

# Annual Financial Report

*Fiscal Year 2021*





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# MINNESOTA HOUSING FINANCE AGENCY

## Annual Financial Report as of and for the year ended June 30, 2021

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# MINNESOTA HOUSING FINANCE AGENCY

## Commissioner's Report

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The past year has brought extraordinary changes to Minnesota Housing's industry, partners and staff as we've weathered the COVID-19 pandemic. The Agency's entire 2021 fiscal year (July 1, 2020 to June 30, 2021) has unfolded in the shadow of a worldwide public health crisis and far-reaching economic stress placed on low-income renters and homeowners alike. The Agency has had the opportunity and challenge of administering large-scale direct assistance to struggling Minnesotans while working remotely, often with schoolchildren afoot, and steadily in the public eye. The stressors have been many, making the year's accomplishments all the more remarkable.

### **Creating and preserving homes Minnesotans can afford**

At the heart of Minnesota Housing's mission is creating and preserving affordable rental and homeownership opportunities across the state. To that end, Minnesota Housing announced the following funding selections and project advancements as part of our annual consolidated Request for Proposals:

- Selected 22 multifamily applications to create/preserve 1,389 rental units.
- Advanced 11 Housing Infrastructure Bond applications to create/preserve 615 rental units.
- Supported \$529 million in total development costs through its Multifamily selections.
- Selected 40 Single-family applications to create/preserve 383 homes.
- Supported \$35.5 million in total development costs through its Single-family selections.

### **Promoting affordable homeownership**

Minnesota Housing's home mortgage production exceeded last year's record-breaking results. Highlights include the following:

- Programs for first-time and repeat homebuyers totaled over \$1.1 billion in mortgage financing for almost 5,400 households.
- Provided \$57 million in loans to cover down payment and closing costs related to first mortgage financing.
- 96% of homeowners who use Minnesota Housing homeownership programs also used Agency downpayment/closing cost assistance loan programs.
- Over 1,400 borrowers accessed more than \$36 million in capital to improve or rehabilitate their homes.
- 35% of homeownership first mortgage loans were made to Black or Indigenous households or households of color.

### **Delivering financial assistance through programs**

In addition to direct lending, Minnesota Housing administers a variety of programs that provide rental assistance to individuals and families who are homeless or who face housing instability, as well as individuals experiencing behavioral health issues. Minnesota Housing runs grant programs providing resources aimed at making homelessness rare, brief and one-time. Minnesota Housing also manages the federal Section 8 and performance-based contract programs in the state.

- Programs to assist individuals and families who are homeless or who face housing instability reached over 10,000 individuals and families in the last year.
- Federal contract programs delivered more than \$210 million in assistance on behalf of households across the state.

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## MINNESOTA HOUSING FINANCE AGENCY

### Commissioner's Report (continued)

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#### **Addressing equity and inclusion, especially with regard to race and disability**

The murder of George Floyd in south Minneapolis in May 2020 launched a protest that inspired communities far beyond Minnesota to speak out on behalf of Black individuals and other communities of color that have experienced systemic racism for decades or even centuries. The racial reckoning has furthered the Agency's own actions in this space. Progress at the Agency includes these changes:

- Adding a Director of Equity and Inclusion to the Agency's Servant Leadership Team.
- Implementing a stretch goal of delivering 40% of single-family homebuyer loan products to Black and Indigenous households and households of color.
- Centering the most impacted communities in our program design priorities.
- Expanding the Minnesota Interagency Council on Homelessness plan to address racial equity and lift up the voices of those with lived experience of homelessness.
- Increasing opportunities for individuals with disabilities to live and work in integrated settings through the Olmstead Subcabinet and the Olmstead Implementation Office.

#### **Delivering emergency housing assistance related to COVID-19**

Minnesota Housing has not provided large-scale direct housing assistance to individual households and property owners in the past, but that has changed in the past year.

- Distributed approximately \$82 million from the state in Coronavirus Relief Funds to eligible renters and homeowners struggling with housing payments through the COVID-19 Housing Assistance Program.
- Built and is currently administering a total of approximately \$530 million in two installments of Emergency Rental Assistance funds from the U.S. Department of Treasury through RentHelpMN.
- Currently developing HomeHelpMN to administer a \$128 million program, the Homeowner Assistance Fund, also issued by Treasury.

Minnesota Housing's work is made possible by our partners and investors across the state and country. Reflecting on this most unusual year, we commend the unflagging commitment and perseverance of the Agency's 270 employees who have continued to deliver high-quality funding and programs while facing unprecedented challenges.



Jennifer Leimaile Ho, Commissioner  
Minnesota Housing



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# MINNESOTA HOUSING FINANCE AGENCY

## Independent Auditors' Report

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### Independent Auditor's Report

Board of Directors  
Minnesota Housing Finance Agency

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

We have audited the accompanying financial statements of the business-type activities and each major fund of Minnesota Housing Finance Agency (the Agency), a component unit of the State of Minnesota, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

#### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Agency as of June 30, 2021, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Other Matters**

##### ***Report on Summarized Comparative Information***

The financial statements include summarized prior-year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended June 30, 2020, from which such summarized information was derived. As discussed in the "Summary of Significant Accounting Policies" note to the financial statements, management changed the presentation of the Statement of Financial Position to a classified format during fiscal year ended June 30, 2021. Summarized comparative information presented as of June 30, 2020 was reclassified to current and noncurrent accordingly.

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## MINNESOTA HOUSING FINANCE AGENCY

### Independent Auditors' Report (continued)

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#### ***Required Supplementary Information***

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

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

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

The 2021 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 2021 supplementary information is fairly stated, in all material respects, in relation to the 2021 basic financial statements as a whole.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the Agency's 2020 basic financial statements (not presented herein), and have issued our report thereon dated August 27, 2020, which contained unmodified opinions on the respective financial statements of the business-type activities and each major fund. The accompanying supplementary information, as listed in the table of contents, for the year ended June 30, 2020, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2020 basic financial statements. The accompanying 2020 supplementary information has been subjected to the auditing procedures applied in the audit of the 2020 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements, or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2020 supplementary information is fairly stated in all material respects in relation to the 2020 basic financial statements taken as a whole.

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

***RSM US LLP***

Duluth, Minnesota  
November 18, 2021



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# MINNESOTA HOUSING FINANCE AGENCY

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

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### Introduction

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

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

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

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

### Discussion of Financial Statements

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

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

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

The basic financial statements also include summarized comparative totals as of and for the year ended June 30, 2020. 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 2021 in comparison to the prior fiscal year.

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# MINNESOTA HOUSING FINANCE AGENCY

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

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### General Overview

#### General Overview

Minnesota Housing financial statements are presented in two formats: agency-wide and by fund. Funds include Rental Housing, Residential Housing Finance, Homeownership Finance, Multifamily Housing, and HOMES<sup>SM</sup> (collectively the bond funds); State and Federal Appropriated (collectively the appropriated funds) and General Reserve. Agency-wide financial statements are provided to display a comprehensive view of all Minnesota Housing funds as required by accounting principles generally accepted in the United States of America applicable to governmental entities under accounting standards promulgated from time to time by the Governmental Accounting Standards Board (GASB). Agency-wide financial statements reflect totals of similar accounts for various funds. However, substantially all of the funds in these accounts are restricted as to use by Agency covenants or legislation as further described below.

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

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

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

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

### Discussion of Individual Funds

#### General Reserve

The purposes of General Reserve are to maintain sufficient liquidity for Minnesota Housing operations, to hold escrowed funds and to maintain the Housing Endowment Fund (also referred to as Pool 1). The costs of administering Minnesota Housing programs are captured on the Statement of Revenues, Expenses and changes in Net Position 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

One-half of the developments with a first mortgage loan presently held in Rental Housing receive Section 8 payments under contracts with U.S. Department of Housing and Urban Development ("HUD"). Over 60% of the principal amount of multifamily first mortgage loans receivable held in Rental Housing are insured by HUD pursuant to a risk sharing agreement whereby HUD agrees to assume 50% or greater of the loss upon a default of the mortgage loan

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## MINNESOTA HOUSING FINANCE AGENCY

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

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#### Discussion of Individual Funds (continued)

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, 2021. Funds in excess of bond resolution requirements may be withdrawn and used to redeem any Agency bonds, to fund housing programs and for Agency operations.

#### Residential Housing Finance

Included within Residential Housing Finance are the bonds issued and outstanding under the Residential Housing Finance bond resolution, the 2018 limited obligation Index Bank Note issued under a separate bond trust indenture and the restricted by covenant, Alternative Loan Fund which consists of the Housing Investment Fund (Pool 2), and the Housing Affordability Fund (Pool 3). The Alternative Loan Fund is not pledged as security for any bonds of the Agency but is available to pay debt service on any bonds except state appropriation-backed bonds and conduit bonds.

Bonds have been issued for the purpose of funding purchases of single family first mortgage loans, mortgage-backed securities backed by single family mortgage loans, certain down payment and closing cost housing assistance loans, and unsecured and secured subordinated home improvement mortgage loans. The mortgage-backed securities are guaranteed as to payment of principal and interest by one of the Government National Mortgage Association, the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation. The majority of the single family first mortgage 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 2021.

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 2021 this fund provided capital for several Agency programs including its home improvement loan program and its multifamily first-mortgage loan program. It also provided capital for warehousing purchases of mortgage-backed securities secured by single family first mortgage loans before those securities are permanently financed by issuing bonds, or sold into the to-be-announced (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 index bank note expenses, and for bond sale contributions. The fund may also provide interim financing for construction and rehabilitation of single family housing and may be used to advance funds to retire debt.

Assets of the Housing Affordability Fund (Pool 3) consist of investment-grade securities when not utilized for program purposes. Program purposes include, but are not limited to: no-interest loans, loans at interest rates substantially below market, high risk loans, deferred loans, revolving funds, and grants. During fiscal year 2021 funds from Pool 3 were used for down payment and closing 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

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## MINNESOTA HOUSING FINANCE AGENCY

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

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#### Discussion of Individual Funds (continued)

housing developments in anticipation of permanent funding through state appropriation-backed housing bonds, Habitat loans 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 one of the Government National Mortgage Association, the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation. Funds in excess of bond resolution requirements may be withdrawn and used to redeem any Agency bonds, to fund housing programs and for Agency operations.

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

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

#### Multifamily Housing

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

#### State and Federal Appropriated Funds

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

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

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

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# MINNESOTA HOUSING FINANCE AGENCY

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

### Condensed Financial Information

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

		Agency-wide Total		
		Fiscal 2021	Fiscal 2020	Change
<b>Assets and Deferred Outflows</b>	Cash and other Investments	\$1,317,432	\$ 568,045	\$ 749,387
	Investments - program securities mortgage-backed securities	3,003,385	3,363,568	(360,183)
	Loans receivable, Net	929,112	933,657	(4,545)
	Capital Assets, net	2,132	4,280	(2,148)
	Other	19,091	19,285	(194)
	Total Assets	\$5,271,152	\$4,888,835	\$ 382,317
	Total deferred outflows of resources	16,372	37,831	(21,459)
	Total Assets and Deferred Outflows	\$5,287,524	\$4,926,666	\$ 360,858
<b>Liabilities and Deferred Inflows</b>	Long Term Liabilities (noncurrent)	3,558,146	3,655,393	(97,247)
	Other (current)	406,779	194,069	212,710
	Total Liabilities	3,964,925	3,849,462	115,463
	Deferred inflows of resources	39,555	50,622	(11,067)
	Total Liabilities and Deferred Inflows	4,004,480	3,900,084	104,396
<b>Net Position</b>	Restricted by Bond Resolution	485,980	540,018	(54,038)
	Restricted by Covenant	513,428	494,044	19,384
	Restricted by Law	562,264	168,085	394,179
	Unrestricted - State Appropriation-backed Debt	(280,760)	(179,845)	(100,915)
	Total Net Position	1,283,044	1,026,582	256,462

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

		Agency-wide Total		
		Fiscal 2021	Fiscal 2020	Change
<b>Revenues</b>	Interest Earned on loans and other investments	\$ 47,727	\$ 57,876	\$ (10,149)
	Interest earned on investments-program mortgage-backed securities	80,931	94,264	(13,333)
	Appropriations Received	801,434	267,544	533,890
	Fees and Reimbursements	22,890	19,065	3,825
	Net G/L on Sale of MBS Held for Sale/HOMES <sup>SM</sup> Certificates	12,376	8,770	3,606
	Total Revenues (1)	952,641	582,587	370,054
<b>Expenses</b>	Interest and financing, net expense	97,652	118,802	(21,150)
	Appropriations Disbursed	395,726	238,589	157,137
	Fees	3,413	3,388	25
	Payroll, Gen. & Admin.	45,965	43,498	2,467
	Loan Loss/Value Adjust's	19,778	13,775	6,003
	Total Expenses (1)	594,915	448,776	146,139
	Revenues Over/Under Expenses	357,726	133,811	223,915
	Beginning Net Position	1,026,582	911,261	115,321
	Ending Net Position	1,283,044	1,026,582	256,462

(1) Agency-wide totals include interfund amounts and does not include unrealized gains/(losses)



Combined General Reserve and Bond Funds					Combined State and Federal Appropriations Funds		
Fiscal 2021							
Excluding Pool 3	Pool 3	Total	Fiscal 2020	Change	Fiscal 2021	Fiscal 2020	Change
\$ 668,613	\$ 7,612	\$ 676,225	\$ 406,802	\$ 269,423	\$641,207	\$161,243	\$479,964
2,993,906	9,479	3,003,385	3,363,568	(360,183)	-	-	-
785,032	107,854	892,886	895,624	(2,738)	36,226	38,033	(1,807)
2,132	-	2,132	4,280	(2,148)	-	-	-
18,536	65	18,601	19,050	(449)	490	235	255
\$4,468,219	\$125,010	\$4,593,229	\$4,689,324	\$ (96,095)	\$677,923	\$199,511	\$478,412
16,372	-	16,372	37,831	(21,459)	-	-	-
\$4,484,591	\$125,010	\$4,609,601	\$4,727,155	\$(117,554)	\$677,923	\$199,511	\$478,412
3,183,368		3,183,368	3,452,537	(269,169)	374,778	209,316	165,462
392,938	(7,800)	385,138	185,654	199,484	21,641	1,955	19,686
3,576,306	(7,800)	3,568,506	3,638,191	(69,685)	396,419	211,271	185,148
39,555	-	39,555	50,622	(11,067)	-	-	-
3,615,861	(7,800)	3,608,061	3,688,813	(80,752)	396,419	211,271	185,148
485,980	-	485,980	540,018	(54,038)	-	-	-
380,618	132,810	513,428	494,044	19,384	-	-	-
-	-	-	-	-	562,264	168,085	394,179
2,132	-	2,132	-	2,132	(280,760)	(179,845)	(100,915)
868,730	132,810	1,001,540	1,038,342	(36,802)	281,504	(11,760)	293,264

Combined General Reserve and Bond Funds					Combined State and Federal Appropriations Funds		
Fiscal 2021							
Excluding Pool 3	Pool 3	Total	Fiscal 2020	Change	Fiscal 2021	Fiscal 2020	Change
\$ 45,422	\$ 792	\$ 46,214	\$ 54,333	\$ (8,119)	\$ 1,513	\$ 3,543	\$ (2,030)
80,931	-	80,931	94,264	(13,333)	-	-	-
-	-	-	-	-	801,434	267,544	533,890
22,346	246	22,592	20,661	1,931	298	1,007	(709)
12,376	-	12,376	8,770	3,606	-	-	-
146,170	2,382	148,552	310,659	(162,107)	804,089	271,928	532,161
97,652	-	97,652	118,802	(21,150)	-	-	-
-	-	-	-	-	395,726	238,589	157,137
3,281	23	3,304	3,279	25	109	109	-
41,641	2,585	44,226	41,226	3,000	1,739	2,272	(533)
849	9,024	9,873	1,682	8,191	9,905	12,093	(2,188)
173,427	13,165	186,592	193,110	(6,518)	408,323	255,666	152,657
(27,257)	(10,783)	(38,040)	117,549	(155,589)	395,766	16,262	379,504
913,336	125,006	1,038,342	920,273	118,069	(11,760)	(9,012)	(2,748)
868,730	132,810	1,001,540	1,038,342	(36,802)	281,504	(11,760)	293,264

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# MINNESOTA HOUSING FINANCE AGENCY

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

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### FINANCIAL HIGHLIGHTS

#### General Reserve and Bond Funds-Statement of Net Position

The following financial highlights section refers to the General Reserve and bond funds. The reader is encouraged to review the Fund Financial Statements as well as supplementary information in this 2021 Financial Report.

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

MBS is the single largest category of bond fund assets. Those assets are pledged as security for the payment of certain Agency mortgage revenue bonds held in acquisition accounts pledged to bond holders as security for bonds. This category of investments decreased 11.7% to \$2,810.6 million. Single Family production was very strong in fiscal year 2021.

#### Mortgage-backed Securities Portfolio Delinquency Actual Loan Count

	June 30, 2021		June 30, 2020	
Current	23,981	89.3%	24,726	90.9%
60-89 Days	246	0.9%	948	3.5%
90-119 Days	120	0.4%	1,024	3.8%
120+ Days	2,505	9.3%	512	1.9%
Total Count	26,852		27,210	
Total Past Due	2,871	10.7%	2,484	9.1%

The 60+ day delinquency rate as of June 30, 2021 for the mortgage loans originated within the past 2 years under the MBS model was approximately 0.52 points above the delinquency rates benchmark at the HFA division of US Bank for the same time period. Similar to the homeownership loan portfolio described below, borrowers with mortgage loans that back the MBS portfolio can seek up to 18 months of payment forbearance due to the COVID Pandemic; the MBS payments are guaranteed by GNMA, FNMA or FHLMC and are not delinquent.

Cash and cash equivalents are carefully managed to provide adequate resources for future debt service requirements and liquidity needs. This category increased 66.2% to \$676.2 million. Cash and Cash equivalents can fluctuate based on the timing of bond sales, the rate of production, debt repayments, purchase of investments and loan transactions.

Investments securities-other consists of MBS that are held by the Agency as investments, MBS held in the warehouse for future bond sales and MBS held for sale in the TBA market as well as other quality investments such as US agency, US treasuries, municipal bonds and government backed investment pools at the trustee, Wells Fargo, and the State Board of Investments (SBI). This category decreased by 7.5% to \$192.8 million.

Loans receivable, net is another large single category of bond fund assets. Loans are limited to housing-related lending for low- and moderate-income individuals and families and multifamily housing developments; including Monthly Payment 2<sup>nd</sup> (MP 2nds) loans that include down payment and closing cost assistance loans. Loans receivable, net, decreased 0.3% to \$892.9 million at June 30, 2021 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

# MINNESOTA HOUSING FINANCE AGENCY

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

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

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 2021 was attributable to the runoff of the homeownership loan portfolio. The reserve for loan loss for the homeownership loan portfolio increased slightly. The reserve for loan loss for the home improvement loan portfolio increased due to a slight increase in the 120 day past due category. Amortizing multifamily loans at fixed interest rates, secured by first mortgages (referred to as the multifamily portfolio) exhibited little change in delinquency rate and the aggregate loan receivable balance. Minnesota Housing's primary loan programs offer fixed interest rate financing and therefore differ from the high risk characteristics associated with some adjustable payment loan products. During the national emergency concerning the COVID Pandemic, borrowers with mortgage loans that are FHA insured, VA, HUD or USDA Rural Development guaranteed, or purchased or securitized by Fannie Mae (FNMA) or Freddie Mac (FHLMC) can seek up to 18 months of payment forbearance. The Agency has chosen to grant similar forbearance relief for other single family homeownership and home improvement loans.

#### Homeownership Loan Portfolio Delinquency

Actual Loan Count

	June 30, 2021		June 30, 2020	
Current	3,801	89.7%	4,745	92.9%
60-89 Days	36	0.8%	102	2.0%
90-119 Days	31	0.7%	95	1.9%
120+ Days	369	8.7%	163	3.2%
Total Count	4,237		5,105	
Total Past Due	436	10.3%	360	7.1%

#### Homeownership Loan Portfolio Delinquency (In Forbearance)

Actual Loan Count

	June 30, 2021		June 30, 2020	
Current	15	7.5%	105	35.0%
60-89 Days	10	5.0%	63	21.0%
90-119 Days	9	4.5%	79	26.3%
120+ Days	167	83.1%	53	17.7%
Total Count	201		300	
Total Past Due	186	92.5%	195	65.0%

The first table above also includes loans in forbearance due to the COVID Pandemic. The 60+ day delinquency rate as of June 30, 2021 for the entire Minnesota Housing homeownership first lien loan portfolio, excluding those loans not customarily included in foreclosure statistics, exceed by approximately one percentage point the delinquency rates of similar loan data available as of June 30, 2021 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).

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

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

**Homeownership (MP 2<sup>nd</sup>) Loan Portfolio Delinquency**  
Actual Loan Count

	<b>June 30, 2021</b>		<b>June 30, 2020</b>	
Current	6,500	90.1%	7,085	92.2%
60-89 Days	36	0.5%	276	3.6%
90-119 Days	31	0.4%	154	2.0%
120+ Days	647	9.0%	169	2.2%
Total Count	<u>7,214</u>		<u>7,684</u>	
Total Past Due	714	9.9%	599	7.8%

**Homeownership (MP 2<sup>nd</sup>) Loan Portfolio Delinquency (In Forbearance)**  
Actual Loan Count

	<b>June 30, 2021</b>		<b>June 30, 2020</b>	
Current	221	34.0%	650	59.0%
60-89 Days	17	2.6%	250	22.7%
90-119 Days	17	2.6%	144	13.1%
120+ Days	395	60.8%	58	5.3%
Total Count	<u>650</u>		<u>1,102</u>	
Total Past Due	429	66.0%	452	41.0%

The first table above also includes loans in forbearance due to the COVID Pandemic. The MP 2<sup>nd</sup> loans were made in conjunction with first lien mortgage loans that were pooled into MBS including, in part, the MBS portfolio the delinquency characteristics of which are described on a preceding page.

**Home Improvement Loan Portfolio Delinquency**  
Actual Loan Count

	<b>June 30, 2021</b>		<b>June 30, 2020</b>	
Current	4,806	98.6%	4,654	98.2%
60-89 Days	8	0.2%	22	0.5%
90-119 Days	3	0.1%	4	0.1%
120+ Days	55	1.1%	59	1.2%
Total Count	<u>4,872</u>		<u>4,739</u>	
Total Past Due	66	1.4%	85	1.8%

**Home Improvement Loan Portfolio Delinquency (In Forbearance)**  
Actual Loan Count

	<b>June 30, 2021</b>		<b>June 30, 2020</b>	
Current	23	95.8%	11	100.0%
60-89 Days	0	0.0%	0	0.0%
90-119 Days	0	0.0%	0	0.0%
120+ Days	1	4.2%	0	0.0%
Total Count	<u>24</u>		<u>11</u>	
Total Past Due	1	4.2%	0	0.0%

Due to the unique program characteristics of the Minnesota home improvement loan portfolio, the Agency has determined that 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.

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## MINNESOTA HOUSING FINANCE AGENCY

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

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

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 31.7% to \$0.2 million at June 30, 2021 as a result of a decrease in the amount of loans with outstanding claims.

Over 60% of the principal amount of multifamily first mortgage loans receivable held in Rental Housing, and 56% of the principal amount of multifamily first mortgage loans receivable held in Residential Housing Finance, are insured by the HUD pursuant to a risk sharing agreement whereby HUD agrees to assume 50% or greater of the loss upon a default of the mortgage loan.

Real estate owned, net consists of properties acquired upon foreclosure of homeownership loans. There was a net decrease in real estate owned of 52.4% to \$0.6 million at June 30, 2021.

While the delinquency rates and foreclosures in the Agency's loan portfolio remained above historical norms during fiscal year 2021, the combined net total of FHA/VA insurance claims and real estate owned remains immaterial compared to total loans receivable at June 30, 2021, being less than 1% of total net loans receivable.

Management believes that reserves for loan losses are adequate based on the current assessment of asset quality.

No loans reside in General Reserve.

Interest receivable on loans and investments is a function of the timing of interest payments and the general level of interest rates. Combined loan and investment interest receivable decreased 4.5% to \$13.1 million at June 30, 2021.

Bonds payable is the largest single category of liabilities, resulting primarily from debt issued to fund housing-related lending. Bonds payable decreased 2.7% to \$3,360.4 million at June 30, 2021 because new bonding issuance did not outpace scheduled redemptions and early bond redemptions of existing debt.

The companion category of interest payable decreased 10.3% to \$26.2 million at June 30, 2021, largely due to a decrease in the amount of outstanding debt.

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, Pool 2 and HOMES<sup>SM</sup> decreased 1.8% in fiscal year 2021 to \$70.0 million at June 30, 2021.

On the statement of net position there are three accounts that report the overall pension and other post employment benefits (OPEB) picture. As of June 30, 2021, the Net Pension Liability and OPEB decreased to \$10.2 million, the Deferred Pension Expense decreased by \$11.8 million to \$2.4 million, and the Deferred Pension Credit decreased by \$10.4 million to \$19.3 million. This decrease was due to Minnesota State Retirement System (MSRS) making changes to the assumptions that were used for the plans actuarial reports. GASB 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, prescribes how these accounts are recorded and how income and expense are recognized. GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, prescribes that OPEB are now included in these numbers. The net result of the pension entries is an overall decrease of \$1.1 million to the net position.

Accounts payable and other liabilities increased to \$87.4 million at June 30, 2021. During FY 2021 the increase is due to the closing of two Federal Financing Bank (FFB) Risk Sharing Initiative Program loans. Pursuant to the FFB program the Agency originates and sells a beneficial interest in each loan (consisting of principal and interest at a rate less than the loan rate paid by the borrower) to FFB. The Agency is obligated

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## MINNESOTA HOUSING FINANCE AGENCY

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

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

to reimburse FFB for its loss if the loan is not repaid, but since each loan is insured under HUD's risk-share program the loss is shared with HUD.

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

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

Revenues over expenses of General Reserve and bond funds decreased 132.4% to a loss of \$38.0 million. Revenues over expenses excluding unrealized gains and losses decreased 45.9% to \$7.1 million for fiscal year 2021. Unrealized gains and losses are the result of mark to market increases and decreases, and due to the market swing in fiscal year 2021 revenues over expenses in the General Reserve and bond funds decreased.

Total Revenues decreased 52.2% to \$148.6 million. Revenue excluding unrealized gains and losses on investments decreased 6.1% to \$193.7 million. The largest impact on the decrease in revenues was due to the mark to market swing in unrealized gains and losses.

Total expenses decreased 3.4% to \$186.6 million.

The largest revenue component, interest earned on MBS and investments decreased 18.1% to \$87.0 million. This is primarily due to interest rate decreases and prepayments in fiscal year 2021. Loan interest revenue decreased 5.3% to \$40.1 million as repayments and prepayments decreased the size of the homeownership loan portfolio. That portfolio is in runoff because of the change to the mortgage-backed securities business model during fiscal year 2010. Administrative reimbursements to General Reserve from bond funds were \$31.5 million in fiscal year 2021 compared to \$28.1 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 \$1.6 million from the State and Federal Appropriated funds to recover certain overhead expenses incurred during fiscal year 2021 compared to \$3.2 million during the prior fiscal year.

Other fee income to General Reserve and bond funds of \$21.0 million increased by \$3.5 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 (HAP) administration, and various loan programs.

The net gain on the sale of mortgage-backed securities held for sale was \$12.4 million an increase of \$3.6 million over prior fiscal year. Components of the net gain, in addition to the gain or loss on the security itself, include the cost of minimizing interest rate risk through forward sale contracts, certain trustee fees, and service release premiums.

Unrealized loss on investment securities for fiscal year 2021 are \$45.1 million compared to \$104.5 million of unrealized gains for fiscal year 2020. The unrealized gains or losses arise due to the changes in fair value and mark-to-market in accordance with GASB. The fair value adjustments are booked quarterly and fluctuate based on market conditions. Eighty-nine percent of these unrealized gains or losses are related to the program MBS portfolio pledged to bond holders for payments of debt service. The Agency will hold these MBS until all requirements of the Residential Housing Finance and Homeownership Finance Bond resolution are satisfied. The Agency is not permitted by the bond resolution to sell the MBS at this time. This value fluctuation is booked as required by GASB however analysis performed on income normally excludes the unrealized gains or losses.

Interest expense of the bond funds decreased 9.6% to \$86.7 million compared to the prior fiscal year as a result of lower interest rates on new bond issues.

Financing costs decreased 52.0% to \$11.0 million.



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## MINNESOTA HOUSING FINANCE AGENCY

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

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

Expenses for loan administration and trustee fees in the bond funds was stable at \$3.3 million for current fiscal year. Of the total administrative reimbursement revenue in General Reserve of \$33.1 million, the interfund charge to the bond funds and State Appropriated fund of \$32.4 million was eliminated for purposes of financial reporting in the Agency-wide financial statements.

Salaries and benefits in General Reserve of \$32.5 million increased 7.3% from the prior year. A main component of the Salaries and Benefits change is due to annual staff cost of living increases.

Other general operating expense in General Reserve and bond funds recognized a 7.2% increase compared to prior fiscal year at \$11.7 million.

Reductions in carrying value of certain low interest rate deferred loans in the bond funds increased from \$0.44 million to \$8.7 million. The increase was due to higher loan activities, primarily in Flexible Financing for Capital Costs (FFCC) and Asset Management loans in Pool 3.

The provision for loan loss expense in the bond funds decreased from \$1.2 million to \$1.1 million, overall delinquencies have increased over the prior fiscal year.

The provision for loan loss expense for the homeownership loan portfolio for current and prior fiscal year was \$0.4 million.

The provision for loan loss expense for the home improvement loan portfolio and MP 2nds was at (\$0.3) million compared to prior year of \$0.4 million.

The provision for loan loss expense for the multifamily loan portfolio was (\$1.1) million.

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 2021, \$8.5 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 \$8.0 million transfer to Pool 3 to be used for highly subsidized housing programs. Per the Rental Housing Bond Resolution requirement, funds must be transferred to General Reserve when they are removed from the Rental Housing Bond Resolution. Revenues over expenses plus non-operating transfers in Pool 2 may be transferred periodically, with approval of the Board, to Pool 3 for use in more highly subsidized housing programs. Board investment guidelines establish required balances for Pool 1 and Pool 2. In addition, Pool 2 made \$14.2 million in bond sale transfers to the Homeownership Finance and Rental Housing bond fund.

Total combined net position of General Reserve and bond funds decreased 3.5% to \$1.002 billion as of June 30, 2021. The net position of General Reserve and bond funds is divided into two primary categories. Restricted by Bond Resolution is pledged to the payment of bonds, subject to bond resolution provisions that authorize Minnesota Housing to withdraw funds in excess of the amounts required to be maintained under the bond resolutions. Restricted by Covenant is subject to a covenant with bondholders that the Agency will use the money in General Reserve, and money that would otherwise have been released to General Reserve, only for the administration and financing of programs in accordance with the policy and purpose of Minnesota Housing's enabling legislation, including the creation of reserves for the payment of bonds and of loans made from the proceeds thereof, and will accumulate and maintain therein such a balance of funds and investments as will be sufficient for the purpose. The Board of the Agency has established investment guidelines for these funds to implement this covenant.

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

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

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## MINNESOTA HOUSING FINANCE AGENCY

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

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

presence of investments, cash, and cash equivalent assets in the appropriated funds and for the balance of net position restricted by law. In fiscal year 2018, the Agency added a new line called Unrestricted - State Appropriation-backed Bonds. This line shows the amount of outstanding Appropriation-backed Bonds issued by the Agency.

Investments, cash, and cash equivalents combined are the largest category of assets in the appropriated funds. The June 30, 2021 combined balance increased 297.8% to \$641.2 million as a result of the combined appropriations received and other revenues exceeding the combined disbursements for programs, loans and expenses during the fiscal year.

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, 2021 State Appropriated fund net loans receivable decreased 4.7% to \$36.2 million.

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, 2021 remained at \$0.1 million. Accounts payable and other liabilities represent amounts payable to program participants as of year-end. The balance of payables at June 30, 2021 was \$12.3 million compared to \$1.4 million at June 30, 2020. 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, 2021 the combined net interfund receivable was \$0.4 million.

At June 30, 2021 the balance of funds held for others was \$103.7 million. The majority of these funds represents the proceeds of state appropriation-backed housing bonds which are held for disbursement to certain multifamily affordable housing developments.

The appropriated net position is broken into two categories. Restricted by Law is for use with housing programs only and is not pledged or available to secure bonds issued under any of the Agency's bond funds or other obligations of the Agency or its general obligation pledge in respect thereof. Unrestricted - State Appropriation-backed Bonds shows the amount of state appropriation-backed bonds outstanding. These bonds are backed solely by the standing appropriation by the State of Minnesota and the Agency's resources are not pledged or available to secure the bondholders. Per GASB, as the issuer, the Agency is required to show these bonds as bonds payable and therefore the reduction in net position. The combined net position of the appropriated funds increased from (\$11.8) million as June 30, 2020 to \$281.5 million as of June 30, 2021. This increase is predominately due to COVID emergency rental assistance in the federal appropriated fund and the state appropriation-backed bonds being recorded in the state appropriated fund. The balance in Restricted by Law at June 30, 2021 was \$562.3 million. There was an increase in restricted by law net position of \$394.2 million for fiscal year 2021. This shows that combined receipts exceeds expenses during fiscal year 2021. The principal amount outstanding of the state appropriation-backed bonds was \$179.8 million as of June 30, 2020, and \$280.8 million as of June 30, 2021.

#### 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.

Historically, 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 \$267.5 million in fiscal year 2020 to \$801.4 million in fiscal year 2021. In fiscal year 2021 COVID emergency assistance funds had a major impact on our ending balance. Federal appropriations received increased by \$541.2 million. State appropriations received decreased by \$7.3 million.

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## MINNESOTA HOUSING FINANCE AGENCY

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

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

The combined interest income from investments decreased 68.9% to \$0.9 million for fiscal year 2021.

Loan interest income from State Appropriations loan assets continues to be minimal at \$0.6 million as relatively few loans bear interest.

Fees earned and other income, in the amount of \$1.1 million were recorded in the State Appropriated fund during fiscal year 2021.

Combined unrealized losses were zero for fiscal year 2021 compared to \$0.2 million for fiscal year 2020. The unrealized gains and losses arise due to the changes in fair value and mark-to-market in accordance with GASB. The fair value adjustments are booked quarterly and fluctuate based on market conditions.

Administrative reimbursements to General Reserve of overhead expenses to administer State Appropriated fund programs decreased 67.6% to \$0.8 million compared to the prior fiscal year. The Agency incurs the overhead expense in General Reserve. General Reserve is reimbursed for these overhead expenses by the State Appropriated funds to the extent of investment earnings on unexpended state appropriations. During fiscal year 2021 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 65.9% to \$395.7 million compared to the prior fiscal year, reflecting State Appropriations disbursed of \$40.7 million and federal appropriations disbursed of \$355.0 million. The increase was predominately related to COVID emergency rental assistance disbursed from the federal appropriated fund.

Increased expenditures of State Appropriated funds for fully-reserved below-market and zero-percent interest rate loans impacted expense from reductions in carrying value of certain loans. Net reductions of carrying value decreased 17.5% to \$9.8 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 23.5% to \$1.7 million at June 30, 2021.

Combined expenses were less than combined revenue of the appropriated funds by \$395.8 million at June 30, 2021. Historically, the entire existing State Restricted by Law and Federal Appropriated funds' net position is likely to be expended for housing programs. In fiscal year 2021 federal appropriated funds for COVID Emergency Rental Assistance had a major impact on our net position.

#### Significant Long Term Debt Activities

Minnesota Housing issues a significant amount of bonds, having outstanding at June 30, 2021, not including state appropriation-backed bonds, long-term bonds totaling \$3,360.4 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, 2021, amounts held by the trustee in principal, interest, redemption, and reserve accounts represented full funding of those requirements as of that date. In addition, at year-end the Agency had \$280.8 million in state appropriation-backed bonds outstanding.

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 2021 fiscal year, Minnesota Housing issued sixteen series of bonds aggregating \$850.1 million (excluding state appropriation-backed housing bonds, limited obligation drawdown index bank note, and short-term borrowing against a line of credit), compared to the issuance of nineteen series totaling \$898.5 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

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## MINNESOTA HOUSING FINANCE AGENCY

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

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

advance of permanent financing. A total of \$108.3 million in state appropriation-backed bonds were issued in fiscal year 2021.

A total of \$1,056.3 million (does not include state appropriation-backed bonds) in bond principal repayments and \$97.7 million of bond-related interest expense occurred during fiscal year 2021. Of the total bond principal repayments, \$467.8 million were repayments made on bonds prior to the scheduled maturity date using a combination of optional and special redemption provisions. A total of \$7.4 million in bond principal repayments for state appropriation-backed bonds were made in fiscal year 2021.

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 (IRC) and Treasury regulations governing either qualified mortgage bonds, bonds issued to provide qualified residential rental projects or bonds issued to finance certain types of loans to nonprofit entities for single family and multifamily housing. Minnesota Housing's ability to issue certain types of tax-exempt debt is limited by its share of the state's allocation of private activity bond volume cap, which is established by Minnesota statutes. Minnesota Housing's ability to issue tax-exempt debt is also limited by a provision in the IRC (commonly known as the 10 year rule) that requires single family mortgage loan repayments and prepayments received more than ten years after the date of issuance of the bonds that financed those mortgage loans to be used to redeem bonds.

#### State Legislative Actions that May Affect Financial Conditions and/or Operations

While most of the Agency's bonds are tax-exempt, taxable bonds have been issued to supplement limited tax-exempt private activity bond volume cap in order to meet demand for financing single family mortgage loans. Taxable bonds may also be issued to refund existing debt or to finance lending programs where federal tax-exempt bond restrictions are inconsistent with program goals. Variable-rate demand bonds and interest-rate swaps were incorporated into Minnesota Housing's financings from fiscal year 2003 through fiscal year 2010, and again in fiscal years 2016 through fiscal year 2020 and in fiscal years 2018 and 2019 SIFMA Floating Rate Term bonds with interest-rate swaps were also incorporated enabling the Agency to provide below-market mortgage financing at synthetically fixed interest rates. Interest-rate swaps help to hedge the mismatch between fixed-rate loans and variable-rate bonds. After a special legislative session, the Governor signed into law a \$125.6 million two-year program budget for the Agency including \$10 million/year in fiscal year 2022 and 2023 in one-time funding across several agency programs. The Agency's programs range from homelessness prevention assistance and rental assistance to deferred resources for multifamily development to down payment and closing cost assistance for first-time homebuyers. The bill included a new, one-time Local Housing Trust Fund matching program for \$1 million. The legislation also included an ending to the Governor's eviction moratorium including eviction protections for renters with a pending application for emergency pandemic rental assistance.

In addition, the bill included \$100 million in new Housing Infrastructure Bond authority available beginning January 16, 2022. The availability of all or a portion of this Housing Infrastructure Bonds authority is contingent on the failure of Congress to pass a federal infrastructure bill in by December 31, 2021 that includes funding for the same purposes. Additionally, \$33.3 million of the \$100 million is set aside for single-family development (\$18.3 million) and manufactured home community acquisition and infrastructure (\$15 million) contingent on Congress not providing funds for those purposes. The set-asides are available until January 16, 2024. Current eligible uses of Housing Infrastructure Bond proceeds are:

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

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## MINNESOTA HOUSING FINANCE AGENCY

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

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**State Legislative  
Actions that May  
Affect Financial  
Conditions and/or  
Operations  
(continued)**

Loans to be funded with the proceeds of authorized Housing Infrastructure Bonds will be selected for housing projects as part of Minnesota Housing's consolidated Request for Proposal (RFP) as well as other standalone RFP for manufactured home communities.

Legislation was also passed in the special session creating a new Housing Tax Credit Contribution Fund program. The total amount of credits available to finance single family and rental housing development is \$10 million per year for six years beginning in calendar year 2024.

**Additional  
Information**

Questions and inquiries may be directed to Ms. Debbi Larson at Minnesota Housing Finance Agency, 400 Wabasha Street North, Suite 400, St. Paul, MN 55102 (651-296-8183 or 800-657-3769 or if T.T.Y. 651-297-2361)

# MINNESOTA HOUSING FINANCE AGENCY

## Agency-wide Financial Statements

### Statement of Net Position (in thousands)

As of June 30, 2021 (with comparative totals as of June 30, 2020)

		Agency wide Total as of June 30, 2021	Agency wide Total as of June 30, 2020
<b>Assets</b>	<b>Current Assets</b>		
	Cash and cash equivalents	\$1,317,432	\$ 568,045
	Investments-program mortgage-backed securities	38,003	1,072,438
	Investment securities-other	7,310	47,086
	Loans receivable, net	41,976	39,849
	Interest receivable on loans and program mortgage-backed securities	12,312	13,049
	Interest receivable on investments	841	725
	FHA/VA insurance claims, net	213	312
	Real estate owned, net	617	1,296
	Other assets	4,478	3,493
	<b>Total current assets</b>	<b>1,423,182</b>	<b>1,746,293</b>
	<b>Noncurrent Assets</b>		
	Investments-program mortgage-backed securities	2,772,599	2,111,852
	Investment securities-other	185,473	132,192
	Loans receivable, net	887,136	893,808
	Capital assets, net	2,132	4,280
	Other assets	630	410
	<b>Total noncurrent assets</b>	<b>3,847,970</b>	<b>3,142,542</b>
<b>Deferred Outflows of Resources</b>	Deferred loss on refunding	6	15
	Deferred loss on interest rate swap agreements	13,932	23,605
	Deferred pension and Other post-employment benefits (OPEB) expense	2,434	14,211
	<b>Total deferred outflows of resources</b>	<b>16,372</b>	<b>37,831</b>
	<b>Total assets and deferred outflows of resources</b>	<b>\$5,287,524</b>	<b>\$4,926,666</b>
<b>Liabilities</b>	<b>Current Liabilities</b>		
	Bonds payable, net, current	\$ 327,358	\$ 133,229
	Interest payable	26,198	29,204
	Accounts payable and other liabilities	30,493	10,831
	Funds held for others	22,730	20,805
	<b>Total current liabilities</b>	<b>406,779</b>	<b>194,069</b>
	<b>Noncurrent Liabilities</b>		
	Bonds payable, net, noncurrent	3,313,785	3,500,420
	Interest rate swap agreements	13,932	23,605
	Net pension liability	10,189	10,412
	Accounts payable and other liabilities	69,302	41,026
	Funds held for others	150,938	79,930
	<b>Total noncurrent liabilities</b>	<b>3,558,146</b>	<b>3,655,393</b>
<b>Deferred Inflows of Resources</b>	Deferred gain on interest rate swap agreements	-	-
	Deferred service release fee	20,226	20,888
	Deferred pension and OPEB credit	19,329	29,734
	<b>Total deferred inflows of resources</b>	<b>39,555</b>	<b>50,622</b>
	<b>Total liabilities and deferred inflows of resources</b>	<b>\$4,004,480</b>	<b>\$3,900,084</b>
<b>Net Position</b>	Restricted by bond resolution	485,980	540,018
	Restricted by covenant	513,428	494,044
	Restricted by law	562,264	168,085
	Unrestricted - State Appropriation-Backed Debt	(280,760)	(179,845)
	Invested in capital assets	2,132	4,280
	<b>Total net position</b>	<b>1,283,044</b>	<b>1,026,582</b>
	<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$5,287,524</b>	<b>\$4,926,666</b>

See accompanying notes to financial statements



# MINNESOTA HOUSING FINANCE AGENCY

## Agency-wide Financial Statements

### Statement of Activities (in thousands)

Year ended June 30, 2021 (with comparative total for year ended June 30, 2020)

		Agency-wide Total for Year Ended June 30, 2021	Agency-wide Total for Year Ended June 30, 2020
<b>Revenue</b>	Interest earned on loans	\$ 40,744	\$ 43,064
	Interest earned on investments-program mortgage-backed securities	80,931	94,264
	Interest earned on investments-other	6,983	14,812
	Net gain/(loss) on Sale of MBS* Held for Sale/HOMES <sup>SM</sup> Certificates	12,376	8,770
	Appropriations received	801,434	267,544
	Administrative reimbursement	763	612
	Fees earned and other income	22,127	18,453
	Unrealized gain/(loss) on investments	(45,098)	104,344
	<b>Total revenues</b>	<u>920,260</u>	<u>551,863</u>
<b>Expenses</b>	Interest	86,692	95,908
	Financing, net	10,960	22,894
	Loan administration and trustee fees	3,413	3,388
	Salaries and benefits	32,501	30,283
	Other general operating	13,464	13,215
	Appropriations disbursed	395,726	238,589
	Reduction in carrying value of certain low interest rate deferred loans	18,564	12,354
	Provision for loan losses	1,214	1,421
	<b>Total expenses</b>	<u>562,534</u>	<u>418,052</u>
	<b>Revenues over expenses</b>	357,726	133,811
	Non-operating Expenses	<u>(101,264)</u>	<u>(18,490)</u>
<b>Net Position</b>	<b>Change in net position</b>	256,462	115,321
	<b>Total net position, beginning of period</b>	<u>1,026,582</u>	<u>911,261</u>
	<b>Total net position, end of year</b>	<u><u>\$1,283,044</u></u>	<u><u>\$1,026,582</u></u>

See accompanying notes to financial statements

\* Mortgage-Backed Securities

# MINNESOTA HOUSING FINANCE AGENCY

## Fund Financial Statements

### Statement of Net Position (in thousands)

#### Proprietary Funds

As of June 30, 2021 (with comparative totals as of June 30, 2020)

		<b>Bond Funds</b>	
		<b>General Reserve</b>	<b>Rental Housing</b>
<b>Assets</b>	<b>Current assets</b>		
	Cash and cash equivalents	\$105,456	\$ 64,243
	Investments-program mortgage-backed securities	-	-
	Investment securities-other	-	2,940
	Loans receivable, net	-	9,538
	Interest receivable on loans and program mortgage-backed securities	-	540
	Interest receivable on investments	42	64
	FHA/VA insurance claims, net	-	-
	Real estate owned, net	-	-
	Other assets	3,949	6
	<b>Total current assets</b>	<b>109,447</b>	<b>77,331</b>
	<b>Noncurrent assets</b>		
	Investments-program mortgage-backed securities	-	-
	Investment securities-other	-	19,287
	Loans receivable, net	-	131,929
	Capital assets, net	2,132	-
	Other assets	-	-
	<b>Total noncurrent assets</b>	<b>2,132</b>	<b>151,216</b>
	<b>Total assets</b>	<b>111,579</b>	<b>228,547</b>
<b>Deferred Outflows of Resources</b>	Deferred loss on refunding	-	-
	Deferred loss on interest rate swap agreements	-	-
	Deferred pension and OPEB expense	2,434	-
	<b>Total deferred outflows of resources</b>	<b>2,434</b>	<b>-</b>
	<b>Total assets and deferred outflows of resources</b>	<b>\$114,013</b>	<b>\$228,547</b>
<b>Liabilities</b>	<b>Current liabilities</b>		
	Bonds payable, net	\$ -	\$ 26,570
	Interest payable	-	452
	Accounts payable and other liabilities	5,228	9,642
	Interfund payable (receivable)	(1,375)	115
	Funds held for others	22,717	-
	<b>Total current liabilities</b>	<b>26,570</b>	<b>36,779</b>
	<b>Noncurrent liabilities</b>		
	Bonds payable, net	\$ -	\$ 33,310
	Interest rate swap agreements	-	-
	Net pension and OPEB liability	10,189	-
	Accounts payable and other liabilities	1,069	8,016
	Funds held for others	46,805	-
	<b>Total noncurrent liabilities</b>	<b>58,063</b>	<b>41,326</b>
	<b>Total liabilities</b>	<b>84,633</b>	<b>78,105</b>
<b>Deferred Inflows of Resources</b>	Deferred gain on interest rate swap agreements	-	-
	Deferred service release fee	-	-
	Deferred pension and OPEB credit	19,329	-
	<b>Total deferred inflows of resources</b>	<b>19,329</b>	<b>-</b>
	<b>Total liabilities and deferred inflows of resources</b>	<b>\$103,962</b>	<b>\$ 78,105</b>
<b>Net Position</b>	Restricted by bond resolution	\$ -	\$150,442
	Restricted by covenant	7,919	-
	Restricted by law	-	-
	Unrestricted - State Appropriation-backed Debt	-	-
	Invested in capital assets	2,132	-
	<b>Total net position</b>	<b>\$ 10,051</b>	<b>\$150,442</b>

See accompanying notes to financial statements  
Bonds payable includes known optional calls as of 6/30/21

Bond Funds				Appropriated Funds			
Residential Housing Finance	Homeownership Finance	Multifamily Housing	HOMES <sup>SM</sup>	State Appropriated	Federal Appropriated	Total as of June 30, 2021	Total as of June 30, 2020
\$ 389,395	\$ 115,421	\$ 1,710	\$ -	\$ 229,336	\$411,871	\$1,317,432	\$ 568,045
9,588	28,415	-	-	-	-	38,003	1,072,438
4,144	-	-	226	-	-	7,310	47,086
31,790	-	219	-	429	-	41,976	39,849
7,780	3,928	49	-	15	-	12,312	13,049
663	1	-	19	52	-	841	725
213	-	-	-	-	-	213	312
617	-	-	-	-	-	617	1,296
71	29	-	-	233	190	4,478	3,493
444,261	147,794	1,978	245	230,065	412,061	1,423,182	1,746,293
1,448,627	1,323,972	-	-	-	-	2,772,599	2,111,852
158,760	-	-	7,426	-	-	185,473	132,192
706,288	-	13,122	-	35,797	-	887,136	893,808
-	-	-	-	-	-	2,132	4,280
630	-	-	-	-	-	630	410
2,314,305	1,323,972	13,122	7,426	35,797	-	3,847,970	3,142,542
2,758,566	1,471,766	15,100	7,671	265,862	412,061	5,271,152	4,888,835
6	-	-	-	-	-	6	15
13,932	-	-	-	-	-	13,932	23,605
-	-	-	-	-	-	2,434	14,211
13,938	-	-	-	-	-	16,372	37,831
<u>\$2,772,504</u>	<u>\$1,471,766</u>	<u>\$15,100</u>	<u>\$7,671</u>	<u>\$ 265,862</u>	<u>\$412,061</u>	<u>\$5,287,524</u>	<u>\$4,926,666</u>
\$ 207,244	\$ 83,614	\$ 240	\$ -	\$ 9,690	\$ -	\$ 327,358	\$ 133,229
21,753	3,941	33	19	-	-	26,198	29,204
3,182	95	-	-	2,425	9,921	30,493	10,831
1,655	-	-	-	(618)	223	-	-
-	-	-	13	-	-	22,730	20,805
233,834	87,650	273	32	11,497	10,144	406,779	194,069
\$1,721,710	\$1,267,721	\$12,760	\$7,214	\$ 271,070	\$ -	\$3,313,785	\$3,500,420
13,932	-	-	-	-	-	13,932	23,605
-	-	-	-	-	-	10,189	10,412
60,217	-	-	-	-	-	69,302	41,026
-	-	-	425	103,702	6	150,938	79,930
1,795,859	1,267,721	12,760	7,639	374,772	6	3,558,146	3,655,393
2,029,693	1,355,371	13,033	7,671	386,269	10,150	3,964,925	3,849,462
-	-	-	-	-	-	-	-
12,391	7,835	-	-	-	-	20,226	20,888
-	-	-	-	-	-	19,329	29,734
12,391	7,835	-	-	-	-	39,555	50,622
<u>\$2,042,084</u>	<u>\$1,363,206</u>	<u>\$13,033</u>	<u>\$7,671</u>	<u>\$ 386,269</u>	<u>\$ 10,150</u>	<u>\$4,004,480</u>	<u>\$3,900,084</u>
\$ 224,911	\$ 108,560	\$ 2,067	\$ -	\$ -	\$ -	\$ 485,980	\$ 540,018
505,509	-	-	-	-	-	513,428	494,044
-	-	-	-	160,353	401,911	562,264	168,085
-	-	-	-	(280,760)	-	(280,760)	(179,845)
-	-	-	-	-	-	2,132	4,280
<u>\$ 730,420</u>	<u>\$ 108,560</u>	<u>\$ 2,067</u>	<u>\$ -</u>	<u>\$(120,407)</u>	<u>\$401,911</u>	<u>\$1,283,044</u>	<u>\$1,026,582</u>

# MINNESOTA HOUSING FINANCE AGENCY

## Fund Financial Statements

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

#### Proprietary Funds

Year ended June 30, 2021 (with comparative totals for year ended June 30, 2020)

		<b>Bond Funds</b>	
		<b>General Reserve</b>	<b>Rental Housing</b>
<b>Revenues</b>	Interest earned on loans	\$ -	\$ 7,535
	Interest earned on investments-program mortgage-backed securities	-	-
	Interest earned on investments-other	212	793
	Net gain/(loss) on Sale of MBS Held for Sale/HOMES <sup>SM</sup> Certificates	-	-
	Appropriations received	-	-
	Administrative reimbursement	33,144	-
	Fees earned and other income	12,676	97
	Unrealized gains/(losses) on investments	-	(491)
	<b>Total revenues</b>	<u>46,032</u>	<u>7,934</u>
<b>Expenses</b>	Interest	-	1,130
	Financing, net	-	6
	Loan administration and trustee fees	-	63
	Administrative reimbursement	-	1,201
	Salaries and benefits	32,501	-
	Other general operating	7,424	6
	Appropriations disbursed	-	-
	Reduction in carrying value of certain low interest rate deferred loans	-	-
	Provision for loan losses	-	(82)
	<b>Total expenses</b>	<u>39,925</u>	<u>2,324</u>
	<b>Revenues over expenses</b>	6,107	5,610
<b>Other Changes</b>	Non-operating transfer of assets between funds and Other	(8,363)	51
	<b>Change in net position</b>	<u>(2,256)</u>	<u>5,661</u>
<b>Net Position (Deficit)</b>	<b>Total net position, beginning of year</b>	<u>12,307</u>	<u>144,781</u>
	<b>Total net position, end of year</b>	<u><u>\$10,051</u></u>	<u><u>\$150,442</u></u>

See accompanying notes to financial statements

Bond Funds				Appropriated Funds		Total for the	Total for the
Residential	Homeownership	Multifamily		State	Federal	Year Ended	Year Ended
Housing	Finance	Housing	HOMES <sup>SM</sup>	Appropriated	Appropriated	June 30, 2021	June 30, 2020
Finance							
\$ 31,992	\$ -	\$ 590	\$ -	\$ 627	\$ -	\$ 40,744	\$ 43,064
36,477	44,454	-	-	-	-	80,931	94,264
4,785	7	-	300	844	42	6,983	14,812
12,376	-	-	-	-	-	12,376	8,770
-	-	-	-	57,445	743,989	801,434	267,544
-	-	-	-	-	-	33,144	31,336
6,589	1,623	-	-	1,142	-	22,127	18,453
(7,701)	(36,906)	-	-	-	-	(45,098)	104,344
84,518	9,178	590	300	60,058	744,031	952,641	582,587
41,989	42,878	395	300	-	-	86,692	95,908
7,574	3,380	-	-	-	-	10,960	22,894
2,714	523	4	-	109	-	3,413	3,388
20,567	9,677	92	-	844	-	32,381	30,724
-	-	-	-	-	-	32,501	30,283
4,247	48	-	-	1,739	-	13,464	13,215
-	-	-	-	40,716	355,010	395,726	238,589
8,746	-	-	-	9,818	-	18,564	12,354
1,210	-	(1)	-	87	-	1,214	1,421
87,047	56,506	490	300	53,313	355,010	594,915	448,776
(2,529)	(47,328)	100	-	6,745	389,021	357,726	133,811
(4,591)	14,141	-	-	(100,915)	(1,587)	(101,264)	(18,490)
(7,120)	(33,187)	100	-	(94,170)	387,434	256,462	115,321
737,540	141,747	1,967	-	(26,237)	14,477	1,026,582	911,261
\$730,420	\$108,560	\$2,067	\$ -	\$(120,407)	\$401,911	\$1,283,044	\$1,026,582

# MINNESOTA HOUSING FINANCE AGENCY

## Fund Financial Statements

### Statement of Cash Flows (in thousands)

#### Proprietary Funds

Year ended June 30, 2021 (with comparative totals for year ended June 30, 2020)

		<b>Bond Funds</b>	
		<b>General Reserve</b>	<b>Rental Housing</b>
<b>Cash flows from operating activities</b>	Principal repayments on loans and program mortgage-backed securities	\$ -	\$46,494
	Investment in loans/loan modifications and program mortgage-backed securities	-	(10,250)
	Interest received on loans and program mortgage-backed securities	-	7,515
	Fees and other income received	11,775	97
	Salaries, benefits and other operating	(34,193)	(18)
	Appropriations received	-	-
	Appropriations disbursed	-	-
	Administrative reimbursement from funds	33,321	(1,201)
	Deposits into funds held for others	38,097	-
	Disbursements made from funds held for others	(36,660)	-
	Interfund transfers and other assets	(1,601)	254
	<b>Net cash provided (used) by operating activities</b>	<u>10,739</u>	<u>42,891</u>
<b>Cash flows from non-capital financing activities</b>	Proceeds from sale of bonds and notes	-	24,525
	Principal repayment on bonds and notes	-	(14,700)
	Interest paid on bonds and notes	-	(1,278)
	Financing costs paid related to bonds issued	-	(6)
	Agency contribution to program funds	-	51
	Transfer of cash between funds	(10,571)	-
	<b>Net cash provided (used) by noncapital financing activities</b>	<u>(10,571)</u>	<u>8,592</u>
<b>Cash flows from investing activities</b>	Investment in real estate owned	-	-
	Interest received on investments	56	725
	Net gain (loss) on Sale of MBS Held for Sale and HOMES <sup>SM</sup> Certificates	-	-
	Proceeds from sale of mortgage insurance claims/real estate owned	-	-
	Proceeds from maturity, sale or transfer of investment securities	-	658
	Purchase of investment securities	-	(309)
	Purchase of loans between funds	-	(15,140)
	<b>Net cash provided (used) by investing activities</b>	<u>56</u>	<u>(14,066)</u>
	Net increase (decrease) in cash and cash equivalents	224	37,417
<b>Cash and cash equivalents</b>	<b>Beginning of period</b>	<u>105,232</u>	<u>26,826</u>
	<b>End of period</b>	<u><u>\$105,456</u></u>	<u><u>\$64,243</u></u>

See accompanying notes to financial statements



Bond Funds				Appropriated Funds		Total for the	Total for the
Residential	Homeownership	Multifamily		State	Federal	Year Ended	Year Ended
Housing	Finance	Housing	HOMES <sup>SM</sup>	Appropriated	Appropriated	June 30, 2021	June 30, 2020
Finance							
\$ 606,909	\$ 589,858	\$ 211	\$ -	\$ 21,462	\$ -	\$1,264,934	\$ 590,401
(639,385)	(260,675)	-	-	(25,360)	-	(935,670)	(982,952)
74,355	56,087	591	-	587	-	139,135	143,970
11,442	-	-	-	1,142	-	24,456	24,844
(10,378)	(607)	(4)	-	(1,852)	-	(47,052)	(46,469)
-	-	-	-	57,212	742,382	799,594	267,933
-	-	-	-	(40,057)	(345,038)	(385,095)	(238,472)
(20,567)	(9,677)	(92)	-	(1,086)	-	698	596
-	-	-	-	145,870	-	183,967	80,498
(1,495)	-	-	-	(71,657)	-	(109,812)	(74,120)
765	-	-	-	-	(1)	(583)	(2,186)
21,646	374,986	706	-	86,261	397,343	934,572	(235,957)
2,459,805	272,417	-	-	-	-	2,756,747	3,070,364
(2,261,088)	(560,091)	(240)	(6,178)	-	-	(2,842,297)	(2,714,322)
(51,291)	(44,297)	(395)	(316)	-	-	(97,577)	(100,023)
(6,599)	(2,213)	-	-	-	-	(8,818)	(9,079)
(9,480)	9,429	-	-	-	-	-	-
10,571	-	-	-	-	-	-	-
141,918	(324,755)	(635)	(6,494)	-	-	(191,945)	246,940
(540)	-	-	-	-	-	(540)	(603)
5,549	7	-	316	861	43	7,557	16,148
10,336	-	-	-	-	-	10,336	(4,925)
1,907	-	-	-	-	-	1,907	6,662
1,087,716	-	-	6,178	-	-	1,094,552	1,427,556
(1,106,743)	-	-	-	-	-	(1,107,052)	(1,339,608)
19,684	-	-	-	(4,544)	-	-	-
17,909	7	-	6,494	(3,683)	43	6,760	105,230
181,473	50,238	71	-	82,578	397,386	749,387	116,213
207,922	65,183	1,639	-	146,758	14,485	568,045	451,832
\$ 389,395	\$ 115,421	\$1,710	\$ -	\$229,336	\$411,871	\$1,317,432	\$ 568,045

(Continued)

# MINNESOTA HOUSING FINANCE AGENCY

## Fund Financial Statements

### Statement of Cash Flows (in thousands)

#### Proprietary Funds (continued)

Year ended June 30, 2021 (with comparative totals for year ended June 30, 2020)

		Bond Funds	
		General Reserve	Rental Housing
Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities	Revenues over (under) expenses	\$ 6,107	\$ 5,610
	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	-	(89)
	Amortization of proportionate share-Pension	64	-
	Depreciation	3,581	-
	Gain (loss) on sale of MBS held for sale and HOMES <sup>SM</sup> Certificates	-	-
	Realized losses (gains) on sale of securities, net	-	(69)
	Unrealized losses (gains) on securities, net	-	491
	Salaries and Benefits-Pensions	736	-
	Provision for loan losses	-	(82)
	Reduction in carrying value of certain low interest rate and/or deferred loans	-	-
	Capitalized interest on loans and real estate owned	-	-
	Interest earned on investments	(212)	(724)
	Interest expense on bonds and notes	-	1,130
	Financing expense on bonds	-	6
	Changes in assets and liabilities:		
	Decrease (increase) in loans receivable and program mortgage-backed securities, excluding loans transferred between funds	-	36,244
	Decrease (increase) in interest receivable on loans	-	69
	Increase (decrease) in accounts payable	1,351	51
	Increase (decrease) in interfund payable, affecting operating activities only	221	257
	Increase (decrease) in funds held for others	1,437	-
	Other	(2,546)	(3)
	<b>Total</b>	<u>4,632</u>	<u>37,281</u>
	<b>Net cash provided (used) by operating activities</b>	<u>\$10,739</u>	<u>\$42,891</u>

See accompanying notes to financial statements

Bond Funds				Appropriated Funds		Total for the	Total for the
Residential	Homeownership	Multifamily		State	Federal	Year Ended	Year Ended
Housing	Finance	Housing	HOMES <sup>SM</sup>	Appropriated	Appropriated	June 30, 2021	June 30, 2020
Finance							
\$ (2,529)	\$ (47,328)	\$100	\$ -	\$ 6,745	\$389,021	\$357,726	\$ 133,811
6,675	10,569	-	-	-	-	17,155	7,887
-	-	-	-	-	-	64	24
-	-	-	-	-	-	3,581	3,739
(12,376)	-	-	-	-	-	(12,376)	(8,770)
-	(171)	-	-	-	-	(240)	(27)
7,701	36,906	-	-	-	-	45,098	(104,344)
-	-	-	-	-	-	736	620
1,210	-	(1)	-	87	-	1,214	1,421
8,746	-	-	-	9,818	-	18,564	12,354
(222)	-	-	-	-	-	(222)	(519)
(4,785)	(7)	-	(300)	(844)	(42)	(6,914)	(14,591)
41,989	42,878	395	300	-	-	86,692	95,908
7,519	3,380	-	-	-	-	10,905	22,901
(32,476)	329,183	211	-	(3,898)	-	329,264	(392,551)
(567)	1,235	1	-	(40)	-	698	(673)
1,513	(1,659)	-	-	655	9,921	11,832	3,343
499	-	-	-	(242)	31	766	(105)
(1,495)	-	-	-	74,213	-	74,155	6,378
244	-	-	-	(233)	(1)	(2,539)	(2,763)
24,175	422,314	606	-	79,516	8,322	576,846	(369,768)
\$21,646	\$374,986	\$706	\$ -	\$86,261	\$397,343	\$934,572	\$(235,957)

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# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

Year ended June 30, 2021

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### Nature of Business and Fund Structure

The Minnesota Housing Finance Agency (the Agency or Minnesota Housing) was created in 1971 by the Minnesota legislature through the enactment of Minnesota Statutes, Chapter 462A, which has been amended from time to time. The Agency was established to facilitate the construction and rehabilitation of housing in Minnesota for families of low- and moderate-income by providing mortgage loans, development loans, and technical assistance to qualified housing sponsors. The Agency, as a special purpose agency engaged in business-type activities, is reflected on the State's annual comprehensive financial report as a discrete component unit of the State of Minnesota. The Agency receives appropriations from the state legislature annually, 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.

A primary government that appoints a voting majority of the organization's governing body, and either (1) is able to impose its will on the organization or (2) has the potential to receive specific financial benefits or burdens imposed on it by the organization, is financially accountable to that organization. Based on this criterion, the Agency is considered a discretely presented component unit of the State of Minnesota and is included in its basic financial statements. The Agency has no component units required to be included in its financial report.

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. All Agency funds are presented as a major fund for public interest purposes, and are included in this report, all of which conform to the authorizing legislation and bond resolutions:

#### General Reserve

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

#### Rental Housing

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

#### Residential Housing Finance

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

The bond resolution within Residential Housing Finance, along with the Homeownership Finance bond resolution, were the principal sources of financing for bond-financed homeownership programs (see Homeownership Finance below). Bonds were issued for the purpose of funding purchases of single family first mortgage loans, mortgage-backed securities backed by single family first mortgage loans, some related down payment and closing 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

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# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2021 (continued)

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

mortgage insurers or the Federal Housing Administration (FHA) or guaranteed by the U.S. Department of Veterans Affairs (VA) or the U.S. Department of Agriculture Rural Development (RD). Assets financed by the bonds issued and outstanding under the Residential Housing Finance bond resolution are pledged to the repayment of Residential Housing Finance bonds.

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

Assets of the Housing Investment Fund (Pool 2) consist of investment quality housing loans, as defined by the Agency, and investment grade securities. During fiscal year 2021 this fund provided capital for several Agency programs including its home improvement loan program and its multifamily first-mortgage loan program. It also provided capital for warehousing purchases of mortgage-backed securities secured by single family first mortgage loans before these securities are permanently financed by issuing bonds, or sold into the to be announced (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. 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 to provide tax credit bridge loans, for loans to partner organizations to acquire, rehabilitate and sell foreclosed homes, and to develop new affordable housing.

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 2021 funds from Pool 3 were used for down payment and closing cost assistance for first-time homebuyers for capital costs and rental assistance for permanent supportive housing, for advances for certain multifamily housing developments in anticipation of permanent funding through state appropriation-backed housing bonds, and to provide deferred, subordinated multifamily loans.

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

#### Homeownership Finance

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

#### 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.

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

This bond indenture implements a program developed by the investment banking division of a major bank whereby the Agency issues and sells to the investment bank limited obligations of the Agency (HOMES<sup>SM</sup>)

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# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2021 (continued)

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

certificates), each secured by a mortgage-backed security guaranteed by FNMA or GNMA. The HOMES<sup>SM</sup> Certificates are not secured by the general obligation pledge of the Agency and are not protected by the moral obligation backing from the State of Minnesota.

#### State Appropriated

The State Appropriated fund was established to account for funds received from the Minnesota legislature which are to be used for programs for low- and moderate-income persons and families in the form of low-interest loans, no-interest deferred loans, low-interest amortizing loans, debt service and other costs associated with appropriation-backed housing bonds, and other housing-related program costs. The net position of the State Appropriated fund is not pledged or available to secure bonds issued under any of the Agency's bond funds, nor available to creditors of the Agency. State appropriations received for debt service payments on State appropriation-backed bonds are restricted for that use only and are not pledged or available for any other purpose. The unrestricted – state appropriation-backed bonds will be retired through future appropriations from the State.

#### Federal Appropriated

The Federal Appropriated fund was established to account for funds received from the federal government which are to be used for programs for low- and moderate-income persons and families in the form of no-interest deferred loans and grants in support of foreclosure counseling and remediation efforts, assistance to tax credit developments and other housing-related program costs. Beginning in fiscal year 2021 the fund was also for funds received from the federal government for COVID emergency rental assistance. The net position of the Federal Appropriated fund is not pledged or available to secure bondholders or creditors of the Agency.

#### Summary of Significant Accounting Policies

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

#### Basis of Accounting

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

#### Accounting Principles Generally Accepted in the United States (GAAP)

The financial statements of the Agency have been prepared in conformity with accounting principles accepted in the United States as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles.

#### New Accounting Pronouncements

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

Leases should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation (or, if applied to earlier periods, the beginning of the earliest period restated).



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# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2021 (continued)

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

However, lessors should not restate the assets underlying their existing sales-type or direct financing leases. Any residual assets for those leases become the carrying values of the underlying assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

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

The Statement defines conduit debt with the following characteristics:

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

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

The requirements for the Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

In January 2020, the GASB issued Statement 92 *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement address a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, *Leases*, and implementation Guide No. 2019-3, *Leases*, for interim financial reports.
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan.
- The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements

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# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2021 (continued)

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

- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature
- Terminology used to refer to derivative instruments.

The requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.
- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

Earlier application is encouraged and is permitted by topic.

In January 2020, the GASB issued Statement 93 *Replacement of Interbank Offered Rates*. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR)—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as amended, requires a government to terminate hedge accounting when it renegotiates or amends a critical term of a hedging derivative instrument, such as the reference rate of a hedging derivative instrument's variable payment. In addition, in accordance with Statement No. 87, *Leases*, as amended, replacement of the rate on which variable payments depend in a lease contract would require a government to apply the provisions for lease modifications, including remeasurement of the lease liability or lease receivable.

The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap

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# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2021 (continued)

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

- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap
- Clarifying the definition of reference rate, as it is used in Statement 53, as amended
- Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. The requirements of this Statement related to lease modifications are effective for fiscal years beginning after June 15, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged.

In May 2020, GASB issued Statement 96 *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

The subscription term includes the period during which a government has a noncancellable right to use the underlying information technology assets. The subscription term also includes periods covered by an option to extend (if it is reasonably certain that the government or SBITA vendor will exercise that option) or to terminate (if it is reasonably certain that the government or SBITA vendor will not exercise that option).

Under this Statement, a government generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term, —which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government's incremental borrowing rate if the interest rate is not readily determinable. A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in subsequent financial reporting periods.

The subscription asset should be initially measured as the sum of (1) the initial subscription liability amount, (2) payments made to the SBITA vendor before commencement of the subscription term, and (3) capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. A government should recognize amortization of the subscription asset as an outflow of resources over the subscription term.

Activities associated with a SBITA, other than making subscription payments, should be grouped into the following three stages, and their costs should be accounted for accordingly:

- Preliminary Project Stage, including activities such as evaluating alternatives, determining needed technology, and selecting a SBITA vendor. Outlays in this stage should be expensed as incurred.
- Initial Implementation Stage, including all ancillary charges necessary to place the subscription asset into service. Outlays in this stage generally should be capitalized as an addition to the subscription asset.
- Operation and Additional Implementation Stage, including activities such as subsequent implementation activities, maintenance, and other activities for a government's ongoing operations

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# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2021 (continued)

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

related to a SBITA. Outlays in this stage should be expensed as incurred unless they meet specific capitalization criteria.

This Statement requires a government to disclose descriptive information about its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

This Statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or an other employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform.

This Statement also requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities*, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans*, or paragraph 3 of Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plan*, respectively.

This Statement (1) requires that a Section 457 plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities.

This Statement supersedes the remaining provisions of Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, as amended, regarding investment valuation requirements for Section 457 plans. As a result, investments of all Section 457 plans should be measured as of the end of the plan's reporting period in all circumstances.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately.

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# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2021 (continued)

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

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this statement.

#### Cash and Cash Equivalents

Cash equivalents are classified as current assets and 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 (or MBS) and Investment Securities- Other

The Agency generally carries investment securities at fair market value. Unrealized gains and losses on investment securities resulting from changes in market valuation are generally recorded as revenue. However, unrealized gains and losses on investments of multifamily development escrow funds resulting from changes in market valuation, as well as unrealized gains and losses on MBS held in the HOMES<sup>SM</sup> fund, are recorded as adjustments to 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. Loans scheduled to mature in the coming fiscal year are considered current, the remaining loans are noncurrent.

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, monthly payment seconds (MP2nds) 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, 2021.

#### 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, 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.



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# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2021 (continued)

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

##### 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. The intent for holding Real estate owned is to convert them to cash, therefore are classified as a current asset.

##### Capital Assets

Capital assets are recorded at cost and estimated historical cost and depreciated over their estimated useful lives (excluding salvage value). The Agency defines capital assets as assets with an initial cost of more than \$2,000 and useful life of more than one year. Donated capital assets are recorded at their acquisition value at the date of donation. Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight-line depreciation is used based on the following estimated useful lives: furniture and equipment five years and software two to five years.

##### Deferred Loss on Refunding

The deferred loss on refunding results from the difference in the carrying amount of the refunded debt and its reacquisition price. The deferred loss on refunding is recognized as a component of interest expense over the shorter of the remaining life of the old debt or the life of the new debt

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

The Agency's interest rate swap agreements all have a negative fair value as of the end of fiscal year 2021. Because these agreements have been determined to be effective hedges under applicable accounting guidance, the negative fair value is recorded as a deferred loss.

##### Deferred Pension and OPEB Expense

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

##### Bonds Payable

Bonds payable are carried at their unpaid principal balances. Principal balances scheduled to be paid within one year subsequent to year-end, mandatory pass through redemptions and optional redemptions of bonds exercised before June 30, 2021, are reported as current liabilities. Because the Agency is the issuer of the state appropriation-backed bonds they are included in this category, but amounts held in funds securing those bonds are not pledged or available to secure other bondholders or creditors of Minnesota Housing.

##### Interest Payable

The interest payable represents interest payable on bonds, notes and swaps as of end of fiscal year 2021 and are recorded as a current liability.

##### Interest Rate Swap Agreements

Agency interest rate swap agreements with a negative fair value as of the end of fiscal year 2021 are recorded here as a noncurrent liability.

##### Net Pension and OPEB Liability

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



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# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2021 (continued)

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

##### Pension

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

##### Post Employment Benefits Other than Pension

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

##### Interfund Payable (Receivable)

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

##### Funds Held for Others

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

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

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

##### Deferred Service Release Fees

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

##### Deferred Pension and OPEB

The deferred inflows and outflows of pension resources are amounts used under GASB Statement No. 68 in developing the annual pension expense. Deferred inflows and outflows arise with differences between expected and actual experiences; changes of assumptions. The portion of these amounts not included in pension expense should be included in the deferred inflows or outflows of resources.

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# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2021 (continued)

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

##### Fair Value Reporting

To the extent available, the Minnesota Housing investments are recorded at fair value as of June 30, 2021. GASB No. 72 *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset between market participants at the measure date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace.

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

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

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

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

##### Restricted by Bond Resolution

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

##### Restricted by Covenant

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

##### Restricted by Law

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

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

The deficit position of Unrestricted by State Appropriation-backed Bond net position represents outstanding non-profit housing and housing infrastructure bonds that are not a general obligation of the Agency. Amounts held in funds securing those bonds are not pledged or available to secure other bondholders or creditors of Minnesota Housing.

##### Invested in Capital Assets

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

##### Agency-wide Total

The Agency-wide total columns reflect the totals of the similar accounts of the various funds. Since the assets of certain funds are restricted by either the related bond resolutions or legislation, the totaling of the accounts, including assets therein, does not indicate that the combined assets are available in any manner other than that provided for in either the bond resolutions, Board resolutions or the legislation for the separate funds or groups of funds.

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# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2021 (continued)

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

The financial statements include summarized prior-year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended June 30, 2020, from which such summarized information was derived. Management changed the presentation of the Statement of Financial Position to a classified format during fiscal year ended June 30, 2021. Summarized comparative information presented as of June 30, 2020 was reclassified to current and noncurrent accordingly.

#### Appropriations Received

Revenue from grants is recognized as revenue in the fiscal year in which all eligibility requirements have been satisfied.

#### 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 \$.763 million are reflected as administrative reimbursement revenues in the General Reserve.

Administrative reimbursements in the amount of \$32.381 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 and Non-operating Transfer of Assets Between Funds and Other Adjustments

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.

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# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

Year ended June 30, 2021 (continued)

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### Summary of Significant Accounting Policies (continued)

Non-operating transfers occur as a result of bond sale contributions related to new debt issues; transfers between the Housing Endowment Fund (Pool 1), the Housing Investment Fund (Pool 2), and the Housing Affordability Fund (Pool 3) to maintain the Pool 1 required balance, and periodic transfers from the bond funds of assets in excess of bond resolution requirements. In the appropriated fund this account is used to record the receipt of bond sale proceeds, debt service receipts from the State and disbursements to bond holders related to the appropriation-backed state bonds.

#### Non-Cash Activities

Transfers from loans receivable to FHA/VA insurance claims receivable and real estate owned for fiscal year 2021 were \$ 0.6 million in Residential Housing Finance.

#### Use of Estimates

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

#### Income Taxes

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

#### Rebatable Arbitrage

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

#### Agency Investments

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

Cash and Cash Equivalents are generally stated at cost, which approximates fair value. The balances were composed of the following at June 30, 2021 (in thousands):

#### Cash and Cash Equivalents

Funds	Deposits <sup>1</sup>	Money Market Funds	State Investment Pool (ITC)	Investment Agreements	Combined Totals
General Reserve Account	\$ -	\$ -	\$105,456	\$ -	\$ 105,456
Rental Housing	-	64,243	-	-	64,243
Residential Housing Finance	1,003	388,062	-	330	389,395
Homeownership Finance Bonds	-	115,421	-	-	115,421
Multifamily Housing Bonds	-	1,710	-	-	1,710
State Appropriated Accounts	192	102,828	126,316	-	229,336
Federal Appropriated Accounts	263,026	5,176	143,669	-	411,871
Combined Totals	<u>\$264,221</u>	<u>\$677,440</u>	<u>\$375,441</u>	<u>\$330</u>	<u>\$1,317,432</u>

<sup>1</sup> Deposits may be in Cash or Cash Equivalents.

### Cash, Cash Equivalents and Investment Securities

# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2021 (continued)

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

Included in deposits was cash awaiting investment, consisting of interest earned on investments accrued at year end and certain federal emergency funds.

The ITC is an internal investment pool managed by the Minnesota 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.

#### Interest Rate Risk – Investments

Interest rate risk is the risk that changes in market interest rates of debt investments will adversely affect the fair value of an investment. The Agency's Board Policy – *Investments and Cash Management* requires interest rate risk of variable rate debt to be hedged with interest rate swaps. Interest rate risk information is presented using the weighted average maturity method, which expresses investment time horizons, the period when investments become due and payable in years or months, weighted to reflect the dollar size of individual investments within investment type.

#### Concentration of Credit Risk – Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer's debt or otherwise lack of diversification. The Agency does not have a formal policy regarding concentration of credit risk for rated corporate debt securities that are among the top four quality categories. For other types of investments, Minnesota Statutes 11A.24 established investment parameters.

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, 2021 (in thousands):

#### Investment Securities

<b>Funds</b>	<b>Investment Securities- Other at Amortized Cost</b>	<b>Program Mortgage- backed Securities</b>	<b>Unrealized Appreciation (Depreciation)</b>	<b>Estimated Market Value</b>
Rental Housing	\$ 19,964	\$ -	\$ 2,263	\$ 22,227
Residential Housing Finance	152,182	1,404,823	64,114	1,621,119
Homeownership Finance Bonds	-	1,294,100	58,287	1,352,387
HOMES <sup>SM</sup>	7,214	-	438	7,652
Combined Totals	<u>\$179,360</u>	<u>\$2,698,923</u>	<u>\$125,102</u>	<u>\$3,003,385</u>

U.S. Treasury securities, U.S. Agency securities, and municipal bonds in General Reserve, State Appropriated and Federal Appropriated are held by the State of Minnesota on behalf of the Agency. 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.

**MINNESOTA HOUSING FINANCE AGENCY**  
**Notes to Financial Statements**  
**Year ended June 30, 2021 (continued)**

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

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, 2021 were (in thousands):

**Credit Ratings of Investment Securities**

Type	Par Value	AA+/Aaa	AA+
U.S. Agencies	\$2,879,245	\$2,879,245	\$ -
Municipal Bonds	7,575	-	7,575
Agency-wide Totals	\$2,886,820	\$2,879,245	\$7,575
U.S. Treasuries	4,755		
Agency-wide Totals	\$2,891,575		

Examining the weighted average maturities of the Agency's investment securities can reveal information about interest rate risk. Cash, Cash Equivalents and Investment Securities (excluding unrealized depreciation of \$125.102 million and net premium of \$13.293 million), along with the weighted average maturities (in years) as of June 30, 2021, consisted of the following (in thousands):

Investments in any one issuer, excluding \$1,553 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, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*, of June 30, 2021 were as follows (in thousands):

**Cash, Cash Equivalents and Investment Securities**

Type	Par Value	Weighted Average Maturity, in Years							
		General Reserve	Rental Housing	Residential Housing Finance	Home-ownership Finance Bonds	Multifamily Housing Bonds	HOMES <sup>SM</sup>	State Appropriated	Federal Appropriated
Deposits	\$ 1,195	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money market fund	677,440	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
State Investment Pool	638,467	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment agreements	330	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
US Agencies	2,879,245	0.0	6.6	27.7	26.3	0.0	22.1	0.0	0.0
US Treasuries	4,755	0.0	0.0	1.3	0.0	0.0	0.0	0.0	0.0
Municipals	7,575	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Agency-wide Totals	\$4,209,007								
Weighted Average Maturity		0.0	1.6	22.1	24.1	0.0	22.1	0.0	0.0

Investment Issuer	Amount
Federal National Mortgage Association, U.S. Agencies	\$1,317,746

The Agency maintained certain deposits and investments throughout fiscal year 2021 that were subject to custodial credit risk. As of June 30, 2021, the amounts subject to this risk consisted of the following (in thousands):

	Amount
Deposits not covered by depository insurance and uncollateralized (including \$677,440 in a money market fund and \$375,441 in the State investment pool)	\$1,317,102
Investment securities uninsured, uncollateralized.	2,891,905
<b>Agency-wide Total</b>	<b>\$4,209,007</b>



**MINNESOTA HOUSING FINANCE AGENCY**  
**Notes to Financial Statements**  
**Year ended June 30, 2021 (continued)**

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

Net realized gain on sale of investment securities of \$0.069 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, 2021 were as follows (in thousands).

<b>Program Funds</b>	<b>Amount</b>
Multifamily Housing Bonds	\$ 479
Rental Housing	1,156
Residential Housing Finance	11,283
Combined Totals	<u>\$12,918</u>

The following table summarizes Minnesota Housing's investments within the fair value hierarchy at June 30, 2021:

<b>Investments (at par)</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
U.S. Agencies	\$1,761	\$2,877,484	\$ -	\$2,879,245
U.S. Treasuries	4,755	-	-	4,755
Municipals	-	7,575	-	7,575
	<u>\$6,516</u>	<u>\$2,885,059</u>	<u>\$ -</u>	<u>\$2,891,575</u>
Premium/discount and unrealized appreciation/depreciation				111,810
Fair market value				<u>\$3,003,385</u>

**Loans Receivable,  
Net**

Loans receivable, net at June 30, 2021 consisted of (in thousands):

<b>Funds</b>	<b>Outstanding Principal</b>	<b>Allowance for Loan Losses</b>	<b>Loans Receivable, Net</b>
Rental Housing	\$144,351	\$ (2,884)	\$141,467
Residential Housing Finance	748,050	(9,972)	738,078
Multifamily Housing	13,408	(67)	13,341
State Appropriated	37,345	(1,119)	36,226
Agency-wide Totals	<u>\$943,154</u>	<u>\$(14,042)</u>	<u>\$929,112</u>

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

In addition to the loans in the table above, certain loans are carried at below-market interest rates and repayment is deferred for up to 30 years. These loans are generally in either a second or more subordinate mortgage position or may be unsecured. Given the nature of these loans and the risk associated with them, at the time of origination they are fully reserved resulting in a net carrying value of zero. The principal amount of loans with such characteristics originated during fiscal year 2021 aggregated \$11.961 million in the Residential Housing Finance Housing Affordability Fund (Pool 3), zero in Rental Housing and \$25.778 million in State Appropriated. Loans with net carrying values of zero are excluded from the tables above and below. The Agency also has deferred and/or forgivable loans with net carrying values of zero in the Federal Appropriated, HOME, National Housing Trust Fund (NHTF) and Housing Opportunities for Persons with Aids (HOPWA) programs. These loans are tracked for affordability by staff. The balance of these loans at June 30, 2021 was \$58.1 million compared to \$59.1 million on June 30, 2020.

**MINNESOTA HOUSING FINANCE AGENCY**  
**Notes to Financial Statements**  
**Year ended June 30, 2021 (continued)**

**Loans Receivable, Net (continued)**      Loans receivable, net and gross in Residential Housing Finance at June 30, 2021 consist of a variety of loans as follows (in thousands):

Description	Net Outstanding Amount	Gross Outstanding Amount
<b>Residential Housing Finance Bonds:</b>		
Homeownership, first mortgage loans	\$255,690	\$257,037
Other homeownership loans, generally secured by a second mortgage	6,349	6,765
<b>Alternative Loan Fund, Housing Investment Fund (Pool 2):</b>		
Home Improvement loans, generally secured by a second mortgage	82,216	82,946
Homeownership, first mortgage loans	27,302	27,765
Other homeownership loans, generally secured by a second mortgage	52,442	54,063
Multifamily, first mortgage loans	206,225	207,626
<b>Alternative Loan Fund, Housing Affordability Fund (Pool 3):</b>		
Other homeownership loans, generally secured by a second mortgage	105,759	109,742
Multifamily, first mortgage loans	2,095	2,106
Residential Housing Finance Totals	<u>\$738,078</u>	<u>\$748,050</u>

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

**Capital Asset  
Rollforward**

A summary of capital asset activity for the year ended June 30, 2021 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Furniture and equipment	\$ 3,318	\$ 78	\$ (30)	\$ 3,366
Software	11,940	690	(1,623)	11,007
Total capital assets, being depreciated	15,258	768	(1,653)	14,373
Less accumulated depreciation for:				
Furniture and equipment	(2,241)	(448)	29	(2,660)
Software	(8,737)	(3,133)	2,289	(9,581)
Total accumulated depreciation	(10,978)	(3,581)	2,318	(12,241)
Capital assets, net	<u>\$ 4,280</u>	<u>\$ (2,813)</u>	<u>\$ 665</u>	<u>\$ 2,132</u>

**Other Assets**

Other assets, including receivables, at June 30, 2021 consisted of the following (in thousands):

Funds	Receivables Due from the Federal Government	Other Assets and Receivables	Total
General Reserve Account	\$3,937	\$ 12	\$3,949
Rental Housing	-	6	6
Residential Housing Finance	-	701	701
Homeownership Finance	-	29	29
State Appropriated	-	233	233
Federal Appropriated	190	-	190
Combined Totals	<u>\$4,127</u>	<u>\$981</u>	<u>\$5,108</u>

**MINNESOTA HOUSING FINANCE AGENCY**  
**Notes to Financial Statements**  
**Year ended June 30, 2021 (continued)**

**Bonds Payable**

Summary of bonds payable activity, at June 30, 2021 is as follows (in thousands):

<b>Funds</b>	<b>June 30, 2020</b>			<b>June 30, 2021</b>
	<b>Bonds Outstanding</b>	<b>Bonds Issued</b>	<b>Bonds Repaid</b>	<b>Bonds Outstanding</b>
Rental Housing	\$ 50,055	\$ 24,525	\$ 14,700	\$ 59,880
Residential Housing Finance	1,712,955	553,165	475,140	1,790,980
Homeownership Finance Bonds	1,639,009	272,417	560,091	1,351,335
Multifamily Housing Bonds	13,240	-	240	13,000
HOMES <sup>SM</sup>	13,392	-	6,178	7,214
2018 Index Bank Note	-	419,278	400,948	18,330
Total	<u>\$3,428,651</u>	<u>\$1,269,385</u>	<u>\$1,457,297</u>	<u>\$3,240,739</u>
Bond Premium-Residential Housing Finance				34,644
State Appropriation-backed Bonds	179,845	108,280	7,365	280,760
Notes payable				85,000
Bonds payable, net				<u>\$3,641,143</u>

On May 26, 2021, \$49.022 million of bonds were issued in the HFB 2021 B bond series, a portion of which refunded \$6.890 million of HFB 2009 A-5 bond series on June 1, 2021.

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

Bonds payable at June 30, 2021 were as follows (in thousands):

<b>Series</b>	<b>Interest Rate</b>	<b>Final Maturity</b>	<b>Original Amount</b>	<b>Outstanding Amount</b>
<b><u>Rental Housing Bonds</u></b>				
2011 Series A	4.00% to 5.45%	2041	\$ 8,890	\$ 6,305
2012 Series A-1	3.75%	2048	4,175	3,710
2013 Series A-1	3.50% to 5.30%	2049	3,710	3,425
2013 Series B-1	3.65% to 5.30%	2044	2,040	1,820
2019 Series C	1.60%	2021	3,125	3,125
2019 Series D	1.40%	2022	5,550	5,550
2019 Series E	1.40%	2021	6,275	6,275
2019 Series F	1.35%	2021	5,145	5,145
2020 Series A	0.35%	2022	4,610	4,610
2020 Series B	0.35%	2023	5,665	5,665
2021 Series A	0.40%	2023	5,485	5,485
2021 Series B	0.30%	2023	8,765	8,765
			<u>\$63,435</u>	<u>\$59,880</u>
<b><u>Residential Housing Finance Bonds</u></b>				
2006 Series N	5.76%	2037	\$18,000	\$ 105
2007 Series M	6.345%	2038	70,000	12,450
2012 Series A	3.55% to 3.90%	2023	50,945	3,230
2012 Series B	3.30% to 3.45%	2024	8,830	2,560
2012 Series C	3.625% to 3.85%	2029	30,975	9,015
2012 Series D	3.90% to 4.00%	2040	60,000	4,920
2013 Series A	3.00%	2031	33,305	2,070
2013 Series C	2.35% to 3.90%	2043	42,310	20,880
2014 Series A	4.00%	2038	50,000	4,580

**MINNESOTA HOUSING FINANCE AGENCY**  
**Notes to Financial Statements**  
**Year ended June 30, 2021 (continued)**

**Bonds Payable  
(continued)**

<b>Series</b>	<b>Interest Rate</b>	<b>Final Maturity</b>	<b>Original Amount</b>	<b>Outstanding Amount</b>
<b><u>Residential Housing Finance Bonds (continued)</u></b>				
2014 Series B	4.00%	2038	\$ 50,000	\$ 5,525
2014 Series C	2.90% to 4.00%	2045	143,145	35,235
2014 Series D	3.00% to 3.10%	2026	6,585	2,830
2014 Series E	2.30% to 3.50%	2032	76,000	29,775
2015 Series A	4.00%	2041	43,070	12,150
2015 Series C	2.100% to 3.60%	2031	61,780	6,660
2015 Series D	Variable	2046	18,225	18,225
2015 Series E	2.25% to 3.50%	2046	96,930	22,875
2015 Series F	2.35% to 3.30%	2029	39,515	2,260
2015 Series G	Variable	2034	35,000	35,000
2016 Series A	1.75% to 3.20%	2033	63,135	19,545
2016 Series B	3.10% to 3.50%	2046	74,985	27,980
2016 Series C	2.70% to 4.20%	2037	15,590	4,345
2016 Series E	2.10% to 4.00%	2047	75,005	16,750
2016 Series F	Variable	2041	50,000	50,000
2017 Series A	1.75% to 3.20%	2030	43,455	4,215
2017 Series B	3.40% to 4.00%	2047	37,390	17,185
2017 Series C	Variable	2038	40,000	40,000
2017 Series D	2.25% to 3.30%	2030	41,145	9,595
2017 Series E	3.30% to 4.00%	2048	63,075	32,765
2017 Series F	Variable	2041	40,000	40,000
2018 Series B	4.00%	2048	43,680	19,830
2018 Series C	3.15% to 4.45%	2040	25,000	12,785
2018 Series D	Variable	2045	35,000	35,000
2018 Series E	4.25%	2049	65,200	37,275
2018 Series G	3.36% to 4.73%	2049	35,000	21,470
2018 Series H	Variable	2041	35,000	35,000
2019 Series A	2.15% to 2.625%	2025	7,865	400
2019 Series B	1.80% to 4.25%	2049	98,195	49,875
2019 Series C	2.775% to 4.204%	2042	37,500	22,835
2019 Series D	Variable	2042	45,000	45,000
2019 Series E	1.35% to 1.75%	2025	13,225	7,275
2019 Series F	1.50% to 3.75%	2050	96,775	73,190
2019 Series G	1.86% to 3.164%	2040	46,015	22,880
2019 Series H	Variable	2050	43,985	43,985
2020 Series A	1.15% to 1.70%	2026	20,850	15,310
2020 Series B	1.45% to 3.50%	2050	149,150	124,665
2020 Series C	1.69% to 3.337%	2050	60,000	48,745
2020 Series D	.50% to 1.80%	2027	19,300	16,035
2020 Series E	.35% to 3.50%	2050	130,700	119,940
2020 Series F	.40% to 1.70%	2028	15,630	14,690
2020 Series G	.45% to 3.00%	2051	109,370	105,185
2020 Series H	.25% to 1.50%	2028	16,525	16,285
2020 Series I	.15% to 3.00%	2051	108,475	107,435
2021 Series A	.25% to 1.95%	2030	23,060	23,060
2021 Series B	.15% to 3.00%	2051	101,940	101,940
2021 Series C	.20% to 1.45%	2028	24,020	24,020
2021 Series D	.15% to 3.00%	2052	154,145	154,145
			<u>\$3,039,000</u>	<u>\$1,790,980</u>

**MINNESOTA HOUSING FINANCE AGENCY**  
**Notes to Financial Statements**  
**Year ended June 30, 2021 (continued)**

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

<b>Series</b>	<b>Interest Rate</b>	<b>Final Maturity</b>	<b>Original Amount</b>	<b>Outstanding Amount</b>
<b><u>Homeownership Finance Bonds</u></b>				
2009 Series A-4A	2.48%	2041	\$ 21,910	\$ 6,200
2009 Series A-4B	2.48%	2041	13,090	3,730
2011 Series B	4.00% to 5.00%	2031	63,760	11,905
2011 Series C	3.80% to 3.850%	2022	8,310	450
2011 Series D	3.60% to 4.70%	2034	33,690	5,775
2011 Series E	3.25% to 4.45%	2035	65,000	11,010
2011 Series F	3.25% to 3.45%	2022	13,575	755
2011 Series G	4.00% to 4.40%	2035	29,110	7,125
2012 Series A	2.60%	2042	50,000	11,386
2012 Series B	2.25%	2042	75,000	21,389
2013 Series A	2.35%	2043	75,000	23,236
2013 Series B	2.70%	2041	85,149	17,774
2013 Series C	3.00%	2043	37,000	10,460
2014 Series A	3.00%	2044	38,527	6,636
2014 Series B	2.95%	2044	18,868	5,224
2014 Series C	3.25%	2044	13,663	3,783
2014 Series D	2.875%	2044	39,934	8,916
2015 Series A	2.80%	2045	60,013	20,493
2015 Series B	3.00%	2045	54,530	16,407
2015 Series C	3.05%	2045	40,226	11,284
2015 Series D	2.90%	2045	52,365	18,958
2016 Series A	2.95%	2046	97,274	36,827
2016 Series B	2.70%	2046	50,971	20,151
2016 Series C	2.33%	2046	35,390	15,141
2016 Series D	2.73%	2046	35,390	15,104
2016 Series E	2.35%	2046	35,495	15,817
2016 Series F	2.68%	2046	65,918	30,329
2016 Series G	2.30%	2046	20,445	10,206
2016 Series H	2.65%	2046	30,668	15,820
2017 Series A	2.93%	2047	24,966	11,141
2017 Series B	3.25%	2047	24,966	11,943
2017 Series C	3.08%	2047	23,904	12,591
2017 Series D	3.43%	2047	23,904	12,528
2017 Series E	2.85%	2047	39,283	17,224
2017 Series F	3.20%	2047	19,348	8,494
2017 Series G	2.65%	2047	84,998	43,023
2017 Series H	3.00%	2047	64,998	32,900
2017 Series I	2.80%	2047	69,238	35,778
2017 Series J	3.10%	2047	46,159	23,743
2018 Series A	3.30%	2048	38,247	22,353
2018 Series B	3.65%	2048	38,247	23,536
2018 Series C	3.30%	2048	30,326	15,705
2018 Series D	3.65%	2048	20,218	9,942
2018 Series E	3.45%	2048	47,757	23,937
2018 Series F	3.80%	2048	52,573	26,223
2018 Series G	3.75%	2048	31,784	17,795
2018 Series H	4.10%	2048	31,784	18,059
2018 Series I	3.60%	2049	22,971	11,515
2018 Series J	4.00%	2049	37,500	18,798

**MINNESOTA HOUSING FINANCE AGENCY**  
**Notes to Financial Statements**  
**Year ended June 30, 2021 (continued)**

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

<b>Series</b>	<b>Interest Rate</b>	<b>Final Maturity</b>	<b>Original Amount</b>	<b>Outstanding Amount</b>
<b><u>Homeownership Finance Bonds (continued)</u></b>				
2019 Series A	3.45%	2049	\$ 35,630	\$ 19,153
2019 Series B	3.80%	2049	30,351	16,315
2019 Series C	3.15%	2049	13,728	7,970
2019 Series D	3.55%	2049	30,555	17,739
2019 Series E	3.25%	2049	45,949	25,865
2019 Series F	3.23%	2049	59,851	37,497
2019 Series G	3.02%	2049	90,295	67,403
2019 Series H	2.47%	2050	48,324	31,709
2020 Series A	2.50%	2050	43,964	36,960
2020 Series B	2.35%	2050	18,000	15,519
2020 Series C	2.45%	2050	37,979	32,521
2020 Series D	1.92%	2050	100,000	92,454
2020 Series E	1.68%	2050	40,067	38,968
2021 Series A	1.58%	2051	83,328	82,721
2021 Series B	1.93%	2051	49,022	49,022
			<u>\$2,760,485</u>	<u>\$1,351,335</u>
<b><u>Multifamily Housing Bonds</u></b>				
2009	3.01%	2051	\$ 15,000	\$ 13,000
			<u>\$ 15,000</u>	<u>\$ 13,000</u>
<b><u>HOMES<sup>SM</sup></u></b>				
2013 Series A-1	3.50%	2043	\$ 3,359	\$ 697
2013 Series B-1	3.00%	2043	24,471	5,353
2013 Series C-1	3.50%	2043	4,713	1,164
			<u>\$ 32,543</u>	<u>\$ 7,214</u>
<b><u>Drawdown Index Bonds</u></b>				
2018 Index Bank Note	Variable	2021	\$ -	\$ 18,330
			<u>\$ -</u>	<u>\$ 18,330</u>
<b>Combined Totals</b>			<u><u>\$5,910,463</u></u>	<u><u>\$3,240,739</u></u>

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

Substantially all bonds are subject to optional redemption after various dates at an amount equal to 100% of the unpaid principal and accrued interest as set forth in the applicable series resolution.

The following table summarizes the annual debt service requirements to maturity for bonds outstanding as of June 30, 2021, excluding optional calls known at June 30, 2021 (in thousands). The current portion of bonds payable reported in the statement of net position includes known optional calls as of 6/30/21.



**MINNESOTA HOUSING FINANCE AGENCY**  
**Notes to Financial Statements**  
**Year ended June 30, 2021 (continued)**

**Bonds Payable  
(continued)**

<b>Fiscal Year</b>	<b>Rental Housing</b>		<b>Residential Housing Finance</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2022	\$20,440	\$ 990	\$ 30,125	\$ 39,947
2023	19,400	796	35,560	41,840
2024	5,875	715	35,610	41,258
2025	405	687	35,610	40,642
2026	415	668	36,730	39,953
2027-2031	2,420	3,021	218,060	185,967
2032-2036	3,155	2,360	326,945	158,031
2037-2041	4,195	1,446	364,530	122,852
2042-2046	2,300	576	376,865	81,669
2047-2051	1,275	111	313,520	24,757
2052-2056	-	-	17,425	332
Total	<u>\$59,880</u>	<u>\$11,370</u>	<u>\$1,790,980</u>	<u>\$777,248</u>

  

<b>Fiscal Year</b>	<b>Multifamily Housing</b>		<b>Homeownership Finance</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2022	\$ 240	\$ 388	\$ 3,130	\$ 37,739
2023	240	381	3,325	37,607
2024	240	373	3,610	37,467
2025	240	366	3,670	37,307
2026	240	359	3,675	37,145
2027-2031	1,640	1,663	17,885	183,128
2032-2036	1,800	1,396	3,305	180,678
2037-2041	2,310	1,093	7,530	180,020
2042-2046	2,670	724	233,744	167,959
2047-2051	3,200	282	1,071,461	75,247
2052-2056	180	1	-	-
Total	<u>\$13,000</u>	<u>\$ 7,026</u>	<u>\$1,351,335</u>	<u>\$974,297</u>

  

<b>Fiscal Year</b>	<b>HOMES<sup>SM</sup></b>		<b>Index Bank Note</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2022	\$ -	\$ 226	\$ 18,330	\$ 46
2023	-	225	-	-
2024	-	226	-	-
2025	-	225	-	-
2026	-	226	-	-
2027-2031	-	1,129	-	-
2032-2036	-	1,129	-	-
2037-2041	-	1,129	-	-
2042-2046	7,214	489	-	-
Total	<u>\$ 7,214</u>	<u>\$ 5,004</u>	<u>\$ 18,330</u>	<u>\$ 46</u>

**MINNESOTA HOUSING FINANCE AGENCY**  
**Notes to Financial Statements**  
**Year ended June 30, 2021 (continued)**

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

<b>Fiscal Year</b>	<b>Combined Totals</b>	
	<b>Principal</b>	<b>Interest</b>
2022	\$ 72,265	\$ 79,336
2023	58,525	80,849
2024	45,335	80,039
2025	39,925	79,227
2026	41,060	78,351
2027-2031	240,005	374,908
2032-2036	335,205	343,594
2037-2041	378,565	306,540
2042-2046	622,793	251,417
2047-2051	1,389,456	100,397
2052-2056	17,605	333
Total	<u>\$3,240,739</u>	<u>\$1,774,991</u>

Residential Housing Finance Bonds Series 2015 Series D and 2015 Series G; 2016 Series F; 2017 Series C and 2017 Series F and 2019 Series D and 2019 Series H accrue interest at rates that change weekly as determined by a remarketing agent for such series based on market conditions. Residential Housing Finance Bonds 2018 Series D and 2018 Series H accrue interest at a rate equal to the SIFMA (Securities Industry and Financial Markets Association) Index plus 0.43% and 0.55%, respectively. The 2018 Index Bank Note accrues interest at a rate equal to one month LIBOR (London Inter-Bank Offered Rate) plus 0.40%. 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, 2021 continue for the term of the bonds. Variable rate bond interest payments will vary as general short-term interest rates vary. Associated interest rate swaps are not included in the annual debt service requirements table. See the Swap Payments and Associated Debt table below to view those amounts.

The income and assets of each of the bond funds, except for the HOMES<sup>SM</sup> fund, are pledged on a parity basis for the payment of principal and interest on the bonds issued, and to be issued, under the respective resolutions. All but one of the bond resolutions contains covenants that require the Agency to maintain certain reserves. The Agency believes that as of June 30, 2021, 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, 2021 for the redemption of certain bonds thereafter. See Subsequent Events.

On June 30, 2021 the Agency had in place a revolving line of credit with the Federal Home Loan Bank of Des Moines with an outstanding balance of \$85.0 million. Draws against the line of credit are required to be collateralized with mortgage-backed securities which reside in Pool 2.

**Demand Bonds**

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

If the remarketing agent is unable to resell bonds purchased by the liquidity provider within one year of the purchase date the principal amount of these bonds together with interest at a bank rate will be payable to

# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2021 (continued)

#### Demand Bonds (continued)

the liquidity provider in quarterly or semiannual installments payable over a five-year period that begins on the purchase date.

The Agency is required to pay each liquidity provider a fee ranging from 0.25 to 0.65 percent per annum of the liquidity provider's available commitment (the outstanding principal amount of the bonds and approximately six months interest on the bonds at the rate of 12% per annum).

The Agency has paid \$1.396 million to the liquidity providers for fiscal year 2021.

In addition, each remarketing agent receives a fee ranging from .060 to 0.1 percent of the outstanding principal amount of the bonds. The Agency has paid a fee of \$0.254 million to the remarketing agents for fiscal year 2021.

As of June 30, 2021, the following demand bonds were outstanding (in thousands):

#### Demand Bonds

Variable Rate Series	Principal Amount Outstanding at par	Liquidity Facility Maturity-SBPA <sup>1</sup>	Liquidity Fee	Remarketing Agent Fee
Residential Housing Finance Series 2015D	\$ 18,225	8/11/2022	0.650%	0.100%
Residential Housing Finance Series 2015G	35,000	1/2/2023	0.650%	0.100%
Residential Housing Finance Series 2016F	50,000	1/2/2024	0.25% <sup>2</sup>	0.100%
Residential Housing Finance Series 2017C	40,000	7/19/2024	0.29% <sup>3</sup>	0.100%
Residential Housing Finance Series 2017F	40,000	1/2/2023	0.400%	0.100%
Residential Housing Finance Series 2019D	45,000	7/1/2024	0.340%	0.100%
Residential Housing Finance Series 2019H	43,985	9/10/2024	0.330%	0.060%
Combined Totals	<u>\$272,210</u>			

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

<sup>2</sup> Liquidity Fee was .55% prior to June 11, 2021.

<sup>3</sup> Liquidity Fee was .60% prior to June 11, 2021.

#### Floating Rate Term Bonds

The Agency has issued the Residential Housing Finance Bonds 2018 Series D and 2018 Series H as floating rate term bonds each in the principal amounts of \$35.0 million. The interest rate on the bonds is reset weekly based on the SIFMA Index plus 0.43% and 0.55%, respectively. The bonds are subject to mandatory purchase on July 3, 2023 and December 12, 2023, respectively, at a price equal to principal plus accrued interest. On or after January 1, 2023, with respect to the 2018 Series D bonds, and on or after July 1, 2023, with respect to the 2018 Series H bond, the Agency may redeem the bonds or may remarket the bonds with new terms.

#### Derivative Instruments- Interest Rate Swaps

The Agency has entered into certain interest rate swap agreements that are considered to be derivative instruments under Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). A consultant was engaged by the Agency to determine the fair value of these agreements and to evaluate their effectiveness as hedges as of June 30, 2021. The fair values approximate the termination payments that would have been due had the swaps been terminated as of June 30, 2020. Under GASB 53, instruments, in whole or in part, such as interest rate swaps and similar transactions that fall under the definition of Derivative Instruments must be reported on the statement of net position, the classification of which depends on whether they represent assets or liabilities, and Derivative Instruments generally should be measured at "Fair Value". Fair Values were determined pursuant to GASB 72: *Fair Value Measurement and Application*. The fair value hierarchy of interest rate swap agreements is determined to be level 2. The fair values exclude accrued interest. As of June 30, 2021, 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

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**MINNESOTA HOUSING FINANCE AGENCY**  
**Notes to Financial Statements**  
**Year ended June 30, 2021 (continued)**

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

inception-to-date change in fair value as of June 30, 2021 is included under deferred outflows of resources as “Deferred loss on interest rate swap agreements,” or under deferred inflows of resources as “Deferred gain on interest rate swap agreements.”

*Objective of Swaps*

The Agency entered into interest rate swap agreements in connection with its issuance of variable rate mortgage revenue bonds under the Residential Housing Finance Bond Resolution from calendar year 2003 through 2009, and 2015 through 2021. 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, 2021, 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.

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Interest Rate Swaps, Net</b>	<b>Total</b>
2022	\$ 4,490	\$ 528	\$ 7,654	\$ 12,672
2023	-	494	7,604	8,098
2024	-	494	7,604	8,098
2025	-	494	7,604	8,098
2026	-	494	7,604	8,098
2027-2031	17,240	2,467	37,848	57,555
2032-2036	122,820	2,234	31,051	156,105
2037-2041	138,410	1,368	15,578	155,356
2042-2046	55,605	300	3,255	59,160
2047-2051	3,645	3	55	3,703

*Terms of Swaps*

Terms of the swaps, the fair values, changes in fair values, and the credit ratings of the three counterparties thereto as of June 30, 2021, are contained in the three tables below (in thousands). All swaps are pay-fixed, receive-variable. Initial swap notional amounts matched original principal amounts of the associated debt. The Agency’s swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximate scheduled or anticipated reductions in outstanding principal amounts of the associated bond series. With respect to the outstanding swaps the Agency has also purchased the right, generally based upon a 300% PSA prepayment rate (The Standard Prepayment Model of The Securities Industry and Financial Markets Association and formerly the Public Securities Association) on the underlying mortgage loans, to further reduce the notional balances of the swaps as necessary to match the outstanding principal amount of the associated bond series and the right to terminate the swaps at par at approximately the 7-year anniversary date for the 2015D, 2015G, 2016F and 2017C swaps and the 5-year anniversary date for the 2017F, 2018D, 2018H, 2019D and 2019H swaps. The Agency also has the right to terminate outstanding swaps in whole or in part at fair value at any time if it is not in default thereunder:

# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2021 (continued)

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

<b>Counterparty: The Bank of New York Mellon</b>							
Moody's* Aa2 (stable outlook) / Standard & Poor's** AA- (stable outlook)							
<b>Associated Bond Series</b>	<b>Notional Amount as of June 30, 2021 (in thousands)</b>	<b>Effective Date</b>	<b>Swap Maturity Date</b>	<b>Fixed Rate Payable</b>	<b>Variable Rate Receivable</b>	<b>Fair Value<sup>1</sup> as of June 30, 2021 (in thousands)</b>	<b>Increase (Decrease) in Fair Value since June 30, 2020 (in thousands)</b>
RHFB 2018D	\$ 35,000	June 28, 2018	January 1, 2045	3.1875%	70% of 1 month LIBOR + 43 basis points	\$ (1,956)	\$ 748
RHFB 2019H	43,985	September 11, 2019	January 1, 2047	2.1500%	100% of 1 month LIBOR	(1,427)	1,622
Counterparty Total	\$ 78,985					\$ (3,383)	\$2,370

<b>Counterparty: Royal Bank of Canada</b>							
Moody's* Aa2 (Stable outlook) / Standard & Poor's** AA- (Stable outlook)							
<b>Associated Bond Series</b>	<b>Notional Amount as of June 30, 2021 (in thousands)</b>	<b>Effective Date</b>	<b>Swap Maturity Date</b>	<b>Fixed Rate Payable</b>	<b>Variable Rate Receivable</b>	<b>Fair Value<sup>1</sup> as of June 30, 2021 (in thousands)</b>	<b>Increase (Decrease) in Fair Value since June 30, 2020 (in thousands)</b>
RHFB 2015D	\$ 18,225	August 11, 2015	January 1, 2046	2.343%	67% of 1 month LIBOR	\$ (594)	\$ 362
RHFB 2015G	35,000	December 8, 2015	January 1, 2034	1.953%	67% of 1 month LIBOR	(1,108)	598
RHFB 2016F	50,000	December 22, 2016	January 1, 2041	2.175%	67% of 1 month LIBOR	(2,378)	1,193
RHFB 2018H	35,000	December 12, 2018	July 1, 2041	2.8035%	70% of 1 month LIBOR	(2,514)	1,142
RHFB 2019D	45,000	April 11, 2019	January 1, 2042	2.409%	70% of 1 month LIBOR	(3,227)	1,376
Counterparty Total	\$183,225					\$ (9,821)	\$4,671

<b>Counterparty: Wells Fargo Bank</b>							
Moody's* Aa2 (Stable outlook) / Standard & Poor's** A+ (Stable outlook)							
<b>Associated Bond Series</b>	<b>Notional Amount as of June 30, 2021 (in thousands)</b>	<b>Effective Date</b>	<b>Swap Maturity Date</b>	<b>Fixed Rate Payable</b>	<b>Variable Rate Receivable</b>	<b>Fair Value<sup>1</sup> as of June 30, 2021 (in thousands)</b>	<b>Increase (Decrease) in Fair Value since June 30, 2020 (in thousands)</b>
RHFB 2017C	\$ 40,000	January 1, 2019	January 1, 2038	2.180%	67% of 1 month LIBOR	\$ (2,121)	\$ 985
RHFB 2017F	40,000	December 27, 2017	January 1, 2041	2.261%	67% of 1 month LIBOR	(1,226)	941
Counterparty Total	\$ 80,000					\$ (3,347)	\$1,926
Accrued Interest Total <sup>2</sup>						\$ 2,619	
Combined Totals	\$342,210					\$(13,932)	\$8,967

<sup>1</sup> 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.

<sup>2</sup> Accrued interest is included in the Statement of Net Position under Swap Interest Payable.

\* Moody's Investor Service Inc.

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

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

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## MINNESOTA HOUSING FINANCE AGENCY

### Notes to Financial Statements

#### Year ended June 30, 2021 (continued)

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

##### 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, 2021, the Agency did have a net credit risk exposure to any of its three counterparties because their respective combined swap positions had a negative net fair value, as set forth in the foregoing tables. Each of the swap agreements requires that, upon demand, a party post collateral to secure its obligation to make a termination payment to the extent the fair value exceeds a collateral threshold specified in the agreement. The collateral threshold for each counterparty and the Agency is \$50 million if the ratings on the unsubordinated, unsecured long-term indebtedness of the counterparty, in the case of the counterparty, or the hedged bonds, in the case of the Agency, are not less than "AA-" and "Aa3" from Standard & Poor's and Moody's, respectively, \$5 million if the ratings are not less than "A+" and "A1", \$5 million if the ratings are not less than "A" and "A2", and \$0, if either rating is lower. These bilateral requirements are established to mitigate potential credit risk exposure. As of June 30, 2021, 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, plus, in some cases, a specified spread. Basis risk will vary over time due to inter-market conditions. As of June 30, 2021, the interest rate on the Agency's variable rate tax-exempt debt ranged from 0.03% to 0.58% per annum while the variable interest rate on the associated swaps ranged from 0.06% to 0.49% 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



# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2021 (continued)

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 GNMA, FNMA and FHLMC 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 GNMA, FNMA and FHLMC 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, 2021, are as follows: (in thousands):

	Counter Party Short-term Rating	Number of Contracts	Notional Amount	Original Price	Market Price	Fair Value
Bank of Oklahoma	A-2*/F1**	13	\$ 47,000	\$ 48,430	\$ 48,538	\$(108)
Daiwa	A-2*/F1**	19	88,000	90,828	90,964	(136)
ED&F Man Capital Markets	A-1*/F1+**	10	38,000	39,246	39,239	7
Fannie Mae	Not rated*/F1+**	6	62,000	64,107	64,138	(31)
Janney Montgomery Scott	Not Rated*/Not Rated**	17	58,000	59,878	59,975	(96)
South Street Securities	A-1*/F1+**	33	134,000	138,371	138,545	(173)
		98	\$427,000	\$440,861	\$441,399	\$(538)

\* Standard and Poor's Rating Services Inc.

\*\* Fitch Ratings, Ltd

#### State Appropriation-Backed Debt Obligation

The Agency has outstanding bonds under two indentures of trust that permit capital funding for loans for permanent supportive housing for long-term homeless households, preservation of federally assisted housing and other purposes. As of June 30, 2021, \$280.760 million of bonds were outstanding. This debt is not a general obligation of the Agency and is not payable from any funds or assets of the Agency including any loan repayments. These bonds are payable solely from the appropriations the Agency receives from the State of Minnesota General Fund pursuant to standing appropriations made by the Legislature as authorized by state laws adopted in 2008, 2012, 2014, 2015, 2017, 2018, 2019 and 2020.

State Appropriation-Backed Bonds at June 30, 2021 consisted of the following (in thousands):

Series	Interest Rate	Final Maturity	Original Amount	Outstanding Amount
<b><u>State Appropriated</u></b>				
2009 Series	3.25% to 4.00%	2029	\$ 13,270	\$ 6,235
2011 Series	3.875% to 5.25%	2031	21,750	14,315
2013 Series AB	3.00% to 5.00%	2033	15,460	10,415
2014 Series AB	2.375% to 5.00%	2035	14,540	11,890
2015 Series A	2.15% to 5.00%	2035	37,570	26,790
2015 Series C	3.25% to 5.00%	2037	31,095	27,230
2016 Series AC	2.00% to 4.00%	2038	18,625	15,985
2017 Series A	3.00% to 5.00%	2037	12,690	11,395
2018 Series ABCD	2.375% to 5.00%	2040	25,295	22,335
2019 Series ABCD	1.75% to 5.00%	2041	26,775	25,890
2020 Series ABCD	2.00% to 4.00%	2043	108,280	108,280
			<u>\$325,350</u>	<u>\$280,760</u>

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**MINNESOTA HOUSING FINANCE AGENCY**  
**Notes to Financial Statements**  
**Year ended June 30, 2021 (continued)**

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

State Appropriation-Backed bond debt service requirements at June 30, 2021 consisted of the following:

<b>Fiscal Year</b>	<b>State Appropriated</b>	
	<b>Principal</b>	<b>Interest</b>
2022	\$ 9,690	\$ 11,241
2023	11,320	10,876
2024	11,720	10,480
2025	12,140	10,056
2026	12,630	9,565
2027-2031	71,625	39,382
2032-2036	77,965	23,477
2037-2041	60,055	8,097
2042-2046	13,615	619
Total	<u>\$280,760</u>	<u>\$123,793</u>

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

**Conduit  
Debt-Obligation**

On December 21, 2005, the Agency issued tax-exempt bonds on a conduit basis to assist a Minnesota nonprofit organization in preserving assisted elderly rental housing. The proceeds of the bonds were used by the organization to refinance certain HUD Section 202 elderly housing projects. The bonds were sold on a private placement basis. As of June 30, 2021, \$22.736 million of the bonds were outstanding.

On March 1, 2016, the Agency issued a long-term tax-exempt multifamily revenue note on a conduit basis that was purchased by Freddie Mac under their Tax Exempt Loan Program. The proceeds of the sale were lent to the owner to pay for a portion of the costs of the acquisition, construction, and equipping of a multifamily senior rental housing development. As of June 30, 2021, \$20.438 million of the bonds were outstanding.

On April 20, 2016 and May 11, 2016, the Agency issued long-term tax-exempt multifamily revenue notes on a conduit basis that was purchased by Freddie Mac under their Tax Exempt Loan Program. The proceeds of the sales were lent to the owner to pay for a portion of the costs of the acquisition and rehabilitation of three HUD Section 8 multifamily housing developments. As of June 30, 2021, \$30.795 million of the bonds were outstanding.

On December 28, 2017, the Agency issued long-term conduit tax-exempt revenue bonds and a short-term conduit tax exempt revenue note. The proceeds of the sales were used to finance the acquisition, rehabilitation and equipping of two multi-family rental housing development projects that will preserve units with federal rental assistance. As of June 30, 2021, \$5.111 million of bonds were outstanding.

The total outstanding conduit debt as of June 30, 2021, was \$79.080 million.

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

**MINNESOTA HOUSING FINANCE AGENCY**  
**Notes to Financial Statements**  
**Year ended June 30, 2021(continued)**

**Accounts Payable**

Accounts payable and other liabilities at June 30, 2021 consisted of the following (in thousands):

<b>Funds</b>	<b>Accrued Salaries, Compensated Absences and Employee Benefits</b>	<b>Other Liabilities and Accounts Payable</b>	<b>Total</b>
General Reserve Account	\$ 5,438	\$ 859	\$ 6,297
Rental Housing	-	17,658	17,658
Residential Housing Finance	-	63,399	63,399
Homeownership Finance	-	95	95
State Appropriated	-	2,425	2,425
Federal Appropriated	9,921	-	9,921
Combined Totals	<u>\$15,359</u>	<u>\$84,436</u>	<u>\$99,795</u>

**Interfund Balances**

Interfund balances displayed as Interfund Payable (Receivable) at June 30, 2021 consisted of the following (in thousands):

<b>Funds</b>	<b>Due from</b>								<b>Total</b>
	<b>General Reserve</b>	<b>Rental Housing</b>	<b>Residential Housing Finance</b>	<b>Home-ownership Finance</b>	<b>Multifamily Housing</b>	<b>HOMES<sup>SM</sup></b>	<b>State Appropriated</b>	<b>Federal Appropriated</b>	
General Reserve	\$ -	\$ -	\$1,156	\$ -	\$ -	\$ -	\$138	\$223	\$1,517
Rental Housing	142	-	-	-	-	-	-	-	142
State Appropriated	-	257	499	-	-	-	-	-	756
Agency-wide Totals	<u>\$142</u>	<u>\$257</u>	<u>\$1,655</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$138</u>	<u>\$223</u>	<u>\$2,415</u>

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

**Interfund Transfers**

Interfund transfers recorded in Interfund Payable (Receivable) for the year ended June 30, 2021 consisted of the following (in thousands):

<b>Funds</b>	<b>Transfer from</b>								<b>Total</b>
	<b>General Reserve</b>	<b>Rental Housing</b>	<b>Residential Housing Finance</b>	<b>Home-ownership Finance</b>	<b>Multifamily Housing</b>	<b>HOMES<sup>SM</sup></b>	<b>State Appropriated</b>	<b>Federal Appropriated</b>	
General Reserve	\$ -	\$ 1,201	\$20,567	\$9,677	\$92	\$ -	\$1,087	\$697	\$33,321
Residential Housing Finance	-	15,140	-	-	-	-	4,544	-	19,684
Federal Appropriated	-	-	1,587	-	-	-	-	-	1,587
Agency-wide Totals	<u>\$ -</u>	<u>\$16,341</u>	<u>\$22,154</u>	<u>\$9,677</u>	<u>\$92</u>	<u>\$ -</u>	<u>\$5,631</u>	<u>\$697</u>	<u>\$54,592</u>

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 \$4.544 million of down payment and closing cost assistance loans transferred from Residential Housing Finance to State Appropriated.

# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2021 (continued)

#### Interfund Transfers (continued)

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds for the year ended June 30, 2021, consisted of the following (in thousands):

		Transfer from								
Funds		General Reserve	Rental Housing	Residential Housing Finance	Home-ownership Finance	Multifamily Housing	HOMES <sup>SM</sup>	State Appropriated	Federal Appropriated	Total
Transfer to	General Reserve	\$ -	\$ -	\$ 2,557	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,557
	Rental Housing	-	-	51	-	-	-	-	-	51
	Residential Housing Finance	10,571	-	-	-	-	-	-	1,587	12,158
	Homeownership Finance	-	-	14,141	-	-	-	-	-	14,141
	Agency-wide Totals	\$10,571	\$ -	\$16,749	\$ -	\$ -	\$ -	\$ -	\$1,587	\$28,907

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

#### Net Position

##### Restricted by Bond Resolution

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

##### Restricted by Covenant

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

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

The \$513.428 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 \$868.730 million as of June 30, 2021.

**MINNESOTA HOUSING FINANCE AGENCY**  
**Notes to Financial Statements**  
**Year ended June 30, 2021 (continued)**

**Net Position  
(continued)**

The following table describes the restricted by covenant portion of net position, including the balances to be maintained according to the Agency's Board investment guidelines, as of June 30, 2021 (in thousands):

	<b>Certain Balances Maintained According to Agency's Board Guidelines</b>	<b>Unrealized Appreciation (Depreciation) in Fair Market Value of Investments</b>	<b>Total Net Position Restricted by Covenant</b>
<b>Net Position — Restricted By Covenant</b>			
<b>Housing Endowment Fund (Pool 1), General Reserve</b>			
Pool 1 is an amount equal to 1% of gross loans outstanding (excluding Pool 3 and appropriation-funded loans) and must be invested in short-term, investment-grade securities at market interest rates	\$ 7,919	\$ -	\$ 7,919
Subtotal, Housing Endowment Fund (Pool 1), General Reserve	7,919	-	7,919
<b>Housing Investment Fund (Pool 2), Residential Housing Finance</b>			
An amount that causes the combined net position in the General Reserve and bond funds (exclusive of: Pool 3, unrealized gains/losses on investments, and realized gains/losses from the sale of investments between Agency funds) to be at least equal to the combined net position of the same funds for the immediately preceding audited fiscal year end (after restatements, if any, required by generally accepted accounting principles). During fiscal year 2020, \$16.0 million was transferred from Pool 2 to Pool 3 in compliance with these Board guidelines. Pool 2 is invested in investment-quality housing loans, as defined by the Agency, or investment-grade securities.	362,879	-	362,879
Unrealized appreciation in fair market value of investments	-	9,820	9,820
Subtotal, Housing Investment Fund (Pool 2), Residential Housing Finance	362,879	9,820	372,699
<b>Housing Affordability Fund (Pool 3), Residential Housing Finance</b>			
Funds in excess of the combined requirement of Pool 1, Pool 2 and General Reserve may be transferred to Pool 3. Assets are invested in deferred loans, zero percent and low interest-rate loans, other loans with higher than ordinary risk factors, or, pending use, investment-grade securities.	132,518	-	132,518
Unrealized appreciation in fair market value of investments	-	292	292
Subtotal, Housing Affordability Fund (Pool 3), Residential Housing Finance	132,518	292	132,810
Agency-wide Total	<u>\$503,316</u>	<u>\$10,112</u>	<u>\$513,428</u>

*Restricted by Law*

Undisbursed, recognized federal and state appropriations are classified as Restricted by Law under Net Position. The \$401.911 million balance of Restricted by Law in the Federal Appropriated fund as of June 30, 2021 is restricted by federal requirements that control the use of the funds. The \$160.353 million balance of Restricted by Law in the State Appropriated fund as of June 30, 2021 is restricted by the state laws appropriating such funds.

*Unrestricted - State Appropriation-Backed Bonds*

The \$280.760 million balance of Unrestricted - State Appropriation-backed Bonds as of June 30, 2021 does not represent a general obligation of the Agency and is not payable from any funds or assets of the Agency.

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# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2021 (continued)

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#### Defined Benefit Pension Plan

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

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

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

#### Benefits Provided

MSRS provides retirement, disability, and death benefits through the SERF. Benefit provisions are established by state statute and can only be modified by the state legislature. Benefits are based on a member's age, years of credit, and the highest average salary for any sixty successive months of allowable service at termination of service. Benefit increases or decreases are provided to benefit recipients each January, and are related to the funded ratio of the plan. Annuitants receive benefit increases of 2.0% each year through December 31, 2018, 1% January 1, 2019 – December 31, 2023, and 1.5% January 1, 2024 and thereafter. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of the June 30 of the calendar year immediately before the adjustment will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of the June 30 of the calendar year immediately before the adjustment will receive a pro rata increase.

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

#### Contributions

Minnesota Statutes Chapter 352 sets the rates for employer and employee contributions. Eligible General Plan members contribute 6.00% and participating employers are required to contribute 6.25% of their annual covered salary in fiscal year 2021. The Agency's contribution to the General Plan for the fiscal year ending June 30, 2021 was \$1.317 million. These contributions were equal to the contractually required contributions for each year as set by state statute.

#### Actuarial Assumptions

The Agency's net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25% per year
Active Member Payroll Growth	3.00% per year
Investment Rate of Return	7.50%



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**MINNESOTA HOUSING FINANCE AGENCY**  
**Notes to Financial Statements**  
**Year ended June 30, 2021 (continued)**

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**Defined Benefit  
Pension Plan  
(continued)**

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 generational mortality table projected with mortality improvement Scale MP-2015 for males or females, as appropriate, with adjustments to match fund experience. Benefit increases for retirees are assumed to be 2.0 percent every January 1<sup>st</sup>.

Actuarial assumptions used in the June 30, 2020, valuation were based on the results of actuarial experience study, dated June 27, 2019.

The long-term expected rate of return on pension plan investments is 7.5%. The rate assumption was selected as the result of a review of inflation and investment return assumptions dated June 27, 2019 and a recent liability study. The review combined the asset class target allocations and long-term rate of return expectations from the SBI.

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>SBI's Long-Term Expected Real Rate of Return (Geometric Mean)</b>
Domestic Stocks	36%	5.10%
International Stocks	17%	5.30%
Bonds	25%	5.90%
Alternative Assets	20%	0.75%
Cash	2%	0.00%

*Changes in Actuarial Assumptions*

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

*Single Discount Rate*

A Single Discount Rate of 7.50% was used to measure the total pension liability. This Single Discount Rate was based on an expected rate of return on pension plan investments of 7.50%. The projection of cash flows used to determine this Single Discount Rate assumed that employee and employer contributions will be made at the current statutory contribution rates. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. As a result, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Net Pension Liability*

At June 30, 2021, the Agency reported a liability of \$8.396 million for its proportionate share of MSRS' net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Agency's proportion of the net pension liability was based on the Agency's contributions received by MSRS during the measurement period July 1, 2019, through June 30, 2020, relative to the total employer contributions received from all of MSRS's participating employers. At June 30, 2020 the Agency's proportionate share of the entire plan was 0.63216% an increase of 1.726% over prior reporting period.

# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2021 (continued)

#### Defined Benefit Pension Plan (continued)

#### Pension Liability Sensitivity

The following presents the Agency's proportionate share of the net pension liability, calculated using the discount rate disclosed above, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate (in thousands):

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
Agency proportionate share of the net pension liability:	\$19,930	\$8,396	(\$1,203)

#### Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the MSRS Comprehensive Annual Financial Report, available on the MSRS website ([www.msrs.state.mn.us/financial-information](http://www.msrs.state.mn.us/financial-information)).

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

For the year ended June 30, 2021, the Agency recognized pension expense of \$2.124 million. At June 30, 2021, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 151	\$ 86
Changes of assumptions	-	18,953
Net difference between projected and actual earnings on investments	400	-
Changes in proportion and differences between actual contributions and proportionate share of contributions	264	-
Contributions paid to MSRS subsequent to the measurement date	1,317	-
Total	\$2,132	\$19,039

Amounts reported as deferred outflows of resources related to pensions resulting from Agency's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year ended June 30:	Pension Expense Amount
2022	\$(12,532)
2023	(5,727)
2024	68
2025	(33)

#### 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

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# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2021 (continued)

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

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 OPEB liability. The state intends to fund the OPEB liability on a “pay as you go” basis. The net other postemployment benefit obligation (NOO) for the Agency is \$1.793 million for fiscal year 2021.

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

#### Net OPEB Liability

The Total OPEB Liability, Net OPEB Liability (Total OPEB Liability minus Fiduciary Net Position), OPEB expense, and certain sensitivity information shown are based on actuarial valuations performed as of July 1, 2020. The Total OPEB Liability was rolled-forward from the valuation date to the Measurement date of June 30, 2020 using generally accepted actuarial principles.

As of July 1, 2020 the following assumptions were used for the actuarial valuation. The actuarial cost method was updated from Entry Age Normal as a level dollar amount to Entry Age Normal as a level percentage of pay.

Inflation	2.25% per year
Initial Medical Trend Rate	3.8 to 6.6% per year
Ultimate Medical Trend Rate	3.8%
Salary Increases	14.0% with one year of service to 3.50% with 25 or more years of service
Mortality Rate	Refer to the RP-2014 Employee Mortality tables with mortality improvement Scale MP-2018

The majority of the State of Minnesota employees are participants in the MSRS, Minnesota Teacher’s Retirement Association (TRA), or the Minnesota Public Employees’ Retirement System (PERA). For this reason, the aggregate payroll growth, individual salary increase, mortality, withdrawal, retirement, and age of spouse assumptions are based on the assumptions used for the respective plans’ Actuarial Valuation Reports as of July 1, 2020.

#### OPEB Sensitivity Based on Trend Rate

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

	1% Decrease in Trend Rate (2.80%)	Trend Rate (3.80%)	1% Increase in Trend Rate (4.80%)
Agency proportionate share of the total OPEB liability:	\$1,620	\$1,793	\$1,997

#### Single Discount Rate

The State of Minnesota elected to change its discount rate methodology to be consistent with the requirements of GASB 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* which will be in effect for the fiscal year ending June 30, 2021. Since the State’s retiree health benefits are not funded by assets in a separate trust the discount rate will be based on the index rate for 20-year tax-exempt general obligation municipal bond index rate with an average rating of AA/Aa or higher as of

# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2021 (continued)

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

the measurement date, as prescribed by GASB 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The State of Minnesota elected to determine the discount rate using the Bond Buyer 20-Bond General Obligation Index. The discount rate was 3.50% as of June 30, 2020.

#### OPEB Sensitivity Based on Discount Rate

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

	1% Decrease in Discount Rate (2.50%)	Discount Rate (3.50%)	1% Increase in Discount Rate (4.50%)
Agency proportionate share of the OPEB liability:	\$1,930	\$1,793	\$1,663

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

For the year ended June 30, 2021, the Agency recognized OPEB expense of \$.132 million. At June 30, 2021, the Agency reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$241
Changes of assumptions	217	49
Contributions paid to OPEB subsequent to the measurement date	85	-
Total	\$302	\$290

Amounts reported as deferred outflows of resources related to OPEB resulting from Agency's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows (in thousands):

Year Ended June 30:	OPEB Expense Amount
2021	\$23
2022	23
2023	23
2024	15
2025	(3)
Thereafter	(8)

#### Risk Management

Minnesota Housing is exposed to various insurable risks of loss related to tort; theft of, damage to, or destruction of assets; errors or omissions; and employer obligations. Minnesota Housing manages these risks through State of Minnesota insurance plans including the State of Minnesota Risk Management Fund (a self-insurance fund) and through purchased insurance coverage. Property, casualty, liability, and crime coverage is provided by the Minnesota Risk Management Fund which may also purchase other insurance from qualified insurers for Minnesota Housing's needs. Minnesota Housing bears a \$2,500 deductible per claim for the following coverage limits (in thousands):

# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2021 (continued)

#### Risk Management (continued)

Type of Coverage	Coverage Limits
Real and personal property loss	\$ 4,299
Business interruption/loss of use/extra expense	500
Bodily injury and property damage per person	500
Bodily injury and property damage per occurrence	1,500
Faithful performance/commercial crime	9,000
Employee dishonesty	250

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

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

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

#### Commitments

As of June 30, 2021, the Agency had approved, either finally or preliminarily, the purchase or origination of future loans or other housing assistance in the following amounts (in thousands):

Funds	Amount
Rental Housing	\$ 86,946
Residential Housing Finance	600,742
State Appropriated	117,641
Federal Appropriated	36,542
Agency Wide Totals	<u>\$841,871</u>

Board-approved selections of future loans or other housing assistance for housing projects are included in the above table although the approvals may only be preliminary. However, a preliminary approval is not a commitment but an expectation that the Agency will be able to make the loan to, or provide the other assistance for the project if all underwriting or other criteria are met. The Agency may decline to proceed with a final approval of any loan or assistance that has not been formally and legally committed.

The Agency has cancellable lease commitments for office facilities through August 2028 and for parking through August 2028, totaling \$12.474 million. Combined office facilities and parking lease expense for fiscal year 2021 was \$1.568 million.

#### Line of Credit Federal Home Loan Bank

On June 30, 2021 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, 2021, \$100.744 million of mortgage-backed securities were pledged. The advances taken during fiscal year 2021 were used to purchase and warehouse mortgage-backed securities in Pool 2.

The line of credit activity for the year ended June 30, 2021, is summarized as follows (in thousands):

Beginning Balance	Cumulative Draws	Cumulative Repayments	Ending Balance
\$ -	\$1,520,000	\$1,435,000	\$85,000

#### Litigation

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

# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

### Year ended June 30, 2021 (continued)

#### Subsequent Events

The Agency called for redemption or repayment subsequent to June 30, 2021 for the following bonds (in thousands):

Program	Retirement Date	Par
Homeownership Finance	July 1, 2021	\$45,360
Residential Housing Finance	July 1, 2021	42,390
Residential Housing Finance	August 1, 2021	25,270
Rental Housing	August 9, 2021	6,220
Residential Housing Finance	September 1, 2021	26,025
Residential Housing Finance	October 1, 2021	29,495

On June 24, 2021, the Board of the Agency adopted a series resolution authorizing the issuance of bonds for the purpose of providing funds for certain of the Agency's multifamily programs. The Rental Housing Bonds, 2021 Series C, in the principal amount of \$7.840 million were delivered September 29, 2021 pursuant to that authorization.

On July 22, 2021, the Board of the Agency adopted a resolution authorizing the issuance of additional State Appropriation Bonds (Housing Infrastructure) up to the aggregate principal amount of \$100 million for the purpose of providing funds to make loans for certain statutory-authorized purposes. The State Appropriated Bonds (Housing Infrastructure), 2021 Series ABCD, in the aggregate principal amount of \$76.97 million were delivered October 5, 2021 pursuant to that authorization as well as previous authorizations in July 2019 and July 2020.

On August 31, 2021, the Agency delivered its Homeownership Finance Bonds, 2021 Series C (Taxable) (Mortgage-Backed Securities Pass-Through Program) in the aggregate principal amount of \$61.764 million pursuant to a series resolution adopted by the Board of the Agency on April 22, 2021 authorizing the issuance of bonds in the aggregate principal amount of \$300 million for the purpose of providing funds for certain of the Agency's homeownership programs. The Agency expects to deliver its Homeownership Finance Bonds, 2021 Series D (Mortgage-Backed Securities Pass-Through Program) in the aggregate principal amount of approximately \$50 million in late November 2021 pursuant to that same series resolution.

On September 28, 2021, the Agency delivered its Residential Housing Finance Bonds, 2021 Series EF in the aggregate principal amount of \$150 million pursuant to a series resolution adopted by the Board of the Agency on April 22, 2021 authorizing the issuance of bonds in the aggregate principal amount of \$300 million for the purpose of providing funds for certain of the Agency's homeownership programs.

Per Board resolution 18-004 dated April 26, 2018, extension per Board resolution 20-055 on October 22, 2020 and Board resolution 21-007 on February 2, 2021, the Agency made, or has committed to make, draws from the Index Bank notes subsequent to June 30, 2021 as shown in the table below.

Program	Series	Advance Date	Par
Index Bank Note	2018 AMT	July 1, 2021	\$11,936
Index Bank Note	2018 Non-AMT	July 1, 2021	33,810
Index Bank Note	2018 AMT	August 2, 2021	843
Index Bank Note	2018 Non-AMT	August 2, 2021	19,624
Index Bank Note	2018 AMT	September 1, 2021	2,916
Index Bank Note	2018 Non-AMT	September 1, 2021	22,532

The Agency has committed to repay \$15.595 million of the AMT Portion of the Index Bank Note, and \$94.295 million of the Non-AMT Portion of the Index Bank Note, on September 28, 2021.

The Agency has evaluated subsequent events through November 18, 2021, the date on which the financial statements were available to be issued.

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# MINNESOTA HOUSING FINANCE AGENCY

## Required Supplementary Information

### General Reserve and Bond Funds

#### Schedule of Selected Pension Information-Unaudited (in thousands)

#### Fiscal Year 2021

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##### Schedule of Employer's Share of Net Pension Liability

###### State Employees Retirement Fund

###### Last 10 Fiscal Years\*

(dollars in thousands)

	2016	2017	2018	2019	2020	2021
Employer Unit's Proportion of the Net Pension Liability	0.781%	0.822%	0.830%	0.836%	0.820%	0.632%
Employer Unit's Proportionate Share of the Net Pension Liability	\$ 8,979	\$76,077	\$46,137	\$ 8,725	\$ 8,740	\$ 8,396
Employer Unit's Covered-Employee Payroll	22,438	23,836	19,693	20,931	21,408	22,555
Employer Unit's proportionate share of the net pension liability as a percentage of its covered-employee payroll	40.017%	319.168%	234.281%	41.685%	40.826%	37.225%
Plan fiduciary net position as a percentage of the total pension liability	88.320%	47.51%	62.73%	90.56%	90.73%	91.25%

The measurement date is June 30 preceeding each fiscal year.

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

##### Schedule of Employer's Contributions

###### State Employees Retirement Fund

###### Last 10 Fiscal Years\*

(dollars in thousands)

	2016	2017	2018	2019	2020	2021
Contractually Required Contribution	\$ 874	\$ 968	\$ 1,018	\$ 1,151	\$ 1,264	\$ 1,317
Contributions in relation to the contractually required contribution	874	968	1,018	1,151	1,264	1,317
Contribution deficiency (excess)	-	-	-	-	-	-
Employer Unit's covered-employee payroll	22,438	23,836	19,693	20,931	21,408	22,555
Contributions as a percentage of covered-employee payroll	3.895%	4.061%	5.169%	5.499%	5.904%	5.839%

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

**MINNESOTA HOUSING FINANCE AGENCY**  
**Required Supplementary Information**  
**General Reserve and Bond Funds**  
**Schedule of Selected OPEB Information-Unaudited (in thousands)**  
**Fiscal Year 2021**

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

	2018	2019	2020	2021
<b>Total OPEB Liability</b>				
Service Cost	\$ 144	\$ 135	\$ 124	\$ 119
Interest	52	66	65	59
Change in Benefit Term	-	-	-	-
Difference Between Expected And Actual Experience	-	-	(40)	-
Change in Assumptions - Discount rate	(94)	(84)	-	165
Change in Assumptions - Other	-	(42)	(102)	(128)
Benefit Payments				
Explicit Subsidy	(43)	(48)	(45)	(47)
Implicit Subsidy	(45)	(51)	(46)	(48)
<b>Net Change in Total OPEB Liability</b>	15	(25)	(43)	121
<b>Total OPEB Liability-Beginning</b>	1,727	1,742	1,716	1,672
<b>Total OPEB Liability-Ending (a)</b>	<u>\$ 1,742</u>	<u>\$ 1,716</u>	<u>\$ 1,672</u>	<u>\$ 1,793</u>
<b>Plan Fiduciary Net Position</b>				
Contribution Employer				
Explicit Subsidy	\$ 43	\$ 48	\$ 45	\$ 47
Implicit Subsidy	45	51	46	48
Net Investment Income				
Expected Investment Earnings	-	0	-	-
Difference Between Projected And Actual Investment Earning	-	0	-	-
Benefit Payments				
Explicit Subsidy	(43)	(48)	(45)	(47)
Implicit Subsidy	(45)	(51)	(46)	(48)
Administrative Expense	-	-	-	-
<b>Net Change In Fiduciary Net Position</b>	-	-	-	-
<b>Plan Fiduciary Net Position-Beginning</b>	-	-	-	-
<b>Plan Fiduciary Net Position-Ending(b)</b>	-	-	-	-
<b>Employer's Total OPEB Liability-Ending(a-b)</b>	<u>\$ 1,742</u>	<u>\$ 1,716</u>	<u>\$ 1,672</u>	<u>\$ 1,793</u>
Plan Fiduciary Total Position as a percentage of the total OPEB Liability	-	-	-	-
Covered Employee Payroll	<u>\$19,963</u>	<u>\$20,283</u>	<u>\$21,408</u>	<u>\$22,555</u>
Employer's Net OPEB Liability as a percentage of covered Employee Payroll	<u>8.72%</u>	<u>8.46%</u>	<u>7.81%</u>	<u>7.95%</u>

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

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

	2018	2019	2020	2021
<b>Actuarially Required Contribution</b>				
Explicit Subsidy	\$ 43	\$ 48	\$ 45	\$ 47
Implicit Subsidy	45	51	46	48
<b>Contributions in relation to the Actuarially required contribution</b>				
Explicit Subsidy	43	48	45	47
Implicit Subsidy	45	51	46	48
<b>Employer Unit's covered-employee payroll</b>	19,963	20,283	21,408	22,555
<b>Contributions as a percentage of covered-employee payroll</b>				
Explicit Subsidy	0.215%	0.237%	0.210%	0.208%
Implicit Subsidy	0.225%	0.251%	0.215%	0.213%

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

# MINNESOTA HOUSING FINANCE AGENCY

## Supplementary Information

### Statement of Net Position (in thousands)

#### General Reserve and Bond Funds

As of June 30, 2021 (with comparative totals as of June 30, 2020)

		Bond Funds			
				Residential Housing Finance	
		General Reserve	Rental Housing	Bonds	Pool 2
Assets	Cash and cash equivalents	\$105,456	\$ 64,243	\$ 344,832	\$ 36,951
	Investments-program mortgage-backed securities	-	-	1,458,215	-
	Investment securities-other	-	22,227	9,764	143,661
	Loans receivable, net	-	141,467	262,039	368,185
	Interest receivable on loans and program mortgage-backed securities	-	540	6,159	1,590
	Interest receivable on investments	42	64	156	475
	Interest Rate Swap Agreements	-	-	659	-
	FHA/VA insurance claims, net	-	-	213	-
	Real estate owned, net	-	-	296	321
	Capital assets, net	2,132	-	-	-
	Other assets	3,949	6	48	651
	Total assets	111,579	228,547	2,082,381	551,834
Deferred outflows of Resources	Deferred loss on refunding	-	-	6	-
	Deferred loss on interest rate swap agreements	-	-	13,932	-
	Deferred pension and OPEB expense	2,434	-	-	-
	Total deferred outflows of resources	2,434	-	13,938	-
Total assets and deferred outflows of resources		\$114,013	\$228,547	\$2,096,319	\$551,834
Liabilities	Bonds payable, net	\$ -	\$ 59,880	\$1,825,624	\$103,330
	Interest payable	-	452	21,734	19
	Interest rate swap agreements	-	-	13,932	-
	Net pension and OPEB liability	10,189	-	-	-
	Accounts payable and other liabilities	6,297	17,658	581	61,618
	Interfund payable (receivable)	(1,375)	115	-	10,655
	Funds held for others	69,522	-	-	-
	Total liabilities	84,633	78,105	1,861,871	175,622
Deferred inflows of Resources	Deferred gain on interest rate swap agreements	-	-	659	-
	Deferred service release fees	-	-	8,878	3,513
	Deferred pension and OPEB credit	19,329	-	-	-
	Total deferred inflows of resources	19,329	-	9,537	3,513
Total liabilities and deferred inflows of resources		\$103,962	\$ 78,105	\$1,871,408	\$179,135
Net Position	Restricted by bond resolution	\$ -	\$150,442	\$ 224,911	\$ -
	Restricted by covenant	7,919	-	-	372,699
	Invested in capital assets	2,132	-	-	-
	Total net position	10,051	150,442	224,911	372,699
Total liabilities, deferred inflows, and net position		\$114,013	\$228,547	\$2,096,319	\$551,834

Bond Funds			General Reserve & Bond Funds Excluding Pool 3	General Reserve & Bond Funds Excluding Pool 3	Residential Housing Finance Pool 3	General Reserve & Bond Funds	General Reserve & Bond Funds
Home-ownership Finance	Multifamily Housing	HOMES <sup>SM</sup>	Total For The Year Ended June 30, 2021	Total For The Year Ended June 30, 2020	Total For The Year Ended June 30, 2021	Total For The Year Ended June 30, 2021	Total For The Year Ended June 30, 2020
\$ 115,421	\$ 1,710	\$ -	\$ 668,613	\$ 402,852	\$ 7,612	\$ 676,225	\$ 406,802
1,352,387	-	-	2,810,602	3,184,290	-	2,810,602	3,184,290
-	-	7,652	183,304	156,815	9,479	192,783	179,278
-	13,341	-	785,032	796,587	107,854	892,886	895,624
3,928	49	-	12,266	13,000	31	12,297	13,035
1	-	19	757	640	32	789	673
-	-	-	-	-	-	-	-
-	-	-	213	312	-	213	312
-	-	-	617	1,296	-	617	1,296
-	-	-	2,132	4,280	-	2,132	4,280
29	-	-	4,683	3,734	2	4,685	3,734
1,471,766	15,100	7,671	4,468,219	4,563,806	125,010	4,593,229	4,689,324
-	-	-	6	15	-	6	15
-	-	-	13,932	23,605	-	13,932	23,605
-	-	-	2,434	14,211	-	2,434	14,211
-	-	-	16,372	37,831	-	16,372	37,831
<u>\$1,471,766</u>	<u>\$15,100</u>	<u>\$7,671</u>	<u>\$4,484,591</u>	<u>\$4,601,637</u>	<u>\$125,010</u>	<u>\$4,609,601</u>	<u>\$4,727,155</u>
\$1,351,335	\$13,000	\$7,214	\$3,360,383	\$3,453,804	\$ -	\$3,360,383	\$3,453,804
3,941	33	19	26,198	29,204	-	26,198	29,204
-	-	-	13,932	23,605	-	13,932	23,605
-	-	-	10,189	10,412	-	10,189	10,412
95	-	-	86,249	49,978	1,200	87,449	50,490
-	-	-	9,395	(582)	(9,000)	395	(582)
-	-	438	69,960	71,258	-	69,960	71,258
1,355,371	13,033	7,671	3,576,306	3,637,679	(7,800)	3,568,506	3,638,191
-	-	-	-	-	-	-	-
7,835	-	-	20,226	20,888	-	20,226	20,888
-	-	-	19,329	29,734	-	19,329	29,734
7,835	-	-	39,555	50,622	-	39,555	50,622
<u>\$1,363,206</u>	<u>\$13,033</u>	<u>\$7,671</u>	<u>\$3,615,861</u>	<u>\$3,688,301</u>	<u>\$ (7,800)</u>	<u>\$3,608,061</u>	<u>\$3,688,813</u>
\$ 108,560	\$ 2,067	\$ -	\$ 485,980	\$ 540,018	\$ -	\$ 485,980	\$ 540,018
-	-	-	380,618	369,038	132,810	513,428	494,044
-	-	-	2,132	4,280	-	2,132	4,280
108,560	2,067	-	868,730	913,336	132,810	1,001,540	1,038,342
<u>\$1,471,766</u>	<u>\$15,100</u>	<u>\$7,671</u>	<u>\$4,484,591</u>	<u>\$4,601,637</u>	<u>\$125,010</u>	<u>\$4,609,601</u>	<u>\$4,727,155</u>

# 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, 2021 (with comparative totals for year ended June 30, 2020)

		Bond Funds			
				Residential Housing Finance	
		General Reserve	Rental Housing	Bonds	Pool 2
Revenues	Interest earned on loans	\$ -	\$ 7,535	\$ 15,290	\$ 16,084
	Interest earned on investments-program mortgage-backed securities	-	-	36,477	-
	Interest earned on investments-other	212	793	531	4,080
	Net G/L on Sale of MBS Held for Sale/HOMES <sup>SM</sup> Certificate	-	-	-	12,376
	Administrative reimbursement	33,144	-	-	-
	Fees earned and other income	12,676	97	1,613	3,197
	Unrealized gains (losses) on Investments	-	(491)	(23,127)	15,615
	Total revenues	\$46,032	\$ 7,934	\$ 30,784	\$ 51,352
Expenses	Interest	\$ -	\$ 1,130	\$ 41,413	\$ 575
	Financing, net	-	6	7,507	67
	Loan administration and trustee fees	-	63	1,410	1,281
	Administrative reimbursement	-	1,201	11,395	7,640
	Salaries and benefits	32,501	-	-	-
	Other general operating	7,424	6	57	1,605
	Reduction in carrying value of certain low interest rate deferred loans	-	-	186	(49)
	Provision for loan losses	-	(82)	617	178
	Total expenses	\$39,925	\$ 2,324	\$ 62,585	\$ 11,297
	Revenue over(Under) expenses	\$ 6,107	\$ 5,610	\$(31,801)	\$ 40,055
Other Changes	Non-operating transfer of assets between funds	(8,363)	51	5,189	(28,367)
	Change in net position	(2,256)	5,661	(26,612)	11,688
Net Position	Total net position, beginning of Year, as restated	12,307	144,781	251,523	361,011
	Total net position, end of Year	\$10,051	\$150,442	\$224,911	\$372,699

Bond Funds			General Reserve & Bond Funds Excluding Pool 3	General Reserve & Bond Funds Excluding Pool 3	Residential Housing Finance Pool 3	General Reserve & Bond Funds	General Reserve & Bond Funds
Home-ownership Finance	Multifamily Housing	HOMES <sup>SM</sup>	Total For The Year Ended June 30, 2021	Total For The Year Ended June 30, 2020	Total For The Year Ended June 30, 2021	Total For The Year Ended June 30, 2021	Total For The Year Ended June 30, 2020
\$ -	\$ 590	\$ -	\$ 39,499	\$ 42,040	\$ 618	\$ 40,117	\$ 42,374
44,454	-	-	80,931	94,264	-	80,931	94,264
7	-	300	5,923	11,372	174	6,097	11,959
-	-	-	12,376	8,770	-	12,376	8,770
-	-	-	33,144	31,336	-	33,144	31,336
1,623	-	-	19,206	17,429	1,779	20,985	17,446
(36,906)	-	-	(44,909)	104,394	(189)	(45,098)	104,510
\$ 9,178	\$ 590	\$300	\$146,170	\$309,605	\$ 2,382	\$ 148,552	\$ 310,659
\$ 42,878	\$ 395	\$300	\$ 86,691	\$ 95,908	\$ -	\$ 86,691	\$ 95,908
3,380	-	-	10,960	22,894	-	10,960	22,894
523	4	-	3,281	3,257	23	3,304	3,279
9,677	92	-	30,005	26,684	1,533	31,538	28,121
-	-	-	32,501	30,283	-	32,501	30,283
48	-	-	9,140	8,648	2,585	11,725	10,943
-	-	-	137	78	8,609	8,746	449
-	(1)	-	712	308	415	1,127	1,233
\$ 56,506	\$ 490	\$300	\$173,427	\$188,060	\$ 13,165	\$ 186,592	\$ 193,110
\$ (47,328)	\$ 100	\$ -	\$ (27,257)	\$121,545	\$ (10,783)	\$ (38,040)	\$ 117,549
14,141	-	-	(17,349)	(15,480)	18,587	1,238	520
(33,187)	100	-	(44,606)	106,065	7,804	(36,802)	118,069
141,747	1,967	-	913,336	807,271	125,006	1,038,342	920,273
\$108,560	\$2,067	\$ -	\$868,730	\$913,336	\$132,810	\$1,001,540	\$1,038,342

# MINNESOTA HOUSING FINANCE AGENCY

## Supplementary Information

### Statement of Cash Flows (in thousands)

#### General Reserve and Bond Funds

Year ended June 30, 2021 (with comparative totals for year ended June 30, 2020)

		<u>Bond Funds</u>	
		<u>General Reserve</u>	<u>Rental Housing</u>
<b>Cash flows from operating activities</b>	Principal repayments on loans and program mortgage-backed securities	\$ -	\$46,494
	Investment in loans and program mortgage-backed securities	-	(10,250)
	Interest received on loans and program mortgage-backed securities	-	7,515
	Fees and other income received	11,775	97
	Salaries, benefits and other operating	(34,193)	(18)
	Administrative reimbursement from funds	33,321	(1,201)
	Deposits into funds held for others	38,097	-
	Disbursements made from funds held for others	(36,660)	-
	Interfund transfers and other assets	(1,601)	254
	<b>Net cash provided (used) by operating activities</b>	<u>10,739</u>	<u>42,891</u>
<b>Cash flows from non-capital financing activities</b>	Proceeds from sale of bonds and notes	-	24,525
	Principal repayment on bonds and notes	-	(14,700)
	Interest paid on bonds and notes	-	(1,278)
	Financing costs paid related to bonds issued	-	(6)
	Interest paid/received between funds	-	-
	Principal paid/received between funds	-	-
	Agency contribution to program funds	-	51
	Transfer of cash between funds	(10,571)	-
	<b>Net cash provided (used) by noncapital financing activities</b>	<u>(10,571)</u>	<u>8,592</u>
<b>Cash flows from investing activities</b>	Investment in real estate owned	-	-
	Interest received on investments	56	725
	Net gain (loss) on Sale of MBS Held for Sale and HOMES <sup>SM</sup> Certificates	-	-
	Proceeds from sale of mortgage insurance claims/real estate owned	-	-
	Proceeds from maturity, sale or transfer of investment securities	-	658
	Purchase of investment securities	-	(309)
	Purchase of loans between funds	-	(15,140)
	<b>Net cash provided (used) by investing activities</b>	<u>56</u>	<u>(14,066)</u>
	Net increase (decrease) in cash and cash equivalents	224	37,417
<b>Cash and cash equivalents</b>	<b>Beginning of year</b>	<u>105,232</u>	<u>26,826</u>
	<b>End of year</b>	<u>\$105,456</u>	<u>\$64,243</u>



Bond Funds					General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2021	Residential Housing Finance Pool 3 Total For The Year Ended June 30, 2021	General Reserve & Bond Funds Total For The Year Ended June 30, 2021	General Reserve & Bond Funds Total For The Year Ended June 30, 2020
Residential Housing Finance		Home- ownership Finance	Multifamily Housing	HOMES <sup>SM</sup>	Total For The Year Ended June 30, 2021	Total For The Year Ended June 30, 2021	Total For The Year Ended June 30, 2021	Total For The Year Ended June 30, 2020
Bonds	Pool 2							
\$ 517,147	\$ 71,906	\$ 589,858	\$ 211	\$ -	\$1,225,616	\$ 17,856	\$1,243,472	\$ 573,784
(464,922)	(129,856)	(260,675)	-	-	(865,703)	(44,607)	(910,310)	(958,768)
59,980	13,753	56,087	591	-	137,926	622	138,548	143,272
-	9,663	-	-	-	21,535	1,779	23,314	23,837
(1,586)	(6,870)	(607)	(4)	-	(43,278)	(1,922)	(45,200)	(43,697)
(11,395)	(7,639)	(9,677)	(92)	-	3,317	(1,533)	1,784	3,481
-	-	-	-	-	38,097	-	38,097	35,956
-	(1,495)	-	-	-	(38,155)	-	(38,155)	(36,591)
-	765	-	-	-	(582)	-	(582)	(2,099)
99,224	(49,773)	374,986	706	-	478,773	(27,805)	450,968	(260,825)
570,527	1,889,278	272,417	-	-	2,756,747	-	2,756,747	3,070,364
(475,140)	(1,785,948)	(560,091)	(240)	(6,178)	(2,842,297)	-	(2,842,297)	(2,714,322)
(50,730)	(561)	(44,297)	(395)	(316)	(97,577)	-	(97,577)	(100,023)
(6,543)	(56)	(2,213)	-	-	(8,818)	-	(8,818)	(9,079)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
2,523	(12,003)	9,429	-	-	-	-	-	-
-	2,571	-	-	-	(8,000)	8,000	-	-
40,637	93,281	(324,755)	(635)	(6,494)	(199,945)	8,000	(191,945)	246,940
(519)	(21)	-	-	-	(540)	-	(540)	(603)
821	4,623	7	-	316	6,548	105	6,653	13,353
-	10,336	-	-	-	10,336	-	10,336	(4,925)
1,674	233	-	-	-	1,907	-	1,907	6,662
27,627	1,047,224	-	-	6,178	1,081,687	12,865	1,094,552	1,285,016
-	(1,106,743)	-	-	-	(1,107,052)	-	(1,107,052)	(1,264,938)
(5,953)	15,140	-	-	-	(5,953)	10,497	4,544	4,118
23,650	(29,208)	7	-	6,494	(13,067)	23,467	10,400	38,683
163,511	14,300	50,238	71	-	265,761	3,662	269,423	24,798
181,321	22,651	65,183	1,639	-	402,852	3,950	406,802	382,004
\$ 344,832	\$ 36,951	\$ 115,421	\$1,710	\$ -	\$ 668,613	\$ 7,612	\$ 676,225	\$ 406,802

(Continued)

# MINNESOTA HOUSING FINANCE AGENCY

## Supplementary Information

### Statement of Cash Flows (in thousands)

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

Year ended June 30, 2021 (with comparative totals for year ended June 30, 2020)

		<u>Bond Funds</u>	
		<u>General Reserve</u>	<u>Rental Housing</u>
<b>Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities</b>	<b>Revenues over (under) expenses</b>	<u>\$ 6,107</u>	<u>\$ 5,610</u>
	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	-	(89)
	Amortization of premium (discounts) and fees on sale of HOMES <sup>SM</sup> Certificates	-	-
	Amortization of proportionate share-Pension	64	-
	Depreciation	3,581	-
	Gain (loss) on sale of MBS held for sale and HOMES <sup>SM</sup> Certificates	-	-
	Realized losses (gains) on sale of securities, net	-	(69)
	Unrealized losses (gains) on securities, net	-	491
	Salaries and Benefits-Pensions	736	-
	Provision for loan losses	-	(82)
	Reduction in carrying value of certain low interest rate and/or deferred loans	-	-
	Capitalized interest on loans and real estate owned	-	-
	Interest earned on investments	(212)	(724)
	Interest expense on bonds and notes	-	1,130
	Financing expense in bonds	-	6
	Changes in assets and liabilities:		
	Decrease (increase) in loans receivable and program mortgage-backed securities, excluding loans transferred between funds	-	36,244
	Decrease (increase) in interest receivable on loans	-	69
	Increase (decrease) in accounts payable	1,351	51
	Increase (decrease) in interfund payable, affecting operating activities only	221	257
	Increase (decrease) in funds held for others	1,437	-
	Other	(2,546)	(3)
	<b>Total</b>	<u>4,632</u>	<u>37,281</u>
	<b>Net cash provided (used) by operating activities</b>	<u>\$10,739</u>	<u>\$42,891</u>

Bond Funds					General Reserve & Bond Funds Excluding Pool 3	Residential Housing Finance Pool 3	General Reserve & Bond Funds	General Reserve & Bond Funds
Residential Housing Finance		Home-ownership Finance	Multifamily Housing	HOMES <sup>SM</sup>	Total For The Year Ended June 30, 2021	Total For The Year Ended June 30, 2021	Total For The Year Ended June 30, 2021	Total For The Year Ended June 30, 2020
Bonds	Pool 2	Finance	Housing	HOMES <sup>SM</sup>	June 30, 2021	June 30, 2021	June 30, 2021	June 30, 2020
\$ (31,801)	\$ 40,055	\$(47,328)	\$100	\$ -	\$ (27,257)	\$(10,783)	\$ (38,040)	\$ 117,549
8,665	(1,990)	10,569	-	-	17,155	-	17,155	7,887
-	-	-	-	-	-	-	-	-
-	-	-	-	-	64	-	64	24
-	-	-	-	-	3,581	-	3,581	3,739
-	(12,376)	-	-	-	(12,376)	-	(12,376)	(8,770)
-	-	(171)	-	-	(240)	-	(240)	-
23,127	(15,615)	36,906	-	-	44,909	189	45,098	(104,510)
-	-	-	-	-	736	-	736	620
617	178	-	(1)	-	712	415	1,127	1,233
186	(49)	-	-	-	137	8,609	8,746	449
(188)	(34)	-	-	-	(222)	-	(222)	(519)
(531)	(4,080)	(7)	-	(300)	(5,854)	(174)	(6,028)	(11,765)
41,413	576	42,878	395	300	86,692	-	86,692	95,908
7,463	56	3,380	-	-	10,905	-	10,905	22,901
52,225	(57,950)	329,183	211	-	359,913	(26,751)	333,162	(384,984)
(264)	(307)	1,235	1	-	734	4	738	(681)
(1,688)	2,515	(1,659)	-	-	570	686	1,256	3,426
-	499	-	-	-	977	-	977	266
-	(1,495)	-	-	-	(58)	-	(58)	(635)
-	244	-	-	-	(2,305)	-	(2,305)	(2,963)
131,025	(89,828)	422,314	606	-	506,030	(17,022)	489,008	(378,374)
\$ 99,224	\$(49,773)	\$374,986	\$706	\$ -	\$478,773	\$(27,805)	\$450,968	\$(260,825)

## Other Information (Unaudited)

### General Reserve and Bond Funds Five Year Financial Summary (in thousands) Fiscal Years 2017-2021

		2017	2018	2019	2020	2021
<b>Loans Receivable, net (as of June 30)</b>	Multifamily programs	\$ 298,355	\$ 297,982	\$ 299,276	\$ 314,588	\$ 363,128
	Homeownership programs	661,630	586,498	548,869	510,358	447,542
	Home Improvement programs	71,629	66,414	67,453	70,678	82,216
	Total	<u>\$1,031,614</u>	<u>\$ 950,894</u>	<u>\$ 915,598</u>	<u>\$ 895,624</u>	<u>\$ 892,886</u>
<b>Mortgage-backed securities (MBS), net, at par (as of June 30)</b>	Program MBS net, mark to market	\$1,681,474	\$2,176,052	\$2,624,763	\$3,021,369	\$2,698,923
	Warehoused mortgaged-backed securities	125,372	61,853	68,718	73,516	121,849
	Total	<u>\$1,806,846</u>	<u>\$2,237,905</u>	<u>\$2,693,481</u>	<u>\$3,094,885</u>	<u>\$2,820,772</u>
<b>Bonds Payable, net (as of June 30)</b>	Multifamily programs	\$ 51,300	\$ 53,250	\$ 59,755	\$ 63,295	\$ 72,880
	Homeownership programs	2,318,223	2,634,542	3,044,251	3,390,509	3,287,503
	Total	<u>\$2,369,523</u>	<u>\$2,687,792</u>	<u>\$3,104,006</u>	<u>\$3,453,804</u>	<u>\$3,360,383</u>
<b>MBS purchased, at par and loans purchased or originated during fiscal year</b>	Multifamily programs	\$ 30,351	\$ 35,849	\$ 52,893	\$ 45,307	\$ 89,947
	Homeownership programs	29,687	42,807	47,119	61,738	58,696
	Program and warehoused MBS	493,662	648,062	696,597	837,103	791,619
	Home Improvement programs	13,239	11,366	16,085	21,925	36,198
	Total	<u>\$ 566,939</u>	<u>\$ 738,084</u>	<u>\$ 812,694</u>	<u>\$ 966,073</u>	<u>\$ 976,460</u>
<b>Net Position (as of June 30)</b>	Total net position*	\$ 725,833	\$ 678,651	\$ 807,271	\$ 913,336	\$ 868,730
	Percent of total assets and deferred outflows of resources	21.9%	18.9%	19.6%	19.8%	19.4%
<b>Revenue over Expenses</b>	Revenues over expenses for the fiscal year	\$ (20,745)	\$ (39,857)	\$ 133,948	\$ 121,545	\$ (27,257)

\* Does not include Pool 3

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## Other Information (continued)

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### Location

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