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**MISSOURI HOUSING  
DEVELOPMENT COMMISSION**  
*INDEPENDENT AUDITORS' REPORT  
AND FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013*

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*Strength, Dignity, Quality of Life*

**MISSOURI HOUSING**  
DEVELOPMENT COMMISSION

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## Independent Auditors' Report

The Commissioners  
Missouri Housing Development Commission  
Kansas City, Missouri

### Report on the Financial Statements

We have audited the accompanying financial statements of the Missouri Housing Development Commission (the Commission), as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

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

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

### *Auditors' Responsibility*

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Missouri Housing Development Commission as of June 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Management's Discussion and Analysis***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 13 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 management's discussion and analysis in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the Commission's financial statements. The accompanying supplementary information which includes the combining statement of net position and combining statement of revenues, expenses and changes in net position, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

*RubinBrown LLP*

September 18, 2014

# **MISSOURI HOUSING DEVELOPMENT COMMISSION**

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the Years Ended June 30, 2014 and 2013**

Our discussion and analysis of Missouri Housing Development Commission's financial performance provides an overview of the Commission's financial activities for the fiscal years ended June 30, 2014 and 2013. Please read it in conjunction with the Commission's financial statements and accompanying notes.

### **Introduction - Missouri Housing Development Commission**

The Missouri Housing Development Commission (the Commission) was established by the 75th Missouri General Assembly in 1969 and is the housing finance agency for the state of Missouri (State). The Commission is entirely self-supporting and does not draw upon the general taxing authority of the State. The Commission secures resources through the sale of tax-exempt and taxable bonds, and notes and through the sale of mortgage assets, for the purposes of financing owner-occupied residential mortgage loans for lower- and moderate-income persons and providing construction and long-term financing for rental developments to be occupied by lower and moderate-income persons. The Commission's net position is also a source of funding for such loans and other housing-related programs.

The Commission conducts other programs related to its housing finance activities, including administering the Missouri Housing Trust Fund, the Missouri Affordable Housing Assistance Program and the federal and state housing tax credits for the State. The Commission also administers federal assistance programs, including the HOME Investment Partnership Program and contracts for the Project Based Section 8 program which provide rental subsidies.

### **Overview of the Financial Statements**

This annual financial report consists of three parts: management's discussion and analysis; the financial statements, including notes to the financial statements; and supplementary information. The Commission is a self-supporting entity and follows enterprise fund reporting, using the accrual basis of accounting. Enterprise fund statements offer short- and long-term financial information about the activities and operations of the Commission.

## MISSOURI HOUSING DEVELOPMENT COMMISSION

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### Management's Discussion and Analysis (*Continued*)

#### 2014 Financial Highlights

- Total assets were \$1.8 billion, a decrease of 9.6% from June 30, 2013, reflecting a decrease in mortgage assets.
- Fiscal year 2014 mortgage investment purchases and originations totaled \$170.5 million as compared to \$260.2 million in fiscal year 2013. Proceeds from the sale of mortgage assets and principal repayments on mortgage assets totaled \$336.1 million in fiscal year 2014 as compared to \$455.0 million in fiscal year 2013.
- Single family and multifamily housing bonds issued totaled \$88.3 million in fiscal year 2014 and totaled \$286.8 million in fiscal year 2013.
- Total revenues were \$231.0 million in fiscal year 2014, an increase of 33.4% from fiscal year 2013. Excluding the net change in fair value of investments, total revenues were \$226.6 million in fiscal year 2014, representing an increase of 3.4%. Revenues from federal programs were \$152.4 million in fiscal year 2014 as compared to \$135.5 million in fiscal year 2013.
- Net operating income, excluding the net change in fair value of investments, was \$28.0 million in fiscal year 2014 as compared to \$16.0 million in fiscal year 2013. Excluding federal programs and the net change in fair value of investments, net operating income was \$20.3 million in fiscal year 2014 as compared to \$15.3 million in fiscal year 2013.
- Net position increased \$32.4 million (4.7%) as of June 30, 2014. Excluding the change in fair value of investments, net position increased \$27.4 million (4.3%) as of June 30, 2014.
- Standard and Poor's Rating Services continued the Commission's AA+ Issuer Credit Rating, with a rating outlook for the intermediate to longer term of stable.

## MISSOURI HOUSING DEVELOPMENT COMMISSION

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### Management's Discussion and Analysis (*Continued*)

#### 2013 Financial Highlights

- Total assets were \$1.9 billion, a decrease of 11.2% from June 30, 2012, reflecting a decrease in mortgage assets.
- Fiscal year 2013 mortgage investment purchases and originations totaled \$260.2 million as compared to \$269.9 million in fiscal year 2012. Proceeds from the sale of mortgage assets and principal repayments on mortgage assets totaled \$455.0 million in fiscal year 2013 as compared to \$468.5 million in fiscal year 2012.
- Single family and multifamily housing bonds issued totaled \$286.8 million in fiscal year 2013 and totaled \$56.8 million in fiscal year 2012.
- Total revenues were \$173.2 million in fiscal year 2013, a decrease of 34.6% from fiscal year 2012. Excluding the net change in fair value of investments, total revenues were \$219.2 million in fiscal year 2013, representing a decrease of 10.8%. Revenues from federal programs were \$135.5 million in fiscal year 2013 as compared to \$147.4 million in fiscal year 2012. Fiscal year 2013 federal programs include \$81,000 in revenue from stimulus programs made available by the American Recovery and Reinvestment Act of 2009 as compared to \$5.5 million in fiscal year 2012.
- Net operating income, excluding the net change in fair value of investments, was \$16.0 million in fiscal year 2013 as compared to \$24.0 million in fiscal year 2012. Excluding federal programs and the net change in fair value of investments, net operating income was \$15.3 million in fiscal year 2013 as compared to \$14.7 million in fiscal year 2012.
- Net position decreased \$30.0 million (-4.2%) as of June 30, 2013. Excluding the change in fair value of investments, net position increased \$19.9 million (3.2%) as of June 30, 2013.
- Standard and Poor's Rating Services continued the Commission's AA+ Issuer Credit Rating, with a rating outlook for the intermediate to longer term of stable.



# MISSOURI HOUSING DEVELOPMENT COMMISSION

## Management's Discussion and Analysis (Continued)

### Financial Position

The following table summarizes the Commission's current, restricted and noncurrent assets and liabilities and displays restricted and unrestricted net position as of June 30, 2014, 2013 and 2012.

#### Condensed Financial Information Assets, Liabilities and Net Position (In Thousands)

	June 30,			\$ change	
	2014	2013	2012	2014-2013	2013-2012
<b>Assets</b>					
Current assets	\$ 26,334	\$ 42,365	\$ 29,854	\$ (16,031)	\$ 12,511
Restricted investments	176,667	157,614	147,053	19,053	10,561
Restricted mortgage investments	1,185,901	1,338,862	1,565,411	(152,961)	(226,549)
Other restricted assets	143,180	181,216	224,747	(38,036)	(43,531)
Capital assets	704	745	976	(41)	(231)
Other	225,948	224,277	222,122	1,671	2,155
<b>Total Assets</b>	<b>\$1,758,734</b>	<b>\$1,945,079</b>	<b>\$2,190,163</b>	<b>\$ (186,345)</b>	<b>\$ (245,084)</b>
<b>Deferred Outflows of Resources</b>					
	\$ 166	\$ 405	\$ 465	\$ (239)	\$ (60)
<b>Liabilities</b>					
Current liabilities	\$ 2,192	\$ 2,579	\$ 4,597	\$ (387)	\$ (2,018)
Current liabilities - payable from restricted assets	141,328	141,742	140,872	(414)	870
Long-term bonds and notes payable	886,888	1,104,522	1,319,548	(217,634)	(215,026)
Other	8,569	9,016	9,098	(447)	(82)
<b>Total Liabilities</b>	<b>\$1,038,977</b>	<b>\$1,257,859</b>	<b>\$1,474,115</b>	<b>\$ (218,882)</b>	<b>\$ (216,256)</b>
<b>Deferred Inflows of Resources</b>					
	\$ 1,061	\$ 1,113	\$ —	\$ (52)	\$ 1,113
<b>Net Position</b>					
Net investment in capital assets	\$ 704	\$ 745	\$ 976	\$ (41)	\$ (231)
Restricted	476,637	430,720	477,275	45,917	(46,555)
Unrestricted	241,521	255,047	238,262	(13,526)	16,785
<b>Total Net Position</b>	<b>\$ 718,862</b>	<b>\$ 686,512</b>	<b>\$ 716,513</b>	<b>\$ 32,350</b>	<b>\$ (30,001)</b>

## **MISSOURI HOUSING DEVELOPMENT COMMISSION**

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### Management's Discussion and Analysis (*Continued*)

#### **Investments**

Investments consist of FHLB term deposits, certificates of deposit, U.S. government and agency fixed rate securities, and guaranteed investment agreement contracts. The Commission's investment policy emphasizes preservation of principal. At June 30, 2014, the Commission had \$364.4 million in investments as compared to \$327.3 million at June 30, 2013, and \$324.2 million at June 30, 2012.

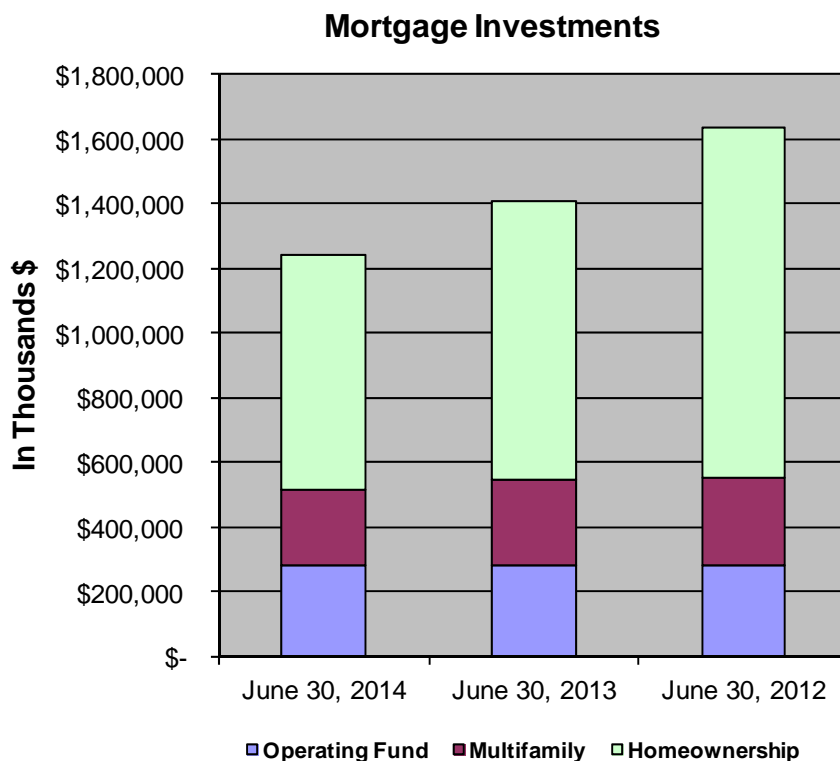
#### **Mortgage Investments**

The Commission's mortgage investments decreased 11.8% and 14.0% during fiscal years 2014 and 2013, respectively. Mortgage investments comprise 70.5% of the Commission's total assets at June 30, 2014, as compared to 72.2% at June 30, 2013, and 74.6% at June 30, 2012. Government National Mortgage Association (GNMA), Fannie Mae and Federal Home Loan Mortgage Corporation (FHLMC) mortgage-backed securities (MBS) comprise 58.2% of the Commission's mortgage investments at June 30, 2014, compared to 61.0% at June 30, 2013, and 66.8% at June 30, 2012. In fiscal year 2014 new loans totaled \$170.5 million, with mortgage asset sales, prepayment activity and change in fair value resulting in a net decrease of \$165.5 million in the mortgage investment portfolio as reported. In fiscal year 2013 new loans totaled \$260.2 million, with mortgage asset sales, prepayment activity and change in fair value resulting in a net decrease of \$228.1 million in the mortgage portfolio as reported. The Commission's loan portfolio is low-risk, with over 99% of the homeownership loan portfolio being GNMA, Fannie Mae and FHLMC MBS and a significant portion of its bond-financed multifamily loan portfolio backed by Federal Housing Administration (FHA) insurance, including Risk-Share loans. The Commission's loan loss reserve is 3.5% of total mortgage investments at June 30, 2014 (3.1% at June 30, 2013, and 2.7% at June 30, 2012), which is allocated to uninsured loans, Risk-Share loans and related accrued interest on such loans.

## MISSOURI HOUSING DEVELOPMENT COMMISSION

### Management's Discussion and Analysis (Continued)

The mix of mortgage investments among operating fund loans, multifamily bond-financed programs and homeownership bond-financed programs at June 30, 2014, 2013 and 2012, is depicted in the following chart:



The Commission's operating fund mortgage investments as reported are comprised of mortgage-backed securities and loans financed with fund balances (net position) and Federal Home Loan Bank (FHLB) advances totaling \$83.1 million at June 30, 2014, as compared to \$94.5 million at June 30, 2013 and \$95.5 million at June 30, 2012. The operating fund loans also include loans financed by the federal HOME Investment Partnership Program totaling \$171.9 million at June 30, 2014, as compared to \$162.7 million at June 30, 2013, and \$160.7 million at June 30, 2012. In addition, the operating fund loans at June 30, 2014, include \$25.9 million in loans financed by the federal Tax Credit Assistance Program (TCAP), as compared to \$26.0 million at June 30, 2013, and \$26.1 million at June 30, 2012. The Commission's multifamily loan portfolio includes FHA-insured Risk-Share mortgage loans, in which the Commission participates in 50% of the insured risk. These loans totaled \$160.4 million at June 30, 2014, \$172.3 million at June 30, 2013, and \$172.0 million at June 30, 2012. The Commission's multifamily loan portfolio also includes conduit loans, which totaled \$74.7 million at June 30, 2014, \$88.4 million at June 30, 2013, and \$89.7 million at June 30, 2012. The conduit loans are financed by the borrowers with limited obligation revenue bonds.

## MISSOURI HOUSING DEVELOPMENT COMMISSION

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### Management's Discussion and Analysis (*Continued*)

#### **Debt**

At June 30, 2014, the Commission had \$915.4 million in bonds and notes outstanding as compared to \$1.13 billion outstanding at June 30, 2013, and \$1.35 billion at June 30, 2012.

During fiscal year 2014, new debt resulted from issuance of three series of rental housing revenue bonds, which totaled \$38.3 million, including one refunding issue totaling \$23.7 million, and one homeownership mortgage revenue bond series totaling \$50.0 million. The overall net decrease in debt during fiscal year 2014 resulted from principal payments and redemptions that exceeded current year issuances. During fiscal year 2013, new debt resulted from conversion of the final series of homeownership Treasury New Issue Bond Program (NIBP) Program Bonds, which totaled \$30 million, six series of refunding bond issues totaling \$250.3 million, and one multifamily bond issue totaling \$6.6 million. The overall net decrease in debt during fiscal year 2013 resulted from principal payments and redemptions that exceeded issuances, including a net decrease in FHLB advances of \$2.2 million. For additional information, see *Note 5, Bonds Payable and Long-Term Liabilities*, in the Notes to Financial Statements.

#### **Net Position**

The Commission continues to demonstrate a strong financial position. Excluding the effects of fair value reporting and conduit bond assets, net worth ratio (net position as compared to total assets) was 41.0% at June 30, 2014, as compared to 35.4% at June 30, 2013, and 31.0% at June 30, 2012. Excluding unrealized gains and losses, net position was \$669.3 million at June 30, 2014, \$641.9 million at June 30, 2013, and \$622.0 million at June 30, 2012, representing growth of 4.3% in fiscal year 2014, growth of 3.2% in fiscal year 2013 and growth of 6.2% in fiscal year 2012. A significant portion of the Commission's net position is restricted by bond indentures, grant agreements and other legal requirements. Net position provides liquidity and capital adequacy to support the Commission's general obligations and commitments, such as the Commission's general obligation bonds and participation in the U.S. Department of Housing and Urban Development (HUD) Risk-Share Program, that are secured by the Commission's full faith and credit.

## MISSOURI HOUSING DEVELOPMENT COMMISSION

### Management's Discussion and Analysis (Continued)

#### Operating Activities

The following table summarizes the Commission's revenues, expenses and changes in net position for fiscal years 2014, 2013 and 2012.

	2014	2013	2012	\$ change	
				2014-2013	2013-2012
<b>Operating Revenues</b>					
Interest and investment income	\$ 61,754	\$ 22,020	\$ 99,295	\$ 39,734	\$ (77,275)
Grants and federal assistance	152,439	135,477	147,351	16,962	(11,874)
Other	16,799	15,668	17,940	1,131	(2,272)
<b>Total Operating Revenues</b>	<b>230,992</b>	<b>173,165</b>	<b>264,586</b>	<b>57,827</b>	<b>(91,421)</b>
<b>Operating Expenses</b>					
Interest expense	35,607	47,936	57,194	(12,329)	(9,258)
Compensation and administrative expenses	12,506	12,586	12,574	(80)	12
Grants and federal assistance	144,721	134,784	138,039	9,937	(3,255)
Other	5,808	7,860	13,746	(2,052)	(5,886)
<b>Total Operating Expenses</b>	<b>198,642</b>	<b>203,166</b>	<b>221,553</b>	<b>(4,524)</b>	<b>(18,387)</b>
<b>Change in Net Position</b>	<b>\$ 32,350</b>	<b>\$ (30,001)</b>	<b>\$ 43,033</b>	<b>\$ 62,351</b>	<b>\$ (73,034)</b>

While the Commission continues to demonstrate strong financial activity, the economy and market conditions have affected financial results. During fiscal year 2014, overall revenues increased due, primarily, to an increase in fair value adjustments and an increase in federal assistance revenue. Interest and investment income increased \$39.7 million in fiscal year 2014 primarily due to fair value adjustments. During fiscal year 2013, overall revenues decreased due, primarily, to a \$65.0 million decrease in fair value adjustments and a decrease in federal assistance revenue. Excluding the effects of fair value reporting, the change in net position was an increase of \$27.4 million in fiscal year 2014, \$19.9 million in fiscal year 2013 and \$36.1 million in fiscal year 2012, demonstrating continued financial strength. The return on average equity and the return on average assets, excluding the effects of fair value reporting and conduit bond-financed assets, were 4.2% and 1.6%, respectively, for fiscal year 2014. This compares to 3.1% and 1.0%, respectively, for fiscal year 2013.

## **MISSOURI HOUSING DEVELOPMENT COMMISSION**

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### Management's Discussion and Analysis (*Continued*)

#### **Revenues**

Interest and investment income totaled \$61.8 million in fiscal year 2014, as compared to \$22.0 million in fiscal year 2013 (an increase of 180.4% in fiscal year 2014) and \$99.3 million in fiscal year 2012 (a decrease of 77.8% in fiscal year 2013). This income includes a fair value increase of \$4.4 million in fiscal year 2014, a fair value decrease of \$46.0 million in fiscal year 2013 and a \$19.0 million fair value increase in fiscal year 2012. Changes in the fair value of the Commission's portfolio of mortgage-backed securities and other investments result from fluctuations in interest rates and other market factors. Without the fair value adjustments, interest and investment income decreased 15.6% in fiscal year 2014 and decreased 15.3% in fiscal year 2013, reflecting the decrease in the Commission's mortgage investment asset base and decreases in interest rates and earnings as compared to the prior year. Depending on future financial markets, interest rate fluctuations are expected to have continuing material effects on the Commission's financial statements.

#### **Grants and Federal Assistance**

Federal and state grant program revenues and expenses represent activity related to projects funded by HUD (including Section 8 Contract Administration and HOME Investment Partnership) and other federal programs. These revenues totaled \$152.4 million in fiscal year 2014 as compared to \$135.5 million in fiscal year 2013 and \$147.4 million in fiscal year 2012 while expenses incurred were \$144.7 million in fiscal year 2014, \$134.8 million in fiscal year 2013 and \$138.0 million in fiscal year 2012. The fiscal year 2014 increase is primarily due to increases in the HOME Investment Partnership and Section 8 Contract Administration funding. The fiscal year 2013 decrease was primarily due to a decrease in the HOME Investment Partnership funding. HOME Investment Partnership funding has varied reflecting timing of awards and disbursements in addition to a change in federal allocation for this program and totaled \$14.5 million in fiscal year 2014, as compared to \$6.5 million in fiscal year 2013 and \$17.6 million in fiscal year 2012. These programs, along with federal and state tax credit programs, are integral to the Commission's achievement of its objectives. The Commission continues to effectively use federal government programs that serve its mission by utilizing those that provide resources that leverage its net position and other resources to finance affordable multifamily and owner-occupied housing for Missourians as well as provide housing assistance to very low-income Missourians.

## **MISSOURI HOUSING DEVELOPMENT COMMISSION**

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### Management's Discussion and Analysis (*Continued*)

#### **Expenses**

Interest costs were \$35.6 million for fiscal year 2014 as compared to \$47.9 million for fiscal year 2013 (a decrease of 25.7% in fiscal year 2014) and \$57.2 million for fiscal year 2012 (a decrease of 16.2% in fiscal year 2013). The fiscal year 2014 and 2013 decreases are primarily attributable to the decrease in the amount of total debt outstanding and to the decrease in the rates on newer debt issues, particularly the lower interest rates achieved with refunding bonds.

Beyond the costs associated with debt financing, the Commission's chief operating costs consist of compensation, facilities rent, information systems, professional services and travel expenses. These costs totaled \$12.5 million in fiscal year 2014 (\$12.6 million in each of fiscal years 2013 and 2012). Excluding the net change in the fair value of investments, these costs represented 5.5% of revenues in fiscal year 2014 as compared to 5.7% of revenues in fiscal year 2013 and 5.1% of revenues in fiscal year 2012.

#### **Economic and Other Factors**

The Commission's programs and activities are subject to economic and other factors that may affect the Commission's financial position and operations. In the coming year, changes in interest rates can be expected to impact investment earnings and may result in large fluctuations in the fair value of investments and mortgage-backed securities.

With respect to financing its homeownership programs, the Commission may sell mortgage-backed securities, including sales in the To-Be-Announced (TBA) market as an alternative to financing in the traditional tax-exempt bond market. Mortgage prepayments are expected to result in a decline in mortgage investments to be accompanied by corresponding bond redemptions.

The Commission administers the Project-Based Section 8 program in the State through a contract with HUD, which results in over \$100,000,000 in housing assistance payment revenue and expense activity annually. HUD may extend the current contract, which terminates December 31, 2014, and is expected to competitively bid this program administration at a future time for which the Commission plans to submit an application.

#### **Contacting the Commission's Financial Management**

This financial report is designed to provide the Commission's stakeholders with a general overview of the Commission's finances and to demonstrate accountability of resources. If you have questions about this report or need additional financial information, contact the Director of Finance at the Missouri Housing Development Commission, 3435 Broadway, Kansas City, Missouri, 64111 or visit the Commission's website at [www.mhdc.com](http://www.mhdc.com).

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# MISSOURI HOUSING DEVELOPMENT COMMISSION

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## STATEMENT OF NET POSITION (In Thousands)

	<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 8,541	\$ 28,583
Investments	10,136	3,029
Mortgage investments	5,495	8,700
Accrued interest receivable	1,730	1,605
Accounts receivable - other	394	399
Prepaid expenses	38	49
<b>Total Current Assets</b>	<b>26,334</b>	<b>42,365</b>
<b>Noncurrent Assets</b>		
Restricted assets		
Cash and cash equivalents	138,466	175,631
Investments	176,667	157,614
Mortgage investments	1,185,901	1,338,862
Accrued interest receivable	4,647	5,231
Accounts receivable - other	67	354
<b>Total restricted assets</b>	<b>1,505,748</b>	<b>1,677,692</b>
Investments	177,629	166,658
Mortgage investments, net of current portion and allowances for loan losses of \$43,094 and \$43,322	48,319	57,619
Capital assets, less accumulated depreciation of \$3,835 and \$3,981	704	745
<b>Total Noncurrent Assets</b>	<b>1,732,400</b>	<b>1,902,714</b>
<b>Total Assets</b>	<b>1,758,734</b>	<b>1,945,079</b>
<b>Deferred Outflows of Resources</b>	<b>166</b>	<b>405</b>



# MISSOURI HOUSING DEVELOPMENT COMMISSION

## STATEMENT OF NET POSITION (Continued) (In Thousands)

	June 30,	
	2014	2013
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Bonds and notes payable	\$ —	\$ 19
Accounts payable	996	1,351
Unearned revenue	1,196	1,209
<b>Total Current Liabilities</b>	<b>2,192</b>	<b>2,579</b>
<b>Current Liabilities - Payable from Restricted Assets</b>		
Bonds and notes payable	28,465	25,490
Accrued interest payable	8,926	12,635
Escrow deposits	102,525	102,556
Rent subsidies and other payables	574	338
Accounts payable	838	723
<b>Total Current Liabilities - Payable from Restricted Assets</b>	<b>141,328</b>	<b>141,742</b>
<b>Noncurrent Liabilities</b>		
Unearned revenue	8,569	9,016
Payable from restricted assets		
Bonds and notes payable	886,888	1,104,522
<b>Total Noncurrent Liabilities</b>	<b>895,457</b>	<b>1,113,538</b>
<b>Total Liabilities</b>	<b>1,038,977</b>	<b>1,257,859</b>
<b>Deferred Inflows of Resources</b>	<b>1,061</b>	<b>1,113</b>
<b>Net Position</b>		
Net investment in capital assets	704	745
Restricted	476,637	430,720
Unrestricted, including designated balances	241,521	255,047
<b>Total Net Position</b>	<b>\$ 718,862</b>	<b>\$ 686,512</b>

# MISSOURI HOUSING DEVELOPMENT COMMISSION

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (In Thousands)

	For the Years Ended June 30,	
	2014	2013
<b>Operating Revenues</b>		
Interest and investment income:		
Income - mortgage investments	\$ 51,499	\$ 61,847
Income - investments	5,895	6,180
Net increase (decrease) in fair value of investments	4,360	(46,007)
Total interest and investment income	61,754	22,020
Administration fees	5,553	5,216
Other income	11,246	10,452
Federal program income	152,439	135,477
<b>Total Operating Revenues</b>	<b>230,992</b>	<b>173,165</b>
<b>Operating Expenses</b>		
Interest expense on bonds	35,607	47,936
Bond debt expense	1,225	3,192
Compensation	8,637	8,348
General and administrative expenses	3,869	4,238
Rent and other subsidy payments	1,038	1,936
Housing Trust Fund grants	3,545	2,732
Federal program expenses	144,721	134,784
<b>Total Operating Expenses</b>	<b>198,642</b>	<b>203,166</b>
<b>Change in Net Position</b>	<b>32,350</b>	<b>(30,001)</b>
<b>Net Position - Beginning of Year</b>	<b>686,512</b>	<b>716,513</b>
<b>Net Position - End of Year</b>	<b>\$ 718,862</b>	<b>\$ 686,512</b>

# MISSOURI HOUSING DEVELOPMENT COMMISSION

## STATEMENT OF CASH FLOWS (In Thousands)

	For the Years Ended June 30,	
	2014	2013
<b>Cash Flows from Operating Activities</b>		
Interest received on mortgage investments	\$ 51,947	\$ 62,627
Fees, charges and other	15,778	14,293
Principal repayments on mortgage loans	226,888	276,363
Proceeds from sale of mortgage loans	109,182	178,636
Disbursements of mortgage loans	(170,493)	(260,227)
Federal revenue	152,439	135,477
Federal expenses	(144,721)	(134,784)
Collection of compliance and origination fees	853	1,486
Cash payments for compensation, administrative and other costs	(12,069)	(12,063)
Other operating payments	(5,801)	(7,673)
<b>Net Cash Provided by Operating Activities</b>	<b>224,003</b>	<b>254,135</b>
<b>Cash Flows from Noncapital Financing Activities</b>		
Retirement of principal on bonds and notes	(429,365)	(621,794)
Proceeds from issuance of bonds and notes	219,829	409,773
Interest paid on bonds and notes	(44,251)	(57,551)
Change in escrow deposits	(31)	6,510
<b>Net Cash Used in Noncapital Financing Activities</b>	<b>(253,818)</b>	<b>(263,062)</b>
<b>Cash Flows Used in Capital and Related Financing Activities</b>		
Payments for capital assets	(416)	(348)
<b>Cash Flows from Investing Activities</b>		
Purchases of investments	(135,501)	(326,151)
Proceeds from maturities and sales of investments	102,619	310,366
Interest received on investments	5,906	6,225
<b>Net Cash Used in Investing Activities</b>	<b>(26,976)</b>	<b>(9,560)</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(57,207)</b>	<b>(18,835)</b>
<b>Cash and Cash Equivalents - Beginning of Year</b>	<b>204,214</b>	<b>223,049</b>
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 147,007</b>	<b>\$ 204,214</b>

# MISSOURI HOUSING DEVELOPMENT COMMISSION

## STATEMENT OF CASH FLOWS (Continued) (In Thousands)

	For the Years Ended June 30,	
	2014	2013
<b>Reconciliation of Increase (Decrease) in Net Position to Net Cash Provided by (Used in) Operating Activities</b>		
Increase (decrease) in net position	\$ 32,350	\$ (30,001)
Adjustments to reconcile increase in net position to net cash provided by (used in) operating activities:		
Depreciation	437	523
Net decrease (increase) in fair value of investments	(4,360)	46,007
Compliance and origination fee receipts	853	1,486
Amortization of unearned revenue	(1,313)	(1,519)
Income - investments	(5,895)	(6,180)
Proceeds from sale of mortgage loans	109,182	178,636
Net change in mortgage loans	56,395	16,136
Interest expense related to bonds and capital leases	35,607	47,936
Change in assets and liabilities:		
Decrease in accounts receivable	292	144
Decrease in accrued mortgage interest receivable	448	780
Decrease in prepaid expenses	11	55
Increase (decrease) in accounts payable	(4)	132
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 224,003</b>	<b>\$ 254,135</b>

# MISSOURI HOUSING DEVELOPMENT COMMISSION

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## NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

### 1. **Nature of Operations and Summary of Significant Accounting Policies**

#### **Nature of Operations**

The Missouri Housing Development Commission (the Commission) is a body corporate and politic established on October 13, 1969, by Chapter 215 of the Missouri State Statutes. In accordance with the provisions of Chapter 215 and resolutions of the Commission, the Commission is authorized to make or purchase mortgage loans that are uninsured, partially insured or insured or guaranteed by the federal government and to insure mortgage loans, the funds of which are to be used to develop new or rehabilitated low- and moderate-income housing. The Commission is also authorized to issue bonds for making or purchasing such loans. The outstanding balance of bonds applicable to loans not insured or guaranteed by a federal agency or to bonds rated lower than "AA" by rating agencies at the time of issuance shall not exceed \$200,000,000. At June 30, 2014 and 2013, the Commission had \$68,408,000 and \$79,649,000, respectively, of bonds outstanding applicable to loans that are not so insured or guaranteed or to bonds that are not so rated. Bonds issued by the Commission are not an obligation of the state of Missouri.

#### **Reporting Entity**

The Commission defines its reporting entity to include all component units for which the Commission is financially accountable. The extent of financial accountability is based upon several criteria including: appointment of a voting majority of the governing body, imposition of will, financial benefit to or burden on a primary government and financial accountability as a result of fiscal dependency. No separate entities meet the requirements to be considered component units of the Commission.

The Commission is considered a related organization of the state of Missouri for financial reporting purposes. Accordingly, the Commission is included as a footnote disclosure in the state of Missouri's comprehensive annual financial report.

## **MISSOURI HOUSING DEVELOPMENT COMMISSION**

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### Notes to the Financial Statements (*Continued*)

For financial reporting purposes, the Commission reports its operations as a single enterprise fund. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting with revenues recognized when earned and expenses recorded when incurred. All significant interfund transactions are eliminated.

Revenues and expenses are typically divided into operating and nonoperating items. Operating revenues generally result from providing services in connection with the Commission's principal ongoing operations. The principal operating revenues of the Commission are derived from the investment income from loans and investments, financing fees, federal program funding and other charges related to providing financing for affordable housing through mortgage loans and grants. Operating expenses consist primarily of interest expense on bonds outstanding and federal program expenses and other costs to administer its affordable housing programs. All revenues and expenses not meeting these definitions would be reported as nonoperating revenues and expenses. The Commission has no nonoperating activities.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

#### **Use of Estimates**

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

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

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and on deposit and temporary investments with an original maturity of three months or less. At June 30, 2014 and 2013, cash equivalents consisted primarily of money market funds, overnight repurchase agreements and FHLB daily time accounts and term deposits.

## MISSOURI HOUSING DEVELOPMENT COMMISSION

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### Notes to the Financial Statements (*Continued*)

#### **Investments**

Securities purchased under agreements to resell, U.S. government and agency securities and mortgage-backed securities are reported at fair value as determined by the investment custodians utilizing prices quoted by securities dealers or brokers, investment bankers or statistical services on the valuation date. For the year ended June 30, 2014, the net increase in fair value of investments was \$4,360,000 and for the year ended June 30, 2013, the net decrease in fair value of investments was \$46,007,000.

#### **Mortgage Investments**

Proceeds from the sale of bonds as well as resources provided in the Commission's warehousing program and net position are used to make mortgage loans and to purchase mortgage-backed securities guaranteed as to timely payment of principal and interest by the Government National Mortgage Association (GNMA), Fannie Mae or the Federal Home Loan Mortgage Corporation (FHLMC) and backed by pools of qualifying mortgage loans. Advances made on such loans during the construction period of related housing units are recorded as construction loans and are transferred to mortgage loans upon final endorsement after construction completion. Mortgage and construction loans are reported at cost, while GNMA, Fannie Mae and FHLMC mortgage-backed securities are reported at fair value as determined by external investment custodians and quoted market prices.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for any charge-offs and the allowance for loan losses. Generally, loans are evaluated for nonaccrual status at 90 days past due and interest is considered a loss, unless the loan is well secured and in the process of collection.

#### **Allowance for Loan Losses**

The allowance for loan losses is for uninsured loans, Risk-Share loans and related accrued interest on such loans. The allowance is management's estimate of uncollectible loans and related accrued interest and is based on existing payment conditions, prior experience and such other factors that, in management's opinion, require consideration. For financial statement presentation, the allowance for loan losses has been netted against the noncurrent portion of mortgage and construction loans.

## **MISSOURI HOUSING DEVELOPMENT COMMISSION**

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Notes to the Financial Statements (*Continued*)

### **Original Issue Discounts/Premiums**

Original issue bond discounts and premiums are deferred and amortized over the life of the related issue using the outstanding bond method, which approximates the effective interest method.

### **Capital Assets**

Capital assets consist of leasehold improvements, software, office furniture and equipment, which are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets, which range from three to nine years. The Commission defines capital assets as assets with an initial, individual cost of more than \$750 and an estimated useful life in excess of one year.

### **Arbitrage Rebate**

Federal income tax rules limit the investment and loan yields which the Commission may retain for its own use from investing the proceeds of certain tax-exempt bond issues. The excess yields payable to the U.S. Treasury are included in accounts payable and are based on estimated calculations performed by an independent valuation specialist on an ongoing basis.

### **Deferred Inflows and Deferred Outflows of Resources**

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. This separate financial element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources until then. The Commission's deferred outflows of resources includes charges on debt refundings that resulted from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized as a component of interest expense on bonds over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. This separate financial element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources until then. The Commission's deferred inflows of resources includes charges on debt refundings that resulted from the difference in the reacquisition price and carrying value of refunded debt. This amount is deferred and amortized as a reduction to interest expense on bonds over the shorter of the life of the refunded or refunding debt.



## **MISSOURI HOUSING DEVELOPMENT COMMISSION**

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### Notes to the Financial Statements (*Continued*)

#### **Net Position**

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows in the financial statements. Net position is classified as follows:

**Net Investment in Capital Assets:** This component of net position consists of capital assets, net of accumulated depreciation.

**Restricted Net Position:** This component of net position consists of restrictions placed on net position use through external constraints imposed by grant agreements and contracts, laws or regulations of other governments, bond resolution or constraints imposed by law through constitutional provisions or enabling legislation.

**Unrestricted Net Position:** Represents net position used at the discretion of the Board of Commissioners to complement bond and loan programs, to fund housing initiatives and to provide for the Commission's operations. Certain unrestricted net position has been designated by the Commission to provide for its housing programs. Unrestricted net position provides additional security for the Commission's general obligations and commitments.

#### **Fees, Charges and Expenses**

Unearned revenue consists primarily of tax credit fees and compliance monitoring fees that are recognized as income over the contractual periods.

Service and other fees and charges are recorded as income when earned and the associated administrative expenses are recorded as incurred.

Operating expenses identifiable to a particular program are charged directly to the program. All other operating expenses are accounted for by the Commission in the Operating Fund (see Note 2).

#### **Federal Assistance and Grants**

The Commission administers grants and federal assistance programs, representing "pass-through" financial assistance, on the behalf of secondary recipients. The Commission recognizes financial activity related to pass-through grants and financial assistance as revenues and expenses of the Commission. Grants received from federal, state and local governments are recognized as operating revenue as the related expenditures are incurred.

# MISSOURI HOUSING DEVELOPMENT COMMISSION

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Notes to the Financial Statements (*Continued*)

## **Debt Refunding**

For current refundings and advance refundings resulting in defeasance of debt reported by proprietary activities, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense over the remaining life of the old or new debt, whichever is shorter, using the bonds outstanding method. The deferred refunding amounts are classified as deferred inflows or deferred outflows of resources in the financial statements.

## **Reclassifications**

Certain 2013 amounts have been reclassified, where appropriate, to conform to the 2014 financial statement presentation.

## **2. Description of Funds or Programs**

The following describes the funds or programs maintained by the Commission, all of which conform to Chapter 215 of the Missouri State Statutes and the respective bond resolutions.

### **Operating Fund**

Funding of the Operating Fund on an ongoing basis is derived principally from allowable transfers from other funds, fees earned for administering various U.S. Department of Housing and Urban Development (HUD) programs, and interest income from Operating Fund investments and mortgage loans. Mortgage and construction loans in the Operating Fund are collateralized by deeds of trust on the related properties, including approximately \$5,273,000 and \$4,670,000 at June 30, 2014 and 2013, respectively, which are insured by HUD or guaranteed by the Veterans Administration (VA). These insured loans include \$798,000 and \$3,451,000 at June 30, 2014 and 2013, respectively, which are FHA-insured "Risk-Share Mortgage Loans," as described in *Note 4*. Authorized activities of the Operating Fund include the following:

- Payment of general and administrative expenses and other costs not payable by other funds of the Commission.
- Financing multifamily or homeownership residential housing units from accumulated fund balances, if financing of such units is not provided for under existing bond indentures.
- Those activities deemed necessary to fulfill the Commission's corporate purposes for which special funds are not established.

## **MISSOURI HOUSING DEVELOPMENT COMMISSION**

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### Notes to the Financial Statements (*Continued*)

The Commission administers the Missouri Housing Trust Fund, which provides for a variety of housing needs, such as emergency home repair, emergency rent, mortgage or utility payments, acquisition, rehabilitation or new construction of transitional housing and related services for very low-income families and individuals. The Missouri Housing Trust Fund is authorized by Section 215.034, RSMo and its financial activities are included in the financial statements of the Commission. In addition, separate financial statements for the Missouri Housing Trust Fund may be obtained through the Commission.

#### **Multifamily 2000 Indenture Bond-Financed Programs**

The Commission's Multifamily 2000 Indenture Bond-Financed Programs were established to account for the proceeds from the bond sales, debt service requirements and the related mortgage loans on eligible rental developments pursuant to the Commission's Trust Indenture dated as of June 1, 2000. All loans are insured by HUD, including HUD's Risk-Share Program.

#### **Other Multifamily Bond-Financed Programs**

The Commission's Other Multifamily Bond-Financed Programs were established to account for the proceeds from the bond sales, debt service requirements and the related mortgage loans and mortgage-backed securities on eligible rental developments pursuant to the Commission's multifamily trust indentures, excluding the Commission's Trust Indenture dated as of June 1, 2000. All loans, with the exception of most of the loans financed by conduit Rental Housing Revenue Bonds, are insured by HUD. Uninsured and non-guaranteed conduit loans, which totaled \$68,408,000 and \$79,649,000 at June 30, 2014 and 2013, respectively, are financed by the borrowers with limited obligation revenue bonds which are denoted by "\*\*\*" in *Note 5*.

#### **Rural Growth and Homeownership Bond-Financed Programs**

The Commission's Rural Growth and Homeownership Bond-Financed Programs were established to account for the proceeds from the sale of bonds, debt service requirements and the related mortgage loans and mortgage-backed securities on eligible owner-occupied units. All loans are either insured by the Federal Housing Administration or qualified private mortgage insurers or guaranteed by the VA or USDA/RD.

# MISSOURI HOUSING DEVELOPMENT COMMISSION

Notes to the Financial Statements (Continued)

## Special Homeownership Bond-Financed Program

The Commission's Special Homeownership Bond-Financed Program was established under the United State Treasury's Single Family New Issue Bond Program to account for the proceeds from the sale of bonds, debt service requirements and the related mortgage-backed securities on eligible owner-occupied units.

### 3. Cash and Investments

A summary of cash and investments as of June 30, 2014 and 2013 is as follows (in thousands):

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents				
Cash	\$ 17,346	\$ 17,346	\$ 34,917	\$ 34,917
FHLB daily time accounts	4,945	4,945	710	710
FHLB term deposits	48	48	25,150	25,150
Securities purchases under agreements to resell	241	241	1,031	1,031
Money market funds	124,427	124,427	142,406	142,406
Total cash and cash equivalents	\$ 147,007	\$ 147,007	\$ 204,214	\$ 204,214
Investments				
Certificates of deposit	\$ 1,400	\$ 1,400	\$ 10,900	\$ 10,900
FHLB term deposits	—	—	2,700	2,700
U.S. Treasury bonds and notes and agency obligations	354,585	350,263	289,417	280,900
Guaranteed investment contracts	12,769	12,769	32,801	32,801
Total investments	368,754	364,432	335,818	327,301
Total cash and cash equivalents and investments	\$ 515,761	\$ 511,439	\$ 540,032	\$ 531,515

# MISSOURI HOUSING DEVELOPMENT COMMISSION

Notes to the Financial Statements (Continued)

## Investment Policy

### General

The Commission's Investment Policy and Guidelines are formalized in Resolution No. 925. This policy applies to investments that are not held by a trustee in connection with bond or note issues. This policy permits the Commission to invest in obligations of the state of Missouri, obligations of the United States of America, obligations issued or guaranteed by certain agencies of the federal government, certain collateralized repurchase agreements and certificates of deposit. The general policy of the Commission is to make investments for future funding requirements and not for trading purposes. At June 30, 2014, all of the Commission's general investments (non-bond related investments) were in compliance with the Commission's Investment Policy and Guidelines.

### Indentures

The Commission's bond indentures permit investments in the direct obligations of, or obligations guaranteed by, the United States of America, certificates of deposit, investment agreements and certain other investments permitted by applicable law. At June 30, 2014, all investments of debt-related issues held by the Commission's trustees were in compliance with the requirements of the indentures.

### Investment Maturities

As of June 30, 2014 and 2013, the Commission had the following investments and maturities (amounts are in thousands):

Investment Type	June 30, 2014				
	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
Certificates of deposit	\$ 1,400	\$ 1,400	\$ —	\$ —	\$ —
U.S. Treasury securities	13,892	5,791	—	7	8,094
U.S. agency securities	336,371	18,915	92,931	224,525	—
Guaranteed investment contracts	12,769	—	—	—	12,769
<b>Total investments</b>	<b>\$ 364,432</b>	<b>\$ 26,106</b>	<b>\$ 92,931</b>	<b>\$ 224,532</b>	<b>\$ 20,863</b>

## MISSOURI HOUSING DEVELOPMENT COMMISSION

### Notes to the Financial Statements (Continued)

Investment Type	June 30, 2013				
	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
Certificates of deposit	\$ 10,900	\$ 10,500	\$ 400	\$ —	\$ —
FHLB term deposits	2,700	2,700	—	—	—
U.S. Treasury securities	12,740	800	4,750	—	7,190
U.S. agency securities	268,160	10,392	41,571	216,197	—
Guaranteed investment contracts	32,801	—	—	1,620	31,181
Total investments	\$ 327,301	\$ 24,392	\$ 46,721	\$ 217,817	\$ 38,371

The Commission's Investment Policy and Guidelines limit investments for general funds in repurchase agreements to 90 days and U.S. Treasury and U.S. agency securities to 10 years. The demand repurchase agreements are collateralized by obligations of the United States of America or its agencies, and have a one-day demand of funds provision exercisable at the Commission's option. The bond resolutions and indentures allow for investments in obligations of the United States of America and investment agreements for the terms specified in these documents, generally 30 years.

At June 30, 2014, as reported at fair value, the Commission's U.S. agency securities consist of \$127,815,000 Federal Farm Credit Bank (FFCB), \$92,935,000 Fannie Mae, \$65,981,000 Federal Home Loan Bank (FHLB) and \$49,640,000 FHLMC debt securities.

#### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates may adversely affect the fair value of investments. The Commission manages interest rate risk by structuring investment portfolios so that securities mature to meet cash requirements for ongoing operations and debt service obligations, thereby avoiding the need to sell securities on the open market prior to maturity.

#### Credit Risk

The Commission's investments in U.S. government agency securities and money market funds are rated in the highest rating category by Moody's Investor Services (Aaa) and AA+ by Standard & Poor's. Repurchase agreements are unrated, but collateralized by U.S. agency securities. Guaranteed investment contracts are unrated. The contracts generally contain "termination" clauses so the Commission may withdraw funds early if credit ratings deteriorate below specified levels and collateral or a guarantee is not provided.

## MISSOURI HOUSING DEVELOPMENT COMMISSION

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Notes to the Financial Statements *(Continued)*

### Concentration of Credit Risk

The Commission places no limit on the amount the Commission may invest in any one issuer with respect to U.S. Treasury Securities and U.S. government agency securities. Obligations of the state of Missouri and collateralized certificates of deposit are limited to 60% of the nonbond fund portfolio, each. Collateralized repurchase agreements are limited to 50% of the nonbond fund portfolio. The following table lists investments, including FHLB term deposits, in issuers that represent 5% or more of total investments at June 30, 2014:

<u>Issuer</u>	<u>Percent of Total Investments</u>
Federal Farm Credit Bank	35.1%
Fannie Mae	25.5%
Federal Home Loan Bank	18.1%
Federal Home Loan Mortgage Corporation	13.6%

### Custodial Credit Risk

For investments, custodial credit risk is the risk that in the event of the failure of the counterparty to a transaction, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In accordance with its policy, the Commission addresses custodial credit risk by pre-qualifying institutions with which the Commission places investments, diversifying its investment portfolio and maintaining a standard of quality for its investments.

Investments in U.S. government and agency securities are carried at fair value. At June 30, 2014 and 2013, securities approximating \$345,372,000 and \$268,960,000, respectively, are uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the Commission's name.

## MISSOURI HOUSING DEVELOPMENT COMMISSION

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### Notes to the Financial Statements (Continued)

For deposits, custodial credit risk is the risk that in the event of a bank failure, the Commission may not be able to recover its deposits. Protection of the Commission's deposits of \$17,122,000 and collateralized certificates of deposits of \$1,400,000 is provided by the Federal Deposit Insurance Corporation and by eligible securities pledged by the financial institution. Deposits with the FHLB include \$224,000 in a demand deposit account, \$4,945,000 in daily time accounts and \$48,000 in term deposits, which are uninsured and uncollateralized, but are secured by the full faith and credit of the FHLB System with implicit government support. The Commission's money market funds of \$124,427,000 are uninsured and uncollateralized and are invested primarily in portfolios of U.S. Treasury and government agency securities.

#### 4. Mortgage Investments

Mortgage investments reflected in the statement of position consist of the following as of June 30, 2014 and 2013 (in thousands):

	<u>2014</u>	<u>2013</u>
Total mortgage loan principal outstanding	\$ 560,743	\$ 591,999
Less: Allowance for mortgage loan losses	<u>(43,094)</u>	<u>(43,322)</u>
Mortgage loans, net	<u>517,649</u>	<u>548,677</u>
Total mortgage-backed securities, at cost	668,212	803,360
Unrealized gain on securitized mortgage loans	<u>53,854</u>	<u>53,144</u>
Mortgage-backed securities, at fair value	<u>722,066</u>	<u>856,504</u>
Mortgage investments, net	<u>\$ 1,239,715</u>	<u>\$ 1,405,181</u>



## MISSOURI HOUSING DEVELOPMENT COMMISSION

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### Notes to the Financial Statements *(Continued)*

Mortgages include loans financed by the federal HOME Investment Partnership Program totaling \$194,583,000 and \$184,225,000 as of June 30, 2014 and 2013, respectively. A portion of these loans totaling \$71,758,000 and \$62,992,000 at June 30, 2014 and 2013, respectively, include prepayment terms allowing deferment or repayment based on net income of the multifamily developments. An estimated allowance for mortgage loan losses of \$22,668,000 and \$21,547,000 is attributable to this portfolio at June 30, 2014 and 2013, respectively. At June 30, 2014 and 2013, mortgages also include \$30,119,000 and \$30,284,000, respectively, in loans financed by the federal Tax Credit Assistance Program (TCAP). An estimated allowance for mortgage loan losses of \$4,269,000 and \$4,286,000 is attributable to this portfolio at June 30, 2014 and 2013, respectively.

The Commission warehouses mortgage-backed securities created by its single family homeownership programs. The warehoused securities have been funded by net position or through short-term FHLB advances. U.S. agency securities and mortgage-backed securities, which totaled \$51,957,000 at June 30, 2014, and \$17,511,000 at June 30, 2013, are pledged as security for the short-term FHLB advances. There were no warehoused mortgage-backed securities held at June 30, 2014 and there was \$8,903,000 in the balance of warehoused mortgage-backed securities at June 30, 2013.

The Rural Growth and Homeownership Bond-Financed Programs and the Special Homeownership Bond-Financed Program generally require that mortgage loans be made to borrowers whose household income does not exceed the statewide or applicable metropolitan statistical area (MSA) median income, based on family size. For loans financed with tax-exempt bond proceeds, Section 143 of the Internal Revenue Code specifies certain requirements with respect to the nature of the residence, mortgage and eligibility of the borrower. The Rural Growth and Homeownership Bond-Financed Programs and the Special Homeownership Bond-Financed Program provide funding for mortgage loans that are FHA insured, VA guaranteed, USDA/RD guaranteed or Fannie Mae-qualified conventional loans.

## MISSOURI HOUSING DEVELOPMENT COMMISSION

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### Notes to the Financial Statements (*Continued*)

The Multifamily Bond-Financed Programs provide long-term financing for rental housing developments for occupancy by families and persons of low and moderate incomes. The Commission has entered into a Risk Sharing Agreement with HUD, which permits the Commission to participate in HUD's Risk-Share Program. In accordance with the terms of this agreement, HUD will insure certain mortgage loans on rental housing developments (FHA-insured "Risk-Share Mortgage Loans") and the Commission will underwrite the Risk-Share Mortgage Loans following its underwriting guidelines. HUD will insure the Risk-Share Mortgage Loans and will bear 50% of the risk and the Commission will bear the remaining 50% of the risk. The Commission had Risk-Share Mortgage Loans totaling \$160,385,000, representing 59 loans as of June 30, 2014, and \$172,272,000, representing 62 loans as of June 30, 2013.

The proceeds of the Rental Housing Revenue Bonds, the Homeownership Revenue Bonds and the Special Homeownership Revenue Bonds as well as resources of the Commission's Mortgage-Backed Security Warehousing Program were used to purchase GNMA, Fannie Mae and FHLMC certificates collateralized by mortgage loans approved in accordance with the guidelines of the Commission's mortgage programs. The financing periods of the pooled mortgage loans financed by the Homeownership, Special Homeownership and Multifamily Programs are 30 years. Mortgage-backed securities have repayments based on the underlying pooled mortgages and are subject to prepayment.

The fair value of the mortgage-backed securities is sensitive to changes in interest rates, which may result in large fluctuations in carrying value and investment earnings as reported. The mortgage-backed securities held have stated interest rates ranging from 2.50% to 8.30%, while the underlying mortgages have stated interest rates ranging from 3.0% to 8.8%.

## MISSOURI HOUSING DEVELOPMENT COMMISSION

### Notes to the Financial Statements (Continued)

GNMA, Fannie Mae and FHLMC certificates, which are included in mortgage investment balances, are presented in the statement of net position at fair value. The Commission's mortgage-backed securities are rated in the highest rating category by Moody's Investor Services (Aaa) and AA+ by Standard & Poor's. As of June 30, 2014, the par value of securitized mortgage loans consist of 89.2% GNMA, 9.7% Fannie Mae and 1.1% FHLMC certificates. All other loans included in mortgage investments are carried at cost. The following summarizes the carrying value and cost of mortgage investments (in thousands):

	2014		2013	
	Carrying Value	Cost	Carrying Value	Cost
GNMA, Fannie Mae and FHLMC mortgage-backed securities	\$ 722,066	\$ 668,212	\$ 856,504	\$ 803,360
Other mortgage loans	560,743	560,743	591,999	591,999
<b>Total mortgage investments</b>	<b>\$ 1,282,809</b>	<b>\$ 1,228,955</b>	<b>\$ 1,448,503</b>	<b>\$ 1,395,359</b>

## 5. Bonds Payable and Long-Term Liabilities

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2014 (in thousands):

	Balance			Balance June 30, 2014	Amount Due Within One Year
	June 30, 2013	Increases	Decreases		
Multifamily 2000 Indenture Bond-Financed Programs	\$ 190,867	\$ 14,585	\$ (49,773)	\$ 155,679	\$ 11,735
Other Multifamily Bond-Financed Programs	94,225	23,742	(19,560)	98,407	1,752
Rural Growth & Homeownership Bond-Financed Programs	439,252	—	(180,584)	258,668	4,395
Special Homeownership Bond-Financed Program	393,171	50,000	(50,010)	393,161	9,434
<b>Total bonds and notes payable</b>	<b>1,117,515</b>	<b>88,327</b>	<b>(299,927)</b>	<b>905,915</b>	<b>27,316</b>
Unamortized premium and discount, net	12,497	2,064	(5,123)	9,438	1,149
<b>Total bonds and notes payable, net</b>	<b>1,130,012</b>	<b>90,391</b>	<b>(305,050)</b>	<b>915,353</b>	<b>28,465</b>
Unearned revenue	10,225	853	(1,313)	9,765	1,196
Capital leases	19	—	(19)	—	—
<b>Total long-term debt and other obligations</b>	<b>\$ 1,140,256</b>	<b>\$ 91,244</b>	<b>\$ (306,382)</b>	<b>\$ 925,118</b>	<b>\$ 29,661</b>

# MISSOURI HOUSING DEVELOPMENT COMMISSION

## Notes to the Financial Statements (Continued)

The net proceeds of bond issues are used to provide financing for multifamily bond financed housing projects or for homeownership residential housing units. The bond proceeds are deposited with and invested by various bank trust departments in qualified investments until required for such financing. These bonds are obligations of the Commission and are not liabilities of the state of Missouri. A summary of bonds payable outstanding at June 30, 2014 and 2013 follows (in thousands), including the applicable calendar date reference for future maturities or final redemption:

	Original		Outstanding	
	Authorized	Amount	2014	2013
<b>Multifamily 2000 Indenture Bond - Financed Program</b>				
2003 Series 1 Pevely Square Apts. - Redeemed July 2013	\$ 5,105	\$ —	\$ —	\$ 2,285
2003 Series 2 Parkview Place Apts. - Redeemed July 2013	5,715	—	—	3,755
2003 Series 3 Hyder Elderly Apts. - Redeemed July 2013	3,965	—	—	3,555
2003 Series 4 Ridge Crest Apts. - Redeemed July 2013	3,925	—	—	2,145
2003 Series 5 Kensington Heights Apts. - Redeemed May 2014	5,075	—	—	4,505
2003 Series 6 Historic Ellison Apts. - Redeemed May 2014	5,280	—	—	1,905
2003 Series 7 Autumn House/Jefferson Manor - Redeemed July 2013	4,695	—	—	4,005
2003 Series 8 Stratford Commons (4.35% to 5.20%), due 2014 - 2035	4,385	1,895	1,895	1,945
2003 Series 9 Rural Development Apts. - Redeemed May 2014	8,590	—	—	3,070
2003 Series 10 Hidden Valley Apts. - Redeemed May 2014	10,880	—	—	9,390
2004 Series 1 Hickory Townhomes - Redeemed May 2014	3,160	—	—	2,720
2004 Series 2 Winter Garden Apts. - Redeemed May 2014	4,190	—	—	3,550
2004 Series 3 Woodlen Place Apts. - Redeemed May 2014	1,800	—	—	1,165
2004 Series 4 Festus Gardens Apts. - Redeemed August 2014	5,990	3,825	3,825	3,915
2004 Series 5 FP-San Remo Apts. (4.75% to 5.45%), due 2015 - 2036	3,785	2,005	2,005	2,055
2004 Series 6 Allen Market Lane Apts. (4.70% to 5.15%), due 2018 - 2036	6,735	3,155	3,155	3,230
2005 Series 1 St. Louis Brewery Apts. (4.50% to 4.90%), due 2020 - 2036	8,125	3,010	3,010	3,080
2005 Series 2 Meadowglen Apts. (3.90% to 4.85%), due 2014 - 2042	8,540	6,340	6,340	6,450
2005 Series 3 Olde Oak Tree & Landmark Towers (4.15% to 4.80%), due 2016- 2036	6,520	5,225	5,225	5,360
2005 Series 4 Park Place Apts. (4.10% to 4.70%), due 2014 - 2037	10,330	8,880	8,880	9,100
2005 Series 5 Hawkins Village Apts. (4.35% to 5.00%), due 2014 - 2042	5,335	4,775	4,775	4,860
2005 Series 6 Ivanhoe Gardens Apts. (4.25% to 4.875%), due 2014 - 2036	4,240	2,275	2,275	2,335
2006 Series 1 Meadow Ridge Townhouses (4.30% to 5.00%), due 2014 - 2037	6,360	2,370	2,370	2,460
2006 Series 2 Ashley Park Apts. (4.30% to 4.875%), due 2014 - 2037	7,290	5,765	5,765	5,900
2006 Series 3 Eureka & Wendell Apts. (4.30% to 5.00%), due 2014 - 2047	3,165	2,960	2,960	3,000
2006 Series 4 Justin Place Apts. (4.5% to 5.00%), due 2014 - 2042	5,640	2,070	2,070	2,105
2006 Series 5 Metropolitan Village Apts. (4.5% to 5.00%), due 2014 - 2038	5,960	5,325	5,325	5,445
<b>Total Forward</b>	<b>154,780</b>	<b>59,875</b>	<b>59,875</b>	<b>103,290</b>

# MISSOURI HOUSING DEVELOPMENT COMMISSION

## Notes to the Financial Statements (Continued)

	Original	Outstanding	
	Amount Authorized	2014	2013
Total Forward	\$ 154,780	\$ 59,875	\$ 103,290
<b>Multifamily 2000 Indenture Bond - Financed Program (Continued)</b>			
2007 Series 1 Linden Campus Apts. (4.10% to 4.70%), due 2014 - 2048	3,980	1,880	1,900
2009 Series 1 Courthouse Apts. (3.00% to 5.25%), due 2015 - 2042	18,940	5,610	5,710
2010 Series 1 Basie Court Apts. (1.40% to 4.50%), due 2014 - 2042	4,967	1,437	1,467
2010 Series 2 Samantha Heights Apts. (1.75% to 4.75%), due 2014 - 2042	8,610	6,120	6,250
2010 Series 3 Wesley Senior Towers Apts. (1.85% to 5.125%), due 2014- 2042	5,395	2,815	2,875
2010 Series 4 Lucas Heights Apts. (2.85% to 5.40%), due 2016 - 2042	8,175	3,485	3,545
2010 Series 5 Grandview Estates (2.85% to 5.25%), due 2016 - 2042	3,531	997	1,015
2012 Series 1 Refunding Bonds (.70% to 4.25%), due 2014-2038	42,740	37,020	42,700
2013 Series 1 Friendship Village (.75% to 3.75%), due 2014 - 2045	6,555	6,555	6,555
2013 Series 2 Refunding Bonds (.45% to 4.65%), due 2014-2040	15,560	15,300	15,560
2013 Series 3 Shepard Apts. (1.0% to 5.0%), due 2015-2045	12,030	12,030	—
2013 Series 4 House Springs Apts. (1.0% to 5.0%) due 2014-2045	2,555	2,555	—
	<u>287,818</u>	<u>155,679</u>	<u>190,867</u>
Less: Unamortized debt discount	—	(109)	(126)
Add: Unamortized debt premium	—	469	385
	<u>287,818</u>	<u>156,039</u>	<u>191,126</u>
<b>Other Multifamily Bond - Financed Program</b>			
Series 1999 O'Fallon Place Apts. (5.00% to 5.25%), due 2015 - 2032*,**	6,710	5,050	5,185
Series 1999 The Mansion Apts. Phase II- Redeemed October 2013	6,730	—	5,620
Series 1999 East Hills Village Apts. (7.30%), due 2030**	2,750	2,230	2,295
2001 Series I - redeemed December 2013	21,780	—	2,225
2001 Series II - redeemed December 2013	46,360	—	2,615
2001 Series III - redeemed December 2013	22,850	—	1,030
Series 2002 G JB Hughes Apts. I & II (6.20% to 6.30%), due 2019 - 2037*,**	2,550	—	2,240
Series 2002 H JB Hughes Apts. I & II (6.90%), due 2038**	450	—	134
Series 2004 Bridgeport Apts. (6.60%), due 2041**	6,580	6,114	6,190
2005 Series I-A and I-B Lakewood Apts. (5.25%), due 2035*,**	2,750	1,250	1,280
2005 Series II ChapelRidge of St. Joseph (6.30%), due 2047**	7,150	6,413	6,874
2005 Series III ChapelRidge of Union (6.40%), due 2047**	6,375	5,898	6,133
2005 Series IV ChapelRidge of Blue Springs (6.40%), due 2047**	9,800	9,118	9,459
2006 Series I Bainbridge Apts. (5.75%), due 2016 - 2048**	15,046	3,934	4,057
2006 Series II Georgian Court Apts. (5.75%), due 2016 - 2048**	8,721	2,011	2,093
2006 Series III Linda Vista Apts. (5.75%), due 2016 - 2048**	5,329	972	1,010
2006 Series IV Washington Apts. - Redeemed November 2013	7,500	—	2,692
2006 Series V Lost Tree South Apts. (6.244%), due 2026**	4,400	2,974	2,974
	<u>183,831</u>	<u>45,964</u>	<u>64,106</u>
Total Forward	183,831	45,964	64,106

# MISSOURI HOUSING DEVELOPMENT COMMISSION

## Notes to the Financial Statements *(Continued)*

	Original Amount Authorized	Outstanding	
		2014	2013
Total Forward	\$ 183,831	\$ 45,964	\$ 64,106
<b>Other Multifamily Bond - Financed Program <i>(Continued)</i></b>			
2006 Series VII Cedar Tree Apts. (5.73%), due 2026**	2,500	1,675	1,695
2006 Series VIII Elmwood Estates Apts. (5.73%), due 2026**	3,200	2,558	2,592
2006 Series IX Catalpa Tree Apts. (5.73%), due 2026**	1,800	1,247	1,262
2006 Series X Center Apts. (5.73%), due 2026**	1,900	1,159	1,175
2007 Series I Park Ridge Apts. (5.665%), due 2039**	12,000	9,244	10,344
2007 Series II Mexico I Apts. (5.88%), due 2026**	1,100	628	640
2007 Series III Princeton Manor Apts. (variable rate), due 2027**	2,152	1,518	1,533
2007 Series IV Oakwood Terrace Apts. (variable rate), due 2027**	970	748	756
2007 Series V Westside Apts. (variable rate), due 2027**	2,400	841	854
2007 Series VI Longfellow Apts. (variable rate), due 2040**	6,400	2,555	2,600
2011 Series I Brookstone Village (6.00%), due 2021**	6,800	6,571	6,668
2014 Series 1 Refunding Bonds (4.2%), due 2040	23,742	23,699	—
	248,795	98,407	94,225
Less: Unamortized debt discount	—	—	(3)
Add: Unamortized debt premium	—	—	3
	248,795	98,407	94,225
<b>Rural Growth &amp; Homeownership Bond – Financed Programs</b>			
1999 Series I - Redeemed July 2014	5,095	120	155
2004 Series A - Redeemed May 2014	57,280	—	16,005
2004 Series B - Redeemed May 2014	60,000	—	13,475
2004 Series C - Redeemed May 2014	60,000	—	15,835
2004 Series D - Redeemed May 2014	40,000	—	12,190
2005 Series A (4.10% to 5.90%), due 2014 - 2036*	54,680	11,269	15,857
2005 Series B (4.40% to 5.80%), due 2014 - 2036*	75,000	13,053	19,990
2005 Series C (4.20% to 5.60%), due 2014 - 2036*	68,000	16,345	22,715
2005 Series D (4.20% to 6.00%), due 2014 - 2036*	50,000	9,220	13,150
2006 Series A (4.20% to 6.00%), due 2014 - 2037*	50,000	7,930	12,280
2006 Series B (4.20% to 6.05%), due 2014 - 2037*	100,000	18,245	27,160
2006 Series C (4.30% to 5.90%), due 2014 - 2037*	60,000	11,610	18,270
2006 Series D (4.95% to 6.15%), due 2014 - 2037*	70,000	10,080	17,580
2006 Series E (5.60% to 5.88%), due 2037*	40,000	7,960	11,200
2007 Series A (4.625% to 6.00%), due 2014 - 2038*	50,000	10,135	14,890
2007 Series B (5.05% to 5.78%), due 2038*	35,000	7,885	11,475
2007 Series C (4.70% to 6.25%), due 2014 - 2038*	100,000	21,310	34,730
2007 Series D (4.70% to 6.38%), due 2014 - 2038*	50,000	8,505	15,070
2007 Series E (5.00% to 5.60%), due 2014 - 2038*	66,000	13,370	25,080
2008 Series A (3.70% to 5.70%), due 2014 - 2039*	50,000	10,825	16,885
2008 Series B (4.70% to 5.75%), due 2014 - 2034*	65,000	11,115	17,450
2008 Series C-1 (5.615%), due 2039*, ***	8,000	2,008	2,822
2008 Series C-2 (4.48%), due 2039*, ***	12,000	2,535	3,737
2008 Series C-3 (5.24%), due 2039*, ***	10,000	2,540	2,984
2008 Series C-4 (5.06%), due 2039*, ***	10,000	3,293	3,640
	1,246,055	199,353	364,625
Total Forward	1,246,055	199,353	364,625

# MISSOURI HOUSING DEVELOPMENT COMMISSION

## Notes to the Financial Statements (Continued)

	Original	Outstanding	
	Amount	2014	2013
	Authorized		
Total Forward	\$ 1,246,055	\$ 199,353	\$ 364,625
<b>Total Rural Growth &amp; Homeownership Bond - Financed Programs (Continued)</b>			
2009 Series A (3.10% to 5.35%), due 2014 - 2039*	30,000	11,745	15,350
2009 Series B-1 (4.63%), due 2040*, ***	10,000	2,554	3,821
2009 Series B-2 (4.64%), due 2040*, ***	5,000	3,121	3,176
2009 Series C (2.65% to 5.00%), due 2014 - 2036*	40,000	19,110	23,825
2009 Series D (2.10% to 4.80%), due 2014 - 2040*	45,000	22,785	28,455
	<u>1,376,055</u>	<u>258,668</u>	<u>439,252</u>
Less: Unamortized debt discount	—	(13)	(21)
Add: Unamortized debt premium	—	5,205	9,849
	<u>1,376,055</u>	<u>263,860</u>	<u>449,080</u>
<b>Special Homeownership Bond - Financed Program</b>			
2009 Series E-1 (2.00% to 5.00%), due 2014 - 2041*	100,000	19,845	24,660
2009 Series E-2 (1.60% to 4.50%), due 2014 - 2041*	100,000	22,795	28,145
2009 Series E-3 (1.60% to 4.625%), due 2014 - 2041*	100,000	26,975	32,055
2009 Series E-4 (1.10% to 4.25%), due 2014 - 2041*	100,000	85,365	92,370
2009 Series E-5 (2.53%) due 2041*	30,000	28,845	29,920
2013 Series A (2.65%) due 2040*	45,220	37,845	43,170
2013 Series B (2.65%) due 2041*	54,010	46,905	52,530
2013 Series D (2.55%) due 2034*	44,924	32,791	42,676
2013 Series C (2.65%) due 2040*	47,840	41,795	47,645
2014 Series A (.25% to 4.00%), due 2015 - 2041*	50,000	50,000	—
	<u>671,994</u>	<u>393,161</u>	<u>393,171</u>
Add: Unamortized debt premium	—	3,886	2,410
	<u>671,994</u>	<u>397,047</u>	<u>395,581</u>
Total	<u>\$ 2,584,662</u>	<u>\$ 915,353</u>	<u>\$ 1,130,012</u>

The proceeds of bond issues denoted by “\*” are used to purchase GNMA, Fannie Mae and FHLMC mortgage-backed securities, which are backed by mortgage loans originated through the Commission’s loan programs.

The proceeds of bond issues denoted by “\*\*\*” are used to provide financing for multifamily rental housing projects. These bonds are limited obligation, conduit debt issued by the Commission, payable solely from and secured by a loan agreement between the Commission and the borrower. The total aggregate amount of conduit debt outstanding was \$74,708,000 at June 30, 2014 and \$88,354,000 at June 30, 2013.

## MISSOURI HOUSING DEVELOPMENT COMMISSION

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### Notes to the Financial Statements (*Continued*)

The bond issues denoted by “\*\*\*” are general obligation bonds. All other bond issues are revenue bonds and conduit debt as described previously.

During the fiscal years ended June 30, 2014 and 2013, the Commission repurchased or redeemed, prior to their scheduled maturity, the principal amount of certain of its bonds. Net gains of \$4,357,000 and \$3,949,000 for the years ended June 30, 2014 and 2013, respectively, on early extinguishment of debt have been recorded and included with other income. These gains arise as a result of immediate recognition of bond premiums, net of immediate recognition of bond discounts, that would have been amortized over the life of the applicable bond issue if not retired and net of call premiums as required by the applicable bond indentures.

#### ***Bond Refundings***

##### **Refunding Completed During Fiscal Year 2014:**

The Commission issued Taxable Multifamily Housing Refunding Revenue Bonds 2014 Series 1 in the aggregate amount of \$23,742,000. The proceeds of the refunding bonds were used to refund the outstanding Multifamily Housing Revenue Bonds 2003 Series 5, 9 and 10 and 2004 Series 1, 2 and 3. The refunding resulted in a difference between the reacquisition price and the net carrying amount of approximately \$11,000. This difference, reported in the accompanying financial statements as deferred outflows of resources, is being recognized in operations through the year 2035 using the bonds outstanding method. The Commission completed the advance refunding to decrease its total debt service payments over the next 25 years by approximately \$2,552,000 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$1,552,000.

##### **Refundings Completed During Fiscal Year 2013:**

The Commission issued Single Family Mortgage Revenue Refunding Bonds (Special Homeownership Loan Program) 2013 Series A, B and C in the aggregate amounts of \$45,220,000, \$54,010,000, and \$47,840,000, respectively. The proceeds of the refunding bonds were used to refund the outstanding Single Family Mortgage Revenue Bonds (Special Homeownership Loan Program) Program Bonds 2009 Series E-1, E-3 and E-2, respectively. These refundings resulted in no difference between the reacquisition price and the net carrying amount of the old debt.



## MISSOURI HOUSING DEVELOPMENT COMMISSION

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### Notes to the Financial Statements (*Continued*)

The Commission issued Single Family Mortgage Revenue Refunding Bonds (Special Homeownership Loan Program) 2013 Series D in the aggregate amount of \$44,924,000. The proceeds of the refunding bonds were used to refund the outstanding Single Family Mortgage Revenue Bonds (Homeownership Loan Program) 2003 Series A, B, C and D. The refunding resulted in a difference between the reacquisition price and the net carrying amount of approximately \$1,127,000. This difference, reported in the accompanying financial statements as deferred inflows of resources, is being recognized in operations through the year 2034 using the bonds outstanding method.

The Commission issued Taxable Multifamily Housing Refunding Revenue Bonds 2012 Series 1 in the aggregate amount of \$42,740,000. The proceeds of the refunding bonds were used to refund the outstanding Multifamily Housing Revenue Bonds 2000 Series 1, 2001 Series 1A, 2001 Series 2A, 2002 Series 1, 2002 Series 2 and 2002 Series 4. The refunding resulted in no difference between the reacquisition price and the net carrying amount of the old debt.

The Commission issued Taxable Multifamily Housing Refunding Revenue Bonds 2013 Series 2 in the aggregate amount of \$15,560,000. The proceeds of the refunding bonds were used to refund the outstanding Multifamily Housing Revenue Bonds 2003 Series 1, 2, 3, 4 and 7. The refunding resulted in no difference between the reacquisition price and the net carrying amount of the old debt.

The Commission completed the refundings to reduce its total debt service payments and to obtain an economic gain (difference between the present values of the old and new debt service payments) as follows (in thousands):

<b>Refunding Bonds Issued in FY2013</b>	<b>Reduction to Debt Service</b>	<b>Years of Debt Service</b>	<b>Economic Gain</b>
Single Family Mortgage Revenue Refunding Bonds (Special Homeownership Loan Program)			
2013 Series A	\$ 2,354	27	\$ 2,069
2013 Series B	1,849	28	2,086
2013 Series C	1,037	27	388
2013 Series D	11,513	21	9,623
Taxable Multifamily Housing Refunding Revenue Bonds			
2012 Series 1	10,932	26	7,258
2013 Series 2	3,041	27	1,710

## MISSOURI HOUSING DEVELOPMENT COMMISSION

Notes to the Financial Statements (*Continued*)

### ***Bond Maturities***

All bonds have early redemption provisions. A summary of future annual scheduled principal and interest maturities, which excludes unamortized debt discounts and premiums, follows (in thousands):

<b>Bonds Maturing During Years Ending June 30, 2014</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 27,316	\$ 32,083	\$ 59,399
2016	17,769	31,673	49,442
2017	17,679	31,235	48,914
2018	17,695	30,763	48,458
2019	17,226	30,268	47,494
2020 - 2024	99,718	143,468	243,186
2025 - 2029	139,826	124,258	264,084
2030 - 2034	146,016	97,240	243,256
2035 - 2039	268,921	60,045	328,966
2040 - 2044	143,271	12,139	155,410
2045 - 2049	8,618	699	9,317
2050 - 2054	1,860	—	1,860
	<u>\$ 905,915</u>	<u>\$ 593,871</u>	<u>\$ 1,499,786</u>

In addition to bonds payable, the Commission utilizes short-term FHLB advances. There were no advances outstanding at June 30, 2014 and June 30, 2013. The short-term FHLB advances included rollover financings of \$361,328,000 in fiscal year 2014 and \$238,858,000 in fiscal year 2013.

## **6. Escrow Deposits and Rent Subsidies Payable**

Escrow deposits represent funds paid by project mortgagees for real estate taxes, insurance, future replacement of property and other costs.

Rent subsidies payable represent funds received from HUD for payment of rent subsidies to participants in the Housing Assistance Programs and for other programs.

Such funds held by the Commission are included in restricted cash, restricted cash equivalents and restricted investments.

## **7. Restrictions and Designations**

### **Restricted Cash and Investments**

Substantially all of the assets of each bond program of the Commission are pledged as collateral for the payment of principal and interest on bond indebtedness of that program. Therefore, all related bond program assets of the Commission that are pledged as collateral are treated as restricted and noncurrent. The obligations of the Commission are not obligations of the State, and the State is not liable for such obligations. The Trust Indentures between the Commission and the Trustees establish special accounts for the segregation of assets and restrictions on the use of bond proceeds and certain other funds received.

Resolutions of the Commission require that, to the extent funds are available in the general account of each bond fund, they are to be transferred to a debt service account on a periodic basis, from the date of bond issuance to the date of each succeeding maturity, sufficient to make principal and interest payments on the bonds as they become due. Funds within the general account of each bond fund are on deposit in restricted accounts.

In addition, the statute and resolutions of the Commission require that for certain bond issues an amount be maintained in reserve accounts to be used to make principal and interest payments on payment due dates. Such amounts are on deposits in restricted accounts for the various issues within the Multifamily Bond-Financed Programs, the Rural Growth and Homeownership Bond-Financed Programs and the Special Homeownership Bond-Financed Program.

## MISSOURI HOUSING DEVELOPMENT COMMISSION

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### Notes to the Financial Statements (Continued)

As of June 30, 2014 and 2013, the assets of all accounts satisfied the requirements as established by the Trust Indentures. Such assets are restricted as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Program and Construction Funds - construction escrows and other restricted funds	\$ 66,017	\$ 32,391
Mortgage Escrow Accounts - insurance, taxes, replacement reserves and other mortgage escrows	97,616	95,394
Federal Program Funds	1,546	2,329
Missouri Housing Trust Fund	4,715	4,508
Bond Proceeds Accounts - funds for purchase of qualified mortgage-backed securities or mortgage loans and payment of cost of issuance	15,909	59,045
Revenue and Debt Service Funds - program revenues for debt services payments	77,410	119,155
Debt Service and Other Bond Reserve Accounts - reserves held as required by bond indentures, including: debt service reserves, mortgage reserves and capitalized interest	51,920	20,423
	<u>\$ 315,133</u>	<u>\$ 333,245</u>

### Restricted Net Position

Pursuant to certain bond resolutions, the Commission has restricted the net position of the Multifamily 2000 Indenture and Other Bond-Financed Mortgage Programs, the Rural Growth and Homeownership Bond-Financed Programs and the Special Homeownership Bond-Financed Program to maintain a level of reserves necessary to provide sound fiscal operations. In addition, net position associated with the federal grant agreements of the HOME Investment Partnership Program, Rural Housing and Economic Development and Tax Credit Assistance Program (TCAP) are restricted. In fiscal year 1997, the Commission acquired a portfolio of loans from HUD. Revenues collected from these HUD-purchased loans are restricted by an agreement between the Commission and HUD to be used primarily for rehabilitation loans or grants.

Pursuant to State Statute, the Commission has restricted the amount of net position representing revenues over expenses related to the financial activity of the Missouri Housing Trust Fund. The Missouri Housing Trust Fund is authorized by Section 215.034, RSMo. Revenues of the Missouri Housing Trust Fund are restricted to programs that financially assist, through loans or grants, the development of housing stock and that provide housing assistance to persons and families with incomes at or below specified levels.

## MISSOURI HOUSING DEVELOPMENT COMMISSION

### Notes to the Financial Statements (Continued)

Below is a summary of restricted net position by bond resolution and State Statute as of June 30, 2014 and 2013 (in thousands):

	2014	2013
<b>Restricted Net Position</b>		
Restricted by bond resolution	\$ 183,234	\$ 181,895
Restricted by collateral custodial agreement - FHLB	51,957	17,511
Restricted by Grant Agreement - HOME Investment Partnership Program	196,091	186,476
Restricted by Grant Agreement - Rural Housing and Economic Development	—	5
Restricted by Grant Agreement - TCAP	30,454	30,393
Restricted earnings of HUD-purchased Loans	10,327	10,056
Restricted by State Statute - Missouri Housing Trust Fund	4,574	4,384
<b>Total Restricted Net Position</b>	<b>\$ 476,637</b>	<b>\$ 430,720</b>

### Commission Designated Net Position

The Commission has designated certain unrestricted net position for its affordable housing programs. The Commission has the discretion to reverse any designated net position and as of June 30, 2014 and 2013, has designated the following amounts (in thousands):

	2014	2013
<b>Designated by Commission for:</b>		
Tenant assistance	\$ 5,866	\$ 38,889
Loans not funded by a bond sale	80,198	91,643
Loan and other commitments not yet disbursed	20,538	13,295
Home Improvement and Multifamily Interest Subsidy Program	4,920	4,687
Single Family Homeownership Program	20,000	20,000
Single Family Cash Assistance Program	21,500	21,500
Bellefontaine Habilitation Center Rehabilitation Grant	—	1,420
Emergency Solutions Grant	1,365	—
Rural Initiative Program	988	990
<b>Total Commission Designated Net Position</b>	<b>\$ 155,375</b>	<b>\$ 192,424</b>

## MISSOURI HOUSING DEVELOPMENT COMMISSION

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Notes to the Financial Statements (*Continued*)

### 8. Pension Plan

All eligible Commission employees participate in the Missouri State Employees' Plan (MSEP). This plan is a single-employer public employee defined benefit plan in which the Commission participates under a special cost-sharing multiple employer arrangement. The plan is administered by the Missouri State Employees' Retirement System (MOSERS). MSEP provides retirement, death and disability benefits to its members. As established by Missouri State Statutes, responsibility for the operation and administration of MSEP is vested in the Missouri State Employees Retirement System Board of Trustees. MOSERS issues a publicly available financial report that includes financial statements and required supplementary information for MSEP. That report may be obtained by writing to the Missouri State Employees Retirement System, P.O. Box 209, Jefferson City, Missouri 65102, or on their website at [www.mosers.org](http://www.mosers.org).

Covered employees hired prior to January 1, 2011, do not contribute toward MSEP. Covered employees hired on or after January 1, 2011, contribute 4% of pretax pay to the MSEP. The employer is required to contribute at an actuarially determined rate. The contribution requirements for the years ended June 30, 2014, 2013 and 2012, was \$990,000, \$824,000 and \$779,000, respectively, of which the Commission contributed 100%. These contributions represent 17.0%, 14.3% and 13.8% of total salaries during 2014, 2013 and 2012, respectively. These contributions are expensed by the Commission when incurred.

The annual required contributions for MSEP for the current year was determined as part of an actuarial valuation of MSEP as of June 30, 2012, using the entry age normal actuarial cost method. Significant actuarial assumptions used in the valuation for MSEP includes (a) rate of return on the investment of present and future assets of 8.0% per year compounded annually, (b) projected salary increases of 3% per year annually, attributable to inflation, and (c) the assumption that benefits will increase between 2.0% and 2.5% per year after retirement. The actuarial value of assets is based on a method that fully recognizes expected investment returns and averages unanticipated market returns over a five-year period.

In accordance with GASB accounting and financial reporting requirements, the Commission currently has no pension liability, as required contributions are paid when due. This treatment is consistent with prior years; however, see Note 11 for future changes in accounting standards.

**9. Other Postemployment Benefits**

In addition to the retirement benefits described in Note 8, the state of Missouri (the “State”) provides postemployment health care and life insurance benefits, in accordance with State Statutes, to eligible Commission employees who retire and elect to participate. These health care benefits are administered by the Missouri Consolidated Health Care Plan (MCHCP). This plan is a single-employer defined benefit plan in which the Commission participates under a special cost-sharing multiple employer arrangement. MCHCP issues a publicly available financial report that includes financial statements and required supplementary information for MCHCP. That report may be obtained by writing to the Missouri Consolidated Health Care Plan, 832 Weathered Rock Court, P.O. Box 104355, Jefferson City, Missouri 65110-4355, or on their website at [www.mchcp.org](http://www.mchcp.org). There are currently sixteen Commission retirees enrolled for health care benefits. The life insurance benefits are administered by the Missouri State Employees’ Retirement System (MOSERS). The eligible number of retirees for MOSERS for life insurance benefits is 59. Health care benefits are funded through both employer and retiree contributions. MOSERS’ life insurance benefits are funded through employer contributions. Insurance policies are purchased for life insurance benefits and are the liability of the insurance carrier. For each year of retirees’ service, the State will pay 2.5% of the monthly health care premium, up to a maximum of 65%, subject to State appropriation. The retiree pays the balance of the premiums. To fund the State’s portion, during fiscal year 2014, the State assessed a charge that ranged from 4.05% to 4.06% of total employee salary to the Commission. During fiscal year 2013, this charge ranged from 3.91% to 4.08% of total employee salary. The charge assessed is independent of how many retirees the Commission may have receiving benefits. Expenses for postretirement health care benefits charged to the Commission by the State are recognized when incurred. During fiscal years 2014, 2013 and 2012, expenses of approximately \$195,000, \$219,000 and \$222,000 were recognized for postretirement health care benefits, respectively, which represent 100% of the required amount.

## MISSOURI HOUSING DEVELOPMENT COMMISSION

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Notes to the Financial Statements *(Continued)*

### 10. Commitments, Contingencies and Concentrations

#### Leases

The Commission rents office space in Kansas City, Missouri, in accordance with a lease which expires during fiscal year 2015 and will continue to rent office space in Kansas City in accordance with a new 10-year lease agreement consummated during fiscal year 2014. In addition, the Commission leases office space in St. Louis, Missouri in accordance with a 10-year lease. These leases are accounted for as operating leases.

Lease expenditures for the years ended June 30, 2014 and 2013 were \$823,000 and \$822,000, respectively. Future minimum lease payments for these leases are as follows (in thousands):

<u>Year</u>	<u>Amount</u>
2015	\$ 685
2016	621
2017	337
2018	311
> 2018	2,046
	<u>\$ 4,000</u>

#### Federal Programs

The Commission participates in various federal grant programs, primarily with HUD. In addition to an annual financial audit, the Commission is also subject to program audits, as deemed necessary by its federal grantor agencies that may result in disallowed costs to the Commission. The Commission's management does not believe such audits would result in any disallowed costs that would be material to the Commission's financial position at June 30, 2014.

#### Litigation

From time to time, the Commission may be a defendant in legal actions related to its programs and operations. While the final outcomes of these legal actions vary, management is of the opinion that the ultimate liability, if any, will not have a material effect on the Commission's financial position.



## MISSOURI HOUSING DEVELOPMENT COMMISSION

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Notes to the Financial Statements (*Continued*)

### **Other**

The Commission is the administrator of the Project-Based Section 8 program in the State. This contract, which terminates December 31, 2014, resulted in \$130,096,000 and \$123,843,000 in housing assistance payment revenue and expense activity for the fiscal years ended June 30, 2014 and 2013, respectively. HUD may extend the current contract and is expected to competitively bid this program administration at a future time for which the Commission plans to submit an application.

The Commission is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Commission carries commercial insurance. In addition, the Commission carries commercial insurance for workers' compensation. The Commission retains risk of loss; however, there have been no settlements which exceeded insurance coverage in the last three years.

The Commission has committed to mortgage loans funded by the operating fund net position of \$19,881,000 that have not been disbursed as of June 30, 2014.

### **11. Future Accounting Pronouncements**

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which will require governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and will expand required disclosures. This Statement will be effective for the Commission's fiscal year ending June 30, 2015. The Commission has not yet determined the effect that the adoption of this Statement will have on its financial statements.

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**Supplementary Information**

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# MISSOURI HOUSING DEVELOPMENT COMMISSION

## COMBINING STATEMENT OF NET POSITION

**June 30, 2014**  
**(In Thousands)**

	Bond-Financed Programs					Total
	Operating	Multifamily 2000 Indenture	Other Multifamily	Rural Growth & Homeownership	Special Homeownership	
<b>Assets</b>						
<b>Current Assets</b>						
Cash and cash equivalents	\$ 8,541	\$ —	\$ —	\$ —	\$ —	\$ 8,541
Investments	10,136	—	—	—	—	10,136
Mortgage investments	5,495	—	—	—	—	5,495
Accrued interest receivable	1,730	—	—	—	—	1,730
Accounts receivable - other	394	—	—	—	—	394
Prepaid expenses	38	—	—	—	—	38
<b>Total Current Assets</b>	<b>26,334</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>26,334</b>
<b>Noncurrent Assets</b>						
Restricted assets						
Cash and cash equivalents	8,813	28,303	9,130	64,313	27,907	138,466
Investments	64,502	6,760	92,636	12,769	—	176,667
Mortgage investments	227,041	138,723	98,360	314,857	406,920	1,185,901
Accrued interest receivable	316	1,203	287	1,478	1,363	4,647
Accounts receivable - other	67	—	—	—	—	67
Total restricted assets	300,739	174,989	200,413	393,417	436,190	1,505,748
Investments	177,629	—	—	—	—	177,629
Mortgage investments, net of current portion and allowances for loan losses of \$43,094	48,319	—	—	—	—	48,319
Capital assets, less accumulated depreciation of \$3,835	704	—	—	—	—	704
<b>Total Noncurrent Assets</b>	<b>527,391</b>	<b>174,989</b>	<b>200,413</b>	<b>393,417</b>	<b>436,190</b>	<b>1,732,400</b>
<b>Total Assets</b>	<b>553,725</b>	<b>174,989</b>	<b>200,413</b>	<b>393,417</b>	<b>436,190</b>	<b>1,758,734</b>
<b>Deferred Outflows of Resources</b>	<b>—</b>	<b>—</b>	<b>10</b>	<b>156</b>	<b>—</b>	<b>166</b>

**MISSOURI HOUSING DEVELOPMENT COMMISSION**

**COMBINING STATEMENT OF NET POSITION (Continued)**

**June 30, 2014  
(In Thousands)**

	Bond-Financed Programs					Total
	Operating	Multifamily 2000 Indenture	Other Multifamily	Rural Growth & Homeownership	Special Homeownership	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Accounts payable	\$ 996	\$ —	\$ —	\$ —	\$ —	\$ 996
Unearned revenue	1,196	—	—	—	—	1,196
<b>Total Current Liabilities</b>	<b>2,192</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>2,192</b>
<b>Current Liabilities - Payable from Restricted Assets</b>						
Bonds and notes payable	—	11,755	1,752	5,005	9,953	28,465
Accrued interest payable	—	3,218	83	4,247	1,378	8,926
Escrow deposits	6,618	—	95,907	—	—	102,525
Rent subsidies and other payables	574	—	—	—	—	574
Accounts payable	144	—	600	94	—	838
<b>Total Current Liabilities - Payable from Restricted Assets</b>	<b>7,336</b>	<b>14,973</b>	<b>98,342</b>	<b>9,346</b>	<b>11,331</b>	<b>141,328</b>
<b>Noncurrent Liabilities</b>						
Unearned revenue	8,569	—	—	—	—	8,569
Payable from restricted assets						
Bonds and notes payable	—	144,284	96,655	258,855	387,094	886,888
<b>Total Noncurrent Liabilities</b>	<b>8,569</b>	<b>144,284</b>	<b>96,655</b>	<b>258,855</b>	<b>387,094</b>	<b>895,457</b>
<b>Total Liabilities</b>	<b>18,097</b>	<b>159,257</b>	<b>194,997</b>	<b>268,201</b>	<b>398,425</b>	<b>1,038,977</b>
<b>Deferred Inflows of Resources</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,061</b>	<b>1,061</b>
<b>Net Position</b>						
Net investment in capital assets	704	—	—	—	—	704
Restricted	293,403	15,732	5,426	125,372	36,704	476,637
Unrestricted, including designated balances	241,521	—	—	—	—	241,521
<b>Total Net Position</b>	<b>\$ 535,628</b>	<b>\$ 15,732</b>	<b>\$ 5,426</b>	<b>\$ 125,372</b>	<b>\$ 36,704</b>	<b>\$ 718,862</b>

# MISSOURI HOUSING DEVELOPMENT COMMISSION

## COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Year Ended June 30, 2014 (In Thousands)

	Bond-Financed Programs					Total
	Operating	Multifamily 2000 Indenture	Other Multifamily	Rural Growth & Homeownership	Special Homeownership	
<b>Operating Revenues</b>						
Interest and investment income						
Income - mortgage investments	\$ 6,629	\$ 9,603	\$ 374	\$ 20,122	\$ 14,771	\$ 51,499
Income - investments	4,686	296	51	858	4	5,895
Net increase (decrease) in fair value of investments	2,118	66	1,035	(4,130)	5,271	4,360
Total interest and investment income	13,433	9,965	1,460	16,850	20,046	61,754
Administration fees	5,553	—	—	—	—	5,553
Other income	6,888	3	(182)	4,146	391	11,246
Federal program income	152,439	—	—	—	—	152,439
<b>Total Operating Revenues</b>	178,313	9,968	1,278	20,996	20,437	230,992
<b>Operating Expenses</b>						
Interest expense on bonds	42	7,246	311	17,506	10,502	35,607
Bond debt expense	37	128	311	177	572	1,225
Compensation	8,637	—	—	—	—	8,637
General and administrative expenses	3,869	—	—	—	—	3,869
Rent and other subsidy payments	1,038	—	—	—	—	1,038
Housing Trust Fund grants	3,545	—	—	—	—	3,545
Federal program expenses	144,721	—	—	—	—	144,721
<b>Total Operating Expenses</b>	161,889	7,374	622	17,683	11,074	198,642
<b>Change in Net Position</b>	16,424	2,594	656	3,313	9,363	32,350
<b>Net Position - Beginning of Year</b>	504,617	17,875	11,239	123,467	29,314	686,512
<b>Interfund Transfers</b>	14,587	(4,737)	(6,469)	(1,408)	(1,973)	—
<b>Net Position - End of Year</b>	\$ 535,628	\$ 15,732	\$ 5,426	\$ 125,372	\$ 36,704	\$ 718,862