Minnesota Housing Finance Agency

2014 Financial Report

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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 the economy and markets continue to recover nationally, conditions in Minnesota are slightly ahead of the national average with unemployment at 4.5%, compared to 6.1% nationally. In 2013, employment in Minnesota returned to its pre-recession level, with employment reaching 2.73 million jobs in the 4th quarter of 2013, after dropping to 2.49 million in the 1st quarter of 2010. The housing market has also improved, with the number of foreclosure sales in Minnesota dropping 55% from a peak of 26,251 in 2008 to 11, 834 in 2013. In addition median, home sales prices continue to improve, rising 4% in the last year from $185,000 in July 2013 to $191,550 in July 2014. In this marketplace environment, Minnesota Housing has capitalized on improving conditions to improve both its product offerings and its financial condition with positive programmatic results:

- During the current fiscal year, Minnesota Housing continued to improve its suite of single family home mortgage programs in response to a rapidly changing state and national lending environment. This resulted in increased home mortgage production, as the Agency purchased 2,620 home mortgage loans, with 90% of its production serving first time homebuyers and 21% serving households of color and Hispanic ethnicity. Minnesota Housing achieved such production by enhancing its first mortgage products with three downpayment assistance programs which have been revised so they may be tailored to meet homebuyer needs. Minnesota Housing also offers a Mortgage Credit Certificate program that is typically linked with Agency home mortgage financing.
- Minnesota Housing continued to revise its home improvement loan programs to add new products, including an unsecured loan option, home energy loans with discounted interest rates, and loan options to address specific community credit needs. These changes, coupled with both aggressive business development and an improving economy, resulted in increased production of 45% over the previous year, with 971 loans purchased.
- The capital markets strategy implemented in the spring of 2013 continues to benefit the Agency by helping to support a housing rebound that is stretching into its second year. The Agency was able to fund its single family production through the capital markets, either by issuing tax exempt municipal bonds or by pooling and selling the securities. Minnesota Housing developed a procedure to incorporate hedging costs into tax-exempt bond transactions and issued its first transaction in June, 2014. Incorporating hedging costs into a bond transaction allows the Agency the opportunity to recoup these costs over time whereas before it was a non-recoverable expense. Hedging 100% of our single family loan reservations has effectively mitigated the risk of rising interest rates yet still provides the ability to issue bonds to fund our programs. Additionally, the Agency utilized some of its resources in its Residential Housing Finance Bond Indenture in February and April of 2014 to structure two over-collateralized traditional municipal housing bonds. In total we issued $208 million of single family housing bonds and 14 million of multi-family housing bonds in FY14, which has helped to stabilize our earning asset base. Because short-term investment rates remain at historical lows, the Finance team continues to explore opportunities to redeem bonds.
- Minnesota Housing has seen continued improvement in its Real Estate Owned (REO) portfolio with the number of REO properties declining from 81 last year to 67 at the end of June, 2014. In addition, the average loss on the sale of REO properties declined from $26,635 last year to $21,016 at the end of June. Delinquency rates dropped significantly from June of last year, and have stabilized at a 5.75% rate for 60+ days, and the foreclosure rate has also declined moderately to 1.23%. The combined impact of these factors plus the shift from whole loans to mortgage-backed securities has resulted in a $12.4 million decrease in the Agency's loan loss reserve from last year.
- With economic conditions continuing to improve in Minnesota, the state legislature passed a major capital investments bill in May of 2014. As a part of that bill, Minnesota Housing received authority to issue $80 million in Housing Infrastructure bonds to support primarily the preservation of

federally assisted housing and the development of additional supportive housing. Because the state provides debt service for these bonds, Minnesota Housing can use these funds as deferred financing for projects. This program was increased from a funding level of $30 million in 2012.sThe state will also issue $20 million in general obligation bonds to be used for capital improvements to publicly owned housing – an increase from $5.5 million funded in 2012. The Agency continues to enjoy broad bipartisan support for its housing programs in the state legislature.

- Minnesota Housing continues to develop its multifamily first mortgage lending capacity, including the processing of FHA MAP (Multifamily Accelerated Processing) loans along with FHA Risk Share loans. Two multifamily underwriters have now completed their MAP training and several loans have received concept approval from HUD.
- Minnesota Housing closed 78 loans and grants on 72 multifamily properties totaling nearly $55 million and providing affordable housing to 3,322 households (units), 653 of which were designated to serve long-term homeless households. Of the 78 transactions that closed, the Agency provided financing to 10 federally assisted developments, which resulted in the preservation of 611 units and are estimated to leverage more than $56 million in federal rent subsidies during the affordability periods of the properties. 51 new units of supportive housing for families and individuals who experienced long-term homelessness were also completed.
- In partnership with the non-profit Minnesota Homeownership Center, Minnesota Housing supports the most comprehensive homebuyer education and counseling network in the country. Network services include both in-person and online pre-purchase education, pre-purchase counseling, foreclosure prevention counseling and reverse mortgage counseling. Over 12,000 households throughout the state used services, 32% of which were households of color or Hispanic ethnicity. The statewide network is funded by a combination of federal, state and private funding.

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

- Worked with the Interagency Council on Homelessness, comprised of 11 state agency commissioners, to complete a new Statewide Plan to Prevent and End Homelessness, which called for the state's capital investment in supportive housing that was successfully obtained. Many more implementation steps are planned for the coming year.
- 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:
    - Completed the movement of all amortizing multifamily loans to a comprehensive loan servicing system. The project continues with the movement of all deferred loans to the same servicing system during the current year.
    - Selected a vendor for a new single family loan origination system with installation to occur in the coming year. The system will allow for the electronic transfer of data from multiple loan origination systems used by originating lenders.
    - Commenced redesign of business processes for multifamily loan processing operations.

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 8, 2014

Independent Auditors' Report

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

Report on the Financial Statements
We have audited the accompanying financial statements of the businesstype activities and each major fund of Minnesota Housing Finance Agency (the Agency) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

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

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

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

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

Unmodified Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Minnesota Housing Finance Agency as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter—Adoption of Standards
As explained in the Nature of Business and Fund Structure in the notes to the financial statements, the Agency adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which resulted in the Agency restating net position for debt issuance costs incurred prior to July 1, 2013. Our opinion is not modified with respect to this matter.

Other Matters

Report on Summarized Comparative Information
The financial statements include summarized prior-year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2013, from which such summarized information was derived. Other auditors have previously audited the Agency's

2013 financial statements, and they expressed unmodified opinions on the respective financial statements of the business-type activities and each major fund in their report dated August 28, 2013.

Required Supplementary Information

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

Other Information

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

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

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

McGladrey LLP

Minneapolis, Minnesota
August 25, 2014

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

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

Introduction

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

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

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

Discussion of Financial Statements

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

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

- The fund financial statements provide information about the financial position and results of operations for Minnesota Housing's eight proprietary funds.

- The financial statements also include "Notes to Financial Statements" which provide more detailed explanations of certain information contained in the Agency-wide and fund financial statements.

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

The basic financial statements also include comparative totals as of and for the year ended June 30, 2013. 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 2014 in comparison to the prior fiscal year.

Discussion of Individual Funds

General Reserve

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

Rental Housing

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

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

All of Minnesota Housing's bond-financed multifamily loans, except loans financed under state appropriation-backed housing bonds, conduit bonds, and one loan under Multifamily Housing, are financed in Rental Housing as of June 30, 2014. 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). The Alternative Loan Fund is not pledged as security for any bonds of the Agency but is available to pay debt service on any bonds except appropriation-backed bonds and conduit bonds,

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

This bond resolution, along with the Homeownership Finance bond resolution (see Homeownership Finance below), were the principal sources of financing for bond-financed homeownership programs. Minnesota Housing may also issue bonds for its home improvement loan program under this bond resolution although no bonds were issued to support home improvement lending during fiscal year 2014.

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 2014 this fund provided capital for several Agency programs including its home improvement loan program and its multifamily first-mortgage loan program. It also provided capital for warehousing purchases of mortgage-backed securities secured by single family first mortgage loans before those securities are permanently financed by issuing bonds, permanently financed with HOMES℠ certificates (see below for a description of the HOMES℠ program), or sold into the TBA market. In addition, it provided capital for amortizing second lien homeownership loans made in conjunction with the Agency's single family first mortgage loans, for tax credit bridge loans, for loans to partner organizations to acquire, rehabilitate and sell foreclosed homes and to develop new affordable

Discussion of Individual Funds (continued)

housing, and for bond sale contributions. The fund may also provide interim financing for construction and rehabilitation of single family housing and may be used to advance funds to retire debt.

Assets of the Housing Affordability Fund (Pool 3) consist of investment-grade securities when not utilized for program purposes. Program purposes include, but are not limited to: no-interest loans, loans at interest rates substantially below market, high risk loans, deferred loans, revolving funds, and grants. During fiscal year 2014 funds from Pool 3 were used for entry cost assistance for first-time homebuyers, below-market interim financing for construction and rehabilitation of single family housing, capital costs and rental assistance for permanent supportive housing, advances for certain multifamily housing developments in anticipation of permanent funding through state appropriation-backed housing bonds, and deferred, subordinated multifamily loans.

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

Homeownership Finance

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

Home Ownership Mortgage-backed Exempt Securities (HOMES℠)

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

Multifamily Housing

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

State and Federal Appropriated Funds

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

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

Discussion of Individual Funds (continued)

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, Multifamily Housing, and HOMES^{SM} (collectively the bond funds); State and Federal Appropriated (collectively the appropriated funds) and General Reserve. Agency-wide financial statements are provided to display a comprehensive view of all Minnesota Housing funds as required by accounting principles generally accepted in the United States of America applicable to governmental entities under accounting standards promulgated from time to time by the Governmental Accounting Standards Board. Agency-wide financial statements reflect totals of similar accounts for various funds. However, substantially all of the funds in these accounts are restricted as to use by Agency covenants or legislation as further described below.

Assets and revenues of the bond funds are restricted to uses specifically set forth in the respective bond resolutions and are pledged for the primary benefit of the respective bondholders and interest rate swap agreement counterparties. General Reserve is created under the Minnesota Housing bond resolutions as part of the pledge of the general obligation of Minnesota Housing. Minnesota Housing covenants in the bond resolutions that it will use the assets in General Reserve only for administration and financing of programs in accordance with the policy and purpose of the Minnesota Housing enabling legislation, including reserves for the payment of bonds and notes and of loans made from the proceeds thereof, and to accumulate and maintain therein such a balance of funds and investments as will be sufficient for the purpose.

Minnesota Housing has no taxing power and neither the State of Minnesota nor any political subdivision thereof is legally obligated to pay the principal of or interest on bonds or other obligations issued by Minnesota Housing. The state has pledged to and agreed with bondholders that it will not limit or alter the rights vested in Minnesota Housing to fulfill the terms of any agreements made with bondholders or in any way impair the rights and remedies of the bondholders.

Public funds directly appropriated to Minnesota Housing by the State of Minnesota or made available to Minnesota Housing from the federal government are restricted by law to specified uses set forth in the state appropriations or federal contracts. Assets and revenues of State Appropriated and Federal Appropriated funds are not pledged or available to secure bonds issued under the bond funds or other obligations of Minnesota Housing or its general obligation pledge in respect thereof.

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

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Condensed Financial Information

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

		Agency-wide Total		
		Fiscal 2014	**Fiscal 2013**	**Change**
Assets	Cash and Investments	$1,575,244	$1,453,223	$122,021
	Loans receivable, Net	1,489,486	1,642,293	(152,807)
	Interest Receivable	12,636	15,805	(3,169)
	Total Assets	3,095,972	3,135,852	(39,880)
Liabilities	Bonds Payable	2,018,912	2,131,127	(112,215)
	Interest Payable	32,884	37,112	(4,228)
	Accounts Payable & Other Liabilities	9,554	11,298	(1,744)
	Funds Held for Others	88,545	69,179	19,366
	Total Liabilities	2,171,427	2,276,145	(104,718)
Net Position	Restricted by Bond Resolution	315,927	290,913	25,014
	Restricted by Covenant	490,527	477,749	12,778
	Restricted by Law	130,077	110,118	19,959
	Total Net Position	939,916	881,710	58,206

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

		Agency-wide Total		
		Fiscal 2014	**Fiscal 2013**	**Change**
Revenues	Interest Earned	$120,809	$133,612	$(12,803)
	Appropriations Received	252,801	244,768	8,033
	Fees and Reimbursements	14,671	14,628	43
	Net G/L on Sale of MBS Held for Sale/HOMES Certificates	4,590	-	4,590
	Total Revenues (1)	430,150	372,625	57,525
Expenses	Interest Expense	79,006	87,885	(8,879)
	Appropriations Disbursed	222,063	220,437	1,626
	Fees	5,297	5,525	(228)
	Payroll, Gen. & Admin.	31,810	32,017	(207)
	Loan Loss/Value Adjust's	13,818	36,217	(22,399)
	Total Expenses (1)	371,944	401,174	(29,230)
	Revenues over Expenses	58,206	(28,549)	86,755
	Beginning Net Position	881,710	910,259	(28,549)
	Ending Net Position	939,916	881,710	58,206

(1) Agency-wide totals include interfund amounts

Combined General Reserve and Bond Funds					Combined State and Federal Appropriations Funds		
Fiscal 2014							
Excluding Pool 3	Pool 3	Total	Fiscal 2013	Change	Fiscal 2014	Fiscal 2013	Change
$1,405,607	$ 54,988	$1,460,595	$1,374,017	$ 86,578	$114,649	$ 79,206	$35,443
1,422,646	30,589	1,453,235	1,608,734	(155,499)	36,251	33,781	2,470
12,229	143	12,372	15,585	(3,213)	264	220	44
2,858,301	85,721	2,944,022	3,021,634	(77,612)	151,950	114,218	37,732
2,018,912	-	2,018,912	2,131,127	(112,215)	-	-	-
32,884	-	32,884	37,112	(4,228)	-	-	-
8,029	26	8,055	8,344	(289)	1,499	2,954	(1,455)
69,168	-	69,168	68,863	305	19,377	316	19,061
2,177,518	(27,964)	2,149,554	2,272,045	(122,491)	21,873	4,100	17,773
315,927	-	315,927	290,913	25,014	-	-	-
376,842	113,685	490,527	477,749	12,778	-	-	-
-	-	-	-	-	130,077	110,118	19,959
696,154	113,685	809,839	771,592	38,247	130,077	110,118	19,959

Combined General Reserve and Bond Funds					Combined State and Federal Appropriations Funds		
Fiscal 2014							
Excluding Pool 3	Pool 3	Total	Fiscal 2013	Change	Fiscal 2014	Fiscal 2013	Change
$118,408	$ 932	$119,340	$132,496	$(13,156)	$ 1,469	$ 1,116	$ 353
-	-	-	-	-	252,801	244,768	8,033
14,213	(1,018)	13,195	12,680	515	1,476	1,949	(473)
4,590	-	4,590	-	4,590	-	1,949	(1,949)
170,781	1,974	172,755	124,570	48,185	257,395	248,055	9,340
79,006	-	79,006	87,885	(8,879)	-	-	-
-	-	-	-	-	222,063	220,437	1,626
5,187	12	5,199	5,444	(245)	98	81	17
26,259	3,624	29,883	29,599	284	1,927	2,418	(491)
821	736	1,557	11,406	(9,849)	12,261	24,811	(12,550)
128,935	5,573	134,508	152,659	(18,151)	237,436	248,515	(11,079)
41,846	(3,599)	38,247	(28,089)	66,336	19,959	(460)	20,419
682,308	89,284	771,592	799,681	(28,089)	110,118	110,578	(460)
696,154	113,685	809,839	771,592	38,247	130,077	110,118	19,959

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 2014 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 10% to $1,453.2 million at June 30, 2014 as a result of repayments, prepayments, and loss reserves net of new loan purchases and originations. Amortizing homeownership loans at fixed interest rates, secured by first mortgages, continue to be the dominant loan product offered by Minnesota Housing. In the last half of 2009, the Agency changed its business model from purchasing homeownership loans to purchasing mortgage-backed securities (MBS) secured by homeownership loans. As a result, the homeownership loan portfolio, now in runoff, will continue to shrink as repayments and prepayments are no longer offset by new loans. Instead, the portion of investments represented by MBS may increase as they are purchased in place of loans. The Agency also sells a portion of those MBS directly into the TBA market after hedging the interest rate risk with forward sales contracts at the time of loan commitment. The reduction in loans receivable during fiscal year 2014 was attributable to the runoff of the homeownership loan portfolio. The reserve for loan loss for the homeownership loan portfolio decreased due to reduced delinquency and a decrease in the estimated loss per delinquent loan. Minnesota Housing also has 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 increased despite a runoff in the portfolio due to an increase in delinquency in the 120+ days past due category (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, 2014		June 30, 2013	
Current and less than 60 days past due	10,247	93.6%	11,585	91.0%
60-89 days past due	143	1.3%	249	2.0%
90-119 days past due	89	0.8%	98	0.8%
120+ days past due and foreclosures[1]	467	4.3%	797	6.2%
Total count	10,946		12,729	
Total past due[1]	699	6.4%	1,144	9.0%

(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.

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

Home Improvement Loan Portfolio Delinquency
Actual Loan Count

	June 30, 2014		June 30, 2013	
Current and less than 60 days past due	6,534	97.4%	6,831	97.7%
60-89 days past due	61	0.9%	80	1.1%
90-119 days past due	28	0.4%	25	0.4%
120+ days past due	86	1.3%	59	0.8%
Total count	6,709		6,995	
Total past due	175	2.6%	164	2.3%

The 60+ day delinquency rate as of June 30, 2014 for the entire Minnesota Housing homeownership loan portfolio, excluding those loans not customarily included in foreclosure statistics, exceed by approximately two and one-half percentage points the delinquency rates of similar loan data available as of March 31, 2014 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 57% to $3.7 million at June 30, 2014 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 5% to $8.8 million at June 30, 2014 as a result of a decreased amount of foreclosure properties held within the homeownership portfolio on June 30, 2014.

While the delinquency rates and foreclosures in the Agency's loan portfolio remained above historical norms during fiscal year 2014, the combined net total of FHA/VA insurance claims and real estate owned remains immaterial compared to total loans receivable at June 30, 2014, being less than 1% of total net loans receivable. Management believes that reserves for loan losses are adequate based on the current assessment of asset quality.

No loans reside in General Reserve.

Investments, cash, and cash equivalents are the next largest categories of assets and are carefully managed to provide adequate resources for future debt service requirements and liquidity needs. The combined investments, cash, and cash equivalents increased 6% to $1,460.6 million at June 30, 2014. The increase is principally a result of an increase in the balance of program mortgage-backed securities which are financed with mortgage revenue bonds. Mortgage-backed securities that are pledged as security for the payment of certain Agency mortgage revenue bonds and held in an acquisition account are classified on the statement of net position as "Investments- program mortgage-backed securities." All other mortgage-backed securities, including those held in anticipation of the Agency issuing mortgage revenue bonds or selling them into the TBA market (warehoused mortgage-backed securities), are classified as "Investment securities- other."

Interest receivable on loans and investments is a function of the timing of interest payments and the general level of interest rates. Combined loan and investment interest receivable decreased 21% to $12.4 million at June 30, 2014. The decrease is mainly a result of a decrease in interest receivable on homeownership loans due to the runoff of that portfolio.

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

Bonds payable is the largest single category of liabilities, resulting primarily from debt issued to fund housing-related lending. Bonds payable decreased 5% to $2,018.9 million at June 30, 2014 because scheduled redemptions and early bond redemptions of existing debt outpaced new bonding issuance.

The companion category of interest payable decreased 11% to $32.9 million at June 30, 2014 due to the decrease in the amount of outstanding bonds and an increase in the proportion of outstanding bonds that require monthly debt service payments as opposed to semi-annual debt service payments.

While there is no debt issued in General Reserve, there is a significant liability for funds held for others. These funds are routinely collected and held in escrow on behalf of multifamily borrowers pursuant to loan documents and are used for future periodic payments of real property taxes, casualty insurance premiums, and certain capital expenditures. Funds held for others in General Reserve remained about the same at $69.2 million at June 30, 2014.

Accounts payable and other liabilities decreased to $8.1 million at June 30, 2014. 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 increased $0.4 million; and yield compliance liability, which decreased $0.4 million. Minnesota Housing obtains from independent calculation specialists annual calculations of its arbitrage rebate liability. Other accounts payable items decreased a net $0.2 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 increased 5% to $809.8 million at June 30, 2014 due to revenues over expenses for the fiscal year.

General Reserve and Bond Funds– Revenues over Expenses

Revenues over expenses of General Reserve and bond funds increased 236% from fiscal year 2013 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 5%. Total expenses, excluding Pool 3, decreased 10% compared to the prior fiscal year. The largest revenue component, interest earned, decreased during fiscal year 2014. Loan interest revenue decreased 12% in fiscal year 2014 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 5% in fiscal year 2014 because available reinvestment rates for funds from other maturing and called investment securities were less than the rates of the predecessor investments.

Administrative reimbursements to General Reserve from bond funds were $18.9 million in fiscal year 2014 compared to $18.3 million during the prior fiscal year. General Reserve also incurs overhead expenses to administer state and federal appropriated housing programs. General Reserve received overhead reimbursements of $1.8 million from the State and Federal Appropriated funds to recover certain overhead expenses incurred during fiscal year 2014 compared to $1.5 million during the prior fiscal year. Investment

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

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 $11.4 million increased by $0.2 million compared to the prior fiscal year. The primary components are service acquisition fees earned from the sale of mortgage servicing rights, fees earned from the federal low income housing tax credit program, Section 8 contract administration, federal Housing Assistance Payments administration, and various loan programs.

The net gain on the sale of mortgage-backed securities held for sale was $4.6 million. Components of the net gain, in addition to the gain or loss on the security itself, include the cost of minimizing interest rate risk through forward sale contracts, certain trustee fees, and service release premiums. The net gain amount also includes the net gain on the sale of HOMES^{SM} certificates, which is an Agency execution option essentially equivalent to the sale of mortgage-backed securities.

Minnesota Housing recorded $16.8 million of unrealized gains on investment securities during fiscal year 2014, compared to $38.9 million of unrealized losses during the prior year, an increase of $55.7 million.

Interest expense of the bond funds decreased 10% to $79.0 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 2014.

Expenses for loan administration and trustee fees in the bond funds decreased by 5% to $5.2 million compared to the prior fiscal year. Of the total administrative reimbursement revenue in General Reserve of $20.7 million, the interfund charge to the bond funds and State Appropriated fund of $20.0 million was eliminated for purposes of financial reporting in the Agency-wide financial statements.

Salaries and benefits in General Reserve of $20.9 million increased 9% from the prior year. Other general operating expense in General Reserve and bond funds decreased 14% to $9.0 million compared to the prior fiscal year. The majority of the decrease relates to grant activity through the Economic Development and Housing Challenge program. Reductions in carrying value of certain low interest rate deferred loans in the bond funds decreased 36% to $1.3 million. The decrease related to decreased disbursements of deferred subordinated multifamily loans plus repayments of deferred subordinated multifamily loans disbursed in prior fiscal years.

Provision for loan loss expense in the bond funds decreased $9.1 million or 98% to $0.2 million. The provision for loan loss expense for the homeownership loan portfolio decreased $9.9 million because the delinquency and average loss per foreclosed delinquent loan decreased. The provision for loan loss expense for the home improvement loan portfolio increased $0.2 million as a result of increased loan delinquencies during the year, a portion of which became inactive loans. The provision for loan loss expense for the homeownership down payment assistance loan portfolio was essentially unchanged from the prior fiscal year. The provision for loan loss expense for the multifamily loan portfolio increased $0.9 million when compared to the prior fiscal year.

Non-operating transfers occur as a result of bond sale contributions related to new debt issues, the periodic transfer of assets to maintain the Housing Endowment Fund (Pool 1) requirement, periodic fiscal year end transfers to the Housing Affordability Fund (Pool 3), if any, and periodic transfers from the bond funds of amounts in excess of bond resolution requirements. During fiscal year 2014, $4.8 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 $28.0 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 $1.6 million in bond sale contributions to the Homeownership Finance bond fund and received $0.8 million in contributions from the HOMES^{SM} fund.

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, increased $66.3 million to $38.2 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 41% to $25.9 million.

Total combined net position of General Reserve and bond funds increased 5% to $809.8 million as of June 30, 2014. A portion of that increase is a result of current year unrealized gains on investments, without which the combined net position would have increased 3%. The net position of each individual bond fund increased. Pool 2, which resides in Residential Housing Finance, decreased because of its $28.0 million contribution to Pool 3. After the $4.8 million transfer of Pool 1 excesses to Pool 2, the net position of General Reserve decreased $1.2 million as a result of a $1.7 million decrease in the Pool 1 requirement (which resides in General Reserve) which, in turn, was caused by a decrease in the balance of outstanding loans on which its requirement is based, netted against a $0.5 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 typically requires appropriations received in the current period to be expended over several future years of planned development. This timing difference is the primary reason for the presence of investments, cash, and cash equivalent assets in the appropriated funds and for the balance of net position restricted by law.

Investments, cash, and cash equivalents combined are the largest category of assets in the appropriated funds. The June 30, 2014 combined balance increased 45% to $114.6 million as a result of the combined appropriations received and other revenues exceeding the combined disbursements for programs, loans and expenses during the fiscal year.

Certain state appropriations are expended as housing loans which are in a first lien position and with near- or below-market interest rates, resulting in net loans receivable. At June 30, 2014 State Appropriated fund net loans receivable increased 7% to $36.3 million, reflecting higher net loan program activity.

Interest receivable in appropriated funds is a function of the timing of interest payments and the general level of interest rates on investments. Interest receivable on appropriated funds at June 30, 2014 increased 20% to $0.3 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, 2014 was $1.5 million compared to $3.0 million at June 30, 2013. The decrease in accounts payable and other liabilities is largely attributable to a $1.3 million decrease in State Appropriated housing trust fund and federal Home 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, 2014 the combined net interfund payable was $1.0 million.

At June 30, 2014 the balance of funds held for others was $19.4 million. Of that amount, $19.1 million is comprised of the proceeds of appropriation-backed housing bonds which are held for disbursement to certain multifamily affordable housing developments. The remaining balance of funds held for others consists 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 comparatively much smaller because of this year's issuance of appropriation-backed housing bonds.

The entire net position of the appropriated funds is restricted by law for use with housing programs only and is not pledged or available to secure bonds issued under any of the Agency's bond funds or other obligations of the Agency or its general obligation pledge in respect thereof. The combined net position of the appropriated funds increased to $130.1 million as of June 30, 2014, reflecting that combined revenues exceeded disbursements and expenses during fiscal year 2014.

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 $244.8 million in fiscal year 2013 to $252.8 million in fiscal year 2014. Federal appropriations received increased by $2.8 million, mostly due to an increase in funding for the HOME program. State appropriations received increased by a net $5.2 million due to a $17.9 million increase in appropriations for programs such as the Economic Development and Housing/Challenge program netted against a $12.7 reduction in non-recurring appropriations received for flood relief. The combined interest income from investments increased 33% to $1.2 million for fiscal year 2014.

Loan interest income from State Appropriations loan assets continues to be minimal at $0.3 million as relatively few loans bear interest.

Fees earned and other income in the amount of $2.6 million were recorded in the State Appropriated fund during fiscal year 2014. This consisted mainly of private donations and the receipt of interagency transfers to support certain state housing programs.

Unrealized gains or losses on investments are recorded to reflect current market valuations of investments, and may be reversed over time as investments are held. Combined unrealized gains of $0.6 million were recorded at June 30, 2014 compared to $0.5 million of unrealized losses at June 30, 2013.

Administrative reimbursements to General Reserve of overhead expenses to administer State Appropriated fund programs increased 42% to $1.1 million compared to the prior fiscal year. The Agency incurs the overhead expense in General Reserve. General Reserve is reimbursed for these overhead expenses by the State Appropriated fund to the extent of investment earnings on unexpended state appropriations. During fiscal year 2014 investment earnings in the State Appropriated fund were insufficient to reimburse all of the overhead expenses incurred in General Reserve for State Appropriated programs during this fiscal year. Combined appropriations disbursed increased 1% to $222.1 million compared to the prior fiscal year, reflecting State Appropriations disbursed of $27.3 million and federal appropriations disbursed of $194.8 million.

Decreased expenditures of State Appropriated funds for fully-reserved below-market and zero-percent interest rate loans resulted in lower expense from reductions in carrying value of certain loans. Net reductions of carrying value decreased 57% to $10.2 million compared to the prior fiscal year.

Other general operating expenses in the State Appropriation fund represent fees for professional and technical support to implement and administer certain housing programs. Other general operating expenses in the State Appropriation fund decreased 21% to $1.9 million at June 30, 2014.

Combined revenues were greater than combined expenditures of the appropriated funds by $20.0 million at June 30, 2014. 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, 2014 long-term bonds totaling $2,018.9 million. Bond proceeds and related revenues are held by a trustee, who is responsible for administration of bond resolution requirements including payment of debt service. The bond resolutions may require funding debt service reserve accounts and insurance reserve accounts. At June 30, 2014, amounts held by the trustee in principal, interest, redemption, and reserve accounts represented full funding of those requirements as of that date.

Significant Long Term Debt Activities (continued)

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 2014 fiscal year, Minnesota Housing issued twelve series of bonds aggregating $221.9 million (excluding appropriation-backed housing bonds, conduit bonds, and short-term borrowing against a line of credit), compared to the issuance of five series totaling $370.3 million the previous fiscal year. Long-term bonds are issued as capital is needed for program purposes and as opportunities arise to economically refund outstanding bonds. Short-term bonds and notes and other indebtedness may be issued to preserve tax-exempt bonding authority for future program use and to warehouse purchases of mortgage-backed securities in advance of permanent financing. In the past, the Agency has converted a portion of its bonding authority to Mortgage Credit Certificate authority in another effort to support first-time homebuyers.

A total of $324.2 million in bond principal repayments and $79.0 million of bond-related interest expense occurred during fiscal year 2014. Of the total bond principal repayments, $259.5 million were repayments made on bonds prior to the scheduled maturity date using a combination of optional and special redemption provisions.

Most of the bonds issued by Minnesota Housing bear interest that is not includable in gross income for federal and State of Minnesota income taxation, in accordance with requirements of the federal Internal Revenue Code and Treasury regulations governing either qualified mortgage bonds or bonds issued to provide qualified residential rental projects. Minnesota Housing's ability to issue tax-exempt debt is limited by its share of the state's allocation of private activity volume cap, which is established by Minnesota statutes. Minnesota Housing's ability to issue tax-exempt debt is also limited by a provision in the Internal Revenue Code (commonly known as the 10year 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, although that did not occur during fiscal year 2014. 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, 2014 certain conduit bonds and appropriation-backed housing bonds which are not payable from any funds of the Agency (other than from funds received specifically to pay debt service on those bonds) and 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, 2014 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

As is typically the case in even years, a major focus of the 2014 legislative session was the capital investment package. The Legislature approved $100 million in bonding for Minnesota Housing, which is the largest single capital investment ever approved for the Agency. Included in the $100 million package is $80 million in Housing Infrastructure Bonds (appropriation-backed housing bonds) and $20 million in GO Bonds for public housing rehabilitation. By comparison, the Legislature approved $30 million in Housing

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

Infrastructure Bonds and $5.5 million in GO Bonds for public housing rehabilitation in the 2012 capital investment bill.

GO Bond proceeds will be used by public housing authorities for health, safety and energy efficiency upgrades to aging public housing stock.

Housing Infrastructure Bond proceeds can be used for four purposes:

- to construct or acquire and rehabilitate housing that will be used as permanent supportive housing for those who have experienced homelessness,
- to preserve existing federally-assisted housing,
- to acquire and rehabilitate foreclosed rental housing or for new construction of rental housing on parcels that have been foreclosed, or
- to aquire the land that will be held by a community land trust for single family owner-occupied housing.

In addition to the bonding bill, the Legislature passed a supplemental budget bill with additional appropriations for the remainder of the Fiscal Year 2014-15 biennium. Minnesota Housing received two small appropriations in this bill: $2.2 million for up to two grants for housing projects in communities that have low vacancy rates and education and training centers for jobs in the natural resources or aviation maintenance fields, and $250,000 to conduct up to five housing needs assessments for veterans in communities across the state.

At the agency's request, the legislature also repealed a number of obsolete statutes and rules.

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, 2014 (with comparative totals as of June 30, 2013)

		Agency-wide Total as of June 30, 2014	Agency-wide Total as of June 30, 2013
Assets	Cash and cash equivalents	$ 396,563	$ 379,670
	Investments- program mortgage-backed securities	925,523	814,692
	Investment securities- other	253,158	258,861
	Loans receivable, net	1,489,486	1,642,293
	Interest receivable on loans and program mortgage-backed securities	11,583	14,870
	Interest receivable on investments	1,053	935
	FHA/VA insurance claims, net	3,736	8,675
	Real estate owned, net	8,846	9,282
	Capital assets, net	3,385	2,930
	Other assets	2,639	3,644
	Total assets	3,095,972	3,135,852
Deferred Outflows of Resources	Deferred loss on refunding	1,070	1,437
	Deferred loss on interest rate swap agreements	21,532	27,429
	Total assets and deferred outflows of resources	$3,118,574	$3,164,718
Liabilities	Bonds payable	$2,018,912	$2,131,127
	Interest payable	32,884	37,112
	Interest rate swap agreements	21,532	27,429
	Accounts payable and other liabilities	9,554	11,298
	Funds held for others	88,545	69,179
	Total liabilities	2,171,427	2,276,145
Deferred Inflows of Resources	Deferred revenue- service release fee	7,231	6,863
	Total liabilities and deferred inflows of resources	2,178,658	2,283,008
	Commitments and contingencies		
Net Position	Restricted by bond resolution	315,927	290,913
	Restricted by covenant	490,527	477,749
	Restricted by law	130,077	110,118
	Invested in capital assets	3,385	2,930
	Total net position	939,916	881,710
	Total liabilities, deferred inflows of resources, and net position	$3,118,574	$3,164,718

See accompanying notes to financial statements

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Activities (in thousands)
Year ended June 30, 2014 (with comparative total for year ended June 30, 2013)

		Agency-wide Total for Year Ended June 30, 2014	Agency-wide Total for Year Ended June 30, 2013
Revenue	Interest earned on loans	$ 87,520	$ 99,018
	Interest earned on investments- program mortgage-backed securities	29,192	26,786
	Interest earned on investments- other	4,097	7,808
	Net gain on sale of MBS held for sale and HOMES certificates	4,590	-
	Appropriations received	252,801	244,768
	Administrative reimbursement	706	727
	Fees earned and other income	13,965	13,901
	Unrealized gains (losses) on investments	17,329	(39,476)
	Total revenues	410,200	353,532
Expenses	Interest	79,006	87,885
	Loan administration and trustee fees	5,297	5,525
	Salaries and benefits	20,909	19,135
	Other general operating	10,901	12,882
	Appropriations disbursed	222,063	220,437
	Reduction in carrying value of certain low interest rate deferred loans	11,520	25,633
	Provision for loan losses	2,298	10,584
	Total expenses	351,994	382,081
	Change in net position	58,206	(28,549)
Net Position	Total net position, beginning of year	881,710	910,259
	Total net position, end of year	$939,916	$881,710

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, 2014 (with comparative totals as of June 30, 2013)

			Bond Funds
		General Reserve	Rental Housing
Assets	Cash and cash equivalents	$57,160	$ 29,027
	Investments- program mortgage-backed securities	-	-
	Investment securities- other	29,778	10,423
	Loans receivable, net	-	146,061
	Interest receivable on loans and program mortgage-backed securities	-	713
	Interest receivable on investments	133	32
	FHA/VA insurance claims, net	-	-
	Real estate owned, net	-	-
	Capital assets, net	3,385	-
	Other assets	1,067	4
	Total assets	91,523	186,260
Deferred Outflows of Resources	Deferred loss on refunding	-	704
	Deferred loss on interest rate swap agreements	-	-
	Total assets and deferred outflows of resources	$91,523	$186,964
Liabilities	Bonds payable	$ -	$ 67,480
	Interest payable	-	1,156
	Interest rate swap agreements	-	-
	Accounts payable and other liabilities	3,850	2,340
	Interfund payable (receivable)	1,300	-
	Funds held for others	68,590	-
	Total liabilities	73,740	70,976
Deferred Inflows of Resources	Deferred revenue- service release fee	-	-
	Total liabilities and deferred inflows of resources	$73,740	$70,976
	Commitments and contingencies		
Net Position	Restricted by bond resolution	-	115,988
	Restricted by covenant	14,398	-
	Restricted by law	-	-
	Invested in capital assets	3,385	-
	Total net position	17,783	115,988
	Total liabilities, deferred inflows of resources, and net position	$91,523	$186,964

See accompanying notes to financial statements

Bond Funds				Appropriated Funds			
Residential Housing Finance	Homeownership Finance	Multifamily Housing	HOMES℠	State Appropriated	Federal Appropriated	Total as of June 30, 2014	Total as of June 30, 2013
$ 211,146	$ 28,562	$ 831	$ -	$ 68,406	$1,431	$ 396,563	$ 379,670
218,665	706,858	-	-	-	-	925,523	814,692
133,342	2,410	438	31,955	37,843	6,969	253,158	258,861
1,292,539	-	14,635	-	36,251	-	1,489,486	1,642,293
8,636	2,167	53	-	14	-	11,583	14,870
554	1	1	82	243	7	1,053	935
3,736	-	-	-	-	-	3,736	8,675
8,846	-	-	-	-	-	8,846	9,282
-	-	-	-	-	-	3,385	2,930
763	19	-	-	-	786	2,639	3,644
1,878,227	740,017	15,958	32,037	142,757	9,193	3,095,972	3,135,852
366	-	-	-	-	-	1,070	1,437
21,532	-	-	-	-	-	21,532	27,429
$1,900,125	$740,017	$15,958	$32,037	$142,757	$9,193	$3,118,574	$3,164,718
$1,218,840	$686,555	$14,660	$31,377	$ -	$ -	$2,018,912	$2,131,127
24,925	6,684	37	82	-	-	32,884	37,112
21,532	-	-	-	-	-	21,532	27,429
1,763	102	-	-	1,356	143	9,554	11,298
(2,297)	-	-	-	343	654	-	-
-	-	-	578	19,074	303	88,545	69,179
1,264,763	693,341	14,697	32,037	20,773	1,100	2,171,427	2,276,145
7,231	-	-	-	-	-	7,231	6,863
$1,271,994	$693,341	$14,697	$32,037	$ 20,773	$1,100	$2,178,658	$2,283,008
152,002	46,676	1,261	-	-	-	315,927	290,913
476,129	-	-	-	-	-	490,527	477,749
-	-	-	-	121,984	8,093	130,077	110,118
-	-	-	-	-	-	3,385	2,930
628,131	46,676	1,261	-	121,984	8,093	939,916	881,710
$1,900,125	$740,017	$15,958	$32,037	$142,757	$9,193	$3,118,574	$3,164,718

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Revenues, Expenses and Changes in Net Position (in thousands)
Proprietary Funds
Year ended June 30, 2014 (with comparative totals for year ended June 30, 2013)

			Bond Funds
		General Reserve	Rental Housing
Revenues	Interest earned on loans	$ -	$ 9,671
	Interest earned on investments- program mortgage-backed securities	-	-
	Interest earned on investments- other	96	402
	Net gain on sale of MBS held for sale and HOMES certificates	-	-
	Appropriations received	-	-
	Administrative reimbursement	20,656	-
	Fees earned and other income	9,105	775
	Unrealized gains (losses) on investments	-	275
	Total revenues	29,857	11,123
Expenses	Interest	-	3,568
	Loan administration and trustee fees	-	84
	Administrative reimbursement	-	1,148
	Salaries and benefits	20,909	-
	Other general operating	5,330	1
	Appropriations disbursed	-	-
	Reduction in carrying value of certain low interest rate deferred loans	-	(16)
	Provision for loan losses	-	1,101
	Total expenses	26,239	5,886
	Revenues over (under) expenses	3,618	5,237
Other Changes	Non-operating transfer of assets between funds	(4,813)	13
	Change in net position	(1,195)	5,250
Net Position	Total net position, beginning of year	18,978	110,738
	Total net position, end of year	$17,783	$115,988

See accompanying notes to financial statements

Bond Funds				Appropriated Funds			
Residential Housing Finance	Homeownership Finance	Multifamily Housing	HOMES[SM]	State Appropriated	Federal Appropriated	Total for the Year Ended June 30, 2014	Total for the Year Ended June 30, 2013
$ 76,911	$ -	$ 646	$ -	$ 292	$ -	$ 87,520	$ 99,018
4,345	24,847	-	-	-	-	29,192	26,786
1,554	4	6	858	1,132	45	4,097	7,808
3,768	-	-	822	-	-	4,590	-
-	-	-	-	58,038	194,763	252,801	244,768
-	-	-	-	-	-	20,656	19,820
1,510	12	-	-	2,563	-	13,965	13,901
5,787	10,695	10	-	520	42	17,329	(39,476)
93,875	35,558	662	1,680	62,545	194,850	430,150	372,625
52,291	21,844	445	858	-	-	79,006	87,885
4,846	263	6	-	98	-	5,297	5,525
13,295	4,323	97	-	1,087	-	19,950	19,093
-	-	-	-	-	-	20,909	19,135
3,638	5	-	-	1,927	-	10,901	12,882
-	-	-	-	27,273	194,790	222,063	220,437
1,346	-	-	-	10,190	-	11,520	25,633
(873)	-	(1)	-	2,071	-	2,298	10,584
74,543	26,435	547	858	42,646	194,790	371,944	401,174
19,332	9,123	115	822	19,899	60	58,206	(28,549)
3,990	1,632	-	(822)	-	-	-	-
23,322	10,755	115	-	19,899	60	58,206	(28,549)
604,809	35,921	1,146	-	102,085	8,033	881,710	910,259
$628,131	$46,676	$1,261	$ -	$121,984	$ 8,093	$939,916	$881,710

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds
Year ended June 30, 2014 (with comparative totals for year ended June 30, 2013)

			Bond Funds
		General Reserve	Rental Housing
Cash flows from operating activities	Principal repayments on loans and program mortgage-backed securities	$ -	$23,114
	Investment in loans/loan modifications and program mortgage-backed securities	-	(8,085)
	Interest received on loans and program mortgage-backed securities	-	9,103
	Other operating	-	-
	Fees and other income received	8,958	775
	Salaries, benefits and vendor payments	(24,543)	(91)
	Appropriations received	-	-
	Appropriations disbursed	-	-
	Administrative reimbursement from funds	20,426	(1,148)
	Deposits into funds held for others	30,637	-
	Disbursements made from funds held for others	(31,705)	-
	Interfund transfers and other assets	(2,456)	6
	Net cash provided (used) by operating activities	1,317	23,674
Cash flows from non-capital financing activities	Proceeds from sale of bonds and notes	-	13,880
	Principal repayment on bonds and notes	-	(18,165)
	Interest paid on bonds and notes	-	(3,071)
	Financing costs paid related to bonds issued	-	(390)
	Agency contribution to program funds	-	13
	Transfer of cash between funds	(4,108)	-
	Net cash provided (used) by noncapital financing activities	(4,108)	(7,733)
Cash flows from investing activities	Investment in real estate owned	-	-
	Interest received on investments	637	208
	Net gain on sale of MBS held for sale and HOMES certificates	-	-
	Proceeds from sale of mortgage insurance claims/real estate owned	-	-
	Proceeds from maturity, sale or transfer of investment securities	5,000	2,236
	Purchase of investment securities	-	(4,223)
	Purchase of loans between funds	-	-
	Net cash provided (used) by investing activities	5,637	(1,779)
	Net increase (decrease) in cash and cash equivalents	2,846	14,162
Cash and cash equivalents	Beginning of year	54,314	14,865
	End of year	$57,160	$29,027

See accompanying notes to financial statements

Bond Funds				Appropriated Funds			
Residential Housing Finance	Homeownership Finance Bonds	Multifamily Housing Bonds	HOMES℠	State Appropriated	Federal Appropriated	Total for the Year Ended June 30, 2014	Total for the Year Ended June 30, 2013
$153,500	$69,334	$155	$ -	$ 3,819	$ -	$249,922	$286,158
(147,709)	(76,626)	-	-	(16,633)	-	(249,053)	(341,507)
79,204	25,613	647	-	283	-	114,850	120,981
(3,599)	65	-	-	(1,936)	-	(5,470)	(7,386)
8,742	12	-	-	2,563	-	21,050	20,928
(12,237)	(316)	(6)	-	(98)	-	(37,291)	(35,842)
-	-	-	-	58,038	194,993	253,031	244,370
-	-	-	-	(28,361)	(195,053)	(223,414)	(219,727)
(13,295)	(4,323)	(97)	-	(902)	-	661	532
-	-	-	-	30,535	(2)	61,170	28,901
-	-	-	-	(11,476)	2	(43,179)	(36,837)
979	1	-	-	-	-	(1,470)	(3,244)
65,585	13,760	699	-	35,832	(60)	140,807	57,327
222,766	75,527	-	32,543	-	-	344,716	754,731
(362,765)	(70,839)	(230)	(1,166)	-	-	(453,165)	(787,066)
(55,410)	(21,072)	(445)	(776)	-	-	(80,774)	(89,301)
(2,651)	(734)	-	-	-	-	(3,775)	(4,459)
(888)	2,078	-	(1,203)	-	-	-	-
4,108	-	-	-	-	-	-	-
(194,840)	(15,040)	(675)	29,398	-	-	(192,998)	(126,095)
(4,542)	-	-	-	-	-	(4,542)	(5,368)
5,165	4	6	776	911	51	7,758	8,454
2,208	-	-	1,203	-	-	3,411	-
54,480	-	-	-	-	-	54,480	60,668
444,426	390	-	1,166	-	-	453,218	457,552
(407,675)	(800)	-	(32,543)	-	-	(445,241)	(505,550)
2,026	-	-	-	(2,026)	-	-	-
96,088	(406)	6	(29,398)	(1,115)	51	69,084	15,756
(33,167)	(1,686)	30	-	34,717	(9)	16,893	(53,012)
244,313	30,248	801	-	33,689	1,440	379,670	432,682
$211,146	$28,562	$831	$ -	$68,406	$ 1,431	$396,563	$379,670

(Continued)

Statement of Cash Flows (in thousands)

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

	Bond Funds	
	General Reserve	Rental Housing
Revenues over (under) expenses	$3,618	$ 5,237
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:		
Amortization of premiums (discounts) and fees on program mortgage-backed securities	-	(239)
Amortization of premium (discounts) and fees on sale of HOMES certificates	-	-
Depreciation	1,789	-
Gain on sale of MBS held for sale and HOMES Certificates	-	-
Realized losses (gains) on sale of securities, net	-	(47)
Unrealized losses (gains) on securities, net	-	(275)
Provision for loan losses	-	1,101
Reduction in carrying value of certain low interest rate and/or deferred loans	-	(16)
Capitalized interest on loans and real estate owned	-	(8)
Interest earned on investments	(96)	(215)
Interest expense on bonds and notes	-	3,568
Changes in assets and liabilities:		
Decrease (increase) in loans receivable and program mortgage backed securities, excluding loans transferred between funds	-	15,029
Decrease (increase) in interest receivable on loans	-	79
Increase (decrease) in arbitrage rebate liability	-	(540)
Increase (decrease) in accounts payable	-	(6)
Increase (decrease) in interfund payable, affecting operating activities only	(353)	-
Increase (decrease) in funds held for others	(1,068)	-
Other	(2,573)	6
Total	(2,301)	18,437
Net cash provided (used) by operating activities	$1,317	$23,674

See accompanying notes to financial statements

Bond Funds				Appropriated Funds			
Residential Housing Finance	Homeownership Finance	Multifamily Housing	HOMES℠	State Appropriated	Federal Appropriated	Total for the Year Ended June 30, 2014	Total for the Year Ended June 30, 2013
$19,332	$ 9,123	$115	$822	$19,899	$60	$ 58,206	$(28,549)
(165)	780	-	-	-	-	376	530
202	-	-	381	-	-	583	-
-	-	-	-	-	-	1,789	1,511
(3,970)	-	-	(1,203)	-	-	(5,173)	-
2,807	-	-	-	-	-	2,760	(835)
(5,787)	(10,695)	(10)	-	(520)	(42)	(17,329)	39,476
(873)	-	-	-	2,071	-	2,299	10,584
1,346	-	(1)	-	10,190	-	11,519	25,633
(5,119)	-	-	-	-	-	(5,127)	(4,737)
(4,854)	(4)	(6)	(858)	(1,132)	(45)	(7,210)	(7,117)
52,291	21,844	445	858	-	-	79,006	87,885
5,791	(7,292)	155	-	(12,814)	-	869	(55,349)
3,221	(14)	1	-	-	-	3,287	(159)
493	-	-	-	-	-	(47)	(313)
(117)	17	-	-	(1,095)	(303)	(1,504)	461
188	-	-	-	174	45	54	(4)
-	-	-	-	19,059	-	17,991	(7,936)
799	1	-	-	-	225	(1,542)	(3,754)
46,253	4,637	584	(822)	15,933	(120)	82,601	85,876
$65,585	$13,760	$699	$ -	$35,832	$(60)	$140,807	$ 57,327

Nature of Business and Fund Structure

The Minnesota Housing Finance Agency (the Agency or Minnesota Housing) was created in 1971 by the Minnesota legislature through the enactment of Minnesota Statutes, Chapter 462A, which has been amended from time to time. The Agency was established to facilitate the construction and rehabilitation of housing in Minnesota for families of low- and moderate-income by providing mortgage loans, development loans, and technical assistance to qualified housing sponsors. The Agency, as a special purpose agency engaged in business-type activities, is a component unit of the State of Minnesota, and is reflected as a proprietary fund in the state's comprehensive annual financial report. The Agency receives appropriations from the state legislature, substantially all of which are used to make loans or grants under specified programs. The Agency also receives funds from the federal government and other entities for similar program purposes.

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

The following describes the funds maintained by the Agency, which are included in this report, all of which conform to the authorizing legislation and bond resolutions:

General Reserve

General Reserve was established in fulfillment of the pledge by the Agency of its full faith and credit to the payment of its general obligation bonds in its bond resolutions. Administrative costs of the Agency and multifamily development escrow receipts and related disbursements are recorded in this account. The net position of General Reserve is available to support the following funds which are further described below: Rental Housing, Residential Housing Finance, Homeownership Finance and Multifamily Housing. Also described below is the HOMES℠ fund which carries limited obligations of the Agency and is therefore not supported by General Reserve.

Rental Housing

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

Residential Housing Finance

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

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

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

Nature of Business and Fund Structure (continued)

but, to the extent that funds are available therein, is available to honor the general obligation pledge of the Agency.

Assets of the Housing Investment Fund (Pool 2) consist of investment quality housing loans, as defined by the Agency, and investment grade securities. During fiscal year 2014 this fund provided capital for several Agency programs including its home improvement loan program and its multifamily first-mortgage loan program. It also provided capital for warehousing purchases of mortgage-backed securities secured by single family first mortgage loans before these securities are permanently financed by issuing bonds, or HOMES℠ certificates, or sold into the TBA market. In addition, it provided capital for amortizing second lien homeownership loans made in conjunction with the Agency's single family first mortgage loans, for tax credit bridge loans, for loans to partner organizations to acquire, rehabilitate and sell foreclosed homes and to develop new affordable housing, and bond sale contributions. The fund may also provide interim financing for construction and rehabilitation of single family housing and may be used to advance funds to retire Agency high interest-rate debt.

Assets of the Housing Affordability Fund (Pool 3) consist of investment-grade securities when not utilized for program purposes. Program purposes include, but are not limited to: no-interest loans; loans at interest rates substantially below market, high risk loans, deferred loans, revolving funds, and grants. During fiscal year 2014 funds from Pool 3 were used for entry cost assistance for first-time homebuyers, below-market interim financing for construction and rehabilitation of single family housing, capital costs and rental assistance for permanent supportive housing, advances for certain multifamily housing developments in anticipation of permanent funding through state appropriation-backed housing bonds, and deferred, subordinated multifamily loans.

The Residential Housing Finance bond resolution prescribes the application of bond proceeds, debt service requirements of the bond indebtedness, permitted investments, and eligible loans to be financed from the bond proceeds.

Homeownership Finance

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

Home Ownership Mortgage-backed Exempt Securities (HOMES℠)

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

Multifamily Housing

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

State Appropriated

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

Nature of Business and Fund Structure (continued)

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

Federal Appropriated

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

Summary of Significant Accounting Policies

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

Basis of Accounting

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

Generally Accepted Accounting Principles

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

New Accounting Pronouncements

In 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 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 were adopted for the Agency's fiscal year ended June 30, 2014. The accounting changes adopted to conform to the provisions of this Statement were applied retroactively by restating the comparative financial statement information presented in this report for the fiscal year ending June 30, 2013. The cumulative effect on an Agency-wide basis was a net reduction of net position of $3.839 million as of June 30, 2013.

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 were adopted for the fiscal year ended June 30, 2014 and did not affect the Agency's financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The provisions of this Statement are effective for the Agency's fiscal year ending June 30, 2015. 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 were adopted for the fiscal year ended June 30, 2014 and did not affect the Agency's financial statements.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 6*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. The provisions of this Statement are effective for the Agency's fiscal year ending June 30, 2015. 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 generally recorded as revenue. However, unrealized gains and losses on investments of multifamily development escrow funds resulting from changes in market valuation, as well as unrealized gains and losses on MBS held in the HOMES℠ fund, are recorded as funds held for others. Mortgage-backed securities held for sale are carried at the lower of cost or market. Investments- program mortgage-backed securities, as previously described, are shown separately on the statement of net position.

Loans Receivable, Net

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

Summary of Significant Accounting Policies (continued)

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

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

For homeownership and home improvement loans, the Agency establishes varying amounts of reserves depending upon the number of delinquent loans, the estimated amount of loss per delinquent loan, the number of days delinquent and the type of insurance coverage in force, if any: FHA insurance, RD guarantee, VA guarantee, or private mortgage insurance.

Actual gains and losses are posted to allowance for loan losses. Management believes the allowances for loan losses adequately reserve for probable losses inherent in the loan portfolios as of June 30, 2014.

Interest Receivable on Loans and Program Mortgage-Backed Securities

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

FHA/VA Insurance Claims Receivable, Net

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

Real Estate Owned, Net

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

Deferred Loss on Interest Rate Swap Agreements

The Agency's interest rate swap agreements have a negative fair value as of the end of fiscal year 2014. 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

Bonds payable are carried at their unpaid principal balances.

Interest Rate Swap Agreements

Because the Agency's interest rate swap agreements have a negative fair value as of the end of fiscal year 2014 and they have been determined to be effective hedges under the applicable accounting guidance, they are recorded here as a liability.

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 and retained 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

Summary of Significant Accounting Policies (continued)

fees receivable and payable between funds; non-operating transfers among the Housing Endowment Fund (Pool 1), the Housing Investment Fund (Pool 2), and the Housing Affordability Fund (Pool 3); and certain mortgage payments received but not yet transferred to their respective funds.

Funds Held for Others

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

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

Also included in funds held for others are unrealized gains and losses on investments of the multifamily housing development escrow fund investments, unrealized gains and losses on the mortgage-backed securities supporting HOMES^{SM} certificates, and funds held for, and reimbursable to, HUD, such as Section 8 payments. In addition, investment income on unspent Section 8 funds is credited directly to Funds Held for Others and not included in the investment income of Federal Appropriated.

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 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 2013 are for comparative purposes only.

Administrative Reimbursement

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

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

For programs funded by federal appropriations, the Agency recovers the cost of administering programs through an approved federal indirect cost recovery rate but only to the extent that funds are available. Certain other direct costs are also recovered. Total direct and indirect costs recovered from the federal government in the amount of $.705 million are reflected as administrative reimbursement revenues in the General Reserve.

Administrative reimbursements in the amount of $19.950 million between the Agency's funds have been eliminated from the respective administrative reimbursement revenues and expenses line items for purposes of presentation in the Agency-wide statement of activities.

Fees Earned and Other Income

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

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

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

Other Changes

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

Non-operating Transfer of Assets Between Funds

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

Non-Cash Activities

Transfers from loans receivable to FHA/VA insurance claims receivable and real estate owned for fiscal year 2014 were $49.5 million in Residential Housing Finance.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, deferred inflows and outflows, and disclosure of contingent assets and

Summary of Significant Accounting Policies (continued)

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.

Rebatable Arbitrage

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

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, 2014 (in thousands):

Cash and Cash Equivalents

Funds	Deposits	Money Market Funds	State Investment Pool	Investment Agreements	Combined Totals
General Reserve	$ -	$ -	$ 57,160	$ -	$ 57,160
Rental Housing	-	29,027	-	-	29,027
Residential Housing Finance	1,693	199,402	-	10,051	211,146
Homeownership Finance	-	28,562	-	-	28,562
Multifamily Housing	-	831	-	-	831
HOMES℠	-	-	-	-	-
State Appropriated	174	19,073	49,159	-	68,406
Federal Appropriated	56	1,072	303	-	1,431
Combined Totals	$1,923	$277,967	$106,622	$10,051	$396,563

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

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

Generally, investment agreements are uncollateralized, interest-bearing contracts with financial institutions or corporations with variable liquidity features, which require a one-day to two-week notice for deposits and/or withdrawals, and are invested in accordance with the restrictions specified in the various bond resolutions. As of June 30, 2014, both of the Agency's 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

Cash, Cash Equivalents and Investment Securities (continued)

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, 2014 (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	$ 29,572	$ -	$ 206	$ 29,778
Rental Housing	10,446	-	(23)	10,423
Residential Housing Finance	131,945	216,051	4,011	352,007
Homeownership Finance	2,410	683,007	23,851	709,268
Multifamily Housing	450	-	(12)	438
HOMES[SM]	31,377	-	578	31,955
State Appropriated	36,790	-	1,053	37,843
Federal Appropriated	6,956	-	13	6,969
Combined Totals	$249,946	$899,058	$29,677	$1,178,681

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, 2014 were (in thousands):

Credit Ratings of Investment Securities

Type	Par Value	AA+/Aaa	AA/Aa2
U.S. Agencies	$1,094,989	$1,094,989	$ -
Municipal Bonds	35,465	-	35,465
Agency-wide Totals	$1,130,454	$1,094,989	$35,465
U.S. Treasuries	10,983		
Agency-wide Totals	$1,141,437		

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 $29.677 million and net discounts of $7.567 million), along with the weighted average maturities (in years) as of June 30, 2014, consisted of the following (in thousands):

Cash, Cash Equivalents and Investment Securities (continued)

Type	Par Value	General Reserve	Rental Housing	Residential Housing Finance	Home-ownership Finance	Multifamily Housing	HOMES^SM	State Appropriated	Federal Appropriated
		Weighted Average Maturity, in Years							
Deposits	$1,923	-	-	-	-	-	-	-	-
Money market fund	277,968	-	-	-	-	-	-	-	-
State investment pool	106,621	-	-	-	-	-	-	-	-
Investment agreements	10,051	-	-	-	-	-	-	-	-
US agencies	1,094,989	3.1	13.8	25.1	27.4	8.8	29.2	4.1	8.8
US treasuries	10,983	-	-	5.6	-	-	-	-	3.9
Municipal bonds	35,465	-	-	-	-	-	-	10.7	-
Agency-wide Totals	$1,538,000								
Weighted Average Maturity		1.1	3.7	14.3	26.2	3.1	29.2	1.9	2.6

Investments in any one issuer, excluding $817 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, 2014 were as follows (in thousands):

Investment Issuer	Amount
Federal National Mortgage Association, U.S. Agencies	$156,635

The Agency maintained certain deposits and investments throughout fiscal year 2014 that were subject to custodial credit risk. As of June 30, 2014, the amounts subject to this risk consisted of the following (in thousands):

	Amount
Deposits not covered by depository insurance and uncollateralized (including $277,968 in a money market fund and $106,621 in the State investment pool)	$ 386,512
Investment securities uninsured, uncollateralized and not held in the Agency's name	1,120,357
Agency-wide Total	$1,506,869

Net realized loss on sale of investment securities of $2.760 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, 2014 were as follows (in thousands):

Funds	Amount
Rental Housing	$ 6,123
Residential Housing Finance	36,565
Multifamily Housing	479
Combined Totals	$43,167

Loans Receivable, Net

Loans receivable, net at June 30, 2014 consisted of (in thousands):

Funds	Outstanding Principal	Allowance for Loan Losses	Loans Receivable, Net
General Reserve	$ -	$ -	$ -
Rental Housing	149,473	(3,412)	146,061
Residential Housing Finance	1,307,421	(14,882)	1,292,539
Multifamily Housing	14,708	(73)	14,635
State Appropriated	37,287	(1,036)	36,251
Federal Appropriated	-	-	-
Agency-wide Totals	$1,508,889	$(19,403)	$1,489,486

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

In addition to the loans in the table above, certain loans are carried at below-market interest rates and repayment is deferred for up to 30 years. These loans are generally in either a second or more subordinate mortgage position or may be unsecured. Given the nature of these loans and the risk associated with them, at the time of origination they are fully reserved resulting in a net carrying value of zero. The principal amount of loans with such characteristics originated during fiscal year 2014 aggregated $.705 million in the Residential Housing Finance Housing Affordability Fund (Pool 3) and $16.525 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, 2014 consist of a variety of loans as follows (in thousands):

Description	Net Outstanding Amounts	Gross Outstanding Amount
Residential Housing Finance Bonds:		
Homeownership, first mortgage loans	$ 951,882	$ 961,422
Other homeownership loans, generally secured by a second mortgage	1,426	1,478
Alternative Loan Fund, Housing Investment Fund (Pool 2):		
Home Improvement loans, generally secured by a second mortgage	85,535	87,377
Homeownership, first mortgage loans	36,495	37,156
Other homeownership loans, generally secured by a second mortgage	8,526	8,790
Multifamily, first mortgage loans	178,086	179,372
Alternative Loan Fund, Housing Affordability Fund (Pool 3):		
Other homeownership loans, generally secured by a second mortgage	28,854	30,091
Multifamily, other	1,735	1,735
Residential Housing Finance Totals	$1,292,539	$1,307,421

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

Other Assets

Other assets, including receivables, at June 30, 2014 consisted of the following (in thousands):

Funds	Receivables Due from the Federal Government	Other Assets and Receivables	Total
General Reserve Account	$1,064	$ 3	$1,067
Rental Housing	-	4	4
Residential Housing Finance	702	61	763
Homeownership Finance	-	19	19
Multifamily Housing	-	-	-
HOMES[SM]	-	-	-
State Appropriated	-	-	-
Federal Appropriated	786	-	786
Combined Totals	$2,552	$87	$2,639

Bonds Payable

Summary of bonds payable activity at June 30, 2014 is as follows (in thousands):

Funds	June 30, 2013 Bonds Outstanding	Bonds Issued	Bonds Repaid	June 30, 2014 Bonds Outstanding
Rental Housing	$ 71,765	$ 13,880	$ 18,165	$ 67,480
Residential Housing Finance	1,352,605	100,000	233,765	1,218,840
Homeownership Finance	681,867	75,527	70,839	686,555
Multifamily Housing	14,890	-	230	14,660
HOMES[SM]	-	32,543	1,166	31,377
Totals	$2,121,127	$221,950	$324,165	$2,018,912

Bonds payable at June 30, 2014 were as follows (in thousands):

Series	Interest rate	Final Maturity	Original amount	June 30, 2014 Bonds Outstanding, at Par
Rental Housing Bonds				
2004 Series B	4.00% to 4.85%	2035	$ 3,215	$ 2,725
2004 Series C	3.75% to 4.40%	2022	80,000	17,005
2005 Series A-1	4.25% to 4.85%	2035	1,725	1,480
2006 Series A-1	4.40% to 5.10%	2047	6,615	6,235
2006 Series B	4.89%	2037	5,020	4,495
2006 Series C-1	4.96%	2037	2,860	2,555
2007 Series A-1	4.65%	2038	3,775	3,410
2010 Series A-1	3.75% to 5.25%	2040	3,605	3,560
2011 Series A	1.70% to 5.45%	2041	8,890	7,975
2012 Series A-1	3.75%	2048	4,175	4,160
2013 Series A-1	3.50% to 5.30%	2049	3,710	3,710
2013 Series A-2	0.08%	2015	1,355	1,355
2013 Series B-1	3.65% to 5.30%	2044	2,040	2,040
2013 Series B-2	0.75%	2015	1,225	1,225
2014 Series A	0.625%	2016	5,550	5,550
			$ 133,760	$ 67,480

Bonds Payable (continued)

Series	Interest rate	Final Maturity	Original amount	June 30, 2014 Bonds Outstanding, at Par
Residential Housing Finance Bonds				
2003 Series A	3.70% to 4.30%	2023	$ 40,000	$ 4,100
2003 Series B	Variable	2033	25,000	18,935
2003 Series I	4.70% to 5.10%	2020	25,000	3,080
2003 Series J	Variable	2033	25,000	12,925
2004 Series E-1	4.50% to 4.60%	2016	5,110	115
2004 Series E-2	4.40% to 4.60%	2016	6,475	915
2004 Series F-2	4.80% to 5.25%	2034	36,160	4,435
2004 Series G	Variable	2032	50,000	25,725
2005 Series A	3.80% to 4.125%	2018	14,575	2,485
2005 Series B	4.75% to4.80%	2035	20,425	7,115
2005 Series C	Variable	2035	25,000	15,480
2005 Series G	4.25% to 4.30%	2018	8,950	4,265
2005 Series H	4.375% to 4.70%	2036	51,050	13,945
2005 Series I	Variable	2036	40,000	25,045
2005 Series J	3.85% to 4.00%	2015	11,890	3,615
2005 Series K	4.30% to 4.40%	2028	41,950	15,695
2005 Series L	4.75%	2036	48,165	18,375
2005 Series M	Variable	2036	60,000	36,430
2005 Series O	4.15% to 4.20%	2015	4,510	1,820
2005 Series P	4.75% to 5.00%	2036	65,490	31,345
2006 Series A	3.95% to 4.00%	2016	13,150	1,960
2006 Series B	4.60% to 5.00%	2037	43,515	14,430
2006 Series C	Variable	2037	28,335	21,675
2006 Series F	4.45% to 4.25%	2016	11,015	2,100
2006 Series G	4.85% to 5.50%	2037	58,985	34,980
2006 Series I	4.50% to 5.75%	2038	95,000	47,520
2006 Series J	6.00% to 6.51%	2038	45,000	22,550
2006 Series L	3.85% to 3.95%	2016	6,740	2,430
2006 Series M	4.625% to 5.75%	2037	35,260	29,030
2006 Series N	5.46% to 5.76%	2037	18,000	4,545
2007 Series C	3.85% to 3.95%	2017	12,515	4,415
2007 Series D	4.60% to 5.50%	2038	62,485	35,095
2007 Series E	Variable	2038	25,000	10,255
2007 Series H	3.80% to 3.95%	2017	12,230	6,290
2007 Series I	4.65% to 5.50%	2038	100,270	51,035
2007 Series J	Variable	2038	37,500	15,695
2007 Series L	4.45% to 5.50%	2048	105,000	62,060
2007 Series M	6.345%	2038	70,000	40,575
2007 Series P	3.60% to 3.90%	2017	4,305	2,400
2007 Series Q	5.00% to 5.50%	2038	42,365	20,315
2007 Series S	Variable	2038	18,975	18,975
2007 Series T	Variable	2048	37,160	19,300
2008 Series A	3.70% to 4.65%	2023	25,090	4,480
2008 Series B	5.50% to 5.65%	2033	34,910	9,820
2008 Series C	Variable	2048	40,000	40,000

Bonds Payable (continued)

Series	Interest rate	Final Maturity	Original amount	June 30, 2014 Bonds Outstanding, at Par
Residential Housing Finance Bonds (continued)				
2009 Series A	3.05% to 5.20%	2023	$ 26,795	$ 5,575
2009 Series B	5.45% to 5.90%	2038	33,205	9,070
2009 Series C	Variable	2036	40,000	40,000
2009 Series D	3.65% to 4.00%	2020	19,830	7,120
2009 Series E	2.55% to 5.10%	2040	103,960	76,025
2009 Series F	Variable	2031	34,120	17,315
2012 Series A	1.2% to 3.90%	2023	50,945	37,145
2012 Series B	3.30% to 3.45%	2024	8,830	7,135
2012 Series C	3.625% to 3.85%	2029	30,975	25,035
2012 Series D	3.90% to 4.00%	2040	60,000	47,055
2013 Series A	0.50% to 3.00%	2031	33,305	29,185
2013 Series B	0.90% to 1.80%	2019	9,555	9,290
2013 Series C	1.80% to 3.90%	2043	42,310	41,115
2014 Series A	0.25% to 4.00%	2038	50,000	50,000
2014 Series B	0.20% to 4.00%	2038	50,000	50,000
			$2,181,385	$1,218,840

Series	Interest rate	Final Maturity	Original amount	June 30, 2014 Bonds Outstanding, at Par
Homeownership Finance Bonds				
2009 Series A-1	3.01%	2041	$ 108,000	$ 84,540
2009 Series A-4A	2.48%	2041	21,910	17,980
2009 Series A-4B	2.48%	2041	13,090	10,760
2009 Series A-5	2.49%	2041	21,990	19,500
2010 Series A	1.40% to 4.25%	2028	72,000	47,755
2011 Series B	1.625% to 4.50%	2031	63,760	50,335
2011 Series C	1.80% to 3.850%	2031	8,310	5,245
2011 Series D	1.35% to 4.70%	2034	33,690	28,285
2011 Series E	1.05% to 4.45%	2035	65,000	52,330
2011 Series F	1.15% to 3.45%	2022	13,575	10,610
2011 Series G	4.00% to 4.25%	2035	29,110	25,800
2012 Series A	2.60%	2042	50,000	44,147
2012 Series B	2.25%	2042	75,000	68,753
2013 Series A	2.35%	2043	75,000	70,623
2013 Series B	2.70%	2041	85,148	76,123
2013 Series C	3.00%	2043	37,000	35,242
2014 Series A	3.00%	2044	38,527	38,527
			$ 811,110	$ 686,555

Series	Interest rate	Final Maturity	Original amount	June 30, 2014 Bonds Outstanding, at Par
Multifamily Housing Bonds				
2009	3.01%	2051	$ 15,000	$ 14,660
			$ 15,000	$ 14,660

Bonds Payable (continued)

Series	Interest rate	Final Maturity	Original amount	June 30, 2014 Bonds Outstanding, at Par
HOMES[SM]				
2013 Series A-1	3.50%	2043	$ 3,359	$ 3,318
2013 Series B-1	3.00%	2043	24,471	23,420
2013 Series C-1	3.50%	2043	4,713	4,639
			32,543	31,377
Combined Totals			$3,173,798	$2,018,912

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

Substantially all bonds are subject to optional redemption after various dates at an amount equal to 100% of the unpaid principal and accrued interest as set forth in the applicable series resolution. Annual debt service requirements to maturity for bonds outstanding as of June 30, 2014, are as follows (in thousands):

	Rental Housing		Residential Housing Finance	
Fiscal Year	Principal	Interest	Principal	Interest
2015	$ 5,925	$ 2,760	$ 67,165	$ 38,106
2016	3,545	2,623	31,640	37,442
2017	9,110	2,459	34,315	36,624
2018	3,415	2,291	33,290	35,760
2019	3,425	2,141	31,970	34,773
2020-2024	9,090	9,014	186,600	157,457
2025-2029	6,355	7,462	240,615	122,880
2030-2034	8,230	5,732	286,125	78,754
2035-2039	8,505	3,540	274,800	31,423
2040-2044	6,535	1,531	23,585	1,547
2045-2049	3,230	398	8,735	156
2050-2054	115	3	-	-
Total	$67,480	$39,954	$1,218,840	$574,922

	Multifamily Housing		Homeownership Finance	
Fiscal Year	Principal	Interest	Principal	Interest
2015	$ 230	$ 438	$ 12,565	$ 19,661
2016	230	431	8,975	19,462
2017	240	424	9,210	19,277
2018	240	417	9,475	19,051
2019	240	410	9,790	18,785
2020-2024	1,200	1,940	55,360	88,686
2025-2029	1,400	1,754	67,175	76,315
2030-2034	1,800	1,504	72,610	61,315
2035-2039	2,070	1,224	71,410	49,250
2040-2044	2,440	877	331,458	27,165
2045-2049	2,990	467	38,527	21
2050-2054	1,580	56	-	-
Total	$14,660	$ 9,942	$ 686,555	$398,988

Bonds Payable (continued)

	HOMES℠		Combined Totals	
Fiscal Year	Principal	Interest	Principal	Interest
2015	$ -	$ 981	$ 85,885	$ 61,946
2016	-	981	44,390	60,940
2017	-	981	52,875	59,765
2018	-	981	46,420	58,499
2019	-	981	45,425	57,090
2020-2024	-	4,906	252,250	262,003
2025-2029	-	4,906	315,545	213,316
2030-2034	-	4,906	368,765	152,212
2035-2039	-	4,906	356,785	90,342
2040-2044	31,377	4,088	395,395	35,208
2045-2049	-	-	53,482	1,043
2050-2054	-	-	1,695	59
Total	$31,377	$28,617	$2,018,912	$1,052,423

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, 2014 continue for the term of the bonds. Variable rate bond interest payments will vary as general short-term interest rates vary. Associated interest rate swaps are not included in the annual debt service requirements table. See the Swap Payments and Associated Debt table below to view those amounts.

The income and assets of each of the bond funds, except for the HOMES℠ fund, are pledged on a parity basis for the payment of principal and interest on the bonds issued, and to be issued, under the respective resolutions. All but one of the bond resolutions contains covenants that require the Agency to maintain certain reserves. The Agency believes that as of June 30, 2014, 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, 2014 for the redemption of certain bonds thereafter. See Subsequent Events.

On June 30, 2014 the Agency had in place a revolving line of credit with the Federal Home Loan Bank of Des Moines with an outstanding balance of $0.

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, 2014. The fair values approximate the termination payments that would have been due had the swaps been terminated as of June 30, 2014. 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, 2014, 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, 2014 is included under deferred outflows of resources as "Deferred loss on interest rate swap agreements."

Derivative Instruments-Interest Rate Swaps (continued)

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, 2014, debt service requirements of the Residential Housing Finance outstanding variable rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows (in thousands). As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year	Principal	Interest	Interest Rate Swaps, Net	Total
2015	$15,705	$216	$11,396	$ 27,317
2016	3,390	176	10,551	14,117
2017	6,545	173	9,768	16,486
2018	3,305	169	9,069	12,543
2019	4,560	167	8,542	13,269
2020-2024	37,105	785	35,695	73,585
2025-2029	62,065	647	25,599	88,311
2030-2034	87,280	432	17,852	105,564
2035-2039	83,315	171	7,057	90,543
2040-2044	6,735	49	1,399	8,183
2045-2049	7,750	17	480	8,247

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, 2014, 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.

Derivative Instruments-Interest Rate Swaps (continued)

Counterparty: The Bank of New York Mellon

Moody's* A1 (stable outlook) / Standard & Poor's** A (Negative outlook)

Associated Bond Series	Notional Amount as of June 30, 2014	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value[1] as of June 30, 2014	Increase (Decrease) in Fair Value since June 30, 2013
RHFB 2003B	$ 18,935	July 23, 2003	January 1, 2033	3.532%	65% of 1 month LIBOR*** plus 0.23% per annum	$(1,139)	$ (40)
RHFB 2003J	12,925	October 15, 2003	July 1, 2033	4.183%	65% of 1 month LIBOR*** plus 0.23% per annum	(1,281)	23
RHFB 2005C	15,480	March 2, 2005	January 1, 2035	3.587%	64% of 1 month LIBOR*** plus 0.28% per annum	(220)	407
RHFB 2005I	25,045	June 2, 2005	January 1, 2036	3.570%	64% of 1 month LIBOR*** plus 0.28% per annum	(725)	698
RHFB 2005M	36,430	August 4, 2005	January 1, 2036	3.373%	64% of 1 month LIBOR*** plus 0.29% per annum	(1,002)	975
RHFB 2006C	21,675	March 21, 2006	January 1, 2037	3.788%	64% of 1 month LIBOR*** plus 0.29% per annum	(911)	606
RHFB 2007S	18,975	December 19, 2007	July 1, 2038	4.340%	100% of SIFMA**** Index plus 0.06% per annum	(1,258)	(37)
RHFB 2007T (Taxable)	19,300	December 19, 2007	July 1, 2026	4.580%	100% of 1 month LIBOR*	(1,374)	602
Counterparty Total	$168,765					$(7,910)	$3,234

Derivative Instruments-Interest Rate Swaps (continued)

Counterparty: Royal Bank Of Canada

Moody's* Aa3 (Negative outlook) / Standard & Poor's** AA- (Stable outlook[2])

Associated Bond Series	Notional Amount as of June 30, 2014	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value[1] as of June 30, 2014	Increase (Decrease) in Fair Value since June 30, 2013
RHFB 2004G	$ 25,725	July 22, 2004	January 1, 2032	4.165%	64% of 1 month LIBOR*** plus 0.26% per annum	$ (1,926)	$ 513
RHFB 2007E (Taxable)	10,255	March 7, 2007	July 1, 2038	5.738%	100% of 1 month LIBOR***	(1,306)	276
RHFB 2007J (Taxable)	15,695	May 17, 2007	July 1, 2038	5.665%	100% of 1 month LIBOR***	(2,039)	408
RHFB 2008C	40,000	August 7, 2008	July 1, 2048	4.120%	64% of 1 month LIBOR*** plus 0.30% per annum	(3,279)	607
RHFB 2009C	40,000	February 12, 2009	July 1, 2036	4.215%	64% of 3 month LIBOR*** plus 0.30% per annum	(4,614)	552
RHFB 2009F	17,315	December 1, 2009	January 1, 2017	2.365%	100% of weekly SIFMA****plus 0.08% per annum	(458)	307
Counterparty Total	$148,990					$(13,622)	$2,663
Combined Totals	$317,755					$(21,532)	$5,897

1. A positive fair value represents money due to the Agency by the counterparty upon an assumed termination of the swap while a negative fair value represents the amount payable by the Agency.
2. Standard and Poor's changed their outlook for Royal Bank of Canada to negative in August, 2014.

* 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, 2014, 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, 2014, 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, 2014, the interest rate on the Agency’s variable rate tax-exempt debt ranged from 0.05% to 0.07% per annum while the variable interest rate on the associated swaps ranged from 0.14% to 0.41% per annum. As of June 30, 2014, the interest rate on the Agency’s variable rate taxable debt was 0.15% per annum while the variable interest rate on the corresponding swaps ranged from 0.15% 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. 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, 2014, are as follows: (in thousands):

Derivative Instruments-Forward Sales Contracts (continued)

Counterparty Short-Term Rating	Number of Contracts	Notional Amount	Original Price	Market Price	Fair Value ***
A-1* / F1**	29	$53,500	$55,789	$56,295	$(506)
A-1* / F1**	26	44,500	46,342	46,807	(465)
A-1* / F1**	12	21,000	21,705	21,855	(150)
A-2*	2	5,000	5,308	5,366	(58)
	69	$124,000	$129,144	$130,323	$(1,179)

* Standard and Poor's Rating Services, Inc
** Fitch Ratings, Ltd
*** The negative fair value represents the amount payable by the Agency to the counterparty upon liquidation of the commitment to sell mortgage-backed securities.

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, 2014, $28.615 million of the bonds were outstanding.

On January 16, 2014 the Agency issued short-term tax-exempt bonds on a conduit basis to enable a nonprofit corporation to obtain Low Income Housing Tax Credit 4% credits in connection with the acquisition and rehabilitation of a certain HUD Section 8 multifamily permanent supportive housing development in Minnesota. As of June 30, 2014, $1.885 million of the bonds were outstanding.

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

Appropriation Debt Obligation

The Agency has outstanding bonds under two indentures of trust that permit capital funding for loans for permanent supportive housing for long-term homeless households, preservation of federally assisted housing and other purposes. As of June 30, 2014, $59.680 million of bonds were outstanding. This debt is not a general obligation of the Agency and is not payable from any funds or assets of the Agency. These bonds are payable solely from the appropriations the Agency expects to receive from the State General Fund pursuant to standing appropriations to be made by the Legislature as authorized by state laws adopted in 2008 and 2012. Thus, the bonds are not recorded as a liability in the accompanying financial statements.

Accounts Payable

Accounts payable and other liabilities at June 30, 2014 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	$ -	$3,019	$ 831	$3,850
Rental Housing	2,314	-	26	2,340
Residential Housing Finance	606	-	1,157	1,763
Homeownership Finance	-	-	102	102
Multifamily Housing	-	-	-	-
HOMES℠	-	-	-	-
State Appropriated	-	-	1,356	1,356
Federal Appropriated	-	-	143	143
Combined Totals	$2,920	$3,019	$3,615	$9,554

The amount of arbitrage rebate payable and yield compliance liability that is not due within one year in Rental Housing is $2.314 million and in Residential Housing Finance $0.606 million, for a total of $2.920 million.

Interfund Balances

Interfund balances displayed as Interfund Payable (Receivable) at June 30, 2014 consisted of the following (in thousands):

		Due from								
	Funds	General Reserve	Rental Housing	Residential Housing Finance	Home-ownership Finance	Multifamily Housing	HOMES℠	State Appropriated	Federal Appropriated	Total
Due to	General Reserve	$ -	$-	$-	$-	$-	$-	$343	$654	$ 997
	Rental Housing	-	-	-	-	-	-	-	-	-
	Residential Housing Finance	2,297	-	-	-	-	-	-	-	2,297
	Homeownership Finance	-	-	-	-	-	-	-	-	-
	Multifamily Housing	-	-	-	-	-	-	-	-	-
	HOMES℠	-	-	-	-	-	-	-	-	-
	State Appropriated	-	-	-	-	-	-	-	-	-
	Federal Appropriated	-	-	-	-	-	-	-	-	-
	Agency-wide Totals	$2,297	$-	$-	$-	$-	$-	$343	$654	$3,294

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, 2014 consisted of the following (in thousands):

	Transfer from								
Transfer to — Funds	General Reserve	Rental Housing	Residential Housing Finance	Home-ownership Finance	Multifamily Housing	HOMES℠	State Appropriated	Federal Appropriated	Total
General Reserve	$ -	$1,148	$13,295	$4,323	$97	$-	$ 902	$660	$20,425
Rental Housing	-	-	-	-	-	-	-	-	-
Residential Housing Finance	123	-	-	-	-	-	2,215	-	2,338
Homeownership Finance	-	-	-	-	-	-	-	-	-
Multifamily Housing	-	-	-	-	-	-	-	-	-
HOMES℠						-			
State Appropriated	-	-	135	-	-	-	-	-	135
Federal Appropriated	-	50	-	-	-	-	-	-	50
Agency-wide Totals	$123	$1,198	$13,430	$4,323	$97	$-	$3,117	$660	$22,948

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 $2.026 million of entry cost assistance loans transferred from Residential Housing Finance to State Appropriated; and to make payments from Rental Housing to Residential Housing Finance on loans outstanding between those funds.

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds for the year ended June 30, 2014, consisted of the following (in thousands):

	Transfer from								
Transfer to — Funds	General Reserve	Rental Housing	Residential Housing Finance	Home-ownership Finance	Multifamily Housing	HOMES℠	State Appropriated	Federal Appropriated	Total
General Reserve	$ -	$-	$ -	$ -	$-	$-	$-	$-	$ -
Rental Housing	-	-	13	-	-	-	-	-	13
Residential Housing Finance	4,813	-	-	446	-	1,203	-	-	6,462
Homeownership Finance	-	-	2,078	-	-	-	-	-	2,078
Multifamily Housing	-	-	-	-	-	-	-	-	-
HOMES℠	-	-	381	-	-	-	-	-	381
State Appropriated	-	-	-	-	-	-	-	-	-
Federal Appropriated	-	-	-	-	-	-	-	-	-
Agency-wide Totals	$4,813	$-	$2,472	$446	$-	$1,203	$-	$-	$8,934

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 $490.527 million restricted by covenant portion of net position is restricted by a covenant made with bondholders authorized by the Agency's enabling legislation.

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

The combined net position of the General Reserve and bond funds (exclusive of Pool 3, accumulated unrealized gains/losses on investments, and realized gains/losses in sale of investments between Agency funds) is required by Board investment guidelines to be not less than the combined net position of the same funds (exclusive of cumulative unrealized gains/losses on investments) as of the immediately preceding fiscal year end. That combined net position was $682.308 million as of June 30, 2013 and $683.047 million as of June 30, 2014.

Net Position (continued)

The following table describes the restricted by covenant portion of net position, including the balances to be maintained according to the Agency's Board investment guidelines, as of June 30, 2014 (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 appropriation-funded loans) and must be invested in short-term, investment-grade securities at market interest rates	$ 14,398	$ -	$ 14,398
Unrealized depreciation in fair market value of investments, excluding multifamily development escrow investments	-	-	-
Subtotal, Housing Endowment Fund (Pool 1), General Reserve	$ 14,398	$ -	$ 14,398
Housing Investment Fund (Pool 2), Residential Housing Finance			
An amount that causes the combined net assets in the General Reserve and bond funds (exclusive of: Pool 3, unrealized gains/losses on investments, and realized gains/losses from the sale of investments between Agency funds) to be at least equal to the combined net assets of the same funds for the immediately preceding audited fiscal year end (after restatements, if any, required by generally accepted accounting principles). During fiscal year 2014, $28,000 was transferred from Pool 2 to Pool 3 in compliance with these Board gudielines. Pool 2 is invested in investment-quality housing loans, as defined by the Agency, or investment-grade securities.	363,110	-	363,110
Unrealized appreciation in fair market value of investments	-	(666)	(666)
Subtotal, Housing Investment Fund (Pool 2), Residential Housing Finance	363,110	(666)	362,444
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.	112,805	-	112,805
Unrealized appreciation in fair market value of investments	-	880	880
Subtotal, Housing Affordability Fund (Pool 3), Residential Housing Finance	112,805	880	113,685
Agency-wide Total	$490,313	$214	$490,527

Net Position (continued)

Restricted by Law

Undisbursed, recognized federal and state appropriations are classified as Restricted by Law under Net Position. The $8.093 million balance of Restricted by Law in the Federal Appropriated fund as of June 30, 2014 is restricted by federal requirements that control the use of the funds. The $121.984 million balance of Restricted by Law in the State Appropriated fund as of June 30, 2014 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. That contribution rate increased to 5.5% on July, 1, 2014.

The Agency’s pension contribution to the System for the fiscal year ended June 30, 2014 was $820 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.

Defined Benefit Pension Plan (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	Actual Covered Payroll (Previous FY)	UAAL as a % of Covered Payroll
7/1/2013	$9,375,780	$11,428,641	$2,052,861	82.04%	$2,483,000	82.68%
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%

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
2013	12.32%	$2,483,000	$124,150	$181,756	$121,673	66.94%
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%

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

The information presented was as of July 1, 2013, which is the latest actuarial information available.

The above summarizes the defined benefit pension plan. Please refer to the July 1, 2013, 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 net other postemployment benefit obligation (NOO) for the Agency is $162 thousand for fiscal year 2014. 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, 2013, 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.

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
6/30/2011	$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
6/30/2014	62,409	30,222	48.43%	226,173

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

Fiscal Year Ended	Annual Required Contribution (ARC)	Employer Contribution	Interest on NOO	ARC Adjustment with Interest	Amortization Factor	Annual OPEB Cost	Change in NOO	NOO Balance
6/30/2011	$65,534	$34,208	$5,341	$4,349	27.084	$66,526	$32,318	$144,765
6/30/2012	68,918	46,519	6,876	5,599	27.084	70,195	23,676	168,441
6/30/2013	58,052	33,772	8,001	6,736	26.195	59,317	25,545	193,986
6/30/2014	60,952	30,222	9,214	7,757	26.195	62,409	32,187	226,173

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	$ 5,001,947
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 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, 2014, 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	40,866
Residential Housing Finance	193,072
Homeownership Finance	-
Multifamily Housing	-
HOMES℠	-
State Appropriated	82,588
Federal Appropriated	14,824
Agency Wide Totals	$331,350

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 2016, totaling $3.616 million. Combined office facilities and parking lease expense for fiscal year 2014 was $1.196 million.

On June 30, 2014 the Agency had in place a revolving line of credit with the Federal Home Loan Bank of Des Moines. Draws against the line of credit are required to be collateralized with mortgage-backed securities which reside in Pool 2. As of June 30, 2014, $18.169 million of mortgage-backed securities were pledged. The advances taken during fiscal year 2014 were used to purchase and warehouse mortgage-backed securities in Pool 2. The line of credit activity for the year ended June 30, 2014, is summarized as follows (in thousands):

Beginning Balance	Draws	Repayments	Ending Balance
$10,000	$119,000	$129,000	$ -

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

Subsequent Events

The Agency called for redemption subsequent to June 30, 2014 the following bonds (in thousands):

Program	Retirement Date	Par
Homeownership Finance	July 1, 2014	$ 3,710,000
Residential Housing Finance	July 1, 2014	38,390,000
Homeownership Finance	August 1, 2014	2,185,000
Residential Housing Finance	August 1, 2014	10,065,000
Rental Housing	August 1, 2014	15,785,000
Rental Housing	August 15, 2014	4,150,000
Homeownership Finance	September 1, 2014	2,470,000
Residential Housing Finance	September 1, 2014	2,530,000
Rental Housing	September 15, 2014	1,355,000

On June 5, 2014, 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, 2014 Series B and C, in the principal amount of $32.5 million are scheduled to be delivered on August 26, 2014.

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information
General Reserve and Bond Funds
Five Year Financial Summary (in thousands)
Fiscal Years 2010 – 2014

		2010	2011	2012	2013	2014
Loans Receivable net (as of June 30)	Multifamily programs	$ 334,565	$ 329,452	$ 339,306	$ 354,059	$ 338,782
	Homeownership programs	1,780,911	1,589,329	1,372,835	1,166,480	1,028,918
	Home Improvement programs	116,713	111,670	98,987	87,973	85,535
	Total	$2,232,189	$2,030,451	$1,811,128	$1,608,512	$1,453,235
Mortgage-backed securities, net, at par (as of June 30)	Program mortgage-backed securities	$ 32,321	$ 349,676	$ 621,678	$ 801,771	$ 900,321
	Warehoused mortgaged-backed securities	$ 107,330	$49,688	$5,081	$56,007	$28,728
	Total	$ 139,651	$ 399,364	$ 626,759	$ 857,778	$ 929,049
Bonds Payable, net (as of June 30)	Multifamily programs	$ 165,085	$ 172,692	$ 119,667	$ 86,655	$ 82,140
	Homeownership programs	2,524,422	2,372,722	2,050,422	2,034,472	1,936,772
	Home Improvement programs	15,000	10,000	-	-	-
	Total	$2,704,507	$2,555,414	$2,170,089	$2,121,127	$2,018,912
Mortgage-backed securities purchased, at par and loans purchased or originated during fiscal year	Multifamily programs	$ 20,874	$ 33,956	$ 51,091	$ 36,757	$ 15,867
	Homeownership programs	55,891	31,372	12,736	18,999	23,912
	Program and warehoused mortgage-backed securities	140,992	288,580	248,423	296,751	160,485
	Home Improvement programs	32,299	22,780	11,245	10,627	15,202
	Total	$ 250,056	$ 376,688	$ 323,495	$ 363,134	$ 215,466
Net Position (as of June 30)	Total Net Position *	$ 683,233	$ 683,638	$ 724,098	$ 682,308	$ 696,154
	Percent of total assets and deferred outflows of resources *	19.1%	19.9%	23.5%	23.0%	24.0%
Revenue over Expenses	Revenues over expenses for the fiscal year *	$ 14,991	$ 14,305	$ 57,460	($19,587)	$ 41,846

Notes:

* Excludes Pool 3

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information
Statement of Net Position (in thousands)
General Reserve and Bond Funds
As of June 30, 2014 (with comparative totals as of June 30, 2013)

			Bond Funds		
				Residential Housing Finance	
		General Reserve	Rental Housing	Bonds	Pool 2
Assets	Cash and cash equivalents	$57,160	$ 29,027	$ 145,210	$ 55,771
	Investments- program mortgage-backed securities	-	-	218,665	-
	Investment securities- other	29,778	10,423	59,639	28,880
	Loans receivable, net	-	146,061	953,308	308,642
	Interest receivable on loans and program mortgage-backed securities	-	713	7,073	1,491
	Interest receivable on investments	133	32	394	89
	FHA/VA insurance claims, net	-	-	3,623	113
	Real estate owned, net	-	-	8,780	66
	Capital assets, net	3,385	-	-	-
	Other assets	1,067	4	33	729
	Total assets	91,523	186,260	1,396,725	395,781
Deferred outflows of Resources	Deferred loss on refunding	-	704	366	-
	Deferred loss on interest rate swap agreements	-	-	21,532	-
	Total assets and deferred outflows of resources	$91,523	$186,964	$1,418,623	$395,781
Liabilities	Bonds payable	$ -	$ 67,480	$1,218,840	$ -
	Interest payable	-	1,156	24,925	-
	Interest rate swap agreements	-	-	21,532	-
	Accounts payable and other liabilities	3,850	2,340	1,324	413
	Interfund payable (receivable)	1,300	-	-	25,693
	Funds held for others	68,590	-	-	-
	Total liabilities	73,740	70,976	1,266,621	26,106
Deferred inflows of Resources	Deferred revenue- service release fee	-	-	-	7,231
	Total liabilities and deferred inflows of resources	$73,740	$ 70,976	$1,266,621	$ 33,337
	Commitments and contingencies				
Net Position	Restricted by bond resolution	-	115,988	152,002	-
	Restricted by covenant	14,398	-	-	362,444
	Invested in capital assets	3,385	-	-	-
	Total net position	17,783	115,988	152,002	362,444
	Total liabilities, deferred inflows, and net position	$91,523	$186,964	$1,418,623	$395,781

Bond Funds			General Reserve & Bond Funds Excluding Pool 3	General Reserve & Bond Funds Excluding Pool 3	Residential Housing Finance Pool 3	General Reserve & Bond Funds	General Reserve & Bond Funds
Home-ownership Finance	Multifamily Housing	HOMES℠	Total For The Year Ended June 30, 2014	Total For The Year Ended June 30, 2013	Total For The Year Ended June 30, 2014	Total For The Year Ended June 30, 2014	Total For The Year Ended June 30, 2013
$ 28,562	$ 831	$ -	$ 316,561	$ 339,385	$10,165	$ 326,726	$ 344,541
706,858	-	-	925,523	814,692	-	925,523	814,692
2,410	438	31,955	163,523	181,411	44,823	208,346	214,784
-	14,635	-	1,422,646	1,577,357	30,589	1,453,235	1,608,512
2,167	53	-	11,497	14,769	72	11,569	14,856
1	1	82	732	697	71	803	729
-	-	-	3,736	8,675	-	3,736	8,675
-	-	-	8,846	9,282	-	8,846	9,282
-	-	-	3,385	2,930	-	3,385	2,930
19	-	-	1,852	2,181	1	1,853	2,633
740,017	15,958	32,037	2,858,301	2,951,379	85,721	2,944,022	3,021,634
-	-	-	1,070	1,437	-	1,070	1,437
-	-	-	21,532	27,429	-	21,532	27,429
$740,017	$15,958	$32,037	$2,880,903	$2,980,245	$85,721	$2,966,624	$3,050,500
$686,555	$14,660	$31,377	$2,018,912	$2,131,127	$ -	$2,018,912	$2,131,127
6,684	37	82	32,884	37,112	-	32,884	37,112
-	-	-	21,532	27,429	-	21,532	27,429
102	-	-	8,029	8,315	26	8,055	8,343
-	-	-	26,993	18,228	(27,990)	(997)	(829)
-	-	578	69,168	68,863	-	69,168	68,863
693,341	14,697	32,037	2,177,518	2,291,074	(27,964)	2,149,554	2,272,045
-	-	-	7,231	6,863	-	7,231	6,863
$693,341	$73,740	$32,037	$2,184,749	$2,297,937	$(27,964)	$2,156,785	$2,278,908
46,676	1,261	-	315,927	290,913	-	315,927	290,913
-	-	-	376,842	388,465	113,685	490,527	477,749
-	-	-	3,385	2,930	-	3,385	2,930
46,676	1,261	-	696,154	682,308	113,685	809,839	771,592
$740,017	$15,958	$32,037	$2,880,903	$2,980,245	$85,721	$2,966,624	$3,050,500

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information
Statement of Revenues, Expenses and Changes in Net Position (in thousands)
General Reserve and Bond Funds
Year ended June 30, 2014 (with comparative totals for year ended June 30, 2013)

			Bond Funds		
				Residential Housing Finance	
		General Reserve	Rental Housing	Bonds	Pool 2
Revenues	Interest earned on loans	$ -	$ 9,671	$ 57,686	$ 18,924
	Interest earned on investments- program mortgage-backed securities	-	-	4,345	-
	Interest earned on investments- other	96	402	1,743	(820)
	Net gain on sale of MBS held for sale and HOMES certificates	-	-	-	3,768
	Administrative reimbursement	20,656	-	-	-
	Fees earned and other income	9,105	775	-	1,327
	Unrealized gains (losses) on Investments	-	275	5,033	(105)
	Total revenues	29,857	11,123	68,807	23,094
Expenses	Interest	-	3,568	52,266	25
	Loan administration and trustee fees	-	84	3,144	1,690
	Administrative reimbursement	-	1,148	8,468	3,626
	Salaries and benefits	20,909	-	-	-
	Other general operating	5,330	1	11	3
	Reduction in carrying value of certain low interest rate deferred loans	-	(16)	-	713
	Provision for loan losses	-	1,101	(2,102)	1,126
	Total expenses	26,239	5,886	61,787	7,183
	Revenue over (Under) expenses	3,618	5,237	7,020	15,911
Other changes	Non-operating transfer of assets between funds	(4,813)	13	1,874	(25,884)
	Change in net position	(1,195)	5,250	8,894	(9,973)
Net Position	Total net position, beginning of year	18,978	110,738	143,108	372,417
	Total net position, end of year	$17,783	$115,988	$152,002	$362,444

Bond Funds							
Home-ownership Finance Bonds	Multifamily Housing Bonds	HOMES℠	General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2014	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, 2014	General Reserve & Bond Funds Total For The Year Ended June 30, 2014	General Reserve & Bond Funds Total For The Year Ended June 30, 2013
$ -	$ 646	$ -	$ 86,927	$ 98,513	$ 301	$ 87,228	$ 98,781
24,847	-	-	29,192	26,786	-	29,192	26,786
4	6	858	2,289	5,969	631	2,920	6,929
-	-	822	4,590	-	-	4,590	-
-	-	-	20,656	19,820	-	20,656	19,820
12	-	-	11,219	10,990	183	11,402	11,184
10,695	10	-	15,908	(38,025)	859	16,767	(38,930)
35,558	662	1,680	170,781	124,053	1,974	172,755	124,570
21,844	445	858	79,006	87,885	-	79,006	87,885
263	6	-	5,187	5,429	12	5,199	5,444
4,323	97	-	17,662	17,200	1,201	18,863	18,325
-	-	-	20,909	19,135	-	20,909	19,135
5	-	-	5,350	5,427	3,624	8,974	10,464
-	-	-	697	(320)	633	1,330	2,083
-	(1)	-	124	8,884	103	227	9,323
26,435	547	858	128,935	143,640	5,573	134,508	152,659
9,123	115	822	41,846	(19,587)	(3,599)	38,247	(28,089)
1,632	-	(822)	(28,000)	(19,000)	28,000	-	-
10,755	115	-	13,846	(38,587)	24,401	38,247	(28,089)
35,921	1,146	-	682,308	720,895	89,284	771,592	799,681
$46,676	$1,261	$ -	$696,154	$682,308	$113,685	$809,839	$771,592

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds (continued)
Year ended June 30, 2014 (with comparative totals for year ended June 30, 2013)

			Bond Funds
		General Reserve	Rental Housing
Cash flows from operating activities	Principal repayments on loans and program mortgage-backed securities	$ -	$23,114
	Investment in loans and program mortgage-backed securities	-	(8,085)
	Interest received on loans and program mortgage-backed securities	-	9,103
	Other operating	-	-
	Fees and other income received	8,958	775
	Salaries, benefits and vendor payments	(24,543)	(91)
	Administrative reimbursement from funds	20,426	(1,148)
	Deposits into funds held for others	30,637	-
	Disbursements made from funds held for others	(31,705)	-
	Interfund transfers and other assets	(2,456)	6
	Net cash provided (used) by operating activities	1,317	23,674
Cash flows from non-capital financing activities	Proceeds from sale of bonds and notes	-	13,880
	Principal repayment on bonds and notes	-	(18,165)
	Interest paid on bonds and notes	-	(3,071)
	Financing costs paid related to bonds issued	-	(390)
	Agency contribution to program funds	-	13
	Transfer of cash between funds	(4,108)	-
	Net cash provided (used) by noncapital financing activities	(4,108)	(7,733)
Cash flows from investing activities	Investment in real estate owned	-	-
	Interest received on investments	637	208
	Net gain on sale of MBS held for sale and HOME certificates	-	-
	Proceeds from sale of mortgage insurance claims/real estate owned	-	-
	Proceeds from maturity, sale or transfer of investment securities	5,000	2,236
	Purchase of investment securities	-	(4,223)
	Purchase of loans between funds	-	-
	Net cash provided (used) by investing activities	5,637	(1,779)
	Net increase (decrease) in cash and cash equivalents	2,846	14,162
Cash and cash equivalents	Beginning of year	54,314	14,865
	End of year	$57,160	$29,027

Bond Funds: Residential Housing Finance: Bonds	Bond Funds: Residential Housing Finance: Pool 2	Bond Funds: Home-ownership Finance	Bond Funds: Multi-family Housing	Bond Funds: HOMES℠	General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2014	Residential Housing Finance Pool 3 Total For The Year Ended June 30, 2014	General Reserve & Bond Funds Total For The Year Ended June 30, 2014	General Reserve & Bond Funds Total For The Year Ended June 30, 2013
$119,984	$30,211	$69,334	$155	$ -	$242,798	$ 3,305	$246,103	281,275
(101,369)	(41,170)	(76,626)	-	-	(227,250)	(5,170)	(232,420)	(314,137)
60,297	18,214	25,613	647	-	113,874	693	114,567	120,745
-	-	65	-	-	65	(3,599)	(3,534)	(4,975)
-	8,559	12	-	-	18,304	183	18,487	18,211
(3,695)	(8,503)	(316)	(6)	-	(37,154)	(39)	(37,193)	(35,761)
(8,468)	(3,626)	(4,323)	(97)	-	2,764	(1,201)	1,563	1,325
-	-	-	-	-	30,637	-	30,637	28,973
-	-	-	-	-	(31,705)	-	(31,705)	(33,898)
(3)	476	1	-	-	(1,976)	506	(1,470)	(3,243)
66,746	4,161	13,760	699	-	110,357	(5,322)	105,035	58,515
103,766	119,000	75,527	-	32,543	344,716	-	344,716	754,731
(233,765)	(129,000)	(70,839)	(230)	(1,166)	(453,165)	-	(453,165)	(787,066)
(55,395)	(15)	(21,072)	(445)	(776)	(80,774)	-	(80,774)	(89,301)
(2,640)	(11)	(734)	-	-	(3,775)	-	(3,775)	(4,459)
2,089	(2,393)	2,078	-	(1,203)	584	(584)	-	-
-	4,108	-	-	-	-	-	-	-
(185,945)	(8,311)	(15,040)	(675)	29,398	(192,414)	(584)	(192,998)	(126,095)
(4,425)	(117)	-	-	-	(4,542)	-	(4,542)	(5,368)
2,688	2,131	4	6	776	6,450	346	6,796	7,578
-	2,208	-	-	1,203	3,411	-	3,411	-
53,898	582	-	-	-	54,480	-	54,480	60,668
14,740	405,040	390	-	1,166	428,572	24,646	453,218	439,817
(20,535)	(371,733)	(800)	-	(32,543)	(429,834)	(15,407)	(445,241)	(464,051)
-	696	-	-	-	696	1,330	2,026	2,318
46,366	38,807	(406)	6	(29,398)	59,233	10,915	70,148	40,962
(72,833)	34,657	(1,686)	30	-	(22,824)	5,009	(17,815)	(26,618)
218,043	21,114	30,248	801	-	339,385	5,156	344,541	371,159
$145,210	$55,771	$28,562	$831	$ -	$316,561	$10,165	$326,726	$344,541

(Continued)

Statement of Cash Flows (in thousands)

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

	General Reserve	Bond Funds: Rental Housing
Revenues over (under) expenses	$3,618	$ 5,237
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:		
Amortization of premiums (discounts) and fees on program mortgage-backed securities	-	(239)
Amortization of premium (discounts) and fees on sale of HOMES certificates	-	-
Depreciation	1,789	-
Gain on sale of MBS held for sale and HOMES certificates	-	-
Realized losses (gains) on sale of securities, net	-	(47)
Unrealized losses (gains) on securities, net	-	(275)
Provision for loan losses	-	1,101
Reduction in carrying value of certain low interest rate and/or deferred loans	-	(16)
Capitalized interest on loans and real estate owned	-	(8)
Interest earned on investments	(96)	(215)
Interest expense on bonds and notes	-	3,568
Changes in assets and liabilities:		
Decrease (increase) in loans receivable and program mortgage backed securities, excluding loans transferred between funds	-	15,029
Decrease (increase) in interest receivable on loans	-	79
Increase (decrease) in arbitrage rebate liability	-	(540)
Increase (decrease) in accounts payable	-	(6)
Increase (decrease) in interfund payable, affecting operating activities only	(353)	-
Decrease in funds held for others	(1,068)	-
Other	(2,573)	6
Total	(2,301)	18,437
Net cash provided (used) by operating activities	$1,317	$23,674

Bond Funds: Residential Housing Finance: Bonds	Bond Funds: Residential Housing Finance: Pool 2	Bond Funds: Home-ownership Finance	Bond Funds: Multi-family Housing	Bond Funds: HOMES[SM]	General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2014	Residential Housing Finance Pool 3 Total For The Year Ended June 30, 2014	General Reserve & Bond Funds Total For The Year Ended June 30, 2014	General Reserve & Bond Funds Total For The Year Ended June 30, 2013
$ 7,020	$15,911	$ 9,123	$115	$ 822	$ 41,846	$(3,599)	$ 38,247	$(28,089)
193	(723)	780	-	-	11	365	376	530
-	202	-	-	381	583	-	583	-
-	-	-	-	-	1,789	-	1,789	1,511
-	(3,970)	-	-	(1,203)	(5,173)	-	(5,173)	-
58	2,790	-	-	-	2,801	(41)	2,760	(819)
(5,033)	105	(10,695)	(10)	-	(15,908)	(859)	(16,767)	38,930
(2,102)	1,126	-	-	-	125	103	228	9,323
-	713	-	(1)	-	696	633	1,329	2,083
(5,039)	(80)	-	-	-	(5,127)	-	(5,127)	(4,737)
(2,294)	(1,970)	(4)	(6)	(858)	(5,443)	(590)	(6,033)	(6,254)
52,266	25	21,844	445	858	79,006	-	79,006	87,885
18,615	(10,959)	(7,292)	155	-	15,548	(1,865)	13,683	(32,862)
3,112	94	(14)	1	-	3,272	15	3,287	(158)
493	-	-	-	-	(47)	-	(47)	(313)
(538)	423	17	-	-	(104)	(2)	(106)	(6)
(3)	124	-	-	-	(232)	67	(165)	(228)
-	-	-	-	-	(1,068)	-	(1,068)	(4,925)
(2)	350	1	-	-	(2,218)	451	(1,767)	(3,356)
59,726	(11,750)	4,637	584	(822)	68,511	(1,723)	66,788	86,604
$66,746	$ 4,161	$13,760	$699	$ -	$110,357	$(5,322)	$105,035	$58,515

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