year.

Other fee income to General Reserve and bond funds of \$15.1 million decreased by \$.1 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 \$ 4.6 million. Components of the net gain, in addition to the gain or loss on the security itself, include the cost of minimizing interest rate risk through forward sale contracts, certain trustee fees, and service release premiums.

Unrealized gain on investment securities for fiscal year 2019 are \$91.7 million compared to \$60.2 million of unrealized losses for fiscal year 2018. The unrealized gains or losses arise due to the changes in fair value and mark-to-market in accordance with GASB. The fair value adjustments are booked quarterly and fluctuate based on market conditions. The majority 95% of these unrealized gains or losses are related to the program MBS portfolio pledged to bond holders for payments of debt service. The Agency will hold these MBS until all requirements of the Residential Housing Finance and Homeownership Finance Bond resolution are satisfied. The Agency is not permitted by the bond resolution to sell the MBS at this time so this value fluctuation is booked as required by GASB however analysis performed on income normally excludes the unrealized gains or losses.

Interest expense of the bond funds increased 17.5% to \$85.8 million compared to the prior fiscal year as a result of new bond issues outpacing scheduled redemptions and early bond redemptions of existing debt.

Financing costs increased 58.1% to \$11.2 million. The majority of the increase is due to strong bonding activity.

Expenses for loan administration and trustee fees in the bond funds decreased 13.7% to \$3.3 million for current fiscal year. Of the total administrative reimbursement revenue in General Reserve of \$27.7 million, the interfund charge to the bond funds and State Appropriated fund of \$26.9 million was eliminated for purposes of financial reporting in the Agency-wide financial statements.

Salaries and benefits in General Reserve of \$15.1 million decreased 54.3% from the prior year. A main component of the Salaries and Benefits change is due to a decrease in pension expense to a credit of \$10.5 million at June 30, 2019 from \$7.5 million at June 30, 2018. Changes in assumptions by MSRS account for all of this change.

Other general operating expense in General Reserve and bond funds recognized no change compared to prior fiscal year at \$9.7 million.

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## MINNESOTA HOUSING FINANCE AGENCY

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

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

Reductions in carrying value of certain low interest rate deferred loans in the bond funds decreased from \$1.8 million to a credit of \$.5 million. The decrease was due to the leveling off of Pool 3 loan closings.

The provision for loan loss expense in the bond funds decreased from \$.4 million to \$.3 million. Delinquencies and foreclosures have increased over the fiscal year.

The provision for loan loss expense for the homeownership loan portfolio decreased \$.4 million because the delinquencies decreased.

The provision for loan loss expense for the home improvement loan portfolio increased \$.2 million as a result of increased loan delinquencies during the year.

The provision for loan loss expense for the multifamily loan portfolio was zero due to the mix of loans on the watch-list, when compared to the prior fiscal year and the number of loans on the watch list, was unchanged.

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 2019, \$33.4 million of Pool 1 funds in excess of requirements were transferred to Pool 2. Revenues over expenses in General Reserve that are in excess of the Pool 1 requirement are transferred periodically to Pool 2 for use in housing programs. Pool 2 also recorded a \$5.0 million contribution to Pool 3 to be used for highly subsidized housing programs and a \$15.0 million non-operating transfer of excess assets that occurred between Rental Housing, General Reserve and Residential Housing Finance Bond. Per the Rental Housing Bond Resolution requirement, funds must be transferred to General Reserve when they are removed from the Rental Housing Bond Resolution. 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 \$19.3 million in bond sale contributions to the Homeownership Finance bond fund.

Total combined net position of General Reserve and bond funds increased 16.6% to \$920.3 million as of June 30, 2019. A portion of that increase is a result of current fiscal year unrealized gains on investments, without which the combined net position would have increased \$41.0 million. Assets of the appropriated funds are derived from the appropriation of funds by the State of Minnesota and funds made available to Minnesota Housing by the federal government for housing purposes. Housing preservation and development typically requires appropriations received in the current period to be expended over several future years of planned development. This timing difference is the primary reason for the presence of investments, cash, and cash equivalent assets in the appropriated funds and for the balance of net position restricted by law. In fiscal year 2018, the Agency added a new line called Unrestricted - State Appropriation-backed Bonds. This line shows the amount of outstanding Appropriation-backed Bonds issued by the Agency. The net position of General Reserve and bond funds is divided into two primary categories. Restricted by Bond Resolution is pledged to the payment of bonds, subject to bond resolution provisions that authorize Minnesota Housing to withdraw funds in excess of the amounts required to be maintained under the bond resolutions. Restricted by Covenant is subject to a covenant with bondholders that the Agency will use the money in General Reserve, and money that would otherwise have been released to General Reserve, only for the administration and financing of programs in accordance with the policy and purpose of Minnesota Housing's enabling legislation, including the creation of reserves for the payment of bonds and of loans made from the proceeds thereof, and will accumulate and maintain therein such a balance of funds and investments as will be sufficient for the purpose. The Board of the Agency has established investment guidelines for these funds to implement this covenant.

#### State and Federal Appropriated Funds-Statement of Net Position

Investments, cash, and cash equivalents combined are the largest category of assets in the appropriated funds. The June 30, 2019 combined balance increased 9.2% to \$137.2 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.



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## MINNESOTA HOUSING FINANCE AGENCY

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

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

Certain state appropriations are expended as housing loans which are in a first lien position and with near- or below-market interest rates, resulting in net loans receivable. At June 30, 2019 State Appropriated fund net loans receivable decreased 4.8% to \$39.8 million, reflecting the sale of deferred down payment assistance loans to Residential Housing Finance Resolution.

Interest receivable in appropriated funds is a function of the timing of interest payments and the general level of interest rates on investments. Interest receivable on appropriated funds at June 30, 2019 decreased to \$0.2 million. Accounts payable and other liabilities represent amounts payable to program participants as of year-end. The balance of payables at June 30, 2019 was \$3.1 million compared to \$5.7 million at June 30, 2018. 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, 2019 the combined net interfund payable was \$.9 million.

At June 30, 2019 the balance of funds held for others was \$22.0 million. The majority of these funds represents the proceeds of state appropriation-backed housing bonds which are held for disbursement to certain multifamily affordable housing developments.

The appropriated net position is broken into two categories. Restricted by Law for use with housing programs only and is not pledged or available to secure bonds issued under any of the Agency's bond funds or other obligations of the Agency or its general obligation pledge in respect thereof. Unrestricted - State Appropriation-backed Bonds shows the amount of state appropriation-backed bonds outstanding. These bonds are backed solely by the State of Minnesota and the Agency's resources are not pledged or available to secure the bondholders. Per GASB, as the issuer, the Agency is required to show these bonds as bonds payable and therefor the reduction in net position. The combined net position of the appropriated funds decreased from \$8.6 million as June 30, 2018 to a (\$9.0) million as of June 30, 2019. This decrease is predominately due to the state appropriation-backed bonds being recorded in the state appropriated fund. There was an increase in restricted by law net position of \$2.3 million for 2019. This shows that combined receipts exceeds expenses during fiscal year 2019. The principal amount outstanding of the state appropriation-backed bonds was \$140.9 million as of June 30, 2018, and \$160.8 million as of June 30, 2019.

#### State and Federal Appropriated Funds-Revenues over Expenses

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

The largest revenue category is appropriations received, and is a function of the fiscal, legislative, and political environment of the State of Minnesota and the federal government. The combined appropriations received decreased from \$258.1 million in fiscal year 2018 to \$250.0 million in fiscal year 2019. Federal appropriations received decreased by \$6.1 million. State appropriations received decreased by \$2.0 million.

The combined interest income from investments increased 48.0% to \$3.3 million for fiscal year 2019.

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

Fees earned and other income, in the amount of \$.7 million were recorded in the State Appropriated fund during fiscal year 2019. This consisted mainly of private donations and the receipt of interagency transfers to support certain state housing programs.

Combined unrealized losses of \$.2 million were recorded at June 30, 2019 compared to \$0.3 million of unrealized losses at June 30, 2018. The unrealized gains and losses arise due to the changes in fair value and mark-to-market in accordance with GASB. The fair value adjustments are booked quarterly and fluctuate based on market conditions.

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## MINNESOTA HOUSING FINANCE AGENCY

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

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

Administrative reimbursements to General Reserve of overhead expenses to administer State Appropriated fund programs increased 46.4% to \$3.1 million compared to the prior fiscal year. The Agency incurs the overhead expense in General Reserve. General Reserve is reimbursed for these overhead expenses by the State Appropriated funds to the extent of investment earnings on unexpended state appropriations. During fiscal year 2019 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 decreased 3.1% to \$224.1 million compared to the prior fiscal year, reflecting State Appropriations disbursed of \$30.2 million and federal appropriations disbursed of \$193.9 million.

Increased expenditures of State Appropriated funds for fully-reserved below-market and zero-percent interest rate loans impacted expense from reductions in carrying value of certain loans. Net reductions of carrying value decreased 6.7% to \$21.9 million compared to the prior fiscal year.

Other general operating expenses in the State Appropriation fund represent fees for professional and technical support to implement and administer certain housing programs. Other general operating expenses in the State Appropriation fund increased 17.1% to \$2.2 million at June 30, 2019.

Combined expenses were less than combined revenue of the appropriated funds by \$2.4 million at June 30, 2019. Ultimately, the entire existing State Restricted by Law and Federal Appropriated funds' net position is likely to be expended for housing programs.

#### Significant Long Term Debt Activities

Minnesota Housing issues a significant amount of bonds (does not include state appropriation-backed bonds), having outstanding at June 30, 2019 long-term bonds totaling \$3,104.0 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, 2019, amounts held by the trustee in principal, interest, redemption, and reserve accounts represented full funding of those requirements as of that date. In addition, at year-end the Agency had \$160.8 million state appropriation-backed bonds.

Minnesota Housing continually investigates and utilizes financing and debt management techniques designed to achieve its goals of reducing interest expense and efficiently utilizing bonding authority while managing risk and responding to changing capital markets. During 2019 fiscal year, Minnesota Housing issued twenty-two series of bonds aggregating \$736.4 million (excluding state appropriation-backed housing bonds, conduit bonds, limited obligation drawdown index bank note, and short-term borrowing against a line of credit), compared to the issuance of twenty-three series totaling \$804.7 million the previous fiscal year. Long-term bonds are issued as capital is needed for program purposes and as opportunities arise to economically refund outstanding bonds. Short-term bonds and notes and other indebtedness may be issued to preserve tax-exempt bonding authority for future program use and to warehouse purchases of mortgage-backed securities in advance of permanent financing. In the past, the Agency also has converted a portion of its bonding authority to Mortgage Credit Certificate authority in another effort to support first-time homebuyers. A total of \$25.3 million in state appropriation-backed bonds were issued in fiscal year 2019.

A total of \$411.6 million (does not include state appropriation-backed bonds) in bond principal repayments and \$97.1 million of bond-related interest expense occurred during fiscal year 2019. Of the total bond principal repayments, \$153.9 million were repayments made on bonds prior to the scheduled maturity date using a combination of optional and special redemption provisions. A total of \$5.4 million in bond principal repayments for state appropriation-backed bonds were made in fiscal year 2019.

Most of the bonds issued by Minnesota Housing bear interest that is not includable in gross income for federal and State of Minnesota income taxation, in accordance with requirements of the federal Internal Revenue Code and Treasury regulations governing either qualified mortgage bonds or bonds issued to provide qualified residential rental projects. Minnesota Housing's ability to issue tax-exempt debt is limited by its share of the state's allocation of private activity bond volume cap, which is established by Minnesota



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## MINNESOTA HOUSING FINANCE AGENCY

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

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#### Significant Long Term Debt Activities (continued)

statutes. Minnesota Housing's ability to issue tax-exempt debt is also limited by a provision in the Internal Revenue Code (commonly known as the 10 year rule) that requires mortgage repayments and prepayments received more than ten years after the date of issuance of the bonds that financed those mortgage loans to be used to redeem bonds.

While most of the Agency's bonds are tax-exempt, taxable bonds have been issued to supplement limited tax-exempt private activity bond volume cap in order to meet demand for financing mortgage loans. Taxable bonds may also be issued to refund existing debt or to finance lending programs where federal tax-exempt bond restrictions are inconsistent with program goals. Variable-rate bonds and interest-rate swaps were incorporated into Minnesota Housing's financings from fiscal year 2003 through fiscal year 2010, and again in fiscal years 2016, 2017 and 2018 and in fiscal year 2018 SIFMA Floating Rate Term Bonds were also incorporated enabling the Agency to provide below-market mortgage financing at synthetically fixed interest rates. Interest-rate swaps help to hedge the mismatch between fixed-rate loans and variable-rate bonds. The Agency issued one new series of variable rate demand bonds in fiscal year 2019 in a principal amount totaling \$45.0 million with an interest rate swap with the equivalent notional amount. The Agency also issued one new series of SIFMA Floating Rate Term Bonds in the principal amount of \$35.0 million also with an interest rate swap with the equivalent notional amount (See Floating Rate Term Bonds in the notes to financial statements for more information.)

#### Significant Factors that May Affect Financial Conditions and/or Operations

##### *Legislative Actions*

In odd-numbered years, the Legislature sets a two year budget and often passes a modestly-sized bonding bill. The Agency's top priorities in the 2019 legislative session were to advance the Governor's Budget recommendations of \$131.5 million in program funding (a \$26 million proposed increase) and \$150 million in bonds for housing (\$120 million in State Appropriation-backed Housing Infrastructure Bonds and \$30 million in General Obligation Bonds for public housing rehabilitation).

After the one-day special session, the Governor signed into law a \$120.6 million two year program budget for the agency including \$10 million/year in FY2020-2021 in new base funding for Agency programs, along with \$5 million in one-time funding for FY2020. The Agency programs range from homelessness prevention assistance and rental assistance to deferred resources for multifamily development to down payment and closing cost assistance for first-time homebuyers. In addition, the Governor signed a stand-alone bill for \$60 million in new Housing Infrastructure Bond authority, which included a new eligible use for manufactured home park acquisition. Current eligible uses of Housing Infrastructure Bond proceeds are:

- New construction or acquisition and rehabilitation of permanent supportive housing
- Preservation of federally-assisted housing
- Land acquisition for single family homes to be sold as part of a community land trust
- Acquisition, rehabilitation, adaptive reuse, or new construction of senior housing
- Acquisition, improvement and infrastructure of manufactured home parks

Loans to be funded with the proceeds of authorized Housing Infrastructure Bonds will be selected for housing projects as part of Minnesota Housing's consolidated Request for Proposal (RFP) beginning in calendar year 2019.

#### Additional Information

Questions and inquiries may be directed to Ms. Debbi Larson at Minnesota Housing Finance Agency, 400 Wabasha Street North, Suite 400, St. Paul, MN 55102 (651-296-8183 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, 2019 (with comparative totals as of June 30, 2018)

		Agency wide Total as of June 30, 2019	Agency wide Total as of June 30, 2018
<b>Assets</b>	Cash and cash equivalents	\$ 451,832	\$ 414,280
	Investments-program mortgage-backed securities	2,687,661	2,151,385
	Investment securities-other	261,439	230,548
	Loans receivable, net	955,435	992,733
	Interest receivable on loans and program mortgage-backed securities	12,364	10,771
	Interest receivable on investments	1,423	1,292
	Interest rate swap agreements	-	4,623
	FHA/VA insurance claims, net	686	1,309
	Real estate owned, net	1,965	1,985
	Capital assets, net	6,082	5,710
	Other assets	3,412	3,870
	Total assets	4,382,299	3,818,506
<b>Deferred Outflows of Resources</b>	Deferred loss on refunding	62	1,785
	Deferred loss on interest rate swap agreements	10,984	169
	Deferred pension and OPEB expense	26,658	38,618
	Total deferred outflows of resources	37,704	40,572
<b>Liabilities</b>	Bonds payable, net	3,264,843	2,828,697
	Interest payable	27,086	23,984
	Interest rate swap agreements	10,984	1,862
	Net pension and OPEB liability	10,441	47,879
	Accounts payable and other liabilities	42,793	31,020
	Funds held for others	92,121	78,493
	Total liabilities	3,448,268	3,011,935
<b>Deferred Inflows of Resources</b>	Deferred gain on interest rate swap agreements	-	4,623
	Deferred service release fee	18,446	16,856
	Deferred pension and OPEB credit	42,028	27,699
	Total deferred inflows of resources	60,474	49,178
<b>Net Position</b>	Restricted by bond resolution	426,482	318,512
	Restricted by covenant	487,709	465,169
	Restricted by law	151,823	149,466
	Unrestricted - State Appropriation-Backed Debt	(160,835)	(140,892)
	Invested in capital assets	6,082	5,710
	Total net position	911,261	797,965
	Total liabilities, deferred inflows of resources, and net position	\$4,420,003	\$3,859,078

See accompanying notes to financial statements

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**MINNESOTA HOUSING FINANCE AGENCY****Agency-wide Financial Statements****Statement of Activities (in thousands)****Year ended June 30, 2019 (with comparative total for year ended June 30, 2018)**

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		<b>Agency-wide Total for Year Ended June 30, 2019</b>	<b>Agency-wide Total for Year Ended June 30, 2018</b>
<b>Revenue</b>	Interest earned on loans	\$ 47,030	\$ 52,054
	Interest earned on investments-program mortgage-backed securities	79,699	61,996
	Interest earned on investments-other	17,785	12,627
	Net G/L on Sale of MBS Held for Sale/HOMES <sup>SM</sup> Certificates	4,642	2,240
	Appropriations received	249,985	258,071
	Administrative reimbursement	818	1,152
	Fees earned and other income	15,868	16,908
	Unrealized gains/losses on investments	91,572	(60,535)
	Total revenues	<u>507,399</u>	<u>344,513</u>
<b>Expenses</b>	Interest	85,837	73,057
	Financing, net	11,248	7,115
	Loan administration and trustee fees	3,359	3,872
	Salaries and benefits	15,117	33,114
	Other general operating	11,854	11,541
	Appropriations disbursed	224,145	231,313
	Reduction in carrying value of certain low interest rate deferred loans	21,380	25,219
	Provision for loan losses	883	911
	Total expenses	<u>373,823</u>	<u>386,142</u>
	Revenues over (under) expenses	133,576	(41,629)
	Non-Operating Expenses	<u>(20,280)</u>	<u>(7,907)</u>
<b>Net Position</b>	Change in Net Position	113,296	(49,536)
	Total net position, beginning of period	<u>797,965</u>	<u>847,501</u>
	Total net position, end of year	<u><u>\$911,261</u></u>	<u><u>\$797,965</u></u>

See accompanying notes to financial statements

# MINNESOTA HOUSING FINANCE AGENCY

## Fund Financial Statements

### Statement of Net Position (in thousands)

#### Proprietary Funds

As of June 30, 2019 (with comparative totals as of June 30, 2018)

		<b>Bond Funds</b>	
		<b>General Reserve</b>	<b>Rental Housing</b>
<b>Assets</b>	Cash and cash equivalents	\$ 52,210	\$ 34,866
	Investments-program mortgage-backed securities	-	-
	Investment securities-other	43,907	21,902
	Loans receivable, net	-	130,242
	Interest receivable on loans and program mortgage-backed securities	-	572
	Interest receivable on investments	108	118
	Interest rate swap agreements	-	-
	FHA/VA insurance claims, net	-	-
	Real estate owned, net	-	-
	Capital assets, net	6,082	-
	Other assets	2,443	4
	Total assets	104,750	187,704
<b>Deferred Outflows of Resources</b>	Deferred loss on refunding	-	-
	Deferred loss on interest rate swap agreements	-	-
	Deferred pension and OPEB expense	26,658	-
	Total deferred outflows of resources	26,658	-
<b>Liabilities</b>	Bonds payable, net	-	46,275
	Interest payable	-	577
	Interest rate swap agreements	-	-
	Net pension and OPEB liability	10,441	-
	Accounts payable and other liabilities	4,673	3,871
	Interfund payable (receivable)	(7,849)	-
	Funds held for others	67,646	-
	Total liabilities	74,911	50,723
<b>Deferred Inflows of Resources</b>	Deferred gain on interest rate swap agreements	-	-
	Deferred service release fee	-	-
	Deferred pension and OPEB credit	42,028	-
	Total deferred inflows of resources	42,028	-
<b>Net Position</b>	Restricted by bond resolution	-	136,981
	Restricted by covenant	8,387	-
	Restricted by law	-	-
	Unrestricted - State Appropriation-backed Debt	-	-
	Invested in capital assets	6,082	-
	Total net position	\$ 14,469	\$136,981

See accompanying notes to financial statements

Bond Funds				Appropriated Funds			
Residential Housing Finance	Homeownership Finance	Multifamily Housing	HOMES <sup>SM</sup>	State Appropriated	Federal Appropriated	Total as of June 30, 2019	Total as of June 30, 2018
\$ 247,231	\$ 46,143	\$ 1,554	\$ -	\$ 55,499	\$14,329	\$ 451,832	\$ 414,280
1,008,158	1,679,503	-	-	-	-	2,687,661	2,151,385
111,170	-	-	17,096	67,364	-	261,439	230,548
771,604	-	13,752	-	39,837	-	955,435	992,733
6,431	5,289	50	-	22	-	12,364	10,771
870	60	3	43	206	15	1,423	1,292
-	-	-	-	-	-	-	4,623
686	-	-	-	-	-	686	1,309
1,965	-	-	-	-	-	1,965	1,985
-	-	-	-	-	-	6,082	5,710
374	33	-	-	204	354	3,412	3,870
2,148,489	1,731,028	15,359	17,139	163,132	14,698	4,382,299	3,818,506
62	-	-	-	-	-	62	1,785
10,984	-	-	-	-	-	10,984	169
-	-	-	-	-	-	26,658	38,618
11,046	-	-	-	-	-	37,704	40,572
1,395,119	1,632,494	13,480	16,640	160,835	-	3,264,843	2,828,697
20,264	6,168	34	43	-	-	27,086	23,984
10,984	-	-	-	-	-	10,984	1,862
-	-	-	-	-	-	10,441	47,879
31,078	119	-	-	2,542	510	42,793	31,020
6,913	-	-	-	794	142	-	-
2,000	-	-	456	22,016	3	92,121	78,493
1,466,358	1,638,781	13,514	17,139	186,187	655	3,448,268	3,011,935
-	-	-	-	-	-	-	4,623
10,312	8,134	-	-	-	-	18,446	16,856
-	-	-	-	-	-	42,028	27,699
10,312	8,134	-	-	-	-	60,474	49,178
203,543	84,113	1,845	-	-	-	426,482	318,512
479,322	-	-	-	-	-	487,709	465,169
-	-	-	-	137,780	14,043	151,823	149,466
-	-	-	-	(160,835)	-	(160,835)	(140,892)
-	-	-	-	-	-	6,082	5,710
\$ 682,865	\$ 84,113	\$ 1,845	\$ -	\$ (23,055)	\$14,043	\$ 911,261	\$ 797,965

# MINNESOTA HOUSING FINANCE AGENCY

## Fund Financial Statements

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

#### Proprietary Funds

Year ended June 30, 2019 (with comparative totals for year ended June 30, 2018)

		<b>Bond Funds</b>	
		<b>General Reserve</b>	<b>Rental Housing</b>
<b>Revenues</b>	Interest earned on loans	\$ -	\$ 7,175
	Interest earned on investments-program mortgage-backed securities	-	-
	Interest earned on investments-other	704	1,119
	Net G/L on Sale of MBS Held for Sale/HOMES <sup>SM</sup> Certificates	-	-
	Appropriations received	-	-
	Administrative reimbursement	27,730	-
	Fees earned and other income	11,212	164
	Unrealized gains (losses) on investments	-	1,292
	Total revenues	39,646	9,750
<b>Expenses</b>	Interest	-	1,299
	Financing, net	-	14
	Loan administration and trustee fees	-	75
	Administrative reimbursement	-	1,117
	Salaries and benefits	15,117	-
	Other general operating	5,359	4
	Appropriations disbursed	-	-
	Reduction in carrying value of certain low interest rate deferred loans	-	-
	Provision for loan losses	-	(1,167)
	Total expenses	20,476	1,342
	Revenues over (under) expenses	19,170	8,408
<b>Other Changes</b>	Non-operating transfer of assets between funds & Other	(19,320)	(14,950)
	Change in net position	(150)	(6,542)
<b>Net Position</b>	Total net position, beginning of year, as restated	14,619	143,523
	Total net position, end of year	<u>\$14,469</u>	<u>\$136,981</u>
See accompanying notes to financial statements			

Bond Funds				Appropriated Funds		Total for the	Total for the
Residential	Homeownership	Multifamily		State	Federal	Year Ended	Year Ended
Housing	Finance	Housing	HOMES <sup>SM</sup>	Appropriated	Appropriated	June 30, 2019	June 30, 2018
Finance							
\$ 38,798	\$ -	\$ 608	\$ -	\$ 449	\$ -	\$ 47,030	\$ 52,054
25,410	54,289	-	-	-	-	79,699	61,996
11,428	612	32	550	3,074	266	17,785	12,627
4,642	-	-	-	-	-	4,642	2,240
-	-	-	-	53,320	196,665	249,985	258,071
-	-	-	-	-	-	27,730	24,479
2,472	1,289	-	-	731	-	15,868	16,908
42,580	47,858	-	-	(158)	-	91,572	(60,535)
125,330	104,048	640	550	57,416	196,931	534,311	367,840
37,691	45,887	410	550	-	-	85,837	73,057
5,515	5,719	-	-	-	-	11,248	7,115
2,645	536	4	-	99	-	3,359	3,872
13,343	9,285	93	-	3,074	-	26,912	23,327
-	-	-	-	-	-	15,117	33,114
4,287	37	-	-	2,167	-	11,854	11,541
-	-	-	-	30,181	193,964	224,145	231,313
(510)	-	-	-	21,890	-	21,380	25,219
1,445	-	(1)	-	606	-	883	911
64,416	61,464	506	550	58,017	193,964	400,735	409,469
60,914	42,584	134	-	(601)	2,967	133,576	(41,629)
14,671	19,271	-	-	(19,952)	-	(20,280)	(7,907)
75,585	61,855	134	-	(20,553)	2,967	113,296	(49,536)
607,280	22,258	1,711	-	(2,502)	11,076	797,965	847,501
\$682,865	\$ 84,113	\$1,845	\$ -	\$(23,055)	\$ 14,043	\$911,261	\$797,965



# MINNESOTA HOUSING FINANCE AGENCY

## Fund Financial Statements

### Statement of Cash Flows (in thousands)

#### Proprietary Funds

Year ended June 30, 2019 (with comparative totals for year ended June 30, 2018)

		<b>Bond Funds</b>	
		<b>General Reserve</b>	<b>Rental Housing</b>
<b>Cash flows from operating activities</b>	Principal repayments on loans and program mortgage-backed securities	\$ -	\$ 25,749
	Investment in loans/loan modifications and program mortgage-backed securities	-	(17,558)
	Interest received on loans and program mortgage-backed securities	-	7,209
	Fees and other income received	10,954	164
	Salaries, benefits and other operating	(28,764)	(93)
	Appropriations received	-	-
	Appropriations disbursed	-	-
	Administrative reimbursement from funds	27,651	(1,117)
	Deposits into funds held for others	31,852	-
	Disbursements made from funds held for others	(31,347)	-
	Interfund transfers and other assets	(2,564)	-
Net cash provided (used) by operating activities		7,782	14,354
<b>Cash flows from non-capital financing activities</b>	Proceeds from sale of bonds and notes	-	14,590
	Principal repayment on bonds and notes	-	(7,845)
	Interest paid on bonds and notes	-	(1,220)
	Financing costs paid related to bonds issued	-	(6)
	Interest paid/received between funds	70	-
	Agency contribution to program funds	-	(72)
	Transfer of cash between funds	-	(15,000)
Net cash provided (used) by noncapital financing activities		70	(9,553)
<b>Cash flows from investing activities</b>	Investment in real estate owned	-	-
	Interest received on investments	1,291	1,116
	Net gain (loss) on Sale of MBS Held for Sale and HOMES <sup>SM</sup> Certificates	-	-
	Proceeds from sale of mortgage insurance claims/real estate owned	-	-
	Proceeds from maturity, sale or transfer of investment securities	45,148	23
	Purchase of investment securities	(58,466)	-
	Purchase of loans between funds	-	-
Net cash provided (used) by investing activities		(12,027)	1,139
Net increase (decrease) in cash and cash equivalents		(4,175)	5,940
<b>Cash and cash equivalents</b>	Beginning of period	56,385	28,926
	End of period	\$52,210	\$ 34,866

See accompanying notes to financial statements

Bond Funds				Appropriated Funds		Total for the	Total for the
Residential	Homeownership	Multifamily		State	Federal	Year Ended	Year Ended
Housing	Finance	Housing	HOMES <sup>SM</sup>	Appropriated	Appropriated	June 30, 2019	June 30, 2018
Finance							
\$ 212,808	\$ 164,043	\$ 193	\$ -	\$ 8,452	\$ -	\$ 411,245	\$ 399,945
(405,759)	(389,073)	-	-	(29,830)	-	(842,220)	(831,891)
63,591	56,607	609	-	457	-	128,473	115,889
11,082	-	-	-	731	-	22,931	26,421
(12,309)	(563)	(4)	-	(2,262)	-	(43,995)	(49,042)
-	-	-	-	53,320	197,636	250,956	257,057
-	-	-	-	(30,523)	(194,644)	(225,167)	(230,498)
(13,343)	(9,285)	(93)	-	(2,931)	-	882	1,270
750	-	-	-	37,832	-	70,434	46,476
-	-	-	-	(28,345)	-	(59,692)	(47,385)
49	1	-	-	87	(1)	(2,428)	(5,011)
(143,131)	(178,270)	705	-	6,988	2,991	(288,581)	(316,769)
1,927,129	380,581	-	-	-	-	2,322,300	1,888,449
(1,727,674)	(163,960)	(240)	(1,832)	-	-	(1,901,551)	(1,566,379)
(39,364)	(45,617)	(410)	(555)	-	-	(87,166)	(77,280)
(4,301)	(3,149)	-	-	-	-	(7,456)	(8,508)
(70)	-	-	-	-	-	-	-
(12,977)	13,049	-	-	-	-	-	-
15,000	-	-	-	-	-	-	-
157,743	180,904	(650)	(2,387)	-	-	326,127	236,282
(872)	-	-	-	-	-	(872)	(2,030)
11,165	593	31	555	2,150	264	17,165	13,221
937	-	-	-	-	-	937	4,040
6,495	-	-	-	-	-	6,495	10,697
899,522	-	-	1,832	125,592	4,350	1,076,467	869,897
(897,427)	-	-	-	(144,293)	-	(1,100,186)	(840,242)
2,232	-	-	-	(2,232)	-	-	-
22,052	593	31	2,387	(18,783)	4,614	6	55,583
36,664	3,227	86	-	(11,795)	7,605	37,552	(24,904)
210,567	42,916	1,468	-	67,294	6,724	414,280	439,184
\$ 247,231	\$ 46,143	\$1,554	\$ -	\$ 55,499	\$ 14,329	\$ 451,832	\$ 414,280

(Continued)

# MINNESOTA HOUSING FINANCE AGENCY

## Fund Financial Statements

### Statement of Cash Flows (in thousands)

#### Proprietary Funds (continued)

Year ended June 30, 2019 (with comparative totals for year ended June 30, 2018)

		<b>Bond Funds</b>	
		<b>General Reserve</b>	<b>Rental Housing</b>
<b>Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities</b>	Revenues over (under) expenses	\$ 19,170	\$ 8,408
	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	-	(19)
	Amortization of proportionate share-Pension	65	-
	Depreciation	3,067	-
	Gain (loss) on sale of MBS held for sale and HOMES <sup>SM</sup> Certificates	-	-
	Realized losses (gains) on sale of securities, net	-	-
	Unrealized losses (gains) on securities, net	-	(1,292)
	Salaries and Benefits-Pensions	(11,542)	-
	Provision for loan losses	-	(1,167)
	Reduction in carrying value of certain low interest rate and/or deferred loans	-	-
	Capitalized interest on loans and real estate owned	-	-
	Interest earned on investments	(704)	(1,119)
	Interest expense on bonds and notes	-	1,299
	Financing expense on bonds	-	14
	Decrease (increase) in appropriated disbursed	-	-
	Changes in assets and liabilities:		
	Decrease (increase) in loans receivable and program mortgage-backed securities, excluding loans transferred between funds	-	8,191
	Decrease (increase) in interest receivable on loans	-	53
	Increase (decrease) in accounts payable	571	(14)
	Increase (decrease) in interfund payable, affecting operating activities only	1,087	-
	Increase (decrease) in funds held for others	505	-
	Other	(4,437)	-
	Total	(11,388)	5,946
	Net cash provided (used) by operating activities	\$ 7,782	\$14,354

See accompanying notes to financial statements

Bond Funds				Appropriated Funds		Total for the	Total for the
Residential	Homeownership	Multifamily		State	Federal	Year Ended	Year Ended
Housing	Finance	Housing	HOMES <sup>SM</sup>	Appropriated	Appropriated	June 30, 2019	June 30, 2018
Finance							
\$ 60,914	\$ 42,584	\$134	\$ -	\$ (601)	\$2,967	\$ 133,576	\$ (41,629)
619	3,241	-	-	-	-	3,841	3,615
-	-	-	-	-	-	65	54
-	-	-	-	-	-	3,067	2,241
(4,642)	-	-	-	-	-	(4,642)	(2,240)
(94)	-	-	-	-	-	(94)	(229)
(42,580)	(47,858)	-	-	158	-	(91,572)	60,535
-	-	-	-	-	-	(11,542)	6,879
1,445	-	(1)	-	606	-	883	911
(510)	-	-	-	21,890	-	21,380	25,219
(504)	-	-	-	-	-	(504)	(1,386)
(11,334)	(612)	(32)	(550)	(3,074)	(266)	(17,691)	(12,398)
37,691	45,887	410	550	-	-	85,837	73,057
5,529	5,719	-	-	-	-	11,262	7,084
-	-	-	-	-	-	-	(46)
(192,951)	(225,030)	193	-	(21,378)	-	(430,975)	(431,946)
(732)	(923)	1	-	8	-	(1,593)	(390)
3,219	(1,279)	-	-	(134)	289	2,652	861
31	-	-	-	230	1	1,349	(1,094)
750	-	-	-	9,487	-	10,742	(909)
18	1	-	-	(204)	-	(4,622)	(4,958)
(204,045)	(220,854)	571	-	7,589	24	(422,157)	(275,140)
<u>\$(143,131)</u>	<u>\$(178,270)</u>	<u>\$705</u>	<u>\$ -</u>	<u>\$ 6,988</u>	<u>\$2,991</u>	<u>\$(288,581)</u>	<u>\$(316,769)</u>

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# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2019

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#### 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<sup>SM</sup> fund which carries limited obligations of the Agency and is therefore not supported by General Reserve.

#### *Rental Housing*

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

#### *Residential Housing Finance*

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

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

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

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# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2019 (continued)

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#### 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 2019 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 2019 funds from Pool 3 were used for entry cost assistance for first-time homebuyers, below-market interim financing for construction and rehabilitation of single family housing, capital costs and rental assistance for permanent supportive housing, advances for certain multifamily housing developments in anticipation of permanent funding through state appropriation-backed housing bonds, and deferred, subordinated multifamily loans.

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

#### *Homeownership Finance*

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

#### *Home Ownership Mortgage-backed Exempt Securities (HOMES<sup>SM</sup>)*

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<sup>SM</sup> certificates), each secured by a mortgage-backed security guaranteed by FNMA or GNMA. The HOMES<sup>SM</sup> 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

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# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2019 (continued)

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#### Nature of Business and Fund Structure (continued)

costs associated with appropriation-backed housing bonds, and other housing-related program costs. The net position of the State Appropriated fund is not pledged or available to secure bonds issued under any of the Agency's bond funds or creditors of the Agency. State appropriations received for debt service payments on State appropriation-backed bonds is restricted for that use only and is not pledged or available for any other purpose. The unrestricted – state appropriated-backed bonds will be retired through future appropriations from the State.

#### *Federal Appropriated*

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

#### Summary of Significant Accounting Policies

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

#### *Basis of Accounting*

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

#### *Generally Accepted Accounting Principles*

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

#### *New Accounting Pronouncements*

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

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

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

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



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# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2019 (continued)

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

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

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

In May 2019, the GASB issued Statement No. 91 Conduit Debt Obligations. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

The Statements defines conduit debt with the following characteristics:

- >At least three parties involved (1) issuer (2) third-party obligor, and (3) debt holder or trustee.
- >The issuer and third-party obligor are not within the same financial reporting entity.
- >The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt.
- >The third-party obligor or its agent, not the issuers, ultimately receives the proceeds from the debt issuance.
- >The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

This Statement requires the issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements for the Statement are effective for reporting periods beginning after December 15, 2020. 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<sup>SM</sup> 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.

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# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2019 (continued)

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

##### *Loans Receivable, Net*

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

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

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

For homeownership and home improvement loans, the Agency establishes varying amounts of reserves depending upon the number of delinquent loans, the estimated amount of loss per delinquent loan, the number of days delinquent and the type of insurance coverage in force, if any: FHA insurance, RD guarantee, VA guarantee, or private mortgage insurance. Actual gains and losses are posted to allowance for loan losses. Management believes the allowances for loan losses adequately reserve for probable losses inherent in the loan portfolios as of June 30, 2019.

##### *Interest Receivable on Loans and Program Mortgage-Backed Securities*

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

##### *Interest Rate Swap Agreements*

Agency interest rate swap agreements with positive fair value as of the end of fiscal year 2019 are recorded here as an asset.

##### *FHA/VA Insurance Claims Receivable, Net*

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

##### *Real Estate Owned, Net*

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

##### *Deferred Loss on Refunding*

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

##### *Deferred Loss on Interest Rate Swap Agreements*

The Agency's interest rate swap agreements with a negative fair value as of the end of fiscal year 2019. 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 and OPEB Expense*

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.

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# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2019 (continued)

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

##### *Bonds Payable*

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

##### *Interest Rate Swap Agreements*

Agency interest rate swap agreements with a negative fair value as of the end of fiscal year 2019 are recorded here as a liability.

##### *Net Pension and OPEB Liability*

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

##### *Pension*

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

##### *Post Employment Benefits Other than Pension*

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

##### *Interfund Payable (Receivable)*

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

##### *Funds Held for Others*

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

Undisbursed proceeds, appropriations received for the payment of debt service and expenses of state appropriation-backed bonds are recorded in Funds Held for Others until disbursed for their intended purpose.

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

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# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2019 (continued)

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

8 payments. In addition, investment income on unspent Section 8 funds is credited directly to Funds Held for Others and not included in the investment income of Federal Appropriated.

#### *Deferred Gain on Interest Rate Swap*

The Agency's interest rate swap agreements with a positive fair value as of the end of fiscal year 2019. Because these agreements have been determined to be effective hedges under applicable accounting guidance, the positive fair value is recorded as a deferred gain.

#### *Deferred Service Release Fees*

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

#### *Fair Value Reporting*

To the extent available, the Minnesota Housing investments are recorded at fair value as of June 30, 2019. GASB No. 72-Fair Value Measurement and Application, defines fair value as the price that would be received to sell an asset between market participants at the measure date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the market place.

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

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

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

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

#### *Restricted by Bond Resolution*

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

#### *Restricted by Covenant*

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

#### *Restricted by Law*

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

#### *Unrestricted - State Appropriation-backed Bonds*

The deficit position of Unrestricted by State Appropriation-backed Bond Net Position represents outstanding non-profit housing and housing infrastructure bonds that are not a general obligation of the

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# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2019 (continued)

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

Agency. Amounts held in funds securing those bonds are not pledged or available to secure other bondholders or creditors of Minnesota Housing.

#### *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 funds are restricted by either the related bond resolutions or legislation, the totaling of the accounts, including assets therein, does not indicate that the combined assets are available in any manner other than that provided for in either the bond resolutions, Board resolutions or the legislation for the separate funds or groups of funds. The totals for fiscal year 2018 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 \$.818 million are reflected as administrative reimbursement revenues in the General Reserve.

Administrative reimbursements in the amount of \$26.912 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.

# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2019 (continued)

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

#### *Non-operating Transfer of Assets Between Funds and Other Adjustments*

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

#### *Non-Cash Activities*

Transfers from loans receivable to FHA/VA insurance claims receivable and real estate owned for fiscal year 2019 were \$4.9 million in Residential Housing Finance.

#### *Use of Estimates*

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

#### *Income Taxes*

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

#### *Rebatable Arbitrage*

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

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

Cash and Cash Equivalents are generally stated at cost, which approximates fair value. The balances were composed of the following at June 30, 2019 (in thousands):

#### **Cash and Cash Equivalents**

<b>Funds</b>	<b>Deposits</b>	<b>Money Market Funds</b>	<b>State Investment Pool (ITC)</b>	<b>Investment Agreements</b>	<b>Combined Totals</b>
General Reserve Account	\$ 0	\$ 0	\$52,210	\$ 0	\$ 52,210
Rental Housing	0	34,866	0	0	34,866
Residential Housing Finance	1,094	245,591	0	546	247,231
Homeownership Finance Bonds	0	46,143	0	0	46,143
Multifamily Housing Bonds	0	1,554	0	0	1,554
HOMES <sup>SM</sup>	0	0	0	0	0
State Appropriated Accounts	165	20,282	35,052	0	55,499
Federal Appropriated Accounts	0	7,335	6,994	0	14,329
Combined Totals	<u>\$1,259</u>	<u>\$355,771</u>	<u>\$94,256</u>	<u>\$546</u>	<u>\$451,832</u>

#### Cash, Cash Equivalents and Investment Securities



**MINNESOTA HOUSING FINANCE AGENCY**  
**Notes to Financial Statements**  
**Year ended June 30, 2019 (continued)**

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

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, 2019 (in thousands):

**Investment Securities**

<b>Funds</b>	<b>Investment Securities- Other at Amortized Cost</b>	<b>Program Mortgage- backed Securities</b>	<b>Unrealized Appreciation (Depreciation)</b>	<b>Estimated Market Value</b>
General Reserve Account	\$ 43,907	\$ -	\$ -	\$ 43,907
Rental Housing	20,620	-	1,282	21,902
Residential Housing Finance	110,098	982,834	26,396	1,119,328
Homeownership Finance Bonds	-	1,641,928	37,575	1,679,503
Multifamily Housing Bonds	-	-	-	-
HOMES <sup>SM</sup>	16,640	-	456	17,096
State Appropriated Accounts	67,198	-	166	67,364
Federal Appropriated Accounts	-	-	-	-
Combined Totals	<u>\$258,463</u>	<u>\$2,624,762</u>	<u>\$65,875</u>	<u>\$2,949,100</u>

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, 2019 were (in thousands):

**Credit Ratings of Investment Securities**

<b>Type</b>	<b>Par Value</b>	<b>AA+/Aaa</b>	<b>AA/Aa2</b>
U.S. Agencies	\$2,715,701	\$2,715,701	\$ -
Municipal Bonds	15,615	15,615	-
Agency-wide Totals	\$2,731,316	\$2,731,316	\$ -
U.S. Treasuries	109,125		
Agency-wide Totals	<u>\$2,840,441</u>		



**MINNESOTA HOUSING FINANCE AGENCY**  
**Notes to Financial Statements**  
**Year ended June 30, 2019 (continued)**

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

Examining the weighted average maturities of the Agency's investment securities can reveal information about interest rate risk. Cash, Cash Equivalents and Investment Securities (excluding unrealized depreciation of \$65.875 million and net discounts of \$42.784 million), along with the weighted average maturities (in years) as of June 30, 2019, consisted of the following (in thousands):

<b>Weighted Average Maturity, in Years</b>									
<b>Type</b>	<b>Par Value</b>	<b>General Reserve</b>	<b>Rental Housing</b>	<b>Residential Housing Finance</b>	<b>Home-ownership Finance Bonds</b>	<b>Multifamily Housing Bonds</b>	<b>HOMES<sup>SM</sup></b>	<b>State Appropriated</b>	<b>Federal Appropriated</b>
Deposits	\$ 1,259	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money market fund	355,771	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
State Investment Pool	94,256	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment agreements	546	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
US Agencies	2,715,701	0.0	9.0	27.3	26.9	0.0	24.2	0.0	0.0
US Treasuries	109,125	0.1	0.0	3.1	0.0	0.0	0.0	0.2	0.0
Municipals	15,615	0.0	0.0	0.0	0.0	0.0	0.0	5.7	0.0
Agency-wide Totals	<u>\$3,292,273</u>								
Weighted Average Maturity		0.0	3.3	21.9	26.2	0.0	24.2	0.4	0.0

Investments in any one issuer, excluding \$1,610 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, 2019 were as follows (in thousands):

<b>Investment Issuer</b>	<b>Amount</b>
Federal National Mortgage Association, U.S. Agencies	\$1,016,585

The Agency maintained certain deposits and investments throughout fiscal year 2019 that were subject to custodial credit risk. As of June 30, 2019, the amounts subject to this risk consisted of the following (in thousands):

	<b>Amount</b>
Deposits not covered by depository insurance and uncollateralized (including \$355,771 in a money market fund and \$94,256 in the State investment pool)	\$ 451,286
Investment securities uninsured, uncollateralized.	2,840,987
<b>Agency-wide Total</b>	<u>\$3,292,273</u>

Net realized gain on sale of investment securities of \$0.094 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, 2019 were as follows (in thousands).

<b>Funds</b>	<b>Amount</b>
Rental Housing	\$ 1,386
Residential Housing Finance	21,768
Multifamily Housing	488
Combined Totals	<u>\$23,642</u>

**MINNESOTA HOUSING FINANCE AGENCY**  
**Notes to Financial Statements**  
**Year ended June 30, 2019 (continued)**

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

The following table summarizes Minnesota Housing's investments within the fair value hierarchy at June 30, 2019:

<b>Investments at par</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
U.S. Agencies	\$ 14,556	\$2,701,145	\$ -	\$2,715,701
U.S. Treasuries	109,125	-	-	109,125
Municipal Bonds	-	15,615	-	15,615
Total	<u>\$123,681</u>	<u>\$2,716,760</u>	<u>\$ -</u>	<u>\$2,840,441</u>
Prem/Disc & Unrealized Appr/Depr				108,659
Fair Market Value				<u>\$2,949,100</u>

**Loans  
Receivable, Net**

Loans receivable, net at June 30, 2019 consisted of (in thousands):

<b>Funds</b>	<b>Outstanding Principal</b>	<b>Allowance for Loan Losses</b>	<b>Loans Receivable, Net</b>
General Reserve	\$ -	\$ -	\$ -
Homeownership Finance	-	-	-
Rental Housing	133,238	(2,996)	130,242
HOMES <sup>SM</sup>	-	-	-
Residential Housing Finance	779,979	(8,375)	771,604
Multifamily Housing	13,821	(69)	13,752
State Appropriated	40,931	(1,094)	39,837
Federal Appropriated	-	-	-
Agency-wide Totals	<u>\$967,969</u>	<u>(\$12,534)</u>	<u>\$955,435</u>

Substantially all loans in the table above are secured by first or second mortgages on the real property financed. A significant portion of the homeownership first mortgage loans in the Residential Housing Finance fund have either FHA insurance or a VA or RD guarantee. Insurance reduces, but does not eliminate, loan losses.

In addition to the loans in the table above, certain loans are carried at below-market interest rates and repayment is deferred for up to 30 years. These loans are generally in either a second or more subordinate mortgage position or may be unsecured. Given the nature of these loans and the risk associated with them, at the time of origination they are fully reserved resulting in a net carrying value of zero. The principal amount of loans with such characteristics originated during fiscal year 2019 aggregated \$6.631 million in the Residential Housing Finance Housing Affordability Fund (Pool 3) and \$26.714 million in State Appropriated. Loans with net carrying values of zero are excluded from the tables above and below. The Agency also has deferred and/or forgivable loans with net carrying values of zero in the Federal Appropriated, HOME, NHTF and HOPWA programs. These loans are tracked for affordability by staff. The balance of these loans at June 30, 2018 was \$54.3 million compared to \$52.6 million on June 30, 2019.

**MINNESOTA HOUSING FINANCE AGENCY**  
**Notes to Financial Statements**  
**Year ended June 30, 2019 (continued)**

**Loans Receivable, Net (continued)**      Loans receivable, net and gross in Residential Housing Finance at June 30, 2019 consist of a variety of loans as follows (in thousands):

<b>Description</b>	<b>Net Outstanding Amount</b>	<b>Gross Outstanding Amount</b>
<b>Residential Housing Finance Bonds:</b>		
Homeownership, first mortgage loans	\$394,382	\$395,206
Other homeownership loans, generally secured by a second mortgage	807	836
<b>Alternative Loan Fund, Housing Investment Fund (Pool 2):</b>		
Home Improvement loans, generally secured by a second mortgage	67,453	68,544
Homeownership, first mortgage loans	28,513	29,056
Other homeownership loans, generally secured by a second mortgage	42,689	44,009
Multifamily, first mortgage loans	154,693	156,099
<b>Alternative Loan Fund, Housing Affordability Fund (Pool 3):</b>		
Other homeownership loans, generally secured by a second mortgage	82,479	85,638
Multifamily, first mortgage loans	588	591
Residential Housing Finance Totals	<u>\$771,604</u>	<u>\$779,979</u>

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

**Other Assets**      Other assets, including receivables, at June 30, 2019 consisted of the following (in thousands):

<b>Funds</b>	<b>Receivables Due from the Federal Government</b>	<b>Other Assets and Receivables</b>	<b>Total</b>
General Reserve Account	\$2,443	\$ -	\$2,443
Rental Housing	-	4	4
Residential Housing Finance	-	374	374
Homeownership Finance	-	33	33
Multifamily Housing	-	-	-
HOMES <sup>SM</sup>	-	-	-
State Appropriated	204	-	204
Federal Appropriated	354	-	354
Combined Totals	<u>\$3,001</u>	<u>\$411</u>	<u>\$3,412</u>

**MINNESOTA HOUSING FINANCE AGENCY**  
**Notes to Financial Statements**  
**Year ended June 30, 2019 (continued)**

**Bonds Payable**

Summary of bonds payable activity at June 30, 2019 is as follows (in thousands):

<b>Funds</b>	<b>June 30, 2018</b>			<b>June 30, 2019</b>
	<b>Bonds Outstanding</b>	<b>Bonds Issued</b>	<b>Bonds Repaid</b>	<b>Bonds Outstanding</b>
Rental Housing	\$ 39,530	\$ 14,590	\$ 7,845	\$ 46,275
Residential Housing Finance	1,185,095	338,560	160,585	1,363,070
Homeownership Finance Bonds	1,415,873	380,581	163,960	1,632,494
Multifamily Housing Bonds	13,720	-	240	13,480
HOMES <sup>SM</sup>	18,472	-	1,832	16,640
2018 Index Bank Note	-	91,163	77,090	14,073
Total	<u>\$2,672,690</u>	<u>\$824,894</u>	<u>\$411,552</u>	<u>\$3,086,032</u>
Bond Premium-Residential Housing Finance				17,976
State Appropriation-backed Bonds	140,905	25,295	5,365	160,835
				<u>\$3,264,843</u>

The drawdown Index Bank Note is part of the Residential Housing Finance Fund. State appropriation-backed bonds are included in the State Appropriated fund.

Bonds payable at June 30, 2019 were as follows (in thousands):

<b>Series</b>	<b>Interest Rate</b>	<b>Final Maturity</b>	<b>Original Amount</b>	<b>Outstanding Amount</b>
<b><u>Rental Housing Bonds</u></b>				
2010 Series A-1	3.75% to 5.25%	2040	\$ 3,605	\$ 3,345
2011 Series A	3.625% to 5.45%	2041	8,890	6,630
2012 Series A-1	3.75%	2048	4,175	3,860
2013 Series A-1	3.50% to 5.30%	2049	3,710	3,525
2013 Series B-1	3.65% to 5.30%	2044	2,040	1,900
2017 Series A	1.20%	2019	5,750	5,750
2017 Series C	1.80%	2019	3,565	3,565
2018 Series A	1.95%	2020	3,110	3,110
2018 Series B	2.35%	2020	3,520	3,520
2019 Series A	2.00%	2020	6,980	6,980
2019 Series B	1.88%	2021	4,090	4,090
			<u>\$ 49,435</u>	<u>\$46,275</u>
<b><u>Residential Housing Finance Bonds</u></b>				
2006 Series N	5.76%	2037	\$ 18,000	\$ 455
2007 Series M	6.345%	2038	70,000	16,780
2009 Series D	3.95% to 4.05%	2020	19,830	1,735
2009 Series E	4.15% to 5.10%	2040	103,960	37,875
2012 Series A	3.10% to 3.90%	2023	50,945	10,745
2012 Series B	3.30% to 3.45%	2024	8,830	4,325
2012 Series C	3.625% to 3.85%	2029	30,975	15,195
2012 Series D	3.90% to 4.00%	2040	60,000	14,435
2013 Series A	3.00%	2031	33,305	5,665
2013 Series B	1.80%	2019	9,555	915
2013 Series C	1.80% to 3.90%	2043	42,310	29,915
2014 Series A	1.75% to 4.00%	2038	50,000	15,025
2014 Series B	1.70% to 4.00%	2038	50,000	13,950

**MINNESOTA HOUSING FINANCE AGENCY**  
**Notes to Financial Statements**  
**Year ended June 30, 2019 (continued)**

**Bonds Payable**  
**(continued)**

<b>Series</b>	<b>Interest Rate</b>	<b>Final Maturity</b>	<b>Original Amount</b>	<b>Outstanding Amount</b>
<b><u>Residential Housing Finance Bonds (continued)</u></b>				
2014 Series C	1.80% to 4.00%	2045	\$ 143,145	\$ 62,690
2014 Series D	3.00% to 3.10%	2026	6,585	4,270
2014 Series E	2.00% to 3.50%	2032	76,000	49,080
2015 Series A	4.00%	2041	43,070	22,550
2015 Series C	1.45% to 3.60%	2031	61,780	31,855
2015 Series D	Variable	2046	18,225	18,225
2015 Series E	1.75% to 3.50%	2046	96,930	48,360
2015 Series F	2.35% to 3.30%	2029	39,515	22,680
2015 Series G	Variable	2034	35,000	35,000
2016 Series A	1.30% to 3.20%	2033	63,135	40,800
2016 Series B	3.10% to 3.50%	2046	74,985	47,970
2016 Series C	1.20% to 4.20%	2037	15,590	7,425
2016 Series D	1.90% to 2.30%	2021	11,340	4,050
2016 Series E	2.00% to 4.00%	2047	75,005	56,125
2016 Series F	Variable	2041	50,000	50,000
2017 Series A	1.40% to 3.20%	2030	43,455	28,575
2017 Series B	3.40% to 4.00%	2047	37,390	30,020
2017 Series C	Variable	2038	40,000	40,000
2017 Series D	1.80% to 3.30%	2030	41,145	35,355
2017 Series E	3.30% to 4.00%	2048	63,075	57,150
2017 Series F	Variable	2041	40,000	40,000
2018 Series A	1.90% to 3.625%	2032	28,820	25,815
2018 Series B	1.70% to 4.00%	2048	43,680	40,730
2018 Series C	2.80% to 4.45%	2040	25,000	24,240
2018 Series D	Variable	2045	35,000	35,000
2018 Series E	2.00% to 4.25%	2049	65,200	64,920
2018 Series F	2.20% to 3.5%	2026	14,800	14,695
2018 Series G	3.10% to 4.73%	2049	35,000	34,915
2018 Series H	Variable	2041	35,000	35,000
2019 Series A	1.85% to 2.625%	2025	7,865	7,865
2019 Series B	1.60% to 4.25%	2049	98,195	98,195
2019 Series C	2.625% to 4.204%	2042	37,500	37,500
2019 Series D	Variable	2042	45,000	45,000
			<u>\$2,094,140</u>	<u>\$1,363,070</u>
<b><u>Homeownership Finance Bonds</u></b>				
2009 Series A-1	3.01%	2041	\$ 108,000	\$ 42,130
2009 Series A-4A	2.48%	2041	21,910	8,870
2009 Series A-4B	2.48%	2041	13,090	5,350
2009 Series A-5	2.49%	2041	21,990	10,750
2010 Series A	3.00% to 4.25%	2028	72,000	7,670
2011 Series B	3.625% to 5.00%	2031	63,760	19,730
2011 Series C	3.40% to 3.850%	2022	8,310	1,205
2011 Series D	3.15% to 4.70%	2034	33,690	9,800
2011 Series E	2.875% to 4.45%	2035	65,000	19,000
2011 Series F	2.95% to 3.45%	2022	13,575	2,660
2011 Series G	4.00% to 4.40%	2035	29,110	12,005
2012 Series A	2.60%	2042	50,000	20,634

**MINNESOTA HOUSING FINANCE AGENCY**  
**Notes to Financial Statements**  
**Year ended June 30, 2019 (continued)**

**Bonds Payable  
(continued)**

<b>Series</b>	<b>Interest Rate</b>	<b>Final Maturity</b>	<b>Original Amount</b>	<b>Outstanding Amount</b>
<b><u>Homeownership Finance Bonds (continued)</u></b>				
2012 Series B	2.25%	2042	\$ 75,000	\$ 36,020
2013 Series A	2.35%	2043	75,000	37,270
2013 Series B	2.70%	2041	85,149	30,803
2013 Series C	3.00%	2043	37,000	17,258
2014 Series A	3.00%	2044	38,527	16,110
2014 Series B	2.95%	2044	18,868	9,799
2014 Series C	3.25%	2044	13,663	7,096
2014 Series D	2.88%	2044	39,934	19,744
2015 Series A	2.80%	2045	60,013	37,461
2015 Series B	3.00%	2045	54,530	33,398
2015 Series C	3.05%	2045	40,226	22,835
2015 Series D	2.90%	2045	52,365	36,494
2016 Series A	2.95%	2046	97,274	69,345
2016 Series B	2.70%	2046	50,971	38,240
2016 Series C	2.33%	2046	35,390	27,861
2016 Series D	2.73%	2046	35,390	27,968
2016 Series E	2.35%	2046	35,495	29,404
2016 Series F	2.68%	2046	65,918	55,270
2016 Series G	2.30%	2046	20,445	17,134
2016 Series H	2.65%	2046	30,668	25,961
2017 Series A	2.93%	2047	24,966	21,380
2017 Series B	3.25%	2047	24,966	21,697
2017 Series C	3.08%	2047	23,904	20,992
2017 Series D	3.43%	2047	23,904	20,980
2017 Series E	2.85%	2047	39,283	35,158
2017 Series F	3.20%	2047	19,348	17,302
2017 Series G	2.65%	2047	84,998	78,076
2017 Series H	3.00%	2047	64,998	59,704
2017 Series I	2.80%	2047	69,238	63,250
2017 Series J	3.10%	2047	46,159	42,189
2018 Series A	3.30%	2048	38,247	36,309
2018 Series B	3.65%	2048	38,247	36,716
2018 Series C	3.30%	2048	30,326	29,327
2018 Series D	3.65%	2048	20,218	19,553
2018 Series E	3.45%	2048	47,757	46,241
2018 Series F	3.80%	2048	52,573	50,847
2018 Series G	3.75%	2048	31,784	31,112
2018 Series H	4.10%	2048	31,784	31,168
2018 Series I	3.60%	2049	22,971	22,509
2018 Series J	4.00%	2049	37,500	36,746
2019 Series A	3.45%	2049	35,630	35,495
2019 Series B	3.80%	2049	30,351	30,236
2019 Series C	3.15%	2049	13,728	13,728
2019 Series D	3.55%	2049	30,555	30,555
2019 Series E	3.25%	2049	45,949	45,949
			<u>\$2,391,645</u>	<u>\$1,632,494</u>

**MINNESOTA HOUSING FINANCE AGENCY**  
**Notes to Financial Statements**  
**Year ended June 30, 2019 (continued)**

**Bonds Payable**  
**(continued)**

<b>Series</b>	<b>Interest Rate</b>	<b>Final Maturity</b>	<b>Original Amount</b>	<b>Outstanding Amount</b>
<b><u>Multifamily Housing Bonds</u></b>				
2009	3.01%	2051	\$ 15,000	\$ 13,480
			\$ 15,000	\$ 13,480
<b><u>HOMES<sup>SM</sup></u></b>				
2013 Series A-1	3.50%	2043	\$ 3,359	\$ 1,766
2013 Series B-1	3.00%	2043	24,471	12,136
2013 Series C-1	3.50%	2043	4,713	2,738
			\$ 32,543	\$ 16,640
<b><u>Drawdown Index Bonds</u></b>				
2018 Index Bank Note	Variable	2021	\$ -	\$ 14,073
			\$ -	\$ 14,073
<b>Combined Totals</b>			<b>\$4,582,763</b>	<b>\$3,086,032</b>

The Agency uses special redemption provisions to retire certain bonds prior to their stated maturity from unexpended bond proceeds, if any, 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, 2019, are as follows (in thousands):

<b>Fiscal Year</b>	<b>Rental Housing</b>		<b>Residential Housing Finance</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2020	\$12,795	\$ 1,339	\$ 34,270	\$ 42,183
2021	14,975	1,105	37,540	43,097
2222	395	902	38,865	42,206
2023	415	886	40,190	41,186
2024	450	867	40,855	40,059
2025-2029	2,550	4,002	225,155	180,484
2030-2034	3,270	3,317	277,465	139,175
2035-2039	4,270	2,381	275,340	95,411
2040-2044	5,050	998	210,745	56,447
2045-2049	1,990	273	179,465	18,300
2050-2054	115	3	3,180	68
Total	<b>\$46,275</b>	<b>\$16,073</b>	<b>\$1,363,070</b>	<b>\$698,616</b>



**MINNESOTA HOUSING FINANCE AGENCY**  
**Notes to Financial Statements**  
**Year ended June 30, 2019 (continued)**

**Bonds Payable  
(continued)**

<b>Fiscal Year</b>	<b>Multifamily Housing</b>		<b>Homeownership Finance</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2020	\$ 240	\$ 403	\$ 5,125	\$ 50,510
2021	240	395	5,180	50,433
2022	240	388	5,205	50,251
2023	240	381	5,625	50,057
2024	240	374	6,090	49,824
2025-2029	1,400	1,754	29,395	245,287
2030-2034	1,800	1,504	29,615	238,737
2035-2039	2,070	1,224	34,205	234,076
2040-2044	2,440	877	160,715	223,500
2045-2049	2,990	467	1,305,390	134,697
2050-2054	1,580	56	45,949	124
Total	<u>\$ 13,480</u>	<u>\$ 7,823</u>	<u>\$1,632,494</u>	<u>\$1,327,496</u>

<b>Fiscal Year</b>	<b>HOMES<sup>SM</sup></b>		<b>DDIB/IBN</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2020	\$ -	\$ 522	\$ -	\$ 390
2021	-	521	14,073	391
2022	-	522	-	-
2023	-	521	-	-
2024	-	522	-	-
2025-2029	-	2,609	-	-
2030-2034	-	2,608	-	-
2035-2039	-	2,609	-	-
2040-2044	16,640	2,174	-	-
Total	<u>\$ 16,640</u>	<u>\$ 12,608</u>	<u>\$ 14,073</u>	<u>\$ 781</u>

<b>Combined Totals</b>		
<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>
2020	\$ 52,430	\$ 95,347
2021	72,008	95,942
2022	44,705	94,269
2023	46,470	93,031
2024	47,635	91,646
2025-2029	258,500	434,136
2030-2034	312,150	385,341
2035-2039	315,885	335,701
2040-2044	395,590	283,996
2045-2049	1,489,835	153,737
2050-2054	50,824	251
2056-2061	-	-
Total	<u>\$3,086,032</u>	<u>\$2,063,397</u>

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## MINNESOTA HOUSING FINANCE AGENCY

### Notes to Financial Statements

#### Year ended June 30, 2019 (continued)

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#### **Bonds Payable (continued)**

Residential Housing Finance Bonds Series 2015 Series D and G; 2016 Series F; 2017 Series C and F and 2019 Series D accrue interest at rates that change weekly as determined by a remarketing agent for such series based on market conditions. Residential Housing Finance Bonds 2018 Series D and 2018 Series H accrue interest at a rate equal to the SIFMA (Securities Industry and Financial Markets Association) Index plus 0.43% and 0.55%, respectively. The 2018 Index Bank Note accrues interest at a rate equal to one month LIBOR (London Inter-Bank Offered Rate) plus 0.30%. Future interest due for these bonds, as displayed above in the annual debt service requirements table, assumes that the respective rates in effect on June 30, 2019 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<sup>SM</sup> 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, 2019, it is in compliance with those covenants in all material respects and the assets of all funds and accounts in the bond funds equaled or exceeded the requirements as established by the respective bond resolutions.

Call notices were issued on or before June 30, 2019 for the redemption of certain bonds thereafter. See Subsequent Events.

On June 30, 2019 the Agency had in place a revolving line of credit with the Federal Home Loan Bank of Des Moines with an outstanding balance of zero.

#### **Demand Bonds**

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

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

The Agency is required to pay each liquidity provider a fee ranging from 0.34 to 0.65 percent per annum of the liquidity provider's available commitment (the outstanding principal amount of the bonds and approximately six months interest on the bonds at the rate of 12% per annum).

The Agency has paid \$1.128 million to the liquidity providers for fiscal year 2019.

In addition, each remarketing agent receives a fee of 0.1 percent of the outstanding principal amount of the bonds. The Agency has paid a fee of \$0.193 million to the remarketing agent for fiscal year 2019.

# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2019 (continued)

#### Demand Bonds (continued)

As of June 30, 2019, the following demand bonds were outstanding:

Variable Rate Series	Principal Amount Outstanding at par	Liquidity Facility Maturity- SBPA <sup>1</sup>	Liquidity Fee	Remarketing Agent Fee
Residential Housing Finance Series 2015D	\$ 18,225,000	8/11/2022	0.650%	0.100%
Residential Housing Finance Series 2015G	35,000,000	1/2/2023	0.650%	0.100%
Residential Housing Finance Series 2016F	50,000,000	1/2/2024	0.550%	0.100%
Residential Housing Finance Series 2017C	40,000,000	7/19/2024	0.600%	0.100%
Residential Housing Finance Series 2017F	40,000,000	1/2/2023	0.400%	0.100%
Residential Housing Finance Series 2019D	45,000,000	7/1/2024	0.340%	0.100%
Combined Totals	<u>\$228,225,000</u>			

<sup>1</sup> SBPA-Stand By Purchase Agreement

#### Floating Rate Term Bonds

The Agency has issued the Residential Housing Finance Bonds 2018 Series D and 2018 Series H as floating rate term bonds each in the principal amounts of \$35,000,000. The interest rate on the bonds is reset weekly based on the SIFMA Index plus 0.43% and 0.55%, respectively. The bonds are subject to mandatory purchase on July 3, 2023 and December 12, 2023, respectively, at a price equal to principal plus accrued interest. On or after January 1, 2023, with respect to the 2018 Series D bonds, and on or after July 1, 2023, with respect to the 2018 Series H bond, the Agency may redeem the bonds or may remarket the bonds with new terms.

#### 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, 2019. The fair values approximate the termination payments that would have been due had the swaps been terminated as of June 30, 2019. 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 position, 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, 2019, 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, 2019 is included under deferred outflows of resources as "Deferred loss on interest rate swap agreements," or under deferred inflows of resources as "Deferred gain on interest rate swap agreements."

#### *Objective of Swaps*

The Agency entered into interest rate swap agreements in connection with its issuance of variable rate mortgage revenue bonds under the Residential Housing Finance Bond Resolution from calendar year 2003 through 2009, and 2015 through 2019. 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, 2019, 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

**MINNESOTA HOUSING FINANCE AGENCY**  
**Notes to Financial Statements**  
**Year ended June 30, 2019 (continued)**

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

as follows (in thousands). As rates vary, variable rate bond interest payments and net swap payments will vary.

<b>Date</b>	<b>Principal</b>	<b>Interest</b>	<b>Interest Rate Swaps, Net</b>	<b>Total</b>
6/30/2020	\$ -	\$ 4,574	\$ 2,064	\$ 6,638
6/30/2021	-	4,276	2,332	6,608
6/30/2022	-	4,275	2,332	6,607
6/30/2023	-	4,275	2,334	6,609
6/30/2024	-	4,276	2,332	6,608
6/30/2029	-	21,379	11,667	33,046
6/30/2034	76,650	19,663	10,974	107,287
6/30/2039	129,085	12,273	4,716	146,074
6/30/2044	81,465	3,692	(227)	84,930
6/30/2049	11,025	146	59	11,230

*Terms of Swaps*

Terms of the swaps, the fair values, changes in fair values, and the credit ratings of the three counterparties thereto as of June 30, 2019, are contained in the three tables below (in thousands). All swaps are pay-fixed, receive-variable. Initial swap notional amounts matched original principal amounts of the associated debt. The Agency's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximate scheduled or anticipated reductions in outstanding principal amounts of the associated bond series. With respect to the outstanding swaps the Agency has also purchased the right, generally based upon a 300% PSA prepayment rate (The Standard Prepayment Model of The Securities Industry and Financial Markets Association and formerly the Public Securities Association) on the underlying mortgage loans, to further reduce the notional balances of the swaps as necessary to match the outstanding principal amount of the associated bond series and the right to terminate the swaps at par at approximately the 7-year anniversary date for the 2015D, 2015G, 2016F and 2017C, swaps and the 5-year anniversary date for the 2017F, 2018D and 2019D 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\* Aa2 (stable outlook) / Standard & Poor's\*\* AA- (stable outlook)<sup>2</sup>

<b>Associated Bond Series</b>	<b>Notional Amount as of June 30, 2019 (in thousands)</b>	<b>Effective Date</b>	<b>Swap Maturity Date</b>	<b>Fixed Rate Payable</b>	<b>Variable Rate Receivable</b>	<b>Fair Value<sup>1</sup> as of June 30, 2019 (in thousands)</b>	<b>Increase (Decrease) in Fair Value since June 30, 2018 (in thousands)</b>
RHFB 2018D	\$35,000	June 28, 2018	January 1, 2045	3.188%	70% of 1 month LIBOR + .43%	\$(1,730)	\$(1,559)
Counterparty Total	\$35,000					\$(1,730)	\$(1,559)

# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2019 (continued)

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

#### Counterparty: Royal Bank of Canada

Moody's\* Aa2 (Stable outlook) / Standard & Poor's\*\* AA- (Stable outlook)

Associated Bond Series	Notional Amount as of June 30, 2019 (in thousands)	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value <sup>1</sup> as of June 30, 2019 (in thousands)	Increase (Decrease) in Fair Value since June 30, 2018 (in thousands)
RHFB 2015D	\$ 18,225	August 11, 2015	January 1, 2046	2.343%	67% of 1 month LIBOR	\$ (450)	\$ (730)
RHFB 2015G	35,000	December 8, 2015	January 1, 2034	1.953%	67% of 1 month LIBOR	(574)	(1,347)
RHFB 2016F	50,000	December 22, 2016	January 1, 2041	2.175%	67% of 1 month LIBOR	(1,584)	(2,104)
RHFB 2018H	35,000	December 12, 2018	July 1, 2041	2.804%	70% of 1 month LIBOR	(2,522)	(2,522)
RHFB 2019D	45,000	April 11, 2019	January 1, 2042	2.409%	70% of 1 month LIBOR	(2,176)	(2,176)
Counterparty Total	\$183,225					\$ (7,306)	\$ (8,879)

#### Counterparty: Wells Fargo Bank

Moody's\* Aa2 (Negative outlook) / Standard & Poor's\*\* A+ (Stable outlook)

Associated Bond Series	Notional Amount as of June 30, 2019 (in thousands)	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value <sup>1</sup> as of June 30, 2019 (in thousands)	Increase (Decrease) in Fair Value since June 30, 2018 (in thousands)
RHFB 2017C	\$ 40,000	January 1, 2019	January 1, 2038	2.180%	67% of 1 month LIBOR	\$ (1,388)	\$ (2,045)
RHFB 2017F	40,000	December 27, 2017	January 1, 2041	2.261%	67% of 1 month LIBOR	(1,055)	(1,769)
Counterparty Total	\$80,000					\$ (2,443)	\$ (3,814)
Combined Totals	\$298,225					\$(11,479)	\$(14,252)

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

\* Moody's Investor Service Inc.

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

\*\*\* London Inter-Bank Offered Rate

\*\*\*\* Securities Industry and Financial Markets Association

#### Termination Risk

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

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# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2019 (continued)

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

##### *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, 2019, the Agency did 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, 2019, 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, in some cases, a specified spread. Basis risk will vary over time due to inter-market conditions. As of June 30, 2019, the interest rate on the Agency's variable rate tax-exempt debt ranged from 0.95% to 2.85% per annum while the variable interest rate on the associated swaps ranged from 2.066% to 2.52% per annum. In order to reduce the cumulative effects of basis risk on the swaps relating to tax-exempt variable rate debt, the determination of the spread from one-month LIBOR payable by the counterparty under the swap was based upon a regression analysis of the long-term relationship between one-month LIBOR and the tax-exempt variable rate SIFMA index (which ordinarily would approximate the weekly variable rate on the Agency's tax-exempt variable rate bonds).

##### *Tax Risk*

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

#### Derivative Instruments- Forward Sales Contracts

The Agency has entered into forward sales contracts for the future delivery of Ginnie Mae and Fannie Mae securities. The contracts offset the financial impact to the Agency of changes in interest rates between the time of loan reservations and the securitization and sale of such loans as Ginnie Mae or Fannie Mae securities. These contracts are considered investment derivative instruments. Therefore, the change in value is reported as unrealized gains (losses) on investments. Outstanding forward sales contracts, summarized by counterparty as of June 30, 2019, are as follows (in thousands):

**MINNESOTA HOUSING FINANCE AGENCY**  
**Notes to Financial Statements**  
**Year ended June 30, 2019 (continued)**

**Derivative  
Instruments-  
Forward Sales  
Contracts  
(continued)**

	<b>Counter Party Short-term Rating</b>	<b>Number of Contracts</b>	<b>Notional Amount</b>	<b>Original Price</b>	<b>Market Price</b>	<b>Fair Value</b>
Bank of Oklahoma	A-2*/F1**	10	\$ 19,000	\$ 19,676	\$ 19,740	\$ (64)
Daiwa	A-2*/F1**	9	20,000	20,594	20,658	(64)
ED&F Man Capital Markets	A-1*/F1+**	13	36,000	37,192	37,329	(136)
Fannie Mae	Not rated*/F1+**	62	172,000	176,780	177,800	(1,020)
Janney Montgomery Scott	Not Rated*/Not Rated**	3	10,500	10,847	10,884	(37)
South Street Securities	A-1*/F1+**	11	36,000	37,158	37,267	(109)
		108	\$293,500	\$302,247	\$303,677	\$(1,430)

\* Standard and Poor's Rating Services Inc.

\*\* Fitch Ratings, Ltd

**State  
Appropriation-  
Backed Debt  
Obligation**

The Agency has outstanding bonds under two indentures of trust that permit capital funding for loans for permanent supportive housing for long-term homeless households, preservation of federally assisted housing and other purposes. As of June 30, 2019, \$160.835 million of bonds were outstanding. This debt is not a general obligation of the Agency and is not payable from any funds or assets of the Agency including any loan repayments. These bonds are payable solely from the appropriations the Agency receives from the State General Fund pursuant to standing appropriations made by the Legislature as authorized by state laws adopted in 2008, 2012, 2014, 2015, 2017 and 2018.

State Appropriation-Backed Bonds at June 30, 2019 consisted of the following (in thousands):

<b>Series</b>	<b>Interest Rate</b>	<b>Final Maturity</b>	<b>Original Amount</b>	<b>Outstanding Amount</b>
<b><u>State Appropriated</u></b>				
2009 Series	3.00% to 4.00%	2029	\$ 13,270	\$ 7,370
2011 Series	3.375% to 5.25%	2031	21,750	16,005
2013 Series AB	2.00% to 5.00%	2033	15,460	11,610
2014 Series AB	2.00% to 5.00%	2035	14,540	12,845
2015 Series AB	2.15% to 5.00%	2035	37,570	29,240
2015 Series C	3.25% to 5.00%	2037	31,095	28,865
2016 Series ABC	2.00% to 4.00%	2038	18,625	17,335
2017 Series A	3.00% to 5.00%	2037	12,690	12,270
2018 Series ABCD	2.375% to 5%	2040	25,295	25,295
			<u>\$190,295</u>	<u>\$160,835</u>



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**MINNESOTA HOUSING FINANCE AGENCY**  
**Notes to Financial Statements**  
**Year ended June 30, 2019 (continued)**

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**State  
Appropriation-  
Backed Debt  
Obligation  
(continued)**

State Appropriation-Backed bond debt service requirements at June 30, 2019 consisted of the following:

<b>Fiscal Year</b>	<b>State Appropriated</b>	
	<b>Principal</b>	<b>Interest</b>
2020	\$ 7,765	\$ 6,633
2021	6,480	6,371
2222	6,730	6,119
2023	7,005	5,841
2024	7,270	5,575
2025-2029	41,140	23,096
2030-2034	45,990	13,461
2035-2039	36,065	3,714
2040-2044	2,390	97
2045-2049	-	-
2050-2054	-	-
Total	<u>\$160,835</u>	<u>\$70,907</u>

As the issuer of the state appropriation-backed debt, the Agency is required to record these bonds as bonds payable with the correlating reduction in net position.

**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, 2019, \$24.652 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 was 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, 2019, \$20.975 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 was 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, 2019, \$31.834 million of the bonds were outstanding.

On December 28, 2017, the Agency issued long-term conduit tax-exempt revenue bonds and a short-term conduit tax exempt revenue note. The proceeds of the sales were used to finance the acquisition, rehabilitation and equipping of two multi-family rental housing development projects that will preserve units with federal rental assistance. As of June 30, 2019, \$5.246 million of bonds and \$.213 million of the note was outstanding.

The total outstanding conduit debt as of June 30, 2019, was \$82.9 million.

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.

**MINNESOTA HOUSING FINANCE AGENCY**  
**Notes to Financial Statements**  
**Year ended June 30, 2019 (continued)**

**Accounts Payable**

Accounts payable and other liabilities at June 30, 2019 consisted of the following (in thousands):

<b>Funds</b>	<b>Accrued Salaries, Compensated Absences and Employee Benefits</b>	<b>Other Liabilities and Accounts Payable</b>	<b>Total</b>
General Reserve Account	\$4,072	\$ 600	\$ 4,672
Rental Housing	-	3,871	3,871
Residential Housing Finance	-	31,079	31,079
Homeownership Finance	-	119	119
Multifamily Housing	-	-	-
HOMES <sup>SM</sup>	-	-	-
State Appropriated	-	2,542	2,542
Federal Appropriated	-	510	510
Combined Totals	<u>\$4,072</u>	<u>\$38,721</u>	<u>\$42,793</u>

**Interfund Balances**

Interfund balances displayed as Interfund Payable (Receivable) at June 30, 2019 consisted of the following (in thousands):

<b>Funds</b>	<b>Due from</b>								<b>Total</b>
	<b>General Reserve</b>	<b>Rental Housing</b>	<b>Residential Housing Finance</b>	<b>Home-ownership Finance</b>	<b>Multifamily Housing</b>	<b>HOMES<sup>SM</sup></b>	<b>State Appropriated</b>	<b>Federal Appropriated</b>	
General Reserve	\$ -	\$ -	\$6,913	\$ -	\$ -	\$ -	\$794	\$142	\$7,849
Rental Housing	-	-	-	-	-	-	-	-	-
Residential Housing Finance	-	-	-	-	-	-	-	-	-
Homeownership Finance	-	-	-	-	-	-	-	-	-
Multifamily Housing	-	-	-	-	-	-	-	-	-
HOMES <sup>SM</sup>	-	-	-	-	-	-	-	-	-
State Appropriated	-	-	-	-	-	-	-	-	-
Federal Appropriated	-	-	-	-	-	-	-	-	-
Agency-wide Totals	<u>\$ -</u>	<u>\$ -</u>	<u>\$6,913</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$794</u>	<u>\$142</u>	<u>\$7,849</u>

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.

# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2019 (continued)

#### Interfund Transfers

Interfund transfers recorded in Interfund Payable (Receivable) for the year ended June 30, 2019 consisted of the following (in thousands):

		Transfer from								
Funds		General Reserve	Rental Housing	Residential Housing Finance	Home-ownership Finance	Multifamily Housing	HOMES <sup>SM</sup>	State Appropriated	Federal Appropriated	Total
Transfer to	General Reserve	\$ -	\$1,117	\$13,413	\$9,285	\$93	\$ -	\$4,168	\$882	\$28,958
	Rental Housing	-	-	-	-	-	-	-	-	-
	Residential Housing Finance	103	122	-	-	-	-	2,232	-	2,457
	Homeownership Finance	-	-	-	-	-	-	-	-	-
	Multifamily Housing	-	-	-	-	-	-	-	-	-
	HOMES <sup>SM</sup>	-	-	-	-	-	-	-	-	-
	State Appropriated	-	-	-	-	-	-	-	-	-
	Federal Appropriated	-	-	-	-	-	-	-	-	-
	Agency-wide Totals	\$103	\$1,239	\$13,413	\$9,285	\$93	\$ -	\$6,400	\$882	\$31,415

Interfund transfers recorded in Interfund Payable (Receivable) were made to move loan payments that were deposited for administrative convenience in a fund not holding the loans; to make administrative reimbursements to the General Reserve from other funds; to pay for loans transferred between funds including \$2.232 million of entry cost assistance loans transferred from Residential Housing Finance to State Appropriated.

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds for the year ended June 30, 2019, consisted of the following (in thousands):

		Transfer from								
Funds		General Reserve	Rental Housing	Residential Housing Finance	Home-ownership Finance	Multifamily Housing	HOMES <sup>SM</sup>	State Appropriated	Federal Appropriated	Total
Transfer to	General Reserve	\$ -	\$15,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$15,000
	Rental Housing	-	-	172	-	-	-	-	-	172
	Residential Housing Finance	33,992	122	-	-	-	-	-	-	34,114
	Homeownership Finance	-	-	19,271	-	-	-	-	-	19,271
	Multifamily Housing	-	-	-	-	-	-	-	-	-
	HOMES <sup>SM</sup>	-	-	-	-	-	-	-	-	-
	State Appropriated	-	-	-	-	-	-	-	-	-
	Federal Appropriated	-	-	-	-	-	-	-	-	-
	Agency-wide Totals	\$33,992	\$15,122	\$19,443	\$ -	\$ -	\$ -	\$ -	\$ -	\$68,557

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.

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**MINNESOTA HOUSING FINANCE AGENCY**  
**Notes to Financial Statements**  
**Year ended June 30, 2019 (continued)**

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**Net Position**  
**(continued)**

*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 \$487.709 million restricted by covenant portion of net position is restricted by a covenant made with bondholders authorized by the Agency's enabling legislation.

The Housing Endowment Fund (Pool 1) is maintained in the Restricted by Covenant portion of Net Position of the General Reserve. The Housing Investment Fund (Pool 2) and the Housing Affordability Fund (Pool 3) are maintained in the Restricted by Covenant portion of Net Position of the Residential Housing Finance fund.

The combined net position of the General Reserve and bond funds (exclusive of Pool 3, accumulated unrealized gains/losses on investments, and realized gains/losses in sale of investments between Agency funds) is required by Board investment guidelines to be not less than the combined net position of the same funds (exclusive of cumulative unrealized gains/losses on investments) as of the immediately preceding fiscal year end. That combined net position was \$678.651 million as of June 30, 2018 and \$769.582 million as of June 30, 2019.

# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2019 (continued)

#### Net Position (continued)

The following table describes the restricted by covenant portion of net position, including the balances to be maintained according to the Agency's Board investment guidelines, as of June 30, 2019 (in thousands):

	Certain Balances Maintained According to Agency's Board Guidelines	Unrealized Appreciation (Depreciation) in Fair Market Value of Investments	Total Net Position Restricted by Covenant
<b>Net Position — Restricted By Covenant</b>			
<b>Housing Endowment Fund (Pool 1), General Reserve</b>			
Pool 1 is an amount equal to 1% of gross loans outstanding (excluding Pool 3 and appropriation-funded loans) and must be invested in short-term, investment-grade securities at market interest rates	\$ 8,387	\$ -	\$ 8,387
Subtotal, Housing Endowment Fund (Pool 1), General Reserve	8,387	-	8,387
<b>Housing Investment Fund (Pool 2), Residential Housing Finance</b>			
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 2019, \$5.0 million was transferred from Pool 2 to Pool 3 in compliance with these Board guidelines. Pool 2 is invested in investment-quality housing loans, as defined by the Agency, or investment-grade securities.	366,229	-	366,229
Unrealized appreciation in fair market value of investments	-	91	91
Subtotal, Housing Investment Fund (Pool 2), Residential Housing Finance	366,229	91	366,320
<b>Housing Affordability Fund (Pool 3), Residential Housing Finance</b>			
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.	112,637	-	112,637
Unrealized appreciation in fair market value of investments	-	365	365
Subtotal, Housing Affordability Fund (Pool 3), Residential Housing Finance	112,637	365	113,002
Agency-wide Total	<u>\$487,253</u>	<u>\$456</u>	<u>\$487,709</u>

#### *Restricted by Law*

Undisbursed, recognized federal and state appropriations are classified as Restricted by Law under Net Position. The \$14.043 million balance of Restricted by Law in the Federal Appropriated fund as of June 30, 2019 is restricted by federal requirements that control the use of the funds. The \$137.780 million balance of Restricted by Law in the State Appropriated fund as of June 30, 2019 is restricted by the state laws appropriating such funds.

#### *Unrestricted - State Appropriation-Backed Bonds*

The \$160.835 million balance of Unrestricted - State Appropriation-backed Bonds as of June 30, 2019 does not represent a general obligation of the Agency and is not payable from any funds or assets of the Agency.

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# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2019(continued)

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#### 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](http://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 or decreases 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 through December 31, 2018, 1% January 1, 2019 – December 31, 2023, and 1.5% January 1, 2024 and thereafter. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of the June 30 of the calendar year immediately before the adjustment will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of the June 30 of the calendar year immediately before the adjustment will receive a pro rata increase.

Prior to 2002, members who retired under the laws in effect before July 1, 1973, received an additional lump sum payment each year. In 1989, this lump sum payment was the greater of \$25 times each full year of Allowable Service or \$400 pr full year of service less any Social Security benefits received or annuity from a Minnesota public employee pension plan. In each following year, the lump sum payment was increased by the same percentage increase that was applied to regular annuities paid from the Minnesota Post Retirement Investment Fund. Effective January 1, 2002, the annual lump sum payment was divided by 12 and paid as a monthly life annuity in the annuity form elected.

#### *Contributions*

Minnesota Statutes Chapter 352 sets the rates for employer and employee contributions. Eligible General Plan members contribute 5.75 percent and participating employers are required to contribute 5.875 percent of their annual covered salary in fiscal year 2019. The Agency's contribution to the General Plan for the fiscal year ending June 30, 2019 was \$1.151 million. These contributions were equal to the contractually required contributions for each year as set by state statute.

#### *Actuarial Assumptions*

The Agency's net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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**MINNESOTA HOUSING FINANCE AGENCY**  
**Notes to Financial Statements**  
**Year ended June 30, 2019 (continued)**

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**Defined Benefit  
Pension Plan  
(continued)**

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 generational mortality table projected with mortality improvement Scale MP-2015 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 1<sup>st</sup>.

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of actuarial experience study, dated June 30, 2015, with an update of economic assumptions dated September 11, 2017.

The long-term expected rate of return on pension plan investments is 7.5 percent. The rate assumption was selected as the result of a review of inflation and investment return assumptions dated September 11, 2017 and a recent liability study. The review combined the asset class target allocations and long-term rate of return expectations from the State Board of Investment (SBI).

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>SBI's Long-Term Expected Real Rate of Return (Geometric Mean)</b>
Domestic Stocks	33%	5.10%
International Stocks	16%	5.30%
Bonds	25%	5.90%
Alternative Assets	24%	1.25%
Cash	2%	0.00%

*Changes in Actuarial Assumptions*

The Combined Service Annuity (CSA) loads were 1.20% for active member liability and 40% for vested and non-vested deferred member liability. The revised CSA loads are now 9.99% for active member liability, 4.00% for vested deferred member liability, and 5.00% for non-vested deferred member liability. The Single Discount Rate was changed from 4.17% per annum to 5.42% per annum.

*Single Discount Rate*

A Single Discount Rate of 5.42% was used to measure the total pension liability. This Single Discount Rate was based on an expected rate of return on pension plan investments of 7.50% and a municipal bond rate of 3.62%. The projection of cash flows used to determine this Single Discount Rate assumed that employees and employer contributions will be made at the current statutory contribution rates. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year ending June 30, 2068. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year ending June 30, 2049, and the municipal bond rate was applied to all benefit payments after that point of asset depletion.

*Net Pension Liability*

At June 30, 2019, the Agency reported a liability of \$8.725 million for its proportionate share of MSRS' net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of MSRS's participating employers. At June 30, 2018, the Agency's



# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2019 (continued)

#### Defined Benefit Pension Plan (continued)

proportionate share of the entire plan was 0.62948 percent an increase of .008 percent over prior reporting period.

#### *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 (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
Agency proportionate share of the net pension liability:	\$20,167	\$8,725	(\$772)

#### *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](http://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, 2019, the Agency recognized pension expense of (\$10.364) million. At June 30, 2019, 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	\$ 241	\$ 662
Changes of assumptions	24,957	38,966
Net difference between projected and actual earnings on investments	-	2,184
Changes in proportion and differences between actual contributions and proportionate share of contributions	212	24
Contributions paid to MSRS subsequent to the measurement date	1,151	-
Total	\$26,561	\$41,836

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, 2019. 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
2020	\$ 108
2021	738
2022	(11,766)
2023	(5,506)

#### 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

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# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2019 (continued)

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#### Post-Employment Benefits Other Than Pensions (continued)

in immediately before retirement. The former employees must pay the entire premium for continuation coverage. An implicit rate subsidy exists for the former participants that elect to continue coverage. That subsidy refers to the concept that retirees under the age of 65 (i.e. not eligible for Medicare) generate greater claims on average than active participants.

The State of Minnesota obtains an actuarial valuation from an independent firm of its postretirement medical benefits and to determine its other postemployment benefits (OPEB) liability. The state intends to fund the OPEB liability on a “pay as you go” basis. The net other postemployment benefit obligation (NOO) for the Agency is \$1.716 million for fiscal year 2019.

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](http://www.msrs.state.mn.us/financial-information); by writing to MSRS at 60 Empire Drive, #300, St. Paul, Minnesota, 55103; or by calling (651) 296-2761 or 1-800-657-5757.

#### *Net OPEB Liability*

The Total OPEB Liability, Net OPEB Liability (Total OPEB Liability minus Fiduciary Net Position), OPEB expense, and certain sensitivity information shown are based on actuarial valuations performed as of July 1, 2018. The Total OPEB Liability was rolled-forward from the valuation date to the Measurement Date of July 1, 2018 using generally accepted actuarial principles.

As of July 1, 2018 the following assumptions were used for the actuarial valuation. The actuarial cost method was updated from Entry Age Normal as a level dollar amount to Entry Age Normal as a level percentage of pay.

Inflation	2.50 percent per year
Initial Medical Trend Rate	3.8 to 6.5 percent per year
Ultimate Medical Trend Rate	3.8 percent
Salary Increases	14.0 percent with one year of service to 3.50 percent with 25 or more years of service
Mortality Rate	Refer to the RP-2014 Employee Mortality tables with mortality improvement Scale MP-2018

The majority of the State of Minnesota employees are participants in the Minnesota State Retirement System (MSRS), Minnesota Teacher’s Retirement Association (TRA), or the Minnesota Public Employees’ Retirement System (PERA). For this reason, the aggregate payroll growth, individual salary increase, mortality, withdrawal, retirement, and age of spouse assumptions are based on the assumptions used for the respective plans’ Actuarial Valuation Reports as of July 1, 2018.

#### *OPEB Sensitivity Based on Trend Rate*

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

	<b>1% Decrease in Trend Rate (2.80%)</b>	<b>Trend Rate (3.80%)</b>	<b>1% Increase in Trend Rate (4.80%)</b>
Agency proportionate share of the total OPEB liability:	\$1,902	\$1,716	\$1,556

#### *Single Discount Rate*

The State of Minnesota elected to change its discount rate methodology to be consistent with the requirements of GASB 75 which will be in effect for the fiscal year ending June 30, 2019. Since the State’s retiree health benefits are not funded by assets in a separate trust the discount rate will be based on the index

# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2019 (continued)

#### Post-Employment Benefits Other Than Pensions (continued)

rate for 20-year tax-exempt general obligation municipal bond index rate with an average rating of AA/Aa or higher as of the measurement date, as prescribed by GASB No. 75. The State of Minnesota elected to determine the discount rate using the Bond Buyer 20-Bond General Obligation Index. The discount rate was 3.87% as of June 30, 2018.

#### *OPEB Sensitivity Based on Discount Rate*

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

	<b>1% Decrease in Discount Rate (2.87%)</b>	<b>Discount Rate (3.87%)</b>	<b>1% Increase in Discount Rate (4.87%)</b>
Agency proportionate share of the OPEB liability:	\$1,842	\$1,716	\$1,598

#### *OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB*

For the year ended June 30, 2019, the Agency recognized OPEB expense of \$.171 million. At June 30, 2019, the Agency reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 0	\$ 0
Changes of assumptions	-	192
Net difference between projected and actual earnings on investments	-	-
Changes in proportion and differences between actual contributions and proportionate share of contributions	-	-
Contributions paid to OPEB subsequent to the measurement date	97	-
Total	<u>\$97</u>	<u>\$192</u>

Amounts reported as deferred outflows of resources related to OPEB resulting from Agency's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows (in thousands):

<b>Year Ended June 30:</b>	<b>OPEB Expense Amount</b>
2019	\$31
2020	31
2021	31
2022	31
2023	31
Thereafter	21

#### 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

# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2019 (continued)

#### Risk Management (continued)

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	\$ 5,026
Business interruption/loss of use/extra expense	500
Bodily injury and property damage per person	500
Bodily injury and property damage per occurrence	1,500
Faithful performance/commercial crime	14,000
Employee dishonesty	250

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

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

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

#### Commitments

As of June 30, 2019, 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	33,097
Residential Housing Finance	380,275
Homeownership Finance	-
Multifamily Housing	-
HOMES <sup>SM</sup>	-
State Appropriated	104,368
Federal Appropriated	21,843
Agency Wide Totals	<u>\$539,583</u>

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

The Agency has cancellable lease commitments for office facilities through August 2028 and for parking through August 2028, totaling \$15.846 million. Combined office facilities and parking lease expense for fiscal year 2019 was \$1.656 million.

#### Line of Credit Federal Home Loan Bank

On June 30, 2019 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, 2019, \$54.220 million of mortgage-backed securities were pledged. The advances taken during fiscal year 2019 were used to purchase and warehouse mortgage-backed securities in Pool 2.

# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2019 (continued)

#### Line of Credit Federal Home Loan Bank (continued)

The line of credit activity for the year ended June 30, 2019, is summarized as follows (in thousands):

<b>Beginning Balance</b>	<b>Cumulative Draws</b>	<b>Cumulative Repayments</b>	<b>Ending Balance</b>
\$ -	\$700,000	\$700,000	\$ -

#### Litigation

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

#### Subsequent Events

The Agency called for redemption or repayment subsequent to June 30, 2019 the following bonds (in thousands):

<b>Program</b>	<b>Scheduled Retirement Date</b>	<b>Par</b>
Homeownership Finance	July 1, 2019	\$ 1,610
Residential Housing Finance	July 1, 2019	52,470
Homeownership Finance	August 1, 2019	465
Residential Housing Finance	August 1, 2019	5,545
Homeownership Finance	September 1, 2019	1,205
Residential Housing Finance	September 1, 2019	6,020

On July 25, 2019, the Board of the Agency adopted a series resolution authorizing the issuance of bonds in the aggregate principal amount of \$300 million for the purpose of providing funds for certain of the Agency's homeownership programs. The Residential Housing Finance Bonds, 2019 Series EF and 2019 Series G (Taxable), in the aggregate principal amount of \$156.015 million are expected to be delivered on September 11, 2019 pursuant to that authorization.

On July 25, 2019, the Board of the Agency adopted a series resolution authorizing the issuance of variable rate bonds up to the aggregate principal amount of \$100 million for the purpose of providing funds for certain of the Agency's homeownership programs. The Residential Housing Finance Bonds, 2019 Series H, in the aggregate principal amount of \$43.985 million are expected to be delivered on September 11, 2019 pursuant to that authorization.

On July 25, 2019, the Board of the Agency adopted a resolution authorizing the issuance of additional State Appropriation Bonds (Housing Infrastructure) up to the aggregate principal amount of \$80 million for the purpose of providing funds to make loans for certain statutory-authorized purposes. The State Appropriated Bonds (Housing Infrastructure), 2019 Series ABCD, in the aggregate principal amount of \$25.640 million are expected to be delivered in September 2019 pursuant to that authorization.

On July 25, 2019, 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, 2019 Series C, in the principal amount of \$3.250 million are expected to be delivered in September 2019 pursuant to that authorization.

The Agency made, or has committed to make, draws from the Index Bank notes subsequent to June 30, 2019 as shown in the table below.

<b>Program</b>	<b>Series</b>	<b>Advance Date</b>	<b>Par</b>
Index Bank Note	2018 AMT	July 1, 2019	\$ 7,940
Index Bank Note	2018 Non-AMT	July 1, 2019	18,347
Index Bank Note	2018 AMT	August 1, 2019	875
Index Bank Note	2018 Non-AMT	August 1, 2019	14,554

The Agency has evaluated subsequent events through August 29, 2019, 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 2019**

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**Schedule of Employer's Share of Net Pension Liability****State Employees Retirement Fund****Last 10 Fiscal Years\***

(dollars in thousands)

	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Employer Unit's Proportion of the Net Pension Liability	0.781%	0.822%	0.830%	0.836%
Employer Unit's Proportionate Share of the Net Pension Liability	\$ 8,979	\$76,077	\$46,137	\$ 8,725
Employer Unit's Covered-Employee Payroll	22,438	23,836	19,693	20,931
Employer Unit's proportionate share of the net pension liability as a percentage of its covered-employee payroll	40.017%	319.168%	234.281%	41.685%
Plan fiduciary net position as a percentage of the total pension liability	88.320%	47.51%	62.73%	90.56%

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)

	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Contractually Required Contribution	\$ 874	\$ 968	\$ 1,018	\$ 1,151
Contributions in relation to the contractually required contribution	874	968	1,018	1,151
Contribution deficiency (excess)	-	-	-	-
Employer Unit's covered-employee payroll	22,438	23,836	19,693	20,931
Contributions as a percentage of covered-employee payroll	3.895%	4.061%	5.169%	5.499%

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

**MINNESOTA HOUSING FINANCE AGENCY**  
**Required Supplementary Information**  
**General Reserve and Bond Funds**  
**Schedule of Selected OPEB Information-Unaudited (in thousands)**  
**Fiscal Year 2019**

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

	<b>2019</b>
<b>Total OPEB Liability</b>	
Service Cost	\$ 135
Interest	66
Change in Benefit Term	-
Difference Between Expected And Actual Experience	-
Change in Assumptions - Discount rate	(84)
Change in Assumptions - Other	(42)
Benefit Payments	
Explicit Subsidy	(48)
Implicit Subsidy	(51)
<b>Net Change in Total OPEB Liability</b>	<b>(25)</b>
<b>Total OPEB Liability-Beginning</b>	<b>1,742</b>
<b>Total OPEB Liability-Ending (a)</b>	<b>1,717</b>
<b>Plan Fiduciary Net Position</b>	
Contribution Employer	
Explicit Subsidy	48
Implicit Subsidy	51
Net Investment Income	
Expected Investment Earnings	-
Difference Between Projected And Actual Investment Earning	-
Benefit Payments	
Explicit Subsidy	(48)
Implicit Subsidy	(51)
Administrative Expense	-
<b>Net Change In Fiduciary Net Position</b>	<b>-</b>
<b>Plan Fiduciary Net Position-Beginning</b>	<b>-</b>
<b>Plan Fiduciary Net Position-Ending(b)</b>	<b>-</b>
Employer's Total OPEB Liability-Ending(a-b)	1,717
Plan Fiduciary Total Position as a percentage of the total OPEB Liability	-
Covered Employee Payroll	20,283
Employer's Net OPEB Liability as a percentage of covered Employee Payroll	8.46%

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

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

	<b>2019</b>
Actuarially Required Contribution	
Explicit Subsidy	\$ 48
Implicit Subsidy	51
Contributions in relation to the Actuarially required contribution	
Explicit Subsidy	48
Implicit Subsidy	51
Contribution deficiency (excess)	-
Explicit Subsidy	-
Implicit Subsidy	-
Employer Unit's covered-employee payroll	20,283
Contributions as a percentage of covered-employee payroll	
Explicit Subsidy	0.237%
Implicit Subsidy	0.251%

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



# MINNESOTA HOUSING FINANCE AGENCY

## Supplementary Information

### Statement of Net Position (in thousands)

#### General Reserve and Bond Funds

As of June 30, 2019 (with comparative totals as of June 30, 2018)

		Bond Funds			
				Residential Housing Finance	
		General Reserve	Rental Housing	Bonds	Pool 2
Assets	Cash and cash equivalents	\$ 52,210	\$ 34,866	\$ 181,158	\$ 58,018
	Investments-program mortgage-backed securities	-	-	1,008,158	-
	Investment securities-other	43,907	21,902	18,357	70,576
	Loans receivable, net	-	130,242	395,188	293,348
	Interest receivable on loans and program mortgage-backed securities	-	572	5,138	1,255
	Interest receivable on investments	108	118	511	305
	Interest Rate Swap Agreements	-	-	-	-
	FHA/VA insurance claims, net	-	-	681	5
	Real estate owned, net	-	-	1,735	230
	Capital assets, net	6,082	-	-	-
	Other assets	2,443	4	36	335
	Total assets	104,750	187,704	1,610,962	424,072
Deferred outflows of Resources	Deferred loss on refunding	-	-	62	-
	Deferred loss on interest rate swap agreements	-	-	10,984	-
	Deferred pension and OPEB expense	26,658	-	-	-
	Total deferred outflows of resources	26,658	-	11,046	-
Liabilities	Bonds payable, net	-	46,275	1,381,046	14,073
	Interest payable	-	577	20,226	38
	Interest rate swap agreements	-	-	10,984	-
	Net pension and OPEB liability	10,441	-	-	-
	Accounts payable and other liabilities	4,673	3,871	495	30,129
	Interfund payable (receivable)	(7,849)	-	(32)	6,946
	Funds held for others	67,646	-	-	2,000
	Total liabilities	74,911	50,723	1,412,719	53,186
Deferred inflows of Resources	Deferred gain on interest rate swap agreements	-	-	-	-
	Deferred service release fee	-	-	5,746	4,566
	Deferred pension and OPEB credit	42,028	-	-	-
	Total deferred inflows of resources	42,028	-	5,746	4,566
Net Position	Restricted by bond resolution	-	136,981	203,543	-
	Restricted by covenant	8,387	-	-	366,320
	Invested in capital assets	6,082	-	-	-
	Total net position	14,469	136,981	203,543	366,320
	Total liabilities, deferred inflows, and net position	\$131,408	\$187,704	\$1,622,008	\$424,072

Bond Funds			General Reserve & Bond Funds Excluding Pool 3	General Reserve & Bond Funds Excluding Pool 3	Residential Housing Finance Pool 3	General Reserve & Bond Funds	General Reserve & Bond Funds
Home-ownership Finance	Multifamily Housing	HOMES <sup>SM</sup>	Total For The Year Ended June 30, 2019	Total For The Year Ended June 30, 2018	Total For The Year Ended June 30, 2019	Total For The Year Ended June 30, 2019	Total For The Year Ended June 30, 2018
\$ 46,143	\$ 1,554	\$ -	\$ 373,949	\$ 334,362	\$ 8,055	\$ 382,004	\$ 340,262
1,679,503	-	-	2,687,661	2,151,385	-	2,687,661	2,151,385
-	-	17,096	171,838	148,241	22,237	194,075	178,886
-	13,752	-	832,530	884,827	83,068	915,598	950,894
5,289	50	-	12,304	10,685	38	12,342	10,741
60	3	43	1,148	945	54	1,202	1,020
-	-	-	-	4,623	-	-	4,623
-	-	-	686	1,309	-	686	1,309
-	-	-	1,965	1,985	-	1,965	1,985
-	-	-	6,082	5,710	-	6,082	5,710
33	-	-	2,851	2,544	3	2,854	2,545
1,731,028	15,359	17,139	4,091,014	3,546,616	113,455	4,204,469	3,649,360
-	-	-	62	1,785	-	62	1,785
-	-	-	10,984	169	-	10,984	169
-	-	-	26,658	38,618	-	26,658	38,618
-	-	-	37,704	40,572	-	37,704	40,572
1,632,494	13,480	16,640	3,104,008	2,687,792	-	3,104,008	2,687,792
6,168	34	43	27,086	23,984	-	27,086	23,984
-	-	-	10,984	1,862	-	10,984	1,862
-	-	-	10,441	47,879	-	10,441	47,879
119	-	-	39,287	25,226	454	39,741	25,338
-	-	-	(935)	6,101	(1)	(936)	(2,007)
-	-	456	70,102	66,515	-	70,102	66,515
1,638,781	13,514	17,139	3,260,973	2,859,359	453	3,261,426	2,851,363
-	-	-	-	4,623	-	-	4,623
8,134	-	-	18,446	16,856	-	18,446	16,856
-	-	-	42,028	27,699	-	42,028	27,699
8,134	-	-	60,474	49,178	-	60,474	49,178
84,113	1,845	-	426,482	318,512	-	426,482	318,512
-	-	-	374,707	354,429	113,002	487,709	465,169
-	-	-	6,082	5,710	-	6,082	5,710
84,113	1,845	-	807,271	678,651	113,002	920,273	789,391
\$1,731,028	\$15,359	\$17,139	\$4,128,718	\$3,587,188	\$113,455	\$4,242,173	\$3,689,932

# 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, 2019 (with comparative totals for year ended June 30, 2018)

		Bond Funds			
				Residential Housing Finance	
		General Reserve	Rental Housing	Bonds	Pool 2
Revenues	Interest earned on loans	\$ -	\$ 7,175	\$ 22,628	\$ 15,584
	Interest earned on investments-program mortgage-backed securities	-	-	25,410	-
	Interest earned on investments-other	704	1,119	3,607	7,054
	Net G/L on Sale of MBS Held for Sale/HOMES <sup>SM</sup> Certificate	-	-	-	4,642
	Administrative reimbursement	27,730	-	-	-
	Fees earned and other income	11,212	164	793	1,397
	Unrealized gains (losses) on Investments	-	1,292	28,014	14,280
	Total revenues	39,646	9,750	80,452	42,957
Expenses	Interest	-	1,299	35,784	1,907
	Financing, net	-	14	5,491	24
	Loan administration and trustee fees	-	75	1,612	1,013
	Administrative reimbursement	-	1,117	8,178	3,783
	Salaries and benefits	15,117	-	-	-
	Other general operating	5,359	4	33	1,353
	Reduction in carrying value of certain low interest rate deferred loans	-	-	-	24
	Provision for loan losses	-	(1,167)	(374)	929
	Total expenses	20,476	1,342	50,724	9,033
		Revenue over (under) expenses	19,170	8,408	29,728
Other Changes	Non-operating transfer of assets between funds	(19,320)	(14,950)	22,795	(13,124)
	Change in net position	(150)	(6,542)	52,523	20,800
Net Position	Total net position, beginning of Year, as restated	14,619	143,523	151,020	345,520
	Total net position, end of Year	\$ 14,469	\$ 136,981	\$ 203,543	\$ 366,320

Bond Funds			General Reserve & Bond Funds Excluding Pool 3	General Reserve & Bond Funds Excluding Pool 3	Residential Housing Finance Pool 3	General Reserve & Bond Funds	General Reserve & Bond Funds
Home-ownership Finance	Multifamily Housing	HOMES <sup>SM</sup>	Total For The Year Ended June 30, 2019	Total For The Year Ended June 30, 2018	Total For The Year Ended June 30, 2019	Total For The Year Ended June 30, 2019	Total For The Year Ended June 30, 2018
\$ -	\$ 608	\$ -	\$ 45,995	\$ 50,672	\$ 586	\$ 46,581	\$ 51,159
54,289	-	-	79,699	61,996	-	79,699	61,996
612	32	550	13,678	9,532	767	14,445	10,371
-	-	-	4,642	2,240	-	4,642	2,240
-	-	-	27,730	24,479	-	27,730	24,479
1,289	-	-	14,855	15,033	282	15,137	15,178
47,858	-	-	91,444	(59,645)	286	91,730	(60,202)
104,048	640	550	278,043	104,307	1,921	279,964	105,221
45,887	410	550	85,837	73,057	-	85,837	73,057
5,719	-	-	11,248	7,115	-	11,248	7,115
536	4	-	3,240	3,763	20	3,260	3,779
9,285	93	-	22,456	19,911	1,382	23,838	21,227
-	-	-	15,117	33,114	-	15,117	33,114
37	-	-	6,786	7,351	2,901	9,687	9,690
-	-	-	24	(47)	(534)	(510)	1,758
-	(1)	-	(613)	(100)	890	277	404
61,464	506	550	144,095	144,164	4,659	148,754	150,144
42,584	134	-	133,948	(39,857)	(2,738)	131,210	(44,923)
19,271	-	-	(5,328)	(5,654)	5,000	(328)	57
61,855	134	-	128,620	(45,511)	2,262	130,882	(44,866)
22,258	1,711	-	678,651	724,162	110,740	789,391	834,257
\$84,113	\$1,845	\$ -	\$807,271	\$678,651	\$113,002	\$920,273	\$789,391

# MINNESOTA HOUSING FINANCE AGENCY

## Supplementary Information

### Statement of Cash Flows (in thousands)

#### General Reserve and Bond Funds

Year ended June 30, 2019 (with comparative totals for year ended June 30, 2018)

		<u>Bond Funds</u>	
		<u>General Reserve</u>	<u>Rental Housing</u>
<b>Cash flows from operating activities</b>	Principal repayments on loans and program mortgage-backed securities	\$ -	\$ 25,749
	Investment in loans and program mortgage-backed securities	-	(17,558)
	Interest received on loans and program mortgage-backed securities	-	7,209
	Fees and other income received	10,954	164
	Salaries, benefits and other operating	(28,764)	(93)
	Administrative reimbursement from funds	27,651	(1,117)
	Deposits into funds held for others	31,852	-
	Disbursements made from funds held for others	(31,347)	-
	Interfund transfers and other assets	(2,564)	-
Net cash provided (used) by operating activities		<u>7,782</u>	<u>14,354</u>
<b>Cash flows from non-capital financing activities</b>	Proceeds from sale of bonds and notes	-	14,590
	Principal repayment on bonds and notes	-	(7,845)
	Interest paid on bonds and notes	-	(1,220)
	Financing costs paid related to bonds issued	-	(6)
	Interest paid/received between funds	70	-
	Principal paid/received between funds	-	-
	Agency contribution to program funds	-	(72)
	Transfer of cash between funds	-	(15,000)
Net cash provided (used) by noncapital financing activities		<u>70</u>	<u>(9,553)</u>
<b>Cash flows from investing activities</b>	Investment in real estate owned	-	-
	Interest received on investments	1,291	1,116
	Net gain (loss) on Sale of MBS Held for Sale and HOMES <sup>SM</sup> Certificates	-	-
	Proceeds from sale of mortgage insurance claims/real estate owned	-	-
	Proceeds from maturity, sale or transfer of investment securities	45,148	23
	Purchase of investment securities	(58,466)	-
	Purchase of loans between funds	-	-
Net cash provided (used) by investing activities		<u>(12,027)</u>	<u>1,139</u>
Net increase (decrease) in cash and cash equivalents		(4,175)	5,940
<b>Cash and cash equivalents</b>	Beginning of year	56,385	28,926
	End of year	<u>\$52,210</u>	<u>\$ 34,866</u>

Bond Funds					General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2019	Residential Housing Finance Pool 3 Total For The Year Ended June 30, 2019	General Reserve & Bond Funds Total For The Year Ended June 30, 2019	General Reserve & Bond Funds Total For The Year Ended June 30, 2018
Residential Housing Finance		Home- ownership Finance	Multifamily Housing	HOMES <sup>SM</sup>	Total For The Year Ended June 30, 2019	Total For The Year Ended June 30, 2019	Total For The Year Ended June 30, 2019	Total For The Year Ended June 30, 2018
Bonds	Pool 2							
\$ 139,661	\$ 62,552	\$ 164,043	\$ 193	\$ -	\$ 392,198	\$ 10,595	\$ 402,793	\$ 385,653
(307,363)	(68,256)	(389,073)	-	-	(782,250)	(30,140)	(812,390)	(802,018)
48,538	14,449	56,607	609	-	127,412	604	128,016	114,994
-	10,801	-	-	-	21,919	281	22,200	24,691
(1,653)	(8,076)	(563)	(4)	-	(39,153)	(2,580)	(41,733)	(47,102)
(8,178)	(3,783)	(9,285)	(93)	-	5,195	(1,382)	3,813	3,178
-	750	-	-	-	32,602	-	32,602	31,670
-	-	-	-	-	(31,347)	-	(31,347)	(30,831)
(31)	80	1	-	-	(2,514)	0	(2,514)	(5,011)
(129,026)	8,517	(178,270)	705	-	(275,938)	(22,622)	(298,560)	(324,776)
345,967	1,581,162	380,581	-	-	2,322,300	-	2,322,300	1,888,449
(160,585)	(1,567,089)	(163,960)	(240)	(1,832)	(1,901,551)	-	(1,901,551)	(1,566,379)
(37,590)	(1,774)	(45,617)	(410)	(555)	(87,166)	-	(87,166)	(77,280)
(4,281)	(20)	(3,149)	-	-	(7,456)	-	(7,456)	(8,508)
-	(84)	-	-	-	(14)	14	-	-
-	(3,000)	-	-	-	(3,000)	3,000	-	-
3,052	(16,081)	13,049	-	-	(52)	52	-	11
15,000	(10,000)	-	-	-	(10,000)	10,000	-	-
161,563	(16,886)	180,904	(650)	(2,387)	313,061	13,066	326,127	236,293
(818)	(54)	-	-	-	(872)	-	(872)	(2,030)
3,564	7,095	593	31	555	14,245	506	14,751	10,940
-	937	-	-	-	937	-	937	4,040
6,079	416	-	-	-	6,495	-	6,495	10,697
5,464	885,085	-	-	1,832	937,552	8,973	946,525	829,707
(3,591)	(893,836)	-	-	-	(955,893)	-	(955,893)	(751,093)
-	-	-	-	-	-	2,232	2,232	(22,809)
10,698	(357)	593	31	2,387	2,464	11,711	14,175	79,452
43,235	(8,726)	3,227	86	-	39,587	2,155	41,742	(9,031)
137,923	66,744	42,916	1,468	-	334,362	5,900	340,262	349,293
\$ 181,158	\$ 58,018	\$ 46,143	\$ 1,554	\$ -	\$ 373,949	\$ 8,055	\$ 382,004	\$ 340,262

(Continued)

# MINNESOTA HOUSING FINANCE AGENCY

## Supplementary Information

### Statement of Cash Flows (in thousands)

#### General Reserve and Bond Funds (continued)

Year ended June 30, 2019 (with comparative totals for year ended June 30, 2018)

		<u>Bond Funds</u>	
		<u>General Reserve</u>	<u>Rental Housing</u>
<b>Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities</b>	Revenues over (under) expenses	\$ 19,170	\$ 8,408
	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	-	(19)
	Amortization of premium (discounts) and fees on sale of HOMES <sup>SM</sup> Certificates	-	-
	Amortization of proportionate share-Pension	65	-
	Depreciation	3,067	-
	Gain (loss) on sale of MBS held for sale and HOMES <sup>SM</sup> Certificates	-	-
	Realized losses (gains) on sale of securities, net	-	-
	Unrealized losses (gains) on securities, net	-	(1,292)
	Salaries and Benefits-Pensions	(11,542)	-
	Provision for loan losses	-	(1,167)
	Reduction in carrying value of certain low interest rate and/or deferred loans	-	-
	Capitalized interest on loans and real estate owned	-	-
	Interest earned on investments	(704)	(1,119)
	Interest expense on bonds and notes	-	1,299
	Financing expense in bonds	-	14
	Changes in assets and liabilities:		
	Decrease (increase) in loans receivable and program mortgage-backed securities, excluding loans transferred between funds	-	8,191
	Decrease (increase) in interest receivable on loans	-	53
	Increase (decrease) in accounts payable	571	(14)
	Increase (decrease) in interfund payable, affecting operating activities only	1,087	-
	Increase (decrease) in funds held for others	505	-
	Other	(4,437)	-
	Total	(11,388)	5,946
	Net cash provided (used) by operating activities	\$ 7,782	\$14,354



Bond Funds					General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2019	Residential Housing Finance Pool 3 Total For The Year Ended June 30, 2019	General Reserve & Bond Funds Total For The Year Ended June 30, 2019	General Reserve & Bond Funds Total For The Year Ended June 30, 2018
Residential Housing Finance		Home- ownership Finance	Multifamily Housing	HOMES <sup>SM</sup>	Total For The Year Ended June 30, 2019	Total For The Year Ended June 30, 2019	Total For The Year Ended June 30, 2019	Total For The Year Ended June 30, 2018
Bonds	Pool 2							
\$ 29,728	\$ 33,924	\$ 42,584	\$134	\$ -	\$ 133,948	\$ (2,738)	\$ 131,210	\$ (44,923)
1,638	(1,019)	3,241	-	-	3,841	-	\$3,841	3,615
-	-	-	-	-	-	-	0	-
-	-	-	-	-	65	-	65	54
-	-	-	-	-	3,067	-	3,067	2,241
-	(4,642)	-	-	-	(4,642)	-	(4,642)	(2,240)
(98)	(7)	-	-	-	(105)	11	(94)	(229)
(28,014)	(14,280)	(47,858)	-	-	(91,444)	(286)	(91,730)	60,202
-	-	-	-	-	(11,542)	-	(11,542)	6,879
(374)	929	-	(1)	-	(613)	890	277	404
-	24	-	-	-	24	(534)	(510)	1,758
(479)	(25)	-	-	-	(504)	-	(504)	(1,386)
(3,509)	(7,047)	(612)	(32)	(550)	(13,573)	(778)	(14,351)	(10,142)
35,784	1,907	45,887	410	550	85,837	-	85,837	73,057
5,509	20	5,719	-	-	11,262	-	11,262	7,084
(167,702)	(5,704)	(225,030)	193	-	(390,052)	(19,545)	(409,597)	(416,365)
(659)	(91)	(923)	1	-	(1,619)	18	(1,601)	(390)
(819)	3,697	(1,279)	-	-	2,156	341	2,497	1,052
(31)	62	-	-	-	1,118	-	1,118	(1,328)
-	750	-	-	-	1,255	-	1,255	839
-	19	1	-	-	(4,417)	(1)	(4,418)	(4,958)
(158,754)	(25,407)	(220,854)	571	-	(409,886)	(19,884)	(429,770)	(279,853)
<u>\$(129,026)</u>	<u>\$ 8,517</u>	<u>\$(178,270)</u>	<u>\$705</u>	<u>\$ -</u>	<u>\$(275,938)</u>	<u>\$(22,622)</u>	<u>\$(298,560)</u>	<u>\$(324,776)</u>

## Other Information (Unaudited)

### General Reserve and Bond Funds Five Year Financial Summary (in thousands) Fiscal Years 2015-2019

		2015	2016	2017	2018	2019
<b>Loans Receivable, net (as of June 30)</b>	Multifamily programs	\$ 317,655	\$ 330,204	\$ 298,355	\$ 297,982	\$ 299,276
	Homeownership programs	911,788	776,255	661,630	586,498	548,869
	Home Improvement programs	82,471	76,648	71,629	66,414	67,453
	Total	<u>\$1,311,914</u>	<u>\$1,183,107</u>	<u>\$1,031,614</u>	<u>\$ 950,894</u>	<u>\$ 915,598</u>
<b>Mortgage-backed securities, net, at par (as of June 30)</b>	Program mortgage-backed securities	\$1,106,749	\$1,378,317	\$1,681,474	\$2,176,052	\$2,624,763
	Warehoused mortgaged-backed securities	74,425	116,256	125,372	61,853	68,718
	Total	<u>\$1,181,174</u>	<u>\$1,494,573</u>	<u>\$1,806,846</u>	<u>\$2,237,905</u>	<u>\$2,693,481</u>
<b>Bonds Payable, net (as of June 30)</b>	Multifamily programs	\$ 57,360	\$ 68,880	\$ 51,300	\$ 53,250	\$ 59,755
	Homeownership programs	1,975,972	2,238,342	2,318,223	2,634,542	3,044,251
	Home Improvement programs	-	-	-	-	-
	Total	<u>\$2,033,332</u>	<u>\$2,307,222</u>	<u>\$2,369,523</u>	<u>\$2,687,792</u>	<u>\$3,104,006</u>
<b>Mortgage-backed securities purchased, at par and loans purchased or originated during fiscal year</b>	Multifamily programs	\$ 13,765	\$ 42,517	\$ 30,351	\$ 35,849	\$ 52,893
	Homeownership programs	39,269	33,351	29,687	42,807	47,119
	Program and warehoused mortgage-backed securities	358,108	489,833	493,662	648,062	696,597
	Home Improvement programs	15,417	12,283	13,239	11,366	16,085
	Total	<u>\$ 426,559</u>	<u>\$ 577,984</u>	<u>\$ 566,939</u>	<u>\$ 738,084</u>	<u>\$ 812,694</u>
<b>Net Position (as of June 30)</b>	Total Net Position	\$ 709,740	\$ 747,534	\$ 725,833	\$ 678,651	\$ 807,271
	Percent of total assets and deferred outflows of resources	24.4%	23.1%	22.0%	18.9%	19.6%
<b>Revenue over Expenses</b>	Revenues over expenses for the fiscal year	\$ 35,966	\$ 50,794	\$ (21,701)	\$ (39,857)	\$ 133,948

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## Other Information (continued)

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### Location

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