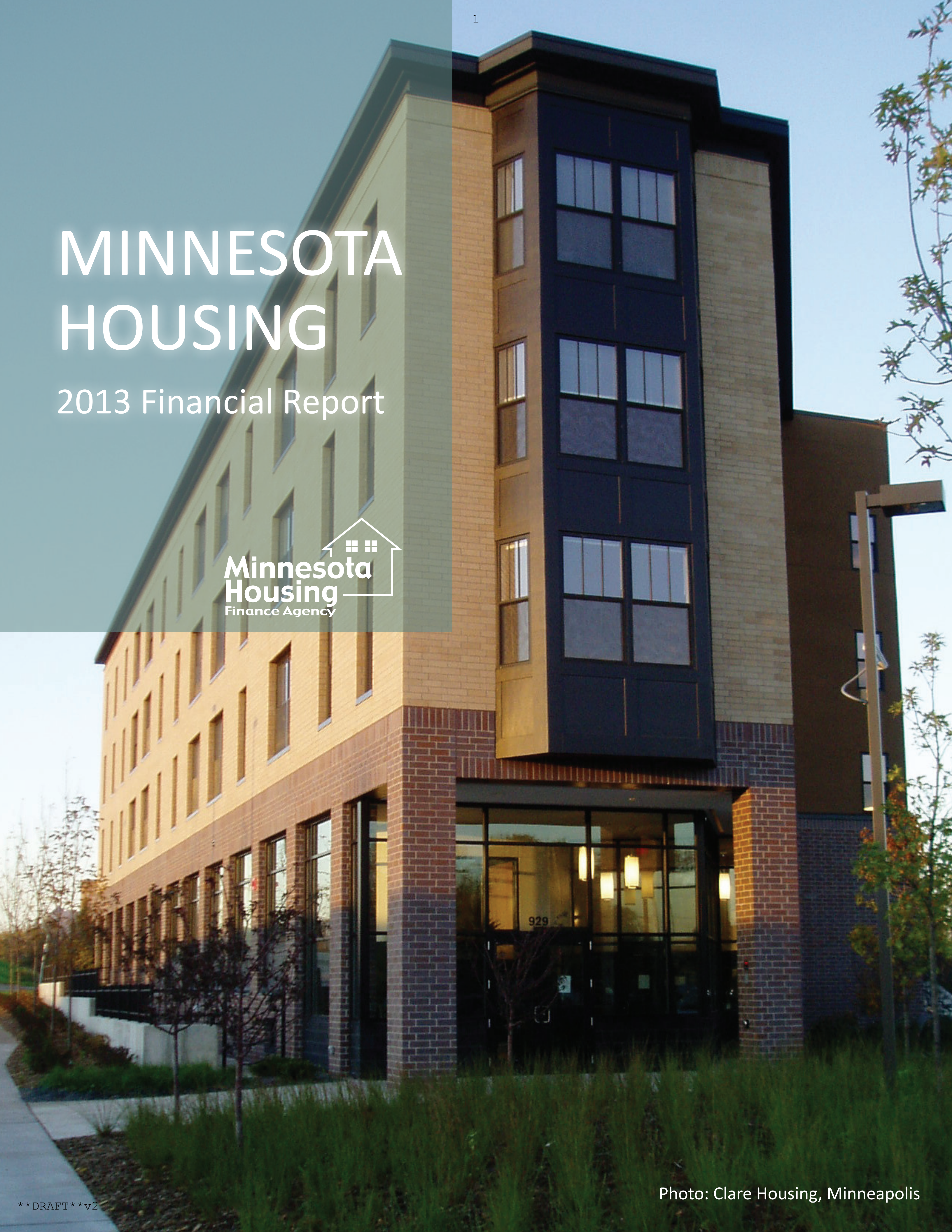
MINNESOTA HOUSING

2013 Financial Report



Minnesota Housing Finance Agency

Photo: Clare Housing, Minneapolis

MINNESOTA HOUSING FINANCE AGENCY
Annual Financial Report as of and for the year ended June 30, 2013

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MINNESOTA HOUSING FINANCE AGENCY
Commissioner's Report

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

As housing and financial markets continue to recover nationally, conditions in Minnesota are slightly ahead of the national average with unemployment at 5.2% (compared to 7.6% nationally) and with the median home sales price increasing 14% from $162,600 in July 2012 to $185,000 in July 2013 statewide, with even higher increases in the Twin Cities metropolitan area. Foreclosure sales are down 32% in Minnesota from an annual peak of 26,251 in 2008 to 17,985 in 2012. In this marketplace environment, Minnesota Housing has capitalized on improving conditions to improve both its product offerings and its financial condition:

- During the current fiscal year, Minnesota Housing has successfully repositioned its single family lending products, resulting in production that is projected to be 40% above the previous year's levels by the end of the Agency's program year in September of 2013. Minnesota Housing now offers both its "Start-Up" mortgage product for first-time homebuyers and its "Step-Up" product for other owners wanting to refinance their current mortgages or purchase homes more suitable for their current needs. Supporting this new production is a suite of downpayment and closing cost loans that includes both the Agency's traditional deferred loans and a new amortizing loan product that is serviced in tandem with the first mortgage. This amortizing second mortgage product has proven to be extremely popular for homebuyers and has taken pressure off of the deferred loan product, for which more limited funding sources are available. The Agency also introduced a program of Mortgage Credit Certificates (MCCs) for the first time in its history, resulting in an additional financing option for first time homebuyers while using previously dormant tax-exempt bonding capacity.
- Increased single family production has been supported by a successful capital markets strategy that has positioned the agency to take advantage of multiple sources of capital throughout the year. The Agency continued to use its highly successful tax-exempt mortgage-backed securities monthly pass-through structure throughout most of the year and then shifted to deliveries into the TBA market when interest rates ticked up in May of 2013. The Agency's Finance team has successfully implemented a pipeline management system that facilitates deliveries into multiple capital markets channels, including the TBA market, and supports pricing changes that are necessary in rapidly changing markets. The Minnesota Housing board also recently adopted a bond resolution that authorizes tax-exempt sales of single mortgage-backed securities which will add to the options available. The Finance team has also strengthened the Agency's balance sheet by moving to a practice of monitoring bond call options on a monthly basis and retiring higher interest rate bonds as call options are available.
- Minnesota Housing has seen a dramatic improvement in its Real Estate Owned (REO) portfolio with the number of REO properties declining from 135 last year to 81 properties at the end of June, 2013. In addition, the average loss on the sale of REO properties has declined from $30,112 last year to $26,635 at the end of June. June delinquency rates remained stubbornly high, with a rate of 7.55% for 60+ days, while the foreclosure rate has remained steady at 1.51%. The combined impact of these factors plus the shift from whole loans to mortgage-backed securities have resulted in a decrease in the Agency's loan loss reserve of $10.6 million from last year.
- With economic conditions continuing to improve in Minnesota, the state legislature addressed the growing need for affordable housing in Minnesota by increasing the Agency's biennial appropriation. Minnesota Housing received a 33% increase in its biennial budget from $76.1 million for the FY2012-2013 biennium to $101.5 million for the FY2014-2015 biennium. Ten million of the increase will be used to support a new Housing and Job Growth initiative that will focus on communities that have a housing shortage because of a growth in jobs in those communities. Three million of the increase will be used to support two targeted rental assistance programs. The Agency continues to enjoy broad bipartisan support for its housing programs in the state legislature.

MINNESOTA HOUSING FINANCE AGENCY
Commissioner's Report (continued)

- During the year, Minnesota Housing took several steps to improve its capacity to provide first mortgage loans for multifamily properties in coming years, including its approval as an FHA MAP (Multifamily Accelerated Processing) lender, which will allow the Agency to originate loans that are fully insured by FHA and which can be placed into GNMA securities. This will add to the Agency's long-standing use of the FHA Risk-share product. The Agency also anticipates increased use of tax exempt bonds with 4% low-income housing tax credits for multifamily properties in the coming year.

During the fiscal year, Minnesota Housing achieved the following programmatic results:

- Purchased 2,494 new home mortgages for first time homebuyers, of which 23.7% were to emerging market households.
- Closed 51 loans and grants on 49 multifamily properties totaling nearly $40 million and providing affordable housing to 1948 households (units), 277 of which were designated to serve long-term homeless households. Of the 49 transactions that closed, the Agency provided financing to 10 federally assisted developments, which resulted in the preservation of 708 units and are estimated to leverage more than $107 million in federal rent subsidies during the affordability periods of the properties.
- Continued a strong commitment to foreclosure prevention, winning an allocation of nearly $980,000 in counseling resources under the National Foreclosure Mitigation Counseling program that will serve an estimated 3,036 households. Historically, 60% of families receiving foreclosure counseling in Minnesota have avoided foreclosure, with 89% of those households able to remain in their home.
- Opened the doors to nearly 76 units of supportive housing for families and individuals who experienced long term homelessness.

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

- Convened a new Interagency Council on Homelessness comprised of 11 state agency commissioners which is charged by the Governor with drafting a new Statewide Plan to Prevent and End Homelessness by the end of 2013.

- Continued its significant investment in the redesign of business processes and the technology to support them that was started in 2012. During the year, Minnesota Housing:
  - Released its substantially redesigned website;
  - Completed a new on-line compliance reporting system for use by owners of multifamily developments with federal compliance requirements;
  - Released a comprehensive Request for Proposals to upgrade its single family loan purchase system;
  - Engaged a consultant to support the redesign of the Agency's multifamily loan processing, pipeline management and database systems; and
  - Is in the final stages of testing a new, comprehensive loan servicing system to consolidate and ease transaction processing.

- Developed an internal engagement plan focused on developing strong leadership skills throughout the organization, making work better and more enjoyable and improving the ways the Agency does its work to better achieve its mission.

We are proud that Minnesota Housing is an organization that is driven by our mission, our values and our strategies. We are committed to building and maintaining the elements that have sustained our work for more than 40 years – our people, our partners, our community support and our financial strength.

Mary Tingerthal, Commissioner
Minnesota Housing
August 28, 2013

Independent Auditors' Report

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

Report on the Financial Statements
We have audited the accompanying financial statements of the business-type activities, and each major fund (General Reserve, Rental Housing, Residential Housing Finance, Homeownership Finance, Multifamily Housing, State Appropriated, and Federal Appropriated) of Minnesota Housing Finance Agency(Agency), a component unit of the State of Minnesota, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the entity'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.

Auditors' 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 auditors' 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 entity'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 entity'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 (General Reserve, Rental Housing, Residential Housing Finance, Homeownership Finance, Multifamily Housing, State Appropriated, and Federal Appropriated) of the Agency as of June 30, 2013, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information
We have previously audited Minnesota Housing Finance Agency's 2012 financial statements of the business-type activities and each major fund, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 29, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Independent Auditors' Report (continued)

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The introductory section and supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has 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 it.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP
Minneapolis, MN
August 28, 2013

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

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

Introduction

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

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

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

Discussion of Financial Statements

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

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

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 and Multifamily Housing.

The basic financial statements also include comparative totals as of and for the year ended June 30, 2012. 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 2013 in comparison to the prior fiscal year.

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

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

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

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

All of Minnesota Housing's bond-financed multifamily loans, except one loan financed under Multifamily Housing, are financed in Rental Housing as of June 30, 2013. 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, and the restricted by covenant Alternative Loan Fund which consists of the Housing Investment Fund (Pool 2) and the Housing Affordability Fund (Pool 3).

Bonds 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 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 was the principal source of financing for bond-financed homeownership programs from fiscal year 2002 until fiscal year 2011 (see Homeownership Finance, below). 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 2013.

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 2013 this fund provided capital for several Agency programs including its home improvement loan program and its multifamily first-mortgage loan program, for warehousing purchases of mortgage-backed securities secured by single family first mortgage loans before those securities are either permanently financed by issuing bonds or sold into the TBA market, for amortizing second lien homeownership loans made in conjunction with the Agency's single family first mortgage loans, for tax credit bridge loans, loans to partner organizations to acquire, rehabilitate and sell foreclosed homes and to develop new affordable housing, loans to facilitate transfers of ownership of manufactured home parks to resident owners, 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 debt.

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

Discussion of Individual Funds (continued)

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 2013 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, 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.

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). The Agency used its remaining NIBP authority to issue bonds during fiscal year 2012. Non-NIBP mortgage revenue bonds have since been issued under this resolution which also meet resolution requirements. Bonds issued under this resolution fund mortgage-backed securities backed by single family mortgage loans. These securities are guaranteed as to payment of principal and interest by either the Government National Mortgage Association or the Federal National Mortgage Association. Funds in excess of bond resolution requirements may be withdrawn and used to redeem any Agency bonds, to fund housing programs and for Agency operations.

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 for one rental housing project.

State and Federal Appropriated Funds

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

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

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 and Multifamily Housing (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 swap counterparties. General Reserve is created under the Minnesota Housing bond resolutions as part of the pledge of the general

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

General Overview (continued)

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 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 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.

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

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

		Agency-wide Total		
		Fiscal 2013	**Fiscal 2012**	**Change**
Assets	Cash and Investments	$1,453,223	$1,317,483	$ 135,740
	Loans receivable, Net	1,638,515	1,845,098	(206,583)
	Interest Receivable	15,805	16,296	(491)
	Total Assets	3,146,184	3,220,824	(74,640)
Liabilities	Bonds Payable	2,136,183	2,170,089	(33,906)
	Interest Payable	37,112	42,987	(5,875)
	Accounts Payable & Other Liabilities	11,298	12,504	(1,206)
	Funds Held for Others	69,179	76,887	(7,708)
	Total Liabilities	2,288,064	2,347,578	(59,514)
Net Position	Restricted by Bond Resolution	302,262	331,630	(29,368)
	Restricted by Covenant	470,239	468,735	1,504
	Restricted by Law	110,118	110,578	(460)
	Total Net Position	885,549	912,880	(27,331)

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

		Agency-wide Total		
		Fiscal 2013	**Fiscal 2012**	**Change**
Revenues	Interest Earned	$133,010	$151,289	$(18,279)
	Appropriations Received	244,768	243,882	886
	Fees and Reimbursements	14,629	13,712	917
	Total Revenues (1)	372,024	470,311	(98,287)
Expenses	Interest Expense	86,066	99,320	(13,254)
	Appropriations Disbursed	220,437	230,921	(10,484)
	Fees	5,525	5,855	(330)
	Payroll, Gen. & Admin.	32,017	26,621	5,396
	Loan Loss/Value Adjust's	36,217	38,535	(2,318)
	Total Expenses (1)	399,355	421,037	(21,682)
	Revenues over Expenses	(27,331)	49,274	(76,605)
	Beginning Net Position	912,880	863,606	49,274
	Ending Net Position	885,549	912,880	(27,331)

(1) Agency-wide totals include interfund amounts

Combined General Reserve and Bond Funds					Combined State and Federal Appropriations Funds		
Fiscal 2013							
Excluding Pool 3	Pool 3	Total	Fiscal 2012	Change	Fiscal 2013	Fiscal 2012	Change
$1,335,488	$38,529	$1,374,017	$1,235,120	$138,897	$ 79,206	$ 82,363	$(3,157)
1,573,932	30,802	1,604,734	1,811,128	(206,394)	33,781	33,970	(189)
15,466	119	15,585	16,063	(478)	220	233	(13)
2,962,064	69,902	3,031,966	3,103,645	(71,679)	114,218	117,179	(2,961)
2,136,183	-	2,136,183	2,170,089	(33,906)	-	-	-
37,112	-	37,112	42,987	(5,875)	-	-	-
8,316	28	8,344	9,833	(1,489)	2,954	2,670	284
68,863	-	68,863	73,562	(4,699)	316	3,325	(3,009)
2,302,993	(19,029)	2,283,964	2,340,977	(57,013)	4,100	6,601	(2,501)
302,262	-	302,262	331,630	(29,368)	-	-	-
381,308	88,931	470,239	468,735	1,504	-	-	-
-	-	-	-	-	110,118	110,578	(460)
686,500	88,931	775,431	802,302	(26,871)	110,118	110,578	(460)

Combined General Reserve and Bond Funds					Combined State and Federal Appropriations Funds		
Fiscal 2013							
Excluding Pool 3	Pool 3	Total	Fiscal 2012	Change	Fiscal 2013	Fiscal 2012	Change
$130,437	$ 1,457	$131,894	$150,007	$(18,113)	$ 1,116	$ 1,282	$ (166)
-	-	-	-	-	244,768	243,882	886
13,611	(931)	12,680	12,980	(300)	1,949	732	1,217
123,223	746	123,969	222,845	(98,876)	248,055	247,466	589
86,066	-	86,066	99,320	(13,254)	-	-	-
-	-	-	-	-	220,437	230,921	(10,484)
5,429	15	5,444	5,787	(343)	81	68	13
24,562	5,037	29,599	24,994	4,605	2,418	1,627	791
8,564	2,842	11,406	23,599	(12,193)	24,811	14,936	9,875
141,821	9,019	150,840	172,683	(21,843)	248,515	248,354	161
(18,598)	(8,273)	(26,871)	50,162	(77,033)	(460)	(888)	428
724,098	78,204	802,302	752,140	50,162	110,578	111,466	(888)
686,500	88,931	775,431	802,302	(26,871)	110,118	110,578	(460)

FINANCIAL HIGHLIGHTS

The following financial highlights section refers to the General Reserve and bond funds. The reader is encouraged to review the Fund Financial Statements included as supplementary information in this 2013 Financial Report.

General Reserve and Bond Funds — Statement of Net Position

Loans receivable, investments, cash and cash equivalents, deferred loss on interest rate swap agreements, real estate owned, and interest receivable comprise the majority of assets and deferred outflows of resources in the General Reserve and bond funds. Equipment, fixtures, furniture, capitalized software costs, and other assets continue to be insignificant in relation to the total General Reserve and bond fund assets.

Loans receivable, net is the largest single category of bond fund assets. Loans are limited to housing-related lending for low- and moderate-income individuals and families and multifamily housing developments. Loans receivable, net decreased 11% to $1,604.7 million at June 30, 2013 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. During fiscal 2013 the Agency also sold a small 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 2013 was attributable to the runoff of the homeownership loan portfolio. The reserve for loan loss for the homeownership loan portfolio decreased due to a decrease in the estimated loss per delinquent loan. Minnesota Housing also has amortizing home improvement and rental rehabilitation loans which are no-interest, low-interest, and market-rate loans generally secured with second or subordinate mortgages. The reserve for loan loss for the home improvement loan portfolio decreased due to runoff in the portfolio and a decrease in delinquency (as displayed in the following Home Improvement Loan Portfolio Delinquency table). 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, 2013		June 30, 2012	
Current and less than 60 days past due	11,585	91.0%	13,455	91.9%
60-89 days past due	249	2.0%	280	1.9%
90-119 days past due	98	0.8%	140	1.0%
120+ days past due and foreclosures(1)	797	6.2%	761	5.2%
Total count	12,729		14,636	
Total past due(1)	1,144	9.0%	1,181	8.1%

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

Home Improvement Loan Portfolio Delinquency
Actual Loan Count

	June 30, 2013		June 30, 2012	
Current and less than 60 days past due	6,831	97.7%	7,701	97.0%
60-89 days past due	80	1.1%	83	1.0%
90-119 days past due	25	0.4%	45	0.6%
120+ days past due	59	0.8%	113	1.4%
Total count	6,995		7,942	
Total past due	164	2.3%	241	3.0%

The 60+ day delinquency rate as of June 30, 2013 for the entire Minnesota Housing homeownership loan portfolio, excluding those loans not customarily included in foreclosure statistics, exceed by approximately four percentage points the delinquency rates of similar loan data available as of March 31, 2013 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 7% to $8.7 million at June 30, 2013 as a result of a decrease in the amount of loans with outstanding claims.

Real estate owned, net consists of properties acquired upon foreclosure of homeownership loans. Real estate owned decreased 40% to $9.3 million at June 30, 2013 as a result of a decreased amount of foreclosure properties held within the homeownership portfolio on June 30, 2013.

While the delinquency rates and foreclosures in the Agency's loan portfolio remained above historical norms during fiscal year 2013, the combined net total of FHA/VA insurance claims and real estate owned remains immaterial compared to total loans receivable at June 30, 2013, being less than 1.15% of total net loans receivable. Management believes that reserves for loan losses are adequate based on the current assessment of asset quality.

There are no loans in General Reserve.

Investments, cash, and cash equivalents are the next largest categories of assets and are carefully managed to provide adequate resources for future debt service requirements and liquidity needs. The combined investments, cash, and cash equivalents increased 11% to $1,374.0 million at June 30, 2013. The increase is principally a result of an increase in the balance of program mortgage-backed securities. Certain mortgage-backed securities are pledged as security for the payment of certain Agency bonds and are held in an acquisition account. Mortgage-backed securities with these two characteristics are classified on the statement of net position as "Investments- program mortgage-backed securities." All other mortgage-backed securities, including those held in anticipation of the Agency issuing mortgage revenue bonds or selling them into the TBA market (warehoused mortgage-backed securities), are classified as "Investment securities-other."

Interest receivable on loans and investments is a function of the timing of interest payments and the general level of interest rates. Combined loan and investment interest receivable decreased 3% to $15.6 million at June 30, 2013. The decrease is mainly a result of a decrease in interest receivable on investments due to a reduction of the rate of return and the timing of interest receipts.

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

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

Bonds payable, net is the largest single category of liabilities, resulting primarily from debt issued to fund housing-related lending. Bonds payable decreased 2% to $2,136.2 million at June 30, 2013 because scheduled redemptions and early bond redemptions of existing debt outpaced new bonding issuance.

The companion category of interest payable decreased 14% to $37.1 million at June 30, 2013 due to the decrease in the amount of outstanding bonds and the change to monthly required debt service payments on pass-through bonds issued by the Agency during fiscal year 2013. Bonds issued previously required only 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 decreased 6% to $68.9 million at June 30, 2013 as multifamily escrows decreased.

Accounts payable and other liabilities decreased to $8.3 million at June 30, 2013. The two largest components of accounts payable continue to be: arbitrage rebate liability on tax-exempt bonds calculated pursuant to federal law and payable to the United States Treasury, which decreased $1.1 million; and yield compliance liability, which decreased $0.3 million. Minnesota Housing obtains from independent calculation specialists annual calculations of its arbitrage rebate liability. Other accounts payable items decreased a net $0.1 million.

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

The net position of General Reserve and bond funds is divided into two primary categories. Restricted by Bond Resolution is pledged to the payment of bonds, subject to bond resolution provisions that authorize Minnesota Housing to withdraw funds in excess of the amounts required to be maintained under the bond resolutions. Restricted by Covenant is subject to a covenant with bondholders that the Agency will use the money in General Reserve and money that would otherwise have been released to General Reserve only for the administration and financing of programs in accordance with the policy and purpose of Minnesota Housing's enabling legislation, including the creation of reserves for the payment of bonds and of loans made from the proceeds thereof, and will accumulate and maintain therein such a balance of funds and investments as will be sufficient for the purpose. The Board of the Agency has established investment guidelines for these funds to implement this covenant. Net position decreased 3% to $775.4 million at June 30, 2013 due to the reduction in cumulative unrealized gain on investments during the fiscal year.

General Reserve and Bond Funds — Revenues Over Expenses

Revenues over expenses of General Reserve and bond funds decreased 154% from fiscal year 2012 when considering Pool 3 net expenses and the net effect of unrealized gains and losses that resulted from market valuation adjustments to certain investment assets. Ignoring the effects of unrealized gains and losses on investments, total revenues decreased 10%. Total expenses, excluding Pool 3, decreased 13% compared to the prior fiscal year. The largest revenue component, interest earned, decreased during fiscal year 2013. Loan interest revenue decreased 15% in fiscal year 2013 as repayments and prepayments decreased the size of the homeownership loan portfolio. That portfolio is in runoff because of the change to the mortgage-backed securities business model during fiscal 2010. Investment interest revenue decreased 3% in fiscal year 2013 partly because of a $71.2 million reduction in the amount invested in guaranteed investment contracts. Available reinvestment rates for those funds and for funds from other maturing and called investment securities were substantially less than the rates of those of previous investments.

Administrative reimbursements to General Reserve from bond funds were $18.3 million in fiscal year 2013 compared to $19.0 million during the prior fiscal year. The decrease is a result of a decrease in the average balance of total assets of the bond funds upon which the administrative reimbursement is calculated, mainly within Housing Finance Bonds resolution. General Reserve also incurs overhead expenses to administer

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

state and federal appropriated housing programs. General Reserve received overhead reimbursements of $1.5 million from the State and Federal Appropriated funds to recover certain overhead expenses incurred during fiscal year 2013 compared to $2.6 million during the prior fiscal year. The decrease is mainly a result of a $1.1 million decrease in overhead reimbursement from Federal Appropriated during fiscal year 2013. Investment earnings within the State Appropriated fund were insufficient to reimburse the Agency for the full amount of overhead expense incurred for the state programs.

Other fee income to General Reserve and bond funds of $11.2 million increased by $0.8 million compared to the prior fiscal year. The primary components are fees earned from service acquisition fees earned from the sale of mortgage servicing rights, the federal low income housing tax credit program, Section 8 contract administration, federal Housing Assistance Payments administration, and various loan programs. The increase is due mainly to a $0.4 million increase in revenue recognition for service acquisition fees and a $0.2 million increase in Section 8 contract administration fees.

Minnesota Housing recorded $38.9 million of unrealized losses on investment securities during fiscal year 2013, compared to $40.9 million of unrealized gains during the prior year, a decrease of $79.8 million.

Interest expense of the bond funds decreased 13% to $86.1 million compared to the prior year as a result of a smaller amount of long-term outstanding debt and a decrease in the interest rate on debt issued during fiscal year 2013.

Expenses for loan administration and trustee fees in the bond funds decreased by 6% to $5.4 million compared to the prior fiscal year. Of the total administrative reimbursement revenue in General Reserve of $19.8 million, an interfund charge to the bond funds and State Appropriated fund of $19.1 million was eliminated for purposes of financial reporting in the Agency-wide financial statements.

Salaries and benefits in General Reserve of $19.1 million increased 9% from the prior year. Other general operating expense in General Reserve and bond funds increased 40% to $10.5 million compared to the prior fiscal year. The majority of the increase is for long-term homeless rent subsidies and a grant made through the Economic Development and Housing Challenge program. Reductions in carrying value of certain low interest rate deferred loans in the bond funds decreased 55% to $2.1 million. The decrease related to decreased disbursements of deferred subordinated multifamily loans.

Provision for loan loss expense in the bond funds decreased $9.6 million or 51% to $9.3 million. The provision for loan loss expense for the homeownership loan portfolio decreased $16.7 million because the average loss per delinquent loan and per foreclosed loan decreased. The provision for loan loss expense for the home improvement loan portfolio decreased $2.0 million as a result of decreased loan delinquencies during the year, a portion of which became inactive loans. The provision for loan loss expense for the homeownership down payment assistance loan portfolio decreased $0.3 million. The provision for loan loss expense for the multifamily loan portfolio increased $9.4 million when compared to the prior fiscal year. The comparative increase is mainly due to the implementation of a new loan loss reserve methodology during the prior fiscal year which resulted in a negative expense of $9.8 million for that year.

Non-operating transfers occur as a result of bond sale contributions related to new debt issues, the periodic transfer of assets to maintain the Housing Endowment Fund (Pool 1) requirement, periodic fiscal year end transfers to the Housing Affordability Fund (Pool 3), if any, and periodic transfers from the bond funds of amounts in excess of bond resolution requirements. During fiscal year 2013, $5.9 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 $19.0 million contribution to Pool 3 to be used for highly subsidized housing programs. Revenues over expenses plus non-operating transfers in Pool 2 may be transferred periodically, with approval of the Board, to Pool 3 for use in more highly subsidized housing programs. Board investment guidelines establish required balances for Pool 1 and Pool 2. In addition, Pool 2 made $12.6 million in bond sale contributions to the Homeownership Finance bond fund.

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

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

Combined revenues over expenses, including unrealized gains and losses for General Reserve and the bond funds, decreased $77.0 million to $(26.9) million when compared to the prior fiscal year. After removing the effects of unrealized gains and losses and Pool 3 revenues and expenses, the combined revenues over expenses increased 11% to $19.4 million.

Total combined net position of General Reserve and bond funds decreased 3% to $775.4 million as of June 30, 2013. The decrease is a result of unrealized losses on investments, without which the combined net position would have increased 2%. Excluding unrealized loss on investments, the net position of each individual bond fund would have increased, except for Residential Housing Finance which made significant bond sale contributions to the Homeownership Finance bond fund. After the $5.9 million transfer of Pool 1 excesses to Pool 2, the net position of General Reserve decreased $1.1 million as a result of a $2.1 million decrease in the Pool 1 requirement (which resides in General Reserve) caused by a decrease in the balance of outstanding loans on which its requirement is based, netted against a $1.0 million increase in the balance of Invested in Capital Assets.

State and Federal Appropriated Funds — Statement of Net Assets

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 ordinarily requires appropriations received in the current period to be expended over several future years of planned development. This timing difference is the primary reason for the presence of investments, cash, and cash equivalent assets in the appropriated funds and for the balance of net position restricted by law.

Investments, cash, and cash equivalents are the largest categories of assets in the appropriated funds. The June 30, 2013 combined balance decreased 4% to $79.2 million as a result of combined disbursements for programs, loans and expenses exceeding the combined appropriations received and revenues during the fiscal year.

Certain state appropriations are expended as housing loans with near- or below-market interest rates, resulting in net loans receivable. At June 30, 2013 State Appropriated fund net loans receivable decreased 1% to $33.8 million, reflecting lower net loan program activity.

Interest receivable in appropriated funds is a function of the timing of interest payments and the general level of interest rates on investments. Interest receivable on appropriated funds at June 30, 2013 decreased 6% to $0.2 million.

Accounts payable and other liabilities represent amounts payable for HUD's share of savings from certain debt refinancing activities and accrued expenses for federal and state housing programs. The balance payable at June 30, 2013 was $3.0 million compared to $2.7 million at June 30, 2012. The increase in accounts payable and other liabilities is largely attributable to a $0.2 million increase in State Appropriated housing trust fund and ARIF Preservation programs' accrued year-end expenses.

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, 2013 the combined net interfund payable was $0.8 million.

At June 30, 2013 the balance of funds held for others was $0.3 million. That amount is comprised mainly of excess federal housing assistance payments received for administration of the Section 8 program and the interest income earned on those unexpended funds. The prior year balance of funds held for others is much larger because it held the undisbursed proceeds of nonprofit housing bonds in the amount of $3.0 million.

The entire net position of the appropriated funds is restricted by law for use with housing programs only and are not pledged or available to secure the bonds or other obligations of Minnesota Housing or its general obligation pledge in respect thereof. The combined net position of the appropriated funds decreased to $110.1 million as of June 30, 2013, reflecting that combined revenues were less than disbursements and expenses during fiscal year 2013.

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

State and Federal Appropriated Funds — Revenues Over Expenses

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

The largest revenue category is appropriations received, and is a function of the fiscal, legislative, and political environment of the State of Minnesota and the federal government. The combined appropriations received increased from $243.9 million in fiscal year 2012 to $244.8 million in fiscal year 2013. Federal appropriations received decreased by $11.1 million, mostly due to a combined $10.6 million decrease in funding for the Section 1602/ Exchange Program, the Housing Assistance Payments program, the National Foreclosure Mitigation Counseling program and the HOME program. State appropriations received increased by $12.0 million mainly due to $12.3 million of non-recurring net appropriations received for flood relief programs. Interest income from investments decreased as investment yields in general were below previous levels and the average balance of investment assets was less than the prior fiscal year. The combined interest income from investments decreased 21% to $0.9 million for fiscal year 2013.

Loan interest income from State Appropriations loan assets continues to be minimal at $0.2 million as relatively few loans bear interest.

Fees earned and other income in the amount of $2.7 million were recorded in the State Appropriated fund during fiscal year 2013. This consisted mainly of private donations and interagency transfers of funds to support certain state housing programs.

Unrealized gains or losses on investments are recorded to reflect current market valuations of investments, and may be reversed over time as investments are held. Combined unrealized losses of $0.5 million were recorded at June 30, 2013 compared to $0.8 million unrealized gains at June 30, 2012.

Administrative reimbursements to General Reserve of overhead expenses to administer State Appropriated fund programs decreased 4% to $0.8 million compared to the prior fiscal year. The Agency incurs the overhead expense in General Reserve. General Reserve is reimbursed for these overhead expenses by the State Appropriated fund to the extent of investment earnings on unexpended state appropriations. During fiscal year 2013 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 5% to $220.4 million compared to the prior fiscal year, reflecting State Appropriations disbursed of $27.7 million and federal appropriations disbursed of $192.7 million.

Increased expenditures of State Appropriated funds for fully-reserved below-market and zero-percent interest rate loans resulted in higher expense from reductions in carrying value of certain loans. Net reductions of carrying value increased 74% to $23.6 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 50% to $2.4 million at June 30, 2013.

Combined revenues were less than combined expenditures of the appropriated funds by $0.5 million at June 30, 2013. Ultimately, the entire State and Federal Appropriated funds' net position will be expended for housing programs.

Significant Long-Term Debt Activities

Minnesota Housing issues a significant amount of bonds, having outstanding at June 30, 2013 long-term bonds totaling $2,121.1 million. Bond proceeds and related revenues are held by trustees, who are 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, 2013, amounts

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

Significant Long-Term Debt Activities (continued)

held by the respective trustees in principal, interest, redemption, and reserve accounts represented full funding of those requirements as of that date.

Minnesota Housing continually investigates and utilizes financing and debt management techniques designed to achieve its goals of reducing interest expense and efficiently utilizing bonding authority while managing risk and responding to changing capital markets. During 2013 fiscal year, Minnesota Housing issued five series of bonds aggregating $370.3 million (excluding reissuance of variable rate debt following a mandatory tender required by the substitution of alternative liquidity facilities), compared to the issuance of eleven series totaling $309.4 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. During fiscal 2013 the Agency chose to convert $135.1 million of bonding authority to Mortgage Credit Certificate authority in another effort to support first-time homebuyers.

A total of $413.6 million in principal payments and $86.1 million of interest expense occurred during fiscal year 2013. Of the total principal payments, $356.5 million were payments made on bonds prior to the scheduled maturity date using a combination of optional and special redemption provisions.

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

While most of the Agency's bonds are tax-exempt, taxable bonds have been issued to supplement limited tax-exempt authority in order to meet demand for mortgage loans. Taxable bonds may also be issued to refund existing debt or to finance lending programs where federal tax-exempt bond restrictions are inconsistent with program goals. Variable-rate bonds and interest-rate swaps were incorporated into Minnesota Housing's financings from fiscal year 2003 through fiscal year 2010, 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. (See Interest Rate Swaps under the notes to the financial statements for further discussion of interest-rate swaps and their risks.)

The Agency also had outstanding at June 30, 2013 certain conduit bonds and appropriation-backed bonds which are not payable from any funds of the Agency and which are discussed in the notes to the financial statements. Board policy governs the process Minnesota Housing follows to issue and manage debt. State statute limits total outstanding bonds and notes of Minnesota Housing to $5.0 billion.

At June 30, 2013 Minnesota Housing's issuer ratings were "AA+" and "Aa1" from Standard and Poor's Ratings Services and Moody's Investors Service, Inc., respectively. Minnesota Housing's credit ratings are separate from, and are not directly dependent on, ratings on debt issued by the State of Minnesota. Ongoing reporting to and communications with the bond rating agencies are priorities for the Agency.

Significant Factors that May Affect Financial Conditions and/or Operations

Legislative Actions

Traditionally, the main focus of odd-numbered year state legislative sessions is authorization of the state's biennial budget. The 2013 Minnesota Legislature appropriated $101,496,000 for Minnesota Housing for state fiscal years 2014 and 2015. For reference, the FY 2012 - 2013 biennial budget for the agency was $76,096,000. The FY 2014-15 biennial budget represents a 28 percent base increase in state appropriations for the agency. This is the first base increase the agency has received since the 2007 Legislative Session.

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

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

Many of the agency's state appropriated programs received an increase in funding, including: the Economic Development and Housing Challenge Program, the Housing Trust Fund, Bridges, the Family Homeless Prevention and Assistance Program, the Homeownership Assistance Fund, the Rehabilitation Loan Program, the Homeownership Education, Counseling and Training program and the Capacity Building program. In addition, the Legislature appropriated funding for three of the Governor's initiatives:

- $10 million to the Economic Development and Housing Challenge Program for the Housing and Job Growth Initiative, which will provide financing for affordable housing in parts of the state where employers are poised to expand but there is not enough housing to meet the needs of the local workforce;
- $2 million to the Housing Trust Fund to provide rental assistance to highly mobile families with school-aged children in order to improve school performance;
- $500,000 to the Housing Trust Fund to provide rental assistance for ex-offenders transitioning out of correctional institutions in an effort to reduce recidivism.

The Legislature also passed a tax bill that included a technical fix for issuers of tax exempt bonds, including Minnesota Housing. Previously, Minnesota law imposed a shorter time period for issuing tax-exempt private activity bonds than was permitted under federal law - one year after the year of initial allocation under state law as compared to three years under federal law. With the fix included in the 2013 tax bill, the state law is now conforming to federal law, which allows tax exempt bond issuers to carry forward the authority for three years rather than one.

Additional Information

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

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Net Position (in thousands)
As of June 30, 2013 (with comparative totals as of June 30, 2012)

		Agency-wide Total as of June 30, 2013	Agency-wide Total as of June 30, 2012
Assets	Cash and cash equivalents	$ 379,670	$ 432,682
	Investments- program mortgage-backed securities	814,692	667,282
	Investment securities- other	258,861	217,519
	Loans receivable, net	1,638,515	1,845,098
	Interest receivable on loans and program mortgage-backed securities	14,870	14,816
	Interest receivable on investments	935	1,480
	FHA/VA insurance claims, net	8,675	9,321
	Real estate owned, net	9,282	15,566
	Unamortized bond issuance costs	14,110	13,354
	Capital assets, net	2,930	1,937
	Other assets	3,644	1,769
	Total assets	3,146,184	3,220,824
Deferred Outflows of Resources	Deferred loss on interest rate swap agreements	27,429	39,634
	Total assets and deferred outflows of resources	$3,173,613	$3,260,458
Liabilities	Bonds payable, net	$2,136,183	$2,170,089
	Interest payable	37,112	42,987
	Interest rate swap agreements	27,429	39,634
	Deferred revenue-service release fees	6,863	5,477
	Accounts payable and other liabilities	11,298	12,504
	Funds held for others	69,179	76,887
	Total liabilities	2,288,064	2,347,578
	Total liabilities and deferred inflows of resources	2,288,064	2,347,578
	Commitments and contingencies		
Net Position	Restricted by bond resolution	302,262	331,630
	Restricted by covenant	470,239	468,735
	Restricted by law	110,118	110,578
	Invested in capital assets	2,930	1,937
	Total net position	885,549	912,880
	Total liabilities, deferred inflows of resources, and net position	$3,173,613	$3,260,458

See accompanying notes to financial statements

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Activities (in thousands)
Year ended June 30, 2013 (with comparative total for year ended June 30, 2012)

		Agency-wide Total for Year Ended June 30, 2013	Agency-wide Total for Year Ended June 30, 2012
Revenue	Interest earned on loans	$ 98,416	$115,394
	Interest earned on investments-program mortgage-backed securities	26,786	20,827
	Interest earned on investments-other	7,808	15,068
	Appropriations received	244,768	243,882
	Administrative reimbursement	727	1,837
	Fees earned and other income	13,902	11,875
	Unrealized gains on investments	(39,476)	41,643
	Total revenues	352,931	450,526
Expenses	Interest	86,066	99,320
	Loan administration and trustee fees	5,525	5,855
	Salaries and benefits	19,135	17,541
	Other general operating	12,882	9,080
	Appropriations disbursed	220,437	230,921
	Reduction in carrying value of certain low interest rate deferred loans	25,633	18,138
	Provision for loan losses	10,584	20,397
	Total expenses	380,262	401,252
	Change in net position	(27,331)	49,274
Net Position	Total net position, beginning of year	912,880	863,606
	Total net position, end of year	$885,549	$912,880

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, 2013 (with comparative totals as of June 30, 2012)

			Bond Funds
		General Reserve	Rental Housing
Assets	Cash and cash equivalents	$54,314	$ 14,865
	Investments-program mortgage-backed securities	-	-
	Investment securities-other	34,547	8,112
	Loans receivable, net	-	160,482
	Interest receivable on loans and program mortgage-backed securities	-	792
	Interest receivable on investments	101	27
	FHA/VA insurance claims, net	-	-
	Real estate owned, net	-	-
	Unamortized bond issuance costs	-	1,091
	Capital assets, net	2,930	-
	Other assets	1,041	10
	Total assets	92,933	185,379
Deferred Outflows	Deferred loss on interest rate swap agreements	-	-
of Resources	Total assets and deferred outflows of resources	$92,933	$185,379
Liabilities	Bonds payable, net	$ -	$ 70,831
	Interest payable	-	1,293
	Interest rate swap agreements	-	-
	Deferred revenue-service release fees	-	-
	Accounts payable and other liabilities	4,152	2,872
	Interfund payable (receivable)	940	-
	Funds held for others	68,863	-
	Total liabilities	73,955	74,996
	Total liabilities and deferred inflows of resources	73,955	74,996
	Commitments and contingencies		
Net Position	Restricted by bond resolution	-	110,383
	Restricted by covenant	16,048	-
	Restricted by law	-	-
	Invested in capital assets	2,930	-
	Total net position	18,978	110,383
	Total liabilities, deferred inflows of resources, and net position	$92,933	$185,379

See accompanying notes to financial statements

Bond Funds			Appropriated Funds			
Residential Housing Finance	Homeownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	Total as of June 30, 2013	Total as of June 30, 2012
$ 244,313	$ 30,248	$ 801	$ 33,689	$1,440	$ 379,670	$ 432,682
123,909	690,783	-	-	-	814,692	667,282
169,697	2,000	428	37,146	6,931	258,861	217,519
1,429,836	-	14,416	33,781	-	1,638,515	1,845,098
11,857	2,153	54	14	-	14,870	14,816
599	1	1	199	7	935	1,480
8,675	-	-	-	-	8,675	9,321
9,282	-	-	-	-	9,282	15,566
7,830	5,032	157	-	-	14,110	13,354
-	-	-	-	-	2,930	1,937
1,562	20	-	-	1,011	3,644	1,769
2,007,560	730,237	15,857	104,829	9,389	3,146,184	3,220,824
27,429	-	-	-	-	27,429	39,634
$2,034,989	$730,237	$15,857	$104,829	$9,389	$3,173,613	$3,260,458
$1,365,941	$684,521	$14,890	$ -	$ -	$2,136,183	$2,170,089
28,443	7,339	37	-	-	37,112	42,987
27,429	-	-	-	-	27,429	39,634
6,863	-	-	-	-	6,863	5,477
1,242	78	-	2,508	446	11,298	12,504
(1,770)	-	-	221	609	-	-
-	-	-	15	301	69,179	76,887
1,428,148	691,938	14,927	2,744	1,356	2,288,064	2,347,578
1,428,148	691,938	14,927	2,744	1,356	2,288,064	2,347,578
152,650	38,299	930	-	-	302,262	331,630
454,191	-	-	-	-	470,239	468,735
-	-	-	102,085	8,033	110,118	110,578
-	-	-	-	-	2,930	1,937
606,841	38,299	930	102,085	8,033	885,549	912,880
$2,034,989	$730,237	$15,857	$104,829	$9,389	$3,173,613	$3,260,458

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Revenues, Expenses and Changes in Net Position (in thousands)
Proprietary Funds
Year ended June 30, 2013 (with comparative totals for year ended June 30, 2012)

			Bond Funds
		General Reserve	Rental Housing
Revenues	Interest earned on loans	$ -	$ 10,045
	Interest earned on investments-program mortgage-backed securities	-	-
	Interest earned on investments-other	118	514
	Appropriations received	-	-
	Administrative reimbursement	19,820	-
	Fees earned and other income	9,386	391
	Unrealized gains (losses) on investments	-	(515)
	Total revenues	29,324	10,435
Expenses	Interest	-	4,040
	Loan administration and trustee fees	-	105
	Administrative reimbursement	-	1,259
	Salaries and benefits	19,135	-
	Other general operating	5,427	-
	Appropriations disbursed	-	-
	Reduction in carrying value of certain low interest rate deferred loans	-	(23)
	Provision for loan losses	-	(340)
	Total expenses	24,562	5,041
	Revenues over (under) expenses	4,762	5,394
Other Changes	Non-operating transfer of assets between funds	(5,897)	-
	Change in net position	(1,135)	5,394
Net Position	Total net assets, beginning of year	20,113	104,989
	Total net position, end of year	$18,978	$110,383

See accompanying notes to financial statements

Bond Funds			Appropriated Funds			
Residential Housing Finance	Homeownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	Total for the Year Ended June 30, 2013	Total for the Year Ended June 30, 2012
$ 87,473	$ -	$661	$ 237	$ -	$ 98,416	$115,394
3,154	23,632	-	-	-	26,786	20,827
6,294	2	1	773	106	7,808	15,068
-	-	-	52,789	191,979	244,768	243,882
-	-	-	-	-	19,820	21,622
1,408	-	-	2,717	-	13,902	11,875
(6,087)	(32,306)	(22)	(423)	(123)	(39,476)	41,643
92,242	(8,672)	640	56,093	191,962	372,024	470,311
61,800	19,772	454	-	-	86,066	99,320
5,062	273	4	81	-	5,525	5,855
13,251	3,718	97	768	-	19,093	19,785
-	-	-	-	-	19,135	17,541
5,037	-	-	2,418	-	12,882	9,080
-	-	-	27,709	192,728	220,437	230,921
2,106	-	-	23,550	-	25,633	18,138
9,664	-	(1)	1,261	-	10,584	20,397
96,920	23,763	554	55,787	192,728	399,355	421,037
(4,678)	(32,435)	86	306	(766)	(27,331)	49,274
(6,686)	12,583	-	-	-	-	-
(11,364)	(19,852)	86	306	(766)	(27,331)	49,274
618,205	58,151	844	101,779	8,799	912,880	863,606
$606,841	$ 38,299	$930	$102,085	$ 8,033	$885,549	$912,880

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds
Year ended June 30, 2013 (with comparative totals for year ended June 30, 2012)

			Bond Funds
		General Reserve	Rental Housing
Cash flows from operating activities	Principal repayments on loans and mortgage-backed securities	$ -	$22,475
	Investment in loans/loan modifications and program mortgage-backed securities	-	(5,816)
	Interest received on loans and program mortgage-backed securities	-	9,699
	Other operating	-	-
	Fees and other income received	9,550	391
	Salaries, benefits and vendor payments	(23,387)	(136)
	Appropriations received	-	-
	Appropriations disbursed	-	-
	Administrative reimbursement from funds	19,650	(1,259)
	Deposits into funds held for others	28,973	-
	Disbursements made from funds held for others	(33,898)	-
	Interfund transfers and other assets	(2,586)	1,172
	Net cash provided (used) by operating activities	(1,698)	26,526
Cash flows from noncapital financing activities	Proceeds from sale of bonds and notes	-	-
	Principal repayment on bonds and notes	-	(34,105)
	Interest paid on bonds and notes	-	(4,040)
	Financing costs paid related to bonds issued	-	(23)
	Agency contribution to program funds	-	-
	Transfer of cash between funds	(5,603)	-
	Net cash provided (used) by noncapital financing activities	(5,603)	(38,168)
Cash flows from investing activities	Investment in real estate owned	-	-
	Interest received on investments	544	842
	Proceeds from sale of mortgage insurance claims/real estate owned	-	-
	Proceeds from maturity, sale or transfer of investment securities	-	16,087
	Purchase of investment securities	(29,473)	(10,481)
	Purchase of loans between funds	-	(8,848)
	Net cash provided (used) by investing activities	(28,929)	(2,400)
	Net increase (decrease) in cash and cash equivalents	(36,230)	(14,042)
Cash and cash equivalents	Beginning of year	90,544	28,907
	End of year	$54,314	$14,865

See accompanying notes to financial statements

Residential Housing Finance (Bond Funds)	Homeownership Finance (Bond Funds)	Multifamily Housing (Bond Funds)	State Appropriated (Appropriated Funds)	Federal Appropriated (Appropriated Funds)	Total for the Year Ended June 30, 2013	Total for the Year Ended June 30, 2012
$201,493	$ 57,169	$ 137	$ 4,883	$ -	$ 286,157	$ 237,870
(106,251)	(202,070)	-	(27,370)	-	(341,507)	(385,405)
86,255	24,133	653	236	-	120,976	127,049
(5,010)	35	-	(2,411)	-	(7,386)	(3,772)
8,272	-	-	2,717	-	20,930	17,472
(11,877)	(284)	(79)	(81)	-	(35,844)	(32,300)
-	-	-	52,789	191,581	244,370	244,898
-	-	-	(27,141)	(192,586)	(219,727)	(230,673)
(13,251)	(3,718)	(97)	(793)	-	532	1,778
-	-	-	(72)	-	28,901	31,424
-	-	-	(2,939)	-	(36,837)	(51,681)
(1,819)	(10)	-	(1)	-	(3,244)	(678)
157,812	(124,745)	614	(183)	(1,005)	57,321	(44,018)
469,583	285,148	-	-	-	754,731	339,630
(606,125)	(146,726)	(110)	-	-	(787,066)	(722,970)
(63,294)	(21,493)	(451)	-	-	(89,278)	(100,690)
(2,071)	(2,383)	-	-	-	(4,477)	(3,099)
(5,955)	5,955	-	-	-	-	-
5,603	-	-	-	-	-	-
(202,259)	120,501	(561)	-	-	(126,090)	(487,129)
(5,368)	-	-	-	-	(5,368)	(7,252)
6,190	2	-	721	155	8,454	10,760
60,668	-	-	-	-	60,668	83,236
423,595	135	-	7,219	10,516	457,552	947,186
(421,647)	(2,000)	(450)	(31,149)	(10,350)	(505,550)	(597,706)
11,167	-	-	(2,318)	-	1	-
74,605	(1,863)	(450)	(25,527)	321	15,757	436,224
30,158	(6,107)	(397)	(25,710)	(684)	(53,012)	(94,923)
214,155	36,355	1,198	59,399	2,124	432,682	527,605
$244,313	$ 30,248	$ 801	$ 33,689	$ 1,440	$ 379,670	$ 432,682

(Continued)

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds (continued)
Year ended June 30, 2013 (with comparative totals for year ended June 30, 2012)

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

	Bond Funds	
	General Reserve	**Rental Housing**
Revenues over (under) expenses	$ 4,762	$ 5,394
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:		
Amortization of premiums (discounts) and fees on loans and program mortgage-backed securites	-	(107)
Depreciation	1,511	-
Realized losses (gains) on sale of securities, net	-	(52)
Unrealized losses (gains) on securities, net	-	515
Provision for loan losses	-	(340)
Reduction in carrying value of certain low interest rate and/or deferred loans	-	(23)
Capitalized interest on loans and real estate owned	-	-
Interest earned on investments	(118)	(502)
Interest expense on bonds and notes	-	4,040
Changes in assets and liabilities:		
Decrease (increase) in loans receivable and program mortgage-backed securities, excluding loans transferred between funds	-	16,659
Decrease (increase) in interest receivable on loans	-	86
Increase (decrease) in arbitrage rebate liability	-	(285)
Increase (decrease) in accounts payable	-	(35)
Increase (decrease) in interfund payable, affecting operating activities only	(47)	1,182
Increase (decrease) in funds held for others	(4,925)	-
Other	(2,881)	(6)
Total	(6,460)	21,132
Net cash provided (used) by operating activities	$(1,698)	$26,526

See accompanying notes to financial statements

Bond Funds			Appropriated Funds			
Residential Housing Finance	Homeownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	Total for the Year Ended June 30, 2013	Total for the Year Ended June 30, 2012
$ (4,678)	$ (32,435)	$ 86	$ 306	$ (766)	$ (27,331)	$ 49,274
367	771	(9)	-	-	1,022	526
-	-	-	-	-	1,511	1,286
(767)	-	-	-	(16)	(835)	(4,109)
6,087	32,306	22	423	123	39,476	(41,643)
9,664	-	(1)	1,261	-	10,584	20,397
2,106	-	-	23,550	-	25,633	18,138
(4,737)	-	-	-		(4,737)	(6,475)
(5,631)	(2)	(1)	(773)	(90)	(7,117)	(10,999)
61,800	19,772	454	-	-	86,066	99,320
95,242	(144,901)	137	(22,487)	-	(55,350)	(147,535)
130	(270)	1	(1)	-	(54)	(674)
(28)	-	-	-	-	(313)	(2,509)
74	29	(75)	521	(54)	460	1,238
(1,353)	(10)	-	28	196	(4)	(161)
-	-	-	(3,011)	-	(7,936)	(20,257)
(464)	(5)	-	-	(398)	(3,754)	165
162,490	(92,310)	528	(489)	(239)	84,652	(93,292)
$157,812	$(124,745)	$614	$ (183)	$(1,005)	$ 57,321	$ (44,018)

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2013

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 or 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.

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, 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 was the principal source of financing for bond-financed homeownership programs from fiscal year 2002 until fiscal year 2010 (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 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 of the bonds issued and outstanding under the 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 subfunds: Housing Investment Fund (Pool 2) and Housing Affordability Fund (Pool 3). Funds deposited therein would otherwise be available to be transferred to General Reserve. The Alternative Loan Fund is not pledged to the payment of the Residential Housing Finance bonds or any other debt obligation of the Agency but, to the extent that funds are available therein, is available to honor the general obligation pledge of the Agency.

Nature of Business and Fund Structure (continued)

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 2013 this fund provided capital for several Agency programs including its home improvement loan program, multifamily first-mortgage loans, for warehousing purchases of mortgage-backed securities secured by single family first mortgage loans before these securities are either permanently financed by issuing bonds or sold into the TBA market, for amortizing second lien homeownership loans made in conjunction with the Agency's single family first mortgage loans, tax credit bridge loans, loans to partner organizations to acquire, rehabilitate and sell foreclosed homes and to develop new affordable housing, loans to facilitate transfers of ownership of manufactured home parks to resident owners, 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 2013 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, 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.

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). The Agency used its remaining NIBP authority to issue bonds during fiscal year 2012. Non-NIBP mortgage revenue bonds have since been issued under this resolution which also meet resolution requirements. Bonds issued under this resolution fund mortgage-backed securities backed by single family mortgage loans. These securities are guaranteed as to payment of principal and interest by either the Government National Mortgage Association or the Federal National Mortgage Association.

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 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, debt service and other costs associated with appropriation-backed bonds, and other housing-related program costs. The net position of the State Appropriated fund is not pledged or available to secure bondholders or creditors of the Agency.

Federal Appropriated

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

Summary of Significant Accounting Policies

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

Basis of Accounting

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

Generally Accepted Accounting Principles

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 December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The requirements of Statement No. 62 were adopted for the Agency's fiscal year ended June 30, 2013. The adoption of this statement did not affect the Agency's financial statements

In June 2011 the GASB issued Statement No 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement were adopted for the Agency's fiscal year ended June 30, 2013. The adoption of this statement modified certain presentation elements of the financial statements but not the amounts, other than certain subtotals.

In March 2012 the GASB issued Statement No 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2013 (continued)

Summary of Significant Accounting Policies (continued)

reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The provisions of this Statement are effective for the Agency's fiscal year ending June 30, 2014. The Agency has not yet determined the effect that the adoption of this Statement will have on its financial statements.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62.* The objective of this Statement is to resolve conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for the Agency's fiscal year ending June 30, 2014. The Agency has not yet determined the effect that adoption of this Statement will have on its financial statements.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The provisions of this Statement are effective for the Agency's fiscal year ending June 30, 2014. The Agency has not yet determined the effect that adoption of this Statement will have on its financial statements.

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

Loans Receivable, Net

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

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

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

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2013 (continued)

Summary of Significant Accounting Policies (continued)

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, 2013.

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

Interest Receivable on Loans and Program Mortgage-Backed Securities

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

FHA/VA Insurance Claims Receivable, Net

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

Real Estate Owned, Net

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

Unamortized Bond Issuance Costs

Bond issuance costs are amortized using the effective interest method in Residential Housing Finance, Homeownership Finance, and Multifamily Housing funds. In the Rental Housing fund, bond issuance costs are amortized using the bonds outstanding method due to the unpredictable nature of prepayments of multifamily loans.

Deferred Loss on Interest Rate Swaps Agreements

The Agency's interest rate swap agreements have a negative fair value as of the end of fiscal year 2013. Because these agreements have been determined to be effective hedges under applicable accounting guidance, the negative fair value is recorded as a deferred loss.

Bonds Payable, Net

Bonds payable are carried at their unpaid principal balances, net of unamortized premiums, discounts and deferred gain or loss on refunding. Premiums and discounts are amortized using the effective interest method in the Residential Housing Finance fund and Homeownership Finance fund. In the Rental Housing fund, deferred gain or loss on refunding is amortized using the bonds outstanding method due to the unpredictable nature of prepayments of multifamily loans.

Interest Rate Swap Agreements

Because the Agency's interest rate swap agreements have a negative fair value as of the end of fiscal year 2013 and they have been determined to be effective hedges under the applicable accounting guidance, they are recorded here as a liability.

Summary of Significant Accounting Policies (continued)

Deferred Revenue- 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 by the Agency. These fees are initially recorded as Deferred Revenue-Service Release Fees then amortized to Fees Earned and Other Income using the effective interest method over the expected life of the loans.

Interfund Payable (Receivable)

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

Funds Held for Others

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

Undisbursed proceeds of nonprofit housing state appropriation 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 funds and funds held for, and reimbursable to, HUD, such as Section 8 payments. In addition, investment income on unspent Section 8 funds is credited directly to Funds Held For Others and not included in the investment income of Federal Appropriated.

Restricted by Bond Resolution

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

Restricted by Covenant

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

Restricted by Law

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

Invested in Capital Assets

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

Agency-wide Total

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

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2013 (continued)

Summary of Significant Accounting Policies (continued)

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 2012 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, unearned discounts on loans, proceeds of debt issued to preserve bonding authority, premiums on loans, deferred bond issuance costs, and unrealized appreciation and depreciation on investments including all mortgage-backed securities.

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 $.726 million are reflected as administrative reimbursement revenues in the General Reserve.

Administrative reimbursements in the amount of $18.325 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 Class 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 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 transfers between funds.

Non-operating Transfer of Assets Between Funds

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

Non-Cash Activities

Transfers from loans receivable to FHA/VA insurance claims receivable and real estate owned for fiscal year 2013 were $54.4 million in Residential Housing Finance.

Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Reclassifications

Certain amounts in the comparative totals columns of the financial statements have been reclassified to conform with the current year presentation.

Income Taxes

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

Rebateable Arbitrage

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

Cash, Cash Equivalents and Investment Securities

Permitted Agency investments include government obligations, commercial paper, repurchase agreements, money market funds, guaranteed investment contracts (i.e., investment agreements), 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 market value. The balances were composed of the following at June 30, 2013 (in thousands):

Cash and Cash Equivalents

Funds	Deposits	Money Market Funds	State Investment Pool	Investment Agreements	Combined Totals
General Reserve	$ -	$ -	$54,314	$ -	$ 54,314
Rental Housing	-	14,865	-	-	14,865
Residential Housing Finance	4,839	227,831	-	11,643	244,313
Homeownership Finance	-	30,248	-	-	30,248
Multifamily Housing	-	801	-	-	801
State Appropriated	221	12	33,456	-	33,689
Federal Appropriated	138	1,001	301	-	1,440
Combined Totals	$5,198	$274,758	$88,071	$11,643	$379,670

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

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2013 (continued)

Cash, Cash Equivalents and Investment Securities (continued)

deposits and/or withdrawals, and are invested in accordance with the restrictions specified in the various bond resolutions. As of June 30, 2013, all the investment agreement providers had a Standard & Poor's long-term credit rating of "AA-" and a Moody's long-term credit rating of "A1". The individual investment agreements are unrated. Substantially all of the agreements contain "termination" clauses so that the Agency may withdraw funds early if credit ratings deteriorate below specified levels and remedial action is not taken.

Investment securities (comprising 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, 2013 (in thousands):

Investment Securities

Funds	Investment Securities-Other at Amortized Cost	Program Mortgage-backed Securities at Amortized Cost	Unrealized Appreciation (Depreciation) in Fair Market Value	Estimated Fair Market Value
General Reserve	$ 34,483	$ -	$ 64	$ 34,547
Rental Housing	8,410	-	(298)	8,112
Residential Housing Finance	171,237	125,277	(2,908)	293,606
Homeownership Finance	9,855	668,640	14,288	692,783
Multifamily Housing	450	-	(22)	428
State Appropriated	36,613	-	533	37,146
Federal Appropriated	6,960	-	(29)	6,931
Combined Totals	$268,008	$793,917	$11,628	$1,073,553

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, 2013 were (in thousands):

Credit Ratings of Investment Securities

Type	Par Value	AA+/Aaa	AA/Aa2
U.S. Agencies	$925,340	$925,340	$ -
Municipal Bonds	49,565	-	49,565
Agency-wide Totals	$974,905	$925,340	$49,565
U.S. Treasuries	10,493		
Agency-wide Totals	$985,398		

Examining the weighted average maturities of the Agency's investment securities can reveal information about interest rate risk. Cash, Cash Equivalents and Investment Securities (excluding unrealized appreciation of $11.628 million and net discounts of $8.636 million), along with the weighted average maturities (in years) as of June 30, 2013, consisted of the following (in thousands):

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2013 (continued)

Cash, Cash Equivalents and Investment Securities (continued)

		Weighted Average Maturity, in Years						
Type	Par Value	General Reserve	Rental Housing	Residential Housing Finance	Home-ownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated
Deposits	$ 5,198	-	-	-	-	-	-	-
Money market fund	274,758	-	-	-	-	-	-	-
State Investment Pool	88,071	-	-	-	-	-	-	-
Investment agreements	11,643	-	-	-	-	-	-	-
US Agencies	992,740	3.6	10.8	24.9	28.1	9.8	5.1	9.8
US Treasuries	10,983	-	-	6.6	-	-	-	4.9
Municipal Bonds	49,565	-	-	-	-	-	11.7	-
Agency-wide Totals	$1,432,958							
Weighted Average Maturity		1.4	3.9	11.6	26.8	3.5	3.4	2.9

Investments in any one issuer, excluding $769 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, 2013 were as follows (in thousands):

Investment Issuer	Amount
Federal National Mortgage Association, U.S. Agencies	$96,693

The Agency maintained certain deposits and investments throughout fiscal year 2013 that were subject to custodial credit risk. As of June 30, 2013, the amounts subject to this risk consisted of the following (in thousands):

	Amount
Deposits not covered by depository insurance and uncollateralized (including $274,758 in a money market fund and $88,071 in the State investment pool)	$ 368,027
Investment securities (which excludes investment agreements) uninsured, uncollateralized and not held in the Agency's name	1,013,502
Agency-wide Total	$1,381,529

Net realized gain on sale of investment securities of $0.835 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, 2013 were as follows (in thousands):

Funds	Amount
Rental Housing	$ 6,768
Residential Housing Finance	40,578
Multifamily Housing	479
Combined Totals	$47,825

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2013 (continued)

Loans Receivable, Net

Loans receivable, net at June 30, 2013 consisted of (in thousands):

Funds	Outstanding Principal	Allowance for Loan Losses	Unamortized Discounts and Fees	Loans Receivable, Net
General Reserve	$ -	$ -	$ -	$ -
Rental Housing	164,242	(2,314)	(1,446)	160,482
Residential Housing Finance	1,457,584	(26,356)	(1,392)	1,429,836
Multifamily Housing	14,863	(74)	(373)	14,416
State Appropriated	34,851	(1,070)	-	33,781
Federal Appropriated	-	-	-	-
Agency-wide Totals	$1,671,540	$(29,814)	$(3,211)	$1,638,515

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 originated during fiscal year 2013 of loans with such characteristics aggregated $3.496 million in the Residential Housing Finance Housing Affordability Fund (Pool 3) and $27.157 million in State Appropriated. Loans with net carrying values of zero are excluded from the tables above and below.

Loans receivable, net and gross in Residential Housing Finance at June 30, 2013 consist of a variety of loans as follows (in thousands):

Description	Net Outstanding Amount	Gross Outstanding Amount
Residential Housing Finance Bonds:		
Homeownership, first mortgage loans	$1,104,875	$1,120,349
Other homeownership loans, generally secured by a second mortgage	1,545	1,601
Alternative Loan Fund, Housing Investment Fund (Pool 2):		
Home Improvement loans, generally secured by a second mortgage	88,008	89,364
Homeownership, first mortgage loans	30,941	31,476
Other homeownership loans, generally secured by a second mortgage	3,494	3,602
Multifamily, first mortgage loans	170,171	179,322
Alternative Loan Fund, Housing Affordability Fund (Pool 3):		
Other homeownership loans, generally secured by a second mortgage	30,477	31,545
Multifamily, other	325	325
Residential Housing Finance Totals	$1,429,836	$1,457,584

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.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2013 (continued)

Other Assets

Other assets, including receivables, at June 30, 2013 consisted of the following (in thousands):

Funds	Receivables Due from the Federal Government	Other Assets and Receivables	Total
General Reserve Account	$1,040	$ 1	$1,041
Rental Housing	-	10	10
Residential Housing Finance	-	1,562	1,562
Homeownership Finance	-	20	20
Multifamily Housing	-	-	-
State Appropriated	-	-	-
Federal Appropriated	1,011	-	1,011
Combined Totals	$2,051	$1,593	$3,644

Bonds Payable, Net

Bonds payable, net at June 30, 2013 were as follows (in thousands):

Funds	Par Bonds Outstanding	Net Unamortized Premium and Deferred Fees	Net Unamortized Deferred Losses	Bonds Payable, Net
Rental Housing	$ 71,765	$ -	$ (934)	$ 70,831
Residential Housing Finance	1,352,605	3,840	(503)	1,355,941
Homeownership Finance	681,867	2,654	-	684,521
Multifamily Housing	14,890	-	-	14,890
	2,121,127	6,494	(1,437)	2,126,183
Pool 2 Line of Credit	10,000			10,000
Totals	$2,131,127	$6,494	$(1,437)	$2,136,183

Summary of bond activity from June 30, 2012 to June 30, 2013 (in thousands):

Funds	June 30, 2012 Bonds Outstanding, at Par	Par Issued	Par Repaid	June 30, 2013 Bonds Outstanding, at Par
Rental Housing	$ 105,870	$ -	$ 34,105	$ 71,765
Residential Housing Finance	1,500,095	85,170	232,660	1,352,605
Homeownership Finance	543,445	285,148	146,726	681,867
Multifamily Housing	15,000	-	110	14,890
Totals	$2,164,410	$370,318	$413,601	$2,121,127

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2013 (continued)

Bonds Payable, Net (continued)

Bonds payable at June 30, 2013 were as follows (in thousands):

Series	Interest rate	Final Maturity	Original amount	June 30, 2013 Bonds Outstanding, at Par
Rental Housing Bonds				
2003 Series C-1	4.35% to 5.20%	2034	$ 2,095	$ 1,795
2004 Series A	4.00% to 5.00%	2035	9,345	6,965
2004 Series B	4.00% to 4.85%	2035	3,215	2,795
2004 Series C	3.70% to 4.40%	2022	80,000	20,845
2005 Series A-1	4.25% to 4.85%	2035	1,725	1,520
2006 Series A-1	4.40% to 5.10%	2047	6,615	6,300
2006 Series B	4.89%	2037	5,020	4,585
2006 Series C-1	4.96%	2037	2,860	2,605
2007 Series A-1	4.65%	2038	3,775	3,480
2010 Series A-1	3.75% to 5.25%	2040	3,605	3,595
2011 Series A	1.20% to 5.45%	2041	8,890	8,315
2012 Series A-1	3.75%	2048	4,175	4,175
2012 Series A-2	0.75%	2014	4,790	4,790
			$136,110	$71,765
Residential Housing Finance Bonds				
2003 Series A	3.55% to 4.30%	2023	$ 40,000	$ 4,410
2003 Series B	Variable	2033	25,000	22,595
2003 Series I	4.60% to 5.25%	2020	25,000	3,430
2003 Series J	Variable	2033	25,000	15,395
2004 Series A	3.60% to 4.25%	2018	22,480	11,670
2004 Series B	4.60% to 4.70%	2033	94,620	27,240
2004 Series C	4.70%	2035	14,970	10,115
2004 Series E-1	4.25% to 4.60%	2016	5,110	655
2004 Series E-2	4.40% to 4.60%	2016	6,475	1,950
2004 Series F-2	4.80% to 5.25%	2034	36,160	8,220
2004 Series G	Variable	2032	50,000	27,295
2005 Series A	3.75% to 4.125%	2018	14,575	3,935
2005 Series B	4.75% to 5.00%	2035	20,425	9,445
2005 Series C	Variable	2035	25,000	16,830
2005 Series G	4.25% to 4.30%	2018	8,950	5,190
2005 Series H	4.375% to 5.00%	2036	51,050	17,040
2005 Series I	Variable	2036	40,000	26,805
2005 Series J	3.75% to 4.00%	2015	11,890	6,480
2005 Series K	4.30% to 4.40%	2028	41,950	17,045
2005 Series L	4.75% to 5.00%	2036	48,165	22,270
2005 Series M	Variable	2036	60,000	38,950
2005 Series O	4.05% to 4.20%	2015	4,510	3,205
2005 Series P	4.75% to 5.00%	2036	65,490	36,930

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2013 (continued)

Bonds Payable, Net (continued)

Series	Interest rate	Final Maturity	Original amount	June 30, 2013 Bonds Outstanding, at Par
Residential Housing Finance Bonds (continued)				
2006 Series A	3.85% to 4.00%	2016	$ 13,150	$ 3,200
2006 Series B	4.60% to 5.00%	2037	43,515	19,875
2006 Series C	Variable	2037	28,335	22,385
2006 Series F	4.05% to 4.25%	2016	11,015	3,145
2006 Series G	4.85% to 5.50%	2037	58,985	39,825
2006 Series H	5.85%	2036	15,000	1,225
2006 Series I	4.40% to 5.75%	2038	95,000	54,005
2006 Series J	6.00% to 6.51%	2038	45,000	25,620
2006 Series L	3.75% to 3.95%	2016	6,740	3,215
2006 Series M	4.625% to 5.75%	2037	35,260	30,230
2006 Series N	5.410% to 5.76%	2037	18,000	6,440
2007 Series C	3.80% to 3.95%	2017	12,515	6,130
2007 Series D	4.60% to 5.50%	2038	62,485	42,160
2007 Series E	Variable	2038	25,000	11,110
2007 Series H	3.65% to 3.95%	2017	12,230	8,830
2007 Series I	4.65% to 5.50%	2038	100,270	61,855
2007 Series J	Variable	2038	37,500	17,005
2007 Series L	4.40% to 5.50%	2048	105,000	70,585
2007 Series M	6.345%	2038	70,000	47,905
2007 Series P	3.50% to 3.90%	2017	4,305	3,020
2007 Series Q	4.10% to 5.50%	2038	42,365	25,225
2007 Series R	4.76%	2013	2,840	170
2007 Series S	Variable	2038	18,975	18,975
2007 Series T	Variable	2048	37,160	23,080
2008 Series A	3.45% to 4.65%	2023	25,090	8,050
2008 Series B	5.50% to 5.65%	2033	34,910	15,800
2008 Series C	Variable	2048	40,000	40,000
2009 Series A	2.80% to 5.20%	2023	26,795	11,220
2009 Series B	5.00% to 5.90%	2038	33,205	15,850
2009 Series C	Variable	2036	40,000	40,000
2009 Series D	2.05% to 4.00%	2020	19,830	8,685
2009 Series E	2.05% to 5.10%	2040	103,960	86,280
2009 Series F	Variable	2031	34,120	22,390
2012 Series A	0.85% to 3.90%	2023	50,945	45,030
2012 Series B	3.30% to 3.45%	2024	8,830	7,880
2012 Series C	3.625% to 3.85%	2029	30,975	27,645
2012 Series D	3.90% to 4.00%	2040	60,000	56,290
2013 Series A	0.40% to 3.00%	2031	33,305	33,305
2013 Series B	0.90% to 1.80%	2019	9,555	9,555
2013 Series C	1.80% to 3.90%	2043	42,310	42,310
			$2,231,295	$1,352,605

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MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2013 (continued)

Bonds Payable, Net (continued)

Series	Interest rate	Final Maturity	Original amount	June 30, 2013 Bonds Outstanding, at Par
Homeownership Finance Bonds				
2009 Series A-1	3.01%	2041	$ 108,000	$ 93,190
2009 Series A-4A	2.48%	2041	21,910	19,530
2009 Series A-4B	2.48%	2041	13,090	11,670
2009 Series A-5	2.49%	2041	21,990	21,170
2010 Series A	1.10% to 4.25%	2028	72,000	57,265
2011 Series A	1.25%	2013	3,740	20
2011 Series B	1.25% to 4.50%	2031	63,760	59,640
2011 Series C	0.90% to 3.850%	2031	8,310	6,280
2011 Series D	0.90% to 4.70%	2034	33,690	31,130
2011 Series E	0.50% to 4.45%	2035	65,000	59,435
2011 Series F	0.65% to 3.45%	2022	13,575	12,620
2011 Series G	4.00% to 4.25%	2035	29,110	28,480
2012 Series A	2.60%	2042	50,000	48,208
2012 Series B	2.25%	2042	75,000	73,710
2013 Series A	2.35%	2043	75,000	74,604
2013 Series B	2.70%	2041	85,149	84,915
			739,324	681,867
Multifamily Housing Bonds				
2009	3.01%	2051	$ 15,000	$ 14,890
			15,000	14,890
Combined Totals			$3,121,729	$2,121,127

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

Substantially all bonds are subject to optional redemption after various dates at an amount equal to 100% to 102% of the unpaid principal and accrued interest as set forth in the applicable series resolution. Annual debt service requirements to maturity for bonds outstanding as of June 30, 2013, are as follows (in thousands):

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2013 (continued)

Bonds Payable, Net (continued)

Fiscal Year	Rental Housing Principal	Rental Housing Interest	Residential Housing Finance Principal	Residential Housing Finance Interest
2014	$ 3,675	$ 3,070	$ 28,850	$ 45,165
2015	8,495	2,918	32,515	45,263
2016	3,885	2,758	33,005	44,213
2017	3,910	2,595	35,545	43,195
2018	3,785	2,426	35,885	42,131
2019-2023	12,965	9,910	188,920	192,093
2024-2028	7,510	7,807	254,525	155,023
2029-2033	9,750	5,747	322,190	106,760
2034-2038	9,430	3,192	354,605	50,898
2039-2043	5,705	1,285	53,120	3,489
2044-2048	2,560	325	12,200	450
2049-2053	95	2	1,245	5
Total	$71,765	$42,034	$1,352,605	$728,687

Fiscal Year	Multifamily Housing Principal	Multifamily Housing Interest	Homeownership Finance Principal	Homeownership Finance Interest
2014	$ 230	$ 445	$ 9,285	$ 20,454
2015	230	438	9,460	20,341
2016	230	431	9,665	20,185
2017	240	424	9,930	19,985
2018	240	417	10,240	19,741
2019-2023	1,200	1,976	57,725	93,605
2024-2028	1,290	1,794	73,250	81,019
2029-2033	1,790	1,558	84,070	63,897
2034-2038	1,950	1,285	79,405	49,014
2039-2043	2,400	950	338,837	31,568
2044-2048	2,910	556	-	-
2049-2053	2,180	114	-	-
Total	$14,890	$10,388	$681,867	$419,809

Fiscal Year	Combined Totals Principal	Combined Totals Interest
2014	$ 42,040	$ 69,134
2015	50,700	68,960
2016	46,785	67,587
2017	49,625	66,200
2018	50,150	64,715
2019-2023	260,810	297,584
2024-2028	336,575	245,643
2029-2033	417,800	177,962
2034-2038	445,390	104,389
2039-2043	400,062	37,292
2044-2048	17,670	1,331
2049-2053	3,520	121
Total	$2,121,127	$1,200,918

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2013 (continued)

Bonds Payable, Net (continued)

Residential Housing Finance Bonds 2003 Series B and J; 2004 Series G; 2005 Series C, I and M; 2006 Series C; 2007 Series E (Taxable), J (Taxable), S and T (Taxable); 2008 Series C; and 2009 Series C and F accrue interest at rates that change weekly as determined by a remarketing agent for such series based on market conditions. Future interest due for these bonds, as displayed above in the annual debt service requirements table, assumes that the respective rates in effect on June 30, 2013 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 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, 2013, 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, 2013 for the redemption of certain bonds thereafter. See Subsequent Events.

On June 30, 2013 the Agency had in place a revolving line of credit with the Federal Home Loan Bank of Des Moines with an outstanding balance of $10 million.

Derivative Instruments-Interest Rate Swaps

The Agency has entered into certain interest rate swap agreements that are considered to be derivative instruments under Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). A consultant was engaged by the Agency to determine the fair value of these agreements and to evaluate their effectiveness as hedges as of June 30, 2013. The fair values approximate the termination payments that would have been due had the swaps been terminated as of June 30, 2013. In accordance with GASB 53, the Agency recorded the fair value of the agreements on the statement of net position. The fair values exclude accrued interest. As of June 30, 2013, 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, 2013 is included under deferred outflows of resources as "Deferred loss on interest rate swap agreements."

Objective of Swaps

The Agency entered into interest rate swap agreements in connection with its issuance of variable rate mortgage revenue bonds under the Residential Housing Finance Bond Resolution from 2003 through 2009. 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, 2013, debt service requirements of the Residential Housing Finance outstanding variable rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows (in thousands). As rates vary, variable rate bond interest payments and net swap payments will vary.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2013 (continued)

Derivative Instruments-Interest Rate Swaps (continued)

Fiscal Year	Principal	Interest	Interest Rate Swaps, Net	Total
2014	$ 12,815	$ 347	$ 10,669	$ 23,831
2015	920	266	9,969	11,155
2016	3,560	263	9,208	13,031
2017	6,475	259	8,421	15,155
2018	4,000	254	7,719	11,973
2019-2023	35,540	1,200	31,241	67,981
2024-2028	64,240	1,011	20,409	85,660
2029-2033	90,820	717	14,185	105,722
2034-2038	96,745	350	8,096	105,191
2039-2043	17,520	91	1,690	19,301
2044-2048	8,745	39	677	9,461
2049-2053	1,435	1	11	1,447

Terms of Swaps

Terms of the swaps, the fair values, changes in fair values, and the credit ratings of the two counterparties thereto as of June 30, 2013, are contained in the two tables below (in thousands). All swaps are pay-fixed, receive-variable. Initial swap notional amounts matched original principal amounts of the associated debt. The Agency's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximate scheduled or anticipated reductions in outstanding principal amounts of the associated bond series. With respect to the outstanding swaps (except for the 2009 F swap), the Agency has also purchased the right, generally based upon a 300% PSA prepayment rate (The Standard Prepayment Model of The Securities Industry and Financial Markets Association and formerly the Public Securities Association) on the underlying mortgage loans, to further reduce the notional balances of the swaps as necessary to match the outstanding principal amount of the associated bond series and, except for the 2003B, 2003J, 2004G, and 2009F swaps, the right to terminate the swaps at par at approximately the 10 year anniversary date of the swap. The Agency also has the right to terminate outstanding swaps in whole or in part at fair value at any time if it is not in default thereunder.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2013 (continued)

Derivative Instruments-Interest Rate Swaps (continued)

Counterparty: The Bank of New York Mellon

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

Associated Bond Series	Notional Amount as of June 30, 2013	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value[1] as of June 30, 2013	Increase (Decrease) in Fair Value since June 30, 2012
RHFB 2003B	$ 22,595	July 23, 2003	January 1, 2033	3.532%	65% of 1 month LIBOR*** plus 0.23% per annum	$ (1,098)	$ 719
RHFB 2003J	15,395	October 15, 2003	July 1, 2033	4.183%	65% of 1 month LIBOR*** plus 0.23% per annum	(1,305)	1,118
RHFB 2005C	16,830	March 2, 2005	January 1, 2035	3.587%	64% of 1 month LIBOR*** plus 0.28% per annum	(627)	470
RHFB 2005I	26,805	June 2, 2005	January 1, 2036	3.570%	64% of 1 month LIBOR*** plus 0.28% per annum	(1,423)	756
RHFB 2005M	38,950	August 4, 2005	January 1, 2036	3.373%	64% of 1 month LIBOR*** plus 0.29% per annum	(1,977)	1,022
RHFB 2006C	22,385	March 21, 2006	January 1, 2037	3.788%	64% of 1 month LIBOR*** plus 0.29% per annum	(1,517)	687
RHFB 2007S	18,975	December 19, 2007	July 1, 2038	4.340%	100% of SIFMA**** Index plus 0.06% per annum	(1,221)	858
RHFB 2007T (Taxable)	23,080	December 19, 2007	July 1, 2026	4.580%	100% of 1 month LIBOR*	(1,975)	1,073
Counterparty Total	$185,015					$(11,143)	$6,703

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MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2013 (continued)

Derivative Instruments-Interest Rate Swaps (continued)

Counterparty: Royal Bank Of Canada
Moody's* Aa3 (stable outlook) / Standard & Poor's** AA- (Stable outlook)

Associated Bond Series	Notional Amount as of June 30, 2013	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value[1] as of June 30, 2013	Increase (Decrease) in Fair Value since June 30, 2012
RHFB 2004G	$ 27,295	July 22, 2004	January 1, 2032	4.165%	64% of 1 month LIBOR*** plus 0.26% per annum	$ (2,439)	$ 587
RHFB 2007E (Taxable)	11,110	March 7, 2007	July 1, 2038	5.738%	100% of 1 month LIBOR***	(1,582)	312
RHFB 2007J (Taxable)	17,005	May 17, 2007	July 1, 2038	5.665%	100% of 1 month LIBOR***	(2,448)	521
RHFB 2008C	40,000	August 7, 2008	July 1, 2048	4.120%	64% of 1 month LIBOR*** plus 0.30% per annum	(3,886)	1,681
RHFB 2009C	40,000	February 12, 2009	July 1, 2036	4.215%	64% of 3 month LIBOR*** plus 0.30% per annum	(5,166)	2,000
RHFB 2009F	22,390	December 1, 2009	January 1, 2017	2.365%	100% of weekly SIFMA****plus 0.08% per annum	(765)	402
Counterparty Total	$157,800					$(16,286)	$ 5,503
Combined Totals	$342,815					$(27,429)	$12,206

[1] A positive fair value represents money due to the Agency by the counterparty upon an assumed termination of the swap while a negative fair value represents the amount payable by the Agency
* Moody's Investor Service, Inc.
** Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies
*** London Inter-Bank Offered Rate
**** Securities Industry and Financial Markets Association

Termination Risk

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

Credit Risk

A swap potentially exposes the Agency to credit risk with the counterparty. The fair value of a swap represents the Agency's current potential credit exposure to the swap counterparty assuming the occurrence of a termination event. As of June 30, 2013, the Agency did not have a net credit risk exposure to any of its three counterparties because their respective combined swap positions had a negative net fair value, as set forth in the foregoing tables. Each of the swap agreements requires that, upon demand, a party post collateral to secure its obligation to make a termination payment to the extent the fair value exceeds a collateral threshold specified in the agreement. The collateral threshold for each counterparty and the Agency is $50 million if the ratings on the unsubordinated, unsecured long-term indebtedness of the counterparty,

Derivative Instruments-Interest Rate Swaps (continued)

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”, $3 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, 2013, neither the Agency nor any counterparty had been required to post collateral.

Amortization Risk

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

Basis Risk

The potential for basis risk exists when variable interest payments on the Agency’s bonds do not equal variable interest receipts payable by the counterparty under the associated swap. The variable rate the Agency pays on its bonds resets weekly, but the variable rate received on its swaps is based upon a specified percentage of the one-month taxable LIBOR rate or the SIFMA index rate, plus a specified spread if the swap relates to tax-exempt bonds. Basis risk will vary over time due to inter-market conditions. As of June 30, 2013, the interest rate on the Agency’s variable rate tax-exempt debt ranged from 0.06% to 0.07% per annum while the variable interest rate on the associated swaps ranged from 0.14% to 0.44% per annum. As of June 30, 2013, the interest rate on the Agency’s variable rate taxable debt was 0.20% per annum while the variable interest rate on the corresponding swaps ranged from 0.19% to 0.20% 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 in order to lock-in the price. 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, 2013, are as follows (in thousands):

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2013 (continued)

Derivative Instruments-Forward Sales Contracts (continued)

Counterparty Short-Term Rating	Number of Contracts	Notional Amount	Original Price	Market Price	Fair Value ***
A-1* / F1**	12	$14,500	$14,791	$14,901	$ (110)
F1**	15	47,500	48,471	47,046	1,425
A-2*	14	26,750	27,319	26,903	416
	41	$88,750	$90,581	$88,850	$1,731

* Standard and Poor's Rating Services, Inc

** Fitch Ratings, Ltd

*** A positive fair value represents money due to the agency by the counterparty upon liquidation of the commitment to sell mortgage-backed securities while a negative fair value represents the amount payable by the Agency.

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, 2013, $29.6 million of the bonds were outstanding. Neither the Agency, the State of Minnesota, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

Appropriation Debt Obligation

The Agency has outstanding bonds under a certain indenture of trust that permits capital funding for permanent supportive housing for long-term homeless households and other purposes. As of June 30, 2013, $30.840 million of bonds were outstanding. These bonds are secured solely by state appropriations. This debt is not a general obligation of the Agency and is not payable from any funds or assets of the Agency other than the appropriations the Agency expects to receive from the State General Fund pursuant to a standing appropriation made by the Legislature in 2008. Thus, the bonds are not recorded as a liability in the accompanying financial statements.

Accounts Payable

Accounts payable and other liabilities at June 30, 2013 consisted of the following (in thousands):

Funds	Arbitrage Rebate Payable to the Federal Government and Yield Compliance Liability	Accrued Salaries, Compensated Absences and Employee Benefits	Other Liabilities and Accounts Payable	Total
General Reserve Account	$ -	$2,708	$1,444	$ 4,152
Rental Housing	2,854	-	18	2,872
Residential Housing Finance	113	-	1,129	1,242
Homeownership Finance	-	-	78	78
Multifamily Housing	-	-	-	-
State Appropriated	-	-	2,508	2,508
Federal Appropriated	-	-	446	446
Combined Totals	$2,967	$2,708	$5,623	$11,298

The amount of arbitrage rebate payable and yield compliance liability that is not due within one year in Rental Housing is $2.854 million and in Residential Housing Finance $0.113 million, for a total of $2.967 million.

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MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2013 (continued)

Interfund Balances

Interfund balances displayed as Interfund Payable (Receivable) at June 30, 2013 consisted of the following (in thousands):

	Due from							
Due to — Funds	General Reserve	Rental Housing	Residential Housing Finance	Home-ownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	Total
General Reserve	$ -	$ -	$ -	$ -	$ -	$167	$609	$ 776
Rental Housing	-	-	-	-	-	-	-	-
Residential Housing Finance	1,716	-	-	-	-	54	-	1,770
Homeownership Finance	-	-	-	-	-	-	-	-
Multifamily Housing	-	-	-	-	-	-	-	-
State Appropriated	-	-	-	-	-	-	-	-
Federal Appropriated	-	-	-	-	-	-	-	-
Agency-wide Totals	$1,716	$ -	$ -	$ -	$ -	$221	$609	$2,546

All balances resulted from the time lag between the dates that: (1) interfund goods or services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

Interfund transfers recorded in Interfund Payable (Receivable) for the year ended June 30, 2013 consisted of the following (in thousands):

	Transfer from							
Transfer to — Funds	General Reserve	Rental Housing	Residential Housing Finance	Home-ownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	Total
General Reserve	$ -	$ 1,260	$13,379	$3,718	$97	$ 794	$530	$19,778
Rental Housing	-	-	1,182	1	-	-	-	1,183
Residential Housing Finance	-	8,848	-	9	-	2,319	-	11,176
Homeownership Finance	-	-	-	-	-	-	-	-
Multifamily Housing	-	-	-	-	-	-	-	-
State Appropriated	-	-	-	-	-	-	-	-
Federal Appropriated	-	116	-	-	-	-	-	116
Agency-wide Totals	$ -	$10,224	$14,561	$3,728	$97	$3,113	$530	$32,253

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 $2.319 million of entry cost assistance loans transferred from Residential Housing Finance to State Appropriated and $8.848 million of multifamily first mortgage loans transferred from Residential Housing Finance to Rental Housing; and to make payments from Rental Housing to Residential Housing Finance on loans outstanding between those funds.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2013 (continued)

Interfund Transfers (continued)

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds for the year ended June 30, 2013, consisted of the following (in thousands):

Transfer to	Funds	Transfer from General Reserve	Rental Housing	Residential Housing Finance	Home-ownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	Total
	General Reserve	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	Rental Housing	-	-	-	-	-	-	-	-
	Residential Housing Finance	5,897	-	-	-	-	-	-	5,897
	Homeownership Finance	-	-	12,583	-	-	-	-	12,583
	Multifamily Housing	-	-	-	-	-	-	-	-
	State Appropriated	-	-	-	-	-	-	-	-
	Federal Appropriated	-	-	-	-	-	-	-	-
	Agency-wide Totals	$5,897	$ -	$12,583	$ -	$ -	$ -	$ -	$18,480

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds normally result from bond sale contributions to new debt issues in other funds, the transfer of assets to maintain the Housing Endowment Fund (Pool 1) requirement and periodic transfers from the bond funds of assets in excess of bond resolution requirements.

Net Position

Restricted by Bond Resolution

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

Restricted by Covenant

In accordance with provisions of the respective bond resolutions, the Agency may transfer excess money from bond funds to General Reserve. The Agency has pledged to deposit in General Reserve any such funds transferred from the bond funds, except for any amounts as may be necessary to reimburse the state for money appropriated to restore a deficiency in any debt service reserve fund. The Agency further covenanted that it will use the money in General Reserve (or any such transferred funds deposited directly in the Alternative Loan Fund) only for the administration and financing of programs in accordance with the policy and purpose of Minnesota Housing's enabling legislation, including reserves for the payment of bonds and of loans made from the proceeds thereof, and will accumulate and maintain therein such a balance of funds and investments as will be sufficient for that purpose. All interfund transfers are approved by the Board of the Agency.

In order to provide financial security for the Agency's general obligation bonds, and to provide additional resources for housing loans to help meet the housing needs of low- and moderate-income Minnesota residents, the Agency's Board adopted the investment guidelines in the following table. These guidelines are periodically evaluated in consideration of changes in the economy and in the Agency's specific risk profile.

The $470.239 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 and accumulated unrealized gains/losses on investments) 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

Net Position (continued)

of the immediately preceding fiscal year end. That combined net position was $675.356 million as of June 30, 2012 and $675.908 million as of June 30, 2013.

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, 2013 (in thousands):

Net Position — Restricted By Covenant	Certain Balances Maintained According to Agency's Board Guidelines	Unrealized Appreciation (Depreciation) in Fair Market Value of Investments	Total Net Assets Restricted by Covenant
Housing Endowment Fund (Pool 1), General Reserve			
Pool 1 is an amount equal to 1% of gross loans outstanding (excluding Pool 3 and appropriated loans) and must be invested in short-term, investment-grade securities at market interest rates	$ 16,048	$ -	$ 16,048
Unrealized depreciation in fair market value of investments, excluding multifamily development escrow investments	-	-	-
Subtotal, Housing Endowment Fund (Pool 1), General Reserve	$ 16,048	$ -	$ 16,048
Housing Investment Fund (Pool 2), Residential Housing Finance			
An amount that causes the combined net assets in the General Reserve Account and bond funds (exclusive of Pool 3 and cumulative unrealized gains/losses on investments) to be the greater of the combined net assets of the same funds for the immediately preceding audited fiscal year end or the combined net assets of the same funds for the immediately preceding fiscal year end plus current fiscal year income over expenses and transfers to Pool 2 less an amount transferred to Pool 3 ($19,000 for fiscal year 2013). Pool 2 is invested in investment-quality housing loans, as defined by the Agency, or investment-grade securities.	367,641	-	367,641
Unrealized depreciation in fair market value of investments	-	(2,381)	(2,381)
Subtotal, Housing Investment Fund (Pool 2), Residential Housing Finance	367,641	(2,381)	365,260
Housing Affordability Fund (Pool 3), Residential Housing Finance			
Funds in excess of the combined requirement of Pool 1, Pool 2 and General Reserve may be transferred to Pool 3. Assets are invested in deferred loans, zero percent and low interest-rate loans, other loans with higher than ordinary risk factors, or, pending use, investment-grade securities.	88,399	-	88,399
Unrealized appreciation in fair market value of investments	-	532	532
Subtotal, Housing Affordability Fund (Pool 3), Residential Housing Finance	88,399	532	88,931
Agency-wide Total	$472,088	$(1,849)	$470,239

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2013 (continued)

Net Position (continued)

Restricted by Law

Undisbursed, recognized federal and state appropriations are classified as Restricted by Law under Net Position. The $8.033 million balance of Restricted by Law in the Federal Appropriated fund as of June 30, 2013 is restricted by federal requirements that control the use of the funds. The $102.085 million balance of Restricted by Law in the State Appropriated fund as of June 30, 2013 is restricted by the state laws appropriating such funds.

Defined Benefit Pension Plan

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

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

The statutory pension contribution rates for the employee and employer (as a percentage of salary) are 5% each.

The Agency's pension contribution to the System for the fiscal year ended June 30, 2013 was $756 thousand.

Details of the benefit plan are provided on a System-wide basis. The Agency portion is not separately determinable. The funding status of the System's benefit plan is summarized as follows.

Schedule of Funding Progress (dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Actual Covered Payroll (Previous FY)	UAAL as a % of Covered Payroll
7/1/2012	$9,162,301	$11,083,227	$1,920,926	82.67%	$2,367,160	81.15%
7/1/2011	9,130,011	10,576,481	1,446,470	86.32%	2,440,580	59.27%
7/1/2010	8,960,391	10,264,071	1,303,680	87.30%	2,327,398	56.01%

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2013 (continued)

Defined Benefit Pension Plan (continued)

Schedule of Employer Contributions (dollars in thousands)

Year Ended June 30	Actuarially Required Contribution Rate of Assets	Actual Covered Payroll	Actual Member Contributions	Annual Required Employer Contributions	Actual Employer Contributions*	Percent Contributed
2012	11.03%	$2,367,160	$118,358	$142,740	$115,159	80.68%
2011	10.99%	2,440,580	122,029	146,191	118,563	81.10%
2010	14.85%	2,327,398	115,180	230,439	113,716	49.35%

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

The information presented was as of July 1, 2012, which is the latest actuarial information available.

The above summarizes the defined benefit pension plan. Please refer to the July 1, 2012, Minnesota State Employees Retirement Fund Actuarial Valuation and Review for a more comprehensive description. The actuarial valuation and review can be obtained from the financial information page of the Minnesota State Retirement System website at www.msrs.state.mn.us. The information contained in that website is also available in alternative formats to individuals with disabilities. Please call 1 800-657 5757 or use the MN Relay Service at 1 800-627 3529.

Post-Employment Benefits Other Than Pensions

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

The State of Minnesota obtains an actuarial valuation from an independent firm of its postretirement medical benefits and to determine its other postemployment benefits (OPEB) liability. The state intends to fund the OPEB liability on a "pay as you go" basis. The NOO is $139 thousand for fiscal year 2013. The NOO was recorded as an expense and a corresponding liability by the Agency. This is a cost sharing plan. The State of Minnesota has not prepared separate financial statements for the plan. The actuarial method used to determine the actuarial accrued liability and the annual required contribution was the entry age normal method. The assumed discount rate was 4.75% and the assumed payroll growth rate was 3.75%. Future retirees who are eligible for an implicit subsidy are assumed to elect coverage at a 50% rate. The projected annual medical claims cost trend rate is 9.13% initially, reduced by decrements to an ultimate rate of 5.0% for the year 2026 and beyond. Mortality was determined using 1983 Group Annuity Mortality Tables.

The funding status, from the report dated July 31, 2012, which is the latest available, is described in the following tables on a plan-wide basis. The Agency portion is not separately determinable. The State of Minnesota also subsidizes the healthcare and dental premium rates for certain other state agency retirees. That liability is reflected in the tables along with the implicit rate subsidy.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2013 (continued)

Post-Employment Benefits Other Than Pensions (continued)

Schedule of Funding Progress (dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
7/1/2008	$ -	$664,452	$664,452	0.00%	$1,891,300	35.13%
7/1/2010	-	693,297	693,297	0.00%	2,048,761	33.84%
7/1/2012	-	573,135	573,135	0.00%	1,904,671	30.09%

Schedule of Employer Contributions (dollars in thousands)

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
6/30/2010	$67,663	$28,343	41.89%	$112,447
6/30/2011	66,526	34,208	51.42%	144,765
6/30/2012	70,195	46,519	66.27%	168,441
6/30/2013	59,317	33,772	56.93%	193,986

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

Fiscal Year Ended	Annual Required Contribution (ARC)	Employer Contribution	Interest on NOO	ARC Adjustment with Interest	Amort-ization Factor	Annual OPEB Cost	Change in NOO	NOO Balance
6/30/2010	$67,018	$28,343	$3,474	$2,828	27.0839	$67,663	$39,320	$112,447
6/30/2011	65,534	34,208	5,341	4,349	27.0839	66,526	32,318	144,765
6/30/2012	68,918	46,519	6,876	5,599	27.0839	70,195	23,676	168,441
6/30/2013	58,052	33,772	8,001	6,736	26.1946	59,317	25,545	193,986

Risk Management

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

Type of Coverage	Coverage Limits
Real and personal property loss	$ 5,091,369
Business interruption/loss of use/extra expense	50,000,000
Bodily injury and property damage per person	500,000
Bodily injury and property damage per occurrence	1,500,000
Faithful performance/commercial crime	14,000,000
Employee dishonesty	250,000

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2013 (continued)

Risk Management (continued)

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

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

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

Commitments

As of June 30, 2013, 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	49,060
Residential Housing Finance	191,139
Homeownership Finance	-
Multifamily Housing	-
State Appropriated	49,184
Federal Appropriated	18,796
Agency Wide Totals	$308,179

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

The Agency has cancellable lease commitments for office facilities through August 2017 and for parking through February 2014, totaling $4.522 million. Combined office facilities and parking lease expense for fiscal year 2013 was $1.201 million.

On June 30, 2013 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. $48.609 million of mortgage-backed securities were pledged as of June 30, 2013. The advances taken during fiscal year 2013 were used to purchase and warehouse mortgage-backed securities in Pool 2. The line of credit activity for the year ended June 30, 2013, is summarized as follows (in thousands):

Beginning Balance	Draws	Repayments	Ending Balance
$ 0	$ 133,000	$ 123,000	$ 10,000

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

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2013 (continued)

Subsequent Events

The Agency called for redemption subsequent to June 30, 2013 the following bonds (in thousands):

Program	Retirement Date	Par
Homeownership Finance	July 1, 2013	$ 5,465
Residential Housing Finance	July 1, 2013	100,975
Rental Housing	August 1, 2013	205
Homeownership Finance	September 1, 2013	3,025
Residential Housing Finance	September 1, 2013	4,315

On May 23, 2013, 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 homeownership programs. The Homeownership Finance Bonds, 2013 Series C, in the principal amount of $37 million were delivered on July 25, 2013.

On July 25, 2013, 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, 2013 Series A-1 and A-2, in the principal amount of $5.065 million were delivered on August 14, 2013.

On July 25, 2013, 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, 2013 Series B-1 and B-2, in the principal amount of $3.135 million are expected to be delivered on August 21, 2013.

On August 6, 2013 the Board of the Agency authorized the issue of bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The HOMES 2013 Series A-1 and Series B-1 in the principal amounts of $24.374 and $4.694 are expected to be delivered on August 20, 2013.

Minnesota Housing at times packages a portion of its loan production into mortgage backed securities (MBS) guaranteed by FNMA or GNMA and sells the MBSs through a bidding process directly to investors in what is referred to as the "To-Be-Announced" (TBA) market in lieu of selling tax-exempt bonds to finance its loan production. Wells Fargo Bank, National Association (Wells Fargo) has developed the HOMES program (Home Ownership Mortgage-backed Exempt Securities) whereby the Agency may issue and sell limited obligations of the Agency (HOMES Certificates), each secured by an MBS, to Wells Fargo, at the discretion of the Agency. Wells Fargo bids a price on each such HOMES Certificate (effectively a price for the MBS) which could be higher than the prevailing market for such MBS. Minnesota Housing is not committed to selling any HOMES Certificates to Wells Fargo, but may choose to do so when Wells Fargo bids a price on such HOMES Certificates that is higher than the price the Agency could obtain by directly selling the MBSs in the TBA market. The HOMES Certificates will be limited obligations of the Agency. Minnesota Housing will not make a general obligation pledge to secure the HOMES Certificates and, since there will be no debt service reserve fund, there will be no moral obligation backing from the State of Minnesota.

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MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
General Reserve and Bond Funds
Five Year Financial Summary (in thousands)
Fiscal Years 2009 – 2013

		2009	2010	2011	2012	2013
Loans Receivable net (as of June 30)	Multifamily programs	$ 348,563	$ 334,565	$ 329,452	$ 339,306	$ 345,069
	Homeownership programs	1,934,766	1,780,911	1,589,329	1,372,835	1,171,657
	Home Improvement programs	108,893	116,713	111,670	98,987	88,008
	Total	$2,392,222	$2,232,189	$2,030,451	$1,811,128	$1,604,734
Mortgage-backed securities, net, at par (as of June 30)	Program mortgage-backed securities	$ -	$ 32,321	$ 349,676	$ 621,678	$ 801,771
	Warehoused mortgaged-backed securities	-	107,330	49,688	5,081	56,007
	Total	$ -	$ 139,651	$ 399,364	$ 626,759	$ 857,778
Bonds Payable, net (as of June 30)	Multifamily programs	$ 162,288	$ 165,085	$ 172,692	$ 119,667	$ 85,721
	Homeownership programs	2,296,445	2,524,422	2,372,722	2,050,422	2,050,462
	Home Improvement programs	15,000	15,000	10,000	-	-
	Total	$2,473,733	$2,704,507	$2,555,414	$2,170,089	$2,136,183
Mortgage-backed securities purchased, at par and loans purchased or originated during fiscal year	Multifamily programs	$ 41,897	$ 20,874	$ 33,956	$ 51,091	$ 36,757
	Homeownership programs	207,050	55,891	31,372	12,736	18,999
	Program and warehoused mortgage-backed securities	-	140,992	288,580	248,423	296,751
	Home Improvement programs	17,977	32,299	22,780	11,245	10,627
	Total	$ 266,924	$ 250,056	$ 376,688	$ 323,495	$ 363,134
Net Position (as of June 30)	Total Net Position *	$ 68,242	$ 683,233	$ 683,638	$ 724,098	$ 686,500
	Percent of total assets and deferred outflows of resources *	20.2%	19.1%	19.9%	23.5%	23.0%
Revenue over Expenses	Revenues over expenses for the fiscal year *	$ 6,118	$ 14,991	$ 14,305	$ 57,460	$ (18,598)

Notes:

* Excludes Pool 3

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Net Position (in thousands)
General Reserve and Bond Funds
As of June 30, 2013 (with comparative totals as of June 30, 2012)

			Bond Funds		
				Residential Housing Finance	
		General Reserve	Rental Housing	Bonds	Pool 2
Assets	Cash and cash equivalents	$54,314	$ 14,865	$ 218,043	$ 21,114
	Investments-program mortgage-backed securities	-	-	123,909	-
	Investment securities-other	34,547	8,112	53,433	82,891
	Loans receivable, net	-	160,482	1,106,420	292,614
	Interest receivable on loans and program mortgage-backed securities	-	792	10,185	1,585
	Interest receivable on investments	101	27	382	185
	FHA/VA insurance claims, net	-	-	8,399	276
	Real estate owned, net	-	-	9,270	12
	Unamortized bond issuance costs	-	1,091	7,830	-
	Capital assets, net	2,930	-	-	-
	Other assets	1,041	10	31	1,079
	Total assets	92,933	185,379	1,537,902	399,756
Deferred outflows of Resources	Deferred loss on interest rate swap agreements	-	-	27,429	-
	Total assets and deferred outflows of resources	$92,933	$185,379	$1,565,331	$399,756
Liabilities	Bonds payable, net	$ -	$ 70,831	$1,355,941	$ 10,000
	Interest payable	-	1,293	28,442	1
	Interest rate swap agreements	-	-	27,429	-
	Deferred revenue-service release fees	-	-	-	6,863
	Accounts payable and other liabilities	4,152	2,872	866	348
	Interfund payable (receivable)	940	-	3	17,284
	Funds held for others	68,863	-	-	-
	Total liabilities	73,955	74,996	1,412,681	34,496
	Total liabilities and deferred inflows of resources	73,955	74,996	1,412,681	34,496
	Commitments and contingencies				
Net Position	Restricted by bond resolution	-	110,383	152,650	-
	Restricted by covenant	16,048	-	-	365,260
	Restricted by law	-	-	-	-
	Invested in capital assets	2,930	-	-	-
	Total net position	18,978	110,383	152,650	365,260
	Total liabilities, deferred inflows, and net position	$92,933	$185,379	$1,565,331	$399,756

Bond Funds: Home-ownership Finance	Bond Funds: Multifamily Housing	General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2013	General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2012	Residential Housing Finance Pool 3 Total For The Year Ended June 30, 2013	General Reserve & Bond Funds Total For The Year Ended June 30, 2013	General Reserve & Bond Funds Total For The Year Ended June 30, 2012
$ 30,248	$ 801	$ 339,385	$ 370,138	$ 5,156	$ 344,541	$ 371,159
690,783	-	814,692	667,282	-	814,692	667,282
2,000	428	181,411	166,139	33,373	214,784	196,679
-	14,416	1,573,932	1,782,556	30,802	1,604,734	1,811,128
2,153	54	14,769	14,727	87	14,856	14,803
1	1	697	1,124	32	729	1,260
-	-	8,675	9,321	-	8,675	9,321
-	-	9,282	15,566	-	9,282	15,566
5,032	157	14,110	13,354	-	14,110	13,354
-	-	2,930	1,937	-	2,930	1,937
20	-	2,181	1,155	452	2,633	1,156
730,237	15,857	2,962,064	3,043,299	69,902	3,031,966	3,103,645
-	-	27,429	39,634	-	27,429	39,634
$730,237	$15,857	$2,989,493	$3,082,933	$ 69,902	$3,059,395	$3,143,279
$684,521	$14,890	$2,136,183	$2,170,089	$ -	$2,136,183	$2,170,089
7,339	37	37,112	42,987	-	37,112	42,987
-	-	27,429	39,634	-	27,429	39,634
-	-	6,863	5,477	-	6,863	5,477
78	-	8,316	9,760	28	8,344	9,834
-	-	18,227	17,326	(19,057)	(830)	(606)
-	-	68,863	73,562	-	68,863	73,562
691,938	14,927	2,302,993	2,358,835	(19,029)	2,283,964	2,340,977
691,938	14,927	2,302,993	2,358,835	(19,029)	2,283,964	2,340,977
38,299	930	302,262	331,630	-	302,262	331,630
-	-	381,308	390,531	88,931	470,239	468,735
-	-	-	-	-	-	-
-	-	2,930	1,937	-	2,930	1,937
38,299	930	686,500	724,098	88,931	775,431	802,302
$730,237	$15,857	$2,989,493	$3,082,933	$ 69,902	$3,059,395	$3,143,279

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MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Revenues, Expenses and Changes in Net Position (in thousands)
General Reserve and Bond Funds
Year ended June 30, 2013 (with comparative totals for year ended June 30, 2012)

			Bond Funds		
				Residential Housing Finance	
		General Reserve	Rental Housing	Bonds	Pool 2
Revenues	Interest earned on loans	$ -	$ 10,045	$ 68,231	$ 18,745
	Interest earned on investments-program mortgage-backed securities	-	-	3,154	-
	Interest earned on investments-other	118	514	3,399	1,935
	Administrative reimbursement	19,820	-	-	-
	Fees earned and other income	9,386	391	-	1,214
	Unrealized gains (losses) on Investments	-	(515)	(6,605)	1,423
	Total revenues	29,324	10,435	68,179	23,317
Expenses	Interest	-	4,040	61,769	31
	Loan administration and trustee fees	-	105	3,601	1,446
	Administrative reimbursement	-	1,259	9,589	2,537
	Salaries and benefits	19,135	-	-	-
	Other general operating	5,427	-	-	-
	Reduction in carrying value of certain low interest rate deferred loans	-	(23)	-	(297)
	Provision for loan losses	-	(340)	7,901	1,324
	Total expenses	24,562	5,041	82,860	5,041
	Revenue over (under) expenses	4,762	5,394	(14,681)	18,276
Other changes	Non-operating transfer of assets between funds	(5,897)	-	(315)	(25,371)
	Change in net position	(1,135)	5,394	(14,996)	(7,095)
Net Position	Total net position, beginning of year	20,113	104,989	167,646	372,355
	Total net position, end of year	$18,978	$110,383	$152,650	$365,260

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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	Total For The Year Ended June 30, 2013	Total For The Year Ended June 30, 2012	Total For The Year Ended June 30, 2013	Total For The Year Ended June 30, 2013	Total For The Year Ended June 30, 2012
$ -	$661	$ 97,682	$114,694	$ 497	$ 98,179	$115,223
23,632	-	26,786	20,827	-	26,786	20,827
2	1	5,969	13,340	960	6,929	13,957
-	-	19,820	21,622	-	19,820	21,622
-	-	10,991	10,220	194	11,185	10,341
(32,306)	(22)	(38,025)	39,947	(905)	(38,930)	40,875
(8,672)	640	123,223	220,650	746	123,969	222,845
19,772	454	86,066	99,320	-	86,066	99,320
273	4	5,429	5,775	15	5,444	5,787
3,718	97	17,200	17,926	1,125	18,325	18,983
-	-	19,135	17,541	-	19,135	17,541
-	-	5,427	5,236	5,037	10,464	7,453
-	-	(320)	(768)	2,403	2,083	4,640
-	(1)	8,884	18,160	439	9,323	18,959
23,763	554	141,821	163,190	9,019	150,840	172,683
(32,435)	86	(18,598)	57,460	(8,273)	(26,871)	50,162
12,583	-	(19,000)	(17,000)	19,000	-	-
(19,852)	86	(37,598)	40,460	10,727	(26,871)	50,162
58,151	844	724,098	683,638	78,204	802,302	752,140
$ 38,299	$930	$686,500	$724,098	$88,931	$775,431	$802,302

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds
Year ended June 30, 2013 (with comparative totals for year ended June 30, 2012)

			Bond Funds		
				Residential Housing Finance	
		General Reserve	Rental Housing	Bonds	Pool 2
Cash flows from operating activities	Principal repayments on loans and program mortgage-backed securities	$ -	$ 22,475	$ 164,173	$ 35,509
	Investment in loans and program mortgage-backed securities	-	(5,816)	(45,788)	(50,896)
	Interest received on loans and program mortgage-backed securities	-	9,699	67,783	17,976
	Other operating	-	-	-	-
	Fees and other income received	9,550	391	-	8,078
	Salaries, benefits and vendor payments	(23,387)	(136)	(3,878)	(7,911)
	Administrative reimbursement from funds	19,650	(1,259)	(9,589)	(2,537)
	Deposits into funds held for others	28,973	-	-	-
	Disbursements made from funds held for others	(33,898)	-	-	-
	Interfund transfers and other assets	(2,586)	1,172	(42)	(1,968)
	Net cash provided (used) by operating activities	(1,698)	26,526	172,659	(1,749)
Cash flows from noncapital financing activities	Proceeds from sale of bonds and notes	-	-	336,583	133,000
	Principal repayment on bonds and notes	-	(34,105)	(483,125)	(123,000)
	Interest paid on bonds and notes	-	(4,040)	(63,264)	(30)
	Financing costs paid related to bonds issued	-	(23)	(2,071)	-
	Agency contribution to program funds	-	-	1,420	(7,375)
	Transfer of cash between funds	(5,603)	-	-	5,603
	Net cash provided (used) by noncapital financing activities	(5,603)	(38,168)	(210,457)	8,198
Cash flows from investing activities	Investment in real estate owned	-	-	(4,995)	(373)
	Interest received on investments	544	842	3,895	1,818
	Proceeds from sale of mortgage insurance claims/real estate owned	-	-	59,592	1,076
	Proceeds from maturity, sale or transfer of investment securities	-	16,087	51,333	351,330
	Purchase of investment securities	(29,473)	(10,481)	(57,819)	(356,978)
	Purchase of loans between funds	-	(8,848)	14	8,479
	Net cash provided (used) by investing activities	(28,929)	(2,400)	52,020	5,352
	Net increase (decrease) in cash and cash equivalents	(36,230)	(14,042)	14,222	11,801
Cash and cash equivalents	Beginning of year	90,544	28,907	203,821	9,313
	End of year	$ 54,314	$ 14,865	$ 218,043	$ 21,114

Bond Funds					
Homeownership Finance	Multifamily Housing	General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2013	Residential Housing Finance Pool 3 Total For The Year Ended June 30, 2013	General Reserve & Bond Funds Total For The Year Ended June 30, 2013	General Reserve & Bond Funds Total For The Year Ended June 30, 2012
$ 57,169	$ 137	$ 279,463	$ 1,811	$ 281,274	$ 234,998
(202,070)	-	(304,570)	(9,567)	(314,137)	(370,939)
24,133	653	120,244	496	120,740	126,878
35	-	35	(5,010)	(4,975)	(2,144)
-	-	18,019	194	18,213	15,938
(284)	(79)	(35,675)	(88)	(35,763)	(32,232)
(3,718)	(97)	2,450	(1,125)	1,325	2,564
-	-	28,973	-	28,973	31,297
-	-	(33,898)	-	(33,898)	(36,087)
(10)	-	(3,434)	191	(3,243)	(816)
(124,745)	614	71,607	(13,098)	58,509	(30,543)
285,148	-	754,731	-	754,731	339,630
(146,726)	(110)	(787,066)	-	(787,066)	(722,970)
(21,493)	(451)	(89,278)	-	(89,278)	(100,690)
(2,383)	-	(4,477)	-	(4,477)	(3,099)
5,955	-	-	-	-	-
-	-	-	-	-	-
120,501	(561)	(126,090)	-	(126,090)	(487,129)
-	-	(5,368)	-	(5,368)	(7,252)
2	-	7,101	477	7,578	9,704
-	-	60,668	-	60,668	83,236
135	-	418,885	20,932	439,817	878,137
(2,000)	(450)	(457,201)	(6,850)	(464,051)	(550,676)
-	-	(355)	2,674	2,319	1,995
(1,863)	(450)	23,730	17,233	40,963	415,144
(6,107)	(397)	(30,753)	4,135	(26,618)	(102,528)
36,355	1,198	370,138	1,021	371,159	473,687
$ 30,248	$ 801	$ 339,385	$ 5,156	$ 344,541	$ 371,159

(Continued)

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds (continued)
Year ended June 30, 2013 (with comparative totals for year ended June 30, 2012)

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

		Bond Funds		
			Residential Housing Finance	
	General Reserve	Rental Housing	Bonds	Pool 2
Revenues over (under) expenses	$ 4,762	$ 5,394	$(14,681)	$ 18,276
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:				
Amortization of premiums (discounts) and fees on loans and program mortgage-backed securities	-	(107)	1,176	(819)
Depreciation	1,511	-	-	-
Realized losses (gains) on sale of securities, net	-	(52)	(31)	(61)
Unrealized losses (gains) on securities, net	-	515	6,605	(1,423)
Provision for loan losses	-	(340)	7,901	1,324
Reduction in carrying value of certain low interest rate and/or deferred loans	-	(23)	-	(297)
Capitalized interest on loans and real estate owned	-	-	(4,691)	(46)
Interest earned on investments	(118)	(502)	(3,472)	(1,874)
Interest expense on bonds and notes	-	4,040	61,769	31
Changes in assets and liabilities:				
Decrease (increase) in loans receivable and program mortgage backed securities, excluding loans transferred between funds	-	16,659	118,385	(15,387)
Decrease (increase) in interest receivable on loans	-	86	45	96
Increase (decrease) in arbitrage rebate liability	-	(285)	(28)	-
Increase (decrease) in accounts payable	-	(35)	(277)	397
Increase (decrease) in interfund payable, affecting operating activities only	(47)	1,182	(42)	(1,953)
Increase (decrease) in funds held for others	(4,925)	-	-	-
Other	(2,881)	(6)	-	(13)
Total	(6,460)	21,132	187,340	(20,025)
Net cash provided (used) by operating activities	$(1,698)	$26,526	$172,659	$ (1,749)

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Bond Funds					
Homeownership Finance	Multifamily Housing	General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2013	Residential Housing Finance Pool 3 Total For The Year Ended June 30, 2013	General Reserve & Bond Funds Total For The Year Ended June 30, 2013	General Reserve & Bond Funds Total For The Year Ended June 30, 2012
$ (32,435)	$ 86	$(18,598)	$ (8,273)	$(26,871)	$ 50,162
771	(9)	1,012	10	1,022	526
-	-	1,511	-	1,511	1,286
-	-	(144)	(675)	(819)	(4,005)
32,306	22	38,025	905	38,930	(40,875)
-	(1)	8,884	439	9,323	18,959
-	-	(320)	2,403	2,083	4,640
-	-	(4,737)	-	(4,737)	(6,475)
(2)	(1)	(5,969)	(285)	(6,254)	(9,992)
19,772	454	86,066	-	86,066	99,320
(144,901)	137	(25,107)	(7,756)	(32,863)	(135,941)
(270)	1	(42)	(11)	(53)	(674)
-	-	(313)	-	(313)	(2,509)
29	(75)	39	(46)	(7)	611
(10)	-	(870)	642	(228)	66
-	-	(4,925)	-	(4,925)	(4,790)
(5)	-	(2,905)	(451)	(3,356)	(852)
(92,310)	528	90,205	(4,825)	85,380	(80,705)
$(124,745)	$614	$ 71,607	$(13,098)	$ 58,509	$(30,543)

Other Information

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CSG Advisors Incorporated

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CliftonLarsonAllen® LLP

Location

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

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

(651) 296-7608 (general phone number)

(800) 657-3769 (toll free)

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