Building the places where education takes place

Minnesota Higher Education Facilities Authority

ANNUAL REPORT 2014

Mission of the Authority

The mission of the Minnesota Higher Education Facilities Authority is to assist eligible institutions of higher education in the State of Minnesota in financing their capital needs in an efficient and cost-effective manner.

Within the framework of Minnesota Statutes 136A.25 – 136A.42, the Authority works to assist educational institutions primarily through the issuance of tax-exempt debt obligations on their behalf. The Authority also actively seeks to develop financing programs that may be of benefit to institutions and shall make its staff and technical resources available to institutions whenever the application of those resources may prove beneficial in the development or implementation of institutional debt financing plans. The Authority shall, where appropriate, actively seek to have laws and regulations amended to empower the Authority to provide such assistance. The Authority will also endeavor to inform and update the representatives of the institutions on the current regulations and strategies of debt financing.

The Authority shall conduct its activities in strict accordance with all applicable laws and regulations. The Authority will not act as a regulatory body with respect to the internal policies and activities, financial or otherwise, of any educational institution, except as may be required by law and prudent fiscal policy in the course of providing assistance to such educational institutions.

For the Year Ended June 30, 2014

Basic Financial Statements

Letter from the Chair

Greetings:

We are pleased to present the Annual Report of the Minnesota Higher Education Facilities Authority for the year ended June 30, 2014, including the financial statements for the year as audited by Kern, DeWenter, Viere, Ltd. This report includes information about the services provided by the Authority to nonprofit institutions of higher education in the State of Minnesota. The primary service is to provide financing for capital projects of those colleges and universities through tax-exempt financing.

Throughout the Authority's history, this financing assistance has been provided without cost to the taxpayers of Minnesota. The credit of the State does not back the bonds, either directly or indirectly, and the operating expenses of the Authority are paid from fees associated with the various financings.

In fiscal year 2014, the Authority completed six financings for six institutions. The total principal amount issued of $71,347,000 is less than the previous year's total of $91,460,000. The total principal outstanding for Authority-issued debt stands at $891,420,609 as of the end of the fiscal year. The current statutory limit on outstanding debt is $1.3 billion.

Annual bonding volume will continue to fluctuate with market conditions and institutional needs. Since 1971, the Authority has remained a constant source of financing to Minnesota's nonprofit colleges and universities. Through the combined efforts of the Authority members, staff and advisors, the Authority will continue to provide requested services in an efficient and cost-effective manner.

Respectfully submitted,

Raymond VinZant
Chair

MHEFA Board Members

Gary D. Benson
Director of Project Planning & Development,
Kraus-Anderson Construction Company
Resident of New Brighton, Minnesota
Term Expires January 2015

Kathryn Balstad Brewer, MHEFA Vice Chair
Retired Banker and Educator
Resident of New Brighton, Minnesota
Term Expires January 2015

Paul Cerkvenik, Ex-officio, Non-voting Member
President, Minnesota Private College Council

Timothy M. Geraghty, Ex-officio
Chief Financial Officer, MN Office of Higher Education

Mary F. Ives
Real Estate Business Owner
Resident of Grand Rapids, Minnesota
Term Expires January 2016

Mark Misukanis, MHEFA Secretary
Assistant Professor, Metro State University
Resident of Mendota Heights, Minnesota
Term Expires January 2017

Michael D. Ranum
Chief Financial Officer, BWBR Architects, Inc.
Resident of Circle Pines, Minnesota
Term Expires January 2018

David D. Rowland
Executive Vice President, The Travelers Companies
Resident of Edina, Minnesota
Term Expires January 2017

Nancy Sampair
Retired Banker
Resident of St. Paul, Minnesota
Term Expires January 2018

Raymond VinZant Jr., MHEFA Chair
President, Ray VinZant Plumbing LLC
Resident of Wyoming, Minnesota
Term Ends January 2016

MHEFA Staff

Marianne Remedios, Executive Director
Elaine Yungerberg, Assistant Executive Director

Financial Advisors

Springsted Incorporated, St. Paul, Minnesota

Independent Auditors

Kern, DeWenter, Viere, Ltd., Minneapolis, Minnesota

Colleges and Universities with Bond Issues Outstanding

Augsburg College

- **Series Six-C issued April 2005** in the amount of $6,780,000. The proceeds were used for refinancing the Series Four-F1 Bonds and the Four-W Notes.
- **Series Six-J1 issued July 2006** in the amount of $15,655,000. The proceeds were used for the construction of the Gateway Project which includes student housing, commercial space, administrative office space, classroom space and underground parking.
- **Series Six-J2 issued July 2006** in the amount of $5,000,000. The proceeds were used to construct an addition to the Si Melby Athletic facility, renovate the Augsburg House and Event Center and finance certain construction costs of the Gateway Project.
- **Series Seven-G issued October 2010** in the amount of $8,860,000. The proceeds were used for refinancing the Series Four-Y Bonds.

Bethel University

- **Series Six-R issued August 2007** in the amount of $44,000,000. The proceeds were used to finance the construction of the University Commons and for refinancing the Series Five-V and Four-S Bonds.

Carleton College

- **Series Five-G issued June 2000** in the amount of $23,000,000. The proceeds were used for the construction of a 63,000 square foot academic and dining facility, for the construction of a 100-bed apartment-style student residence, and for improvements of bridges, walkways, plantings and lighting on and near Lyman Lakes on the College campus.
- **Series Six-D issued April 2005** in the amount of $31,460,000. The proceeds were used for the construction and furnishing of a townhouse for student occupancy, for the acquisition of real estate near campus, and for refinancing the Series Three-L1 and Four-N Bonds.
- **Series Six-T issued December 2008** in the amount of $19,665,000. The proceeds were used for the construction of student housing consisting of two adjacent four-story buildings with approximately 230 beds. In addition, proceeds were used to acquire, construct and equip utility infrastructure improvements to provide backup electrical generation for the campus.
- **Series Seven-D issued June 2010** in the amount of $30,455,000. The proceeds were used for the construction of the Carleton Arts Union and an auxiliary art studio warehouse on the campus.

College of Saint Benedict

- **Series Six-M issued in October 2006** in the amount of $7,345,000. The proceeds were used for the construction and furnishing of an approximately 51,000 square foot, two-story dining center located on the College campus.
- **Series Six-V issued May 2008** in the amount of $19,430,000. The proceeds were used for refinancing the Series Four-G and Four-T Bonds and for the acquisition of four condominium units for student or faculty use.
- **Series Seven-M issued December 2011** in the amount of $9,135,000. The proceeds were used for the construction of new student housing facilities consisting of four residence buildings and a separate common area building.
- **Series Seven-T issued January 2013** in the amount of $5,235,000. The proceeds were used for refinancing the Series Five-W Bonds.

College of St. Scholastica

- **Series Six-S issued November 2007** in the amount of $8,170,000. The proceeds were used for improvements to the Wellness Center on the Duluth campus.
- **Series Seven-H issued October 2010** in the amount of $21,820,000. The proceeds were used for the expansion and renovation of a science building on the Duluth campus and for refinancing the Series Five-J and Six-A Bonds.
- **Series Seven-J issued February 2011** in the amount of $10,170,000. The proceeds were used as additional funding for the expansion and renovation of a science building on the Duluth campus.
- **Series Seven-R issued October 2012** in the amount of $9,380,000. The proceeds were used for refinancing the Series Five-R Bonds.

Concordia University St. Paul

- **Series Five-P1** in the amount of $4,250,000 and **Five-P2 issued March 2003** in the amount of $7,230,000. The proceeds were used for capital improvements to existing campus facilities, for the construction of a 45,000 square foot library and information technology center, for the acquisition of 4.7 acres of adjacent property, and for the refinancing of prior loans.
- **Series Six-Q issued October 2007** in the amount of $18,155,000. The proceeds were used to construct a 300-bed residence hall.

Colleges and Universities with Bond Issues Outstanding, *cont from pg. 3*

Gustavus Adolphus College

- **Series Seven-B issued August 2010** in the amount of $41,680,000. The proceeds were used for the construction of a new academic building for the social sciences, for improvements to define the west mall area on campus, and for refinancing the Series Four-X Bonds.
- **Series Seven-W issued July 2013** in the amount of $11,410,000. The proceeds were used for refinancing the Series Five-X Bonds.

Hamline University

- **Series Seven-E issued June 2010** in the amount of $14,890,000. The proceeds were used for refinancing the Series Five-B Bonds and also for refinancing the outstanding balance of a bank line of credit that had been used for various capital improvements for the University.
- **Series Seven-K1** in the amount of $8,810,000 and **Series Seven-K2 issued March 2011** in the amount of $18,330,000. The proceeds were used to finance the construction of a new University Center and related parking facilities for the St. Paul campus.
- **Series Seven-L issued February 2011** in the amount of $8,000,000. The proceeds were used as additional financing for the construction of a new University Center and related parking facilities for the St. Paul campus.
- **Series Seven-Y1** in the amount of $2,900,000, **Series Seven-Y2** in the amount of $6,210,000 and **Series Seven-Y3** in the amount of $730,000 **issued September 2013**. These revenue notes were issued for refinancing the Series Six-E1, Six-E2 and Six-E3 Bonds respectively.

Macalester College

- **Series Three-Z issued September 1994** in the amount of $6,660,000. The proceeds were used for the expansion of the College's athletic fields and other renovations on the campus.
- **Series Five-Q issued February 2003** in the amount of $15,300,000. The proceeds were used to renovate, refurnish and make data wiring upgrades to Doty Hall, Wallace Hall and Turck Hall and to install fire sprinkler systems in Doty, Wallace, Turck, Bigelow, Dupre, 30 Macalester and Kirk Halls.
- **Series Six-F issued July 2005** in the amount of $3,000,000. The proceeds were used to finance the acquisition and installation of a replacement administrative computing system, including hardware, software licenses, and costs of converting data, training and testing.
- **Series Six-P issued March 2007** in the amount of $39,490,000. The proceeds were used for the construction of a new athletic and recreation center and for refinancing the Series Four-U1 and Four-U2 Bonds.
- **Series Seven-I issued December 2010** in the amount of $16,000,000. The proceeds were used for the renovation and expansion of the Janet Wallace Fine Arts Center.
- **Series Seven-S issued December 2012** in the amount of $14,730,000. The proceeds were used to finance phase two of the renovation and expansion of the Janet Wallace Fine Arts Center and the replacement of a boiler.
- **Series Seven-X issued February 2014** in the amount of $3,995,000. The proceeds were used for refinancing the Series Six-B Bonds.

Minneapolis College of Art and Design

- **Series Six-K issued July 2006** in the amount of $7,670,000. The proceeds were used for refinancing the Series Five-D Bonds.
- **Series Six-Z issued November 2009** in the amount of $2,660,000. The proceeds were used for the construction of a surface parking lot and sculpture garden serving as a gateway to the main campus.
- **Series Seven-N issued April 2012** in the amount of $3,215,000. The proceeds were used for refinancing the Series Five-K Bonds.

Saint John's University

- **Series Six-G issued August 2005** in the amount of $39,300,000. The proceeds were used for refinancing the Series Four-L and Five-I Bonds.
- **Series Six-U issued June 2008** in the amount of $11,375,000. The proceeds were used for the construction of a 58-bed student apartment building and an 8,000 square foot community center. A portion of the proceeds were also used for the renovation of the dining facilities and Seton Apartments.

Saint Mary's University of Minnesota

- **Series Seven-C issued May 2010** in the amount of $4,085,000. The proceeds were used for refinancing the Series Five-E Bonds.
- **Series Eight-A issued April 2014** in the amount of $6,025,000. The proceeds were used for refinancing the Series Five-U Bonds.

St. Catherine University

- **Series Five-N2 issued August 2002** in the amount of $24,625,000. A portion of the proceeds were used for the construction of a Student Center and Learning Commons, renovation of St. Joseph Hall and St. Catherine Library, renovation of Whitby Hall and Mendel Hall, an upgrade of the Food Consumer and Nutritional Sciences space in Fontbonne Hall, an upgrade of the Health and Wellness Center space in Butler Center and for the conversion of a steam plant. In addition, a portion was used for refinancing the Series Three-M1 Bonds.
- **Series Seven-Q issued September 2012** in the amount of $25,630,000. The proceeds were used for refinancing the Series Five-N1 Bonds and the Six-N Notes.
- **Series Eight-B issued June 2014** in the amount of $15,867,000. The proceeds were used for the renovation of Fontbonne Hall and renovation and expansion of Butler Center and for refinancing the Series Six-L Notes.

St. Olaf College

- **Series Five-M2 issued July 2002** in the amount of $13,420,000. The proceeds were used for refinancing the City of Northfield, Minnesota College Facility Revenue Bonds Series 1992.
- **Series Six-O issued March 2007** in the amount of $45,405,000. The proceeds were used to construct a new science building and for refinancing the Series Four-R Bonds.
- **Series Seven-F issued August 2010** in the amount of $32,440,000. The proceeds were used for refinancing the Series Five-H, Five-M1 and Five-M2 Bonds.

University of St. Thomas

- **Series Six-I issued February 2006** in the amount of $38,860,000. The proceeds were used for refinancing the Series Four-A, Four-M and Four-P Bonds.
- **Series Six-W issued December 2008** in the amount of $18,305,000. The proceeds were used for a parking ramp for approximately 725 stalls on five levels, including one below ground.
- **Series Six-X issued June 2009** in the amount of $58,405,000. The proceeds were used for the construction and furnishing of the Anderson Athletic and Recreation Complex on the St. Paul campus.
- **Series Seven-A issued December 2009** in the amount of $79,440,000. The proceeds were used for the construction of the Anderson Student Center, for improvements to the University's athletic facilities and for renovating the McCarthy Gymnasium on the St. Paul campus.
- **Series Seven-O issued May 2012** in the amount of $15,325,000. The proceeds were used for refinancing the Series Four-O and Five-C Bonds.
- **Series Seven-P issued May 2012** in the amount of $12,300,000. The proceeds were used for refinancing the Series Six-H Bonds.
- **Series Seven-U issued March 2013** in the amount of $25,685,000. The proceeds were used for refinancing the Series Five-L and Five-Z Bonds.
- **Series Seven-Z issued March, 2014** in the amount of $24,210,000. The proceeds were used for refinancing the Series Five-Y Bonds.

William Mitchell College of Law

- **Series Seven-V issued May 2013** in the amount of $10,800,000. The proceeds were used for refinancing the Series Five-S Bonds.

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Minnesota Higher Education Facilities Authority, St. Paul, Minnesota, as of and for the year ended June 30, 2014, and the related Notes to the Financial Statements, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority'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 Authority'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 present fairly, in all material respects, the financial position of the Minnesota Higher Education Facilities Authority, St. Paul, Minnesota, as of June 30, 2014, and the changes in its financial position and its cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters: Required Supplementary Information

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

Report on Summarized Comparative Information

The financial statements include partial prior year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Authority's financial statement for the year ended June 30, 2013, from which such partial information was derived.

We have previously audited the Authority's 2013 financial statements and our report, dated September 9, 2013, expressed an unmodified opinion on the financial statements of the Authority. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Kern, DeWenter, Viere Ltd

KERN, DEWENTER, VIERE, LTD.
Minneapolis, Minnesota
August 29, 2014

Management Discussion and Analysis

This discussion and analysis of the financial performance of the Minnesota Higher Education Facilities Authority (the Authority) is supplementary information required by GASB. It introduces the basic financial statements and provides an analytical overview of the Authority's financial activities for the year ended June 30, 2014.

The Authority was created by the legislature in 1971 (Sections 136A.25 through 136A.42, Minnesota Statutes) to assist Minnesota institutions of higher education in capital financing needs. The Authority consists of eight members appointed by the Governor. A representative of the Minnesota Office of Higher Education is an ex-officio member and the President of the Minnesota Private College Council, is a non-voting, ex-officio member. The Authority has two full-time staff. A third staff position is authorized but remains vacant. In keeping with internal control procedures and policies, the staff segregates duties as much as possible to protect the financial integrity of all activities. Procedures and policies have been developed and documented to safeguard the Authority's assets.

The Authority is authorized to issue revenue bonds whose aggregate outstanding principal amount at any time cannot exceed a statutory limit of $1.3 billion. The Authority has had 204 issues (including refunded and retired issues) totaling over $2.1 billion of which $891,420,609 is outstanding as of June 30, 2014. Bonds issued by the Authority are payable only from the loan repayments, rentals, and other revenues and moneys pledged for their payment. The bonds of the Authority do not represent or constitute a debt or pledge of the faith or credit or moral obligation of the State of Minnesota. The operations of the Authority are financed from fees paid by the participating institutions and investment income. It has no taxing power. Bond issuance costs are paid by the participating institution.

Educational institutions eligible for assistance by the Authority are generally private nonprofit educational institutions authorized to provide a program of education beyond the high school level. Public community and technical colleges in the State are also eligible for assistance, but only in financing of child-care and parking facilities. In addition, pursuant to special legislation, the Authority has twice issued bonds on behalf of a public community college to finance student housing facilities.

The Authority may issue bonds for a broad range of projects, including facilities for housing, academic and administrative purposes, parking, student centers and other buildings and equipment to be used for instruction, research, or operations. The Authority is also authorized to issue revenue bonds for the purpose of refunding bonds of the Authority and other debt.

Beginning with fiscal year 1996, the Authority has acted as dissemination agent on behalf of those institutions that are subject to the annual reporting requirement of SEC rule 15c2-12 (most public issues after June 30, 1995). Almost all of the colleges and universities borrowing through the Authority are subject to the reporting. The service is offered as a convenience to the institutions at no additional charge.

An annual conference has been offered for many years by the Authority. During this fiscal year it was held in April, and provided a chance for Authority clients and finance professionals to share information relevant to higher education capital financings.

The Authority continues to review its policies and procedures to effectively provide financing assistance to Minnesota's nonprofit colleges and universities. It is through the concerted efforts of the borrowers, the Authority's advisors, staff and members, as well as public finance professionals, that tax exempt financing continues to be a vital tool for higher education. The Authority will work with all these groups to continue providing affordable financing to the private colleges and universities.

Management Discussion and Analysis

The following summarizes the financial position and results of operations of the Authority for the years ended June 30, 2013 and 2014.

The three basic statements presented within the financial report are as follows:

- Statement of Net Position– This statement presents information reflecting the Authority's assets, liabilities and net position. Net position represents the amount of total assets less total liabilities. The statement of net position is categorized as to current and noncurrent assets and liabilities. For purposes of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or become due within one year of the statement date.
- Statement of Revenues, Expenses and Changes in Net Position– This statement reflects the operating revenues and expenses during the year. Operating revenue is from administrative fees charged to colleges and universities. The change in net position for an enterprise fund is similar to net profit or loss for any other business enterprise.
- Statement of Cash Flows– The statement of cash flows is presented on the direct method of reporting which reflects cash flows from operating and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash for the year.

	2014	2013
ASSETS		
Current Assets	$ 2,068,154	$ 2,080,645
Noncurrent Assets	2,526	4,028
Total Assets	$ 2,070,680	$ 2,084,673
LIABILITIES		
Current Liabilities	$ 37,259	$ 50,332
Long Term Liabilities	31,038	28,640
Total Liabilities	68,297	78,972
NET POSITION		
Invested in Capital Assets	2,526	4,028
Unrestricted	1,999,857	2,001,673
Total Net Position	$ 2,002,383	$ 2,005,701
Operating Revenues	$ 350,270	$ 362,580
Operating Expenses	(384,460)	(365,158)
Operating Loss	(34,190)	(2,578)
Non Operating Revenues		
Interest Income	37,145	45,542
Net Increase/(Decrease) in Fair Value of Investments	(6,273)	(28,922)
Total Nonoperating Revenue	30,872	16,620
Change in Net Position	(3,318)	14,042
NET POSITION		
Beginning of Year	2,005,701	1,991,659
End of Year	$ 2,002,383	$ 2,005,701

Management Discussion and Analysis

The total principal amount issued in fiscal year 2014 was $71,347,000 compared to $91,460,000 in fiscal year 2013. Following is a listing of the bond issues for fiscal year 2014.

Gustavus Adolphus College

- Series Seven-W issued July, 2013 in the amount of $11,410,000. These revenue bonds were issued for the current refunding of Series Five-X Bonds.

Macalester College

- Series Seven-X issued February, 2014 in the amount of $3,995,000. This revenue note was issued for the current refunding of Series Six-B Bonds.

Hamline University

- Series Seven-Y1 in the amount of $2,900,000, Series Seven-Y2 in the amount of $6,210,000 and Series Seven-Y3 in the amount of $730,000 issued September 2013. These revenue notes were issued for the current refunding of Series Six-E1, Six-E2 and Six-E3 Bonds respectively.

University of St. Thomas

- Series Seven-Z issued March, 2014 in the amount of $24,210,000. This revenue note was issued for the advance refunding of Series Five-Y Bonds.

Saint Mary's University of Minnesota

- Series Eight-A issued April 2014 in the amount of $6,025,000. This revenue note was issued for the current refunding of Series Five-U Bonds.

St. Catherine University

- Series Eight-B issued June 2014 in the amount of $15,867,000. This revenue note was issued for the renovation of Fontbonne Hall and renovation and expansion of Butler Center and the current refunding of Series Six-L Notes.

Factors Expected to Affect Future Financial Position and Operation

The Authority is primarily dependent on administrative fee revenue with supplemental revenue provided by interest earnings from its accumulated operating reserve. The fees are based upon the actual outstanding principal amount of each series of bonds when billed. Starting in fiscal year 1997, the Authority's annual administrative fees have been reduced across the board. Utilizing the operating reserve to subsidize the operating expenses, the Authority was able to reduce its annual administrative fees to all borrowers in fiscal year 2014 by 70%. The fees for fiscal year 2015 will also be reduced by 70%. Although future reductions are not guaranteed, the Authority is committed to providing financing services at affordable fees to colleges and universities in Minnesota.

Requests for Information:

This financial report is designed to provide interested parties with a general overview of the Authority's finances. If you have questions about this report or need additional financial information contact:

Minnesota Higher Education Facilities Authority

Attention: Executive Director

380 Jackson Street, Suite 450
Saint Paul, MN 55101

Phone: 651-296-4690
Website: *www.mnhefa.org*

Statement of Net Position

For the year ended June 30, 2014
(with partial comparative information as of June 30, 2013)

	2014	2013
ASSETS		
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 243,683	$ 156,035
Investments	1,815,365	1,911,638
Interest Receivable	8,069	10,268
Prepaid Items	1,037	2,704
Total Current Assets	2,068,154	2,080,645
NONCURRENT ASSETS:		
Equipment	68,985	68,985
Less Accumulated Depreciation	(66,459)	(64,957)
Total Noncurrent Assets	2,526	4,028
Total Assets	$ 2,070,680	$ 2,084,673
LIABILITIES AND NET POSITION		
LIABILITIES:		
Current Liabilities:		
Accounts Payable	$ 6,220	$ 21,692
Compensated Absences Payable	31,039	28,640
Total Current Liabilities	37,259	50,332
Noncurrent Liabilities:		
Compensated Absences Payable	31,038	28,640
Total Liabilities	68,297	78,972
NET POSITION:		
Net Investment in Capital Assets	2,526	4,028
Unrestricted	1,999,857	2,001,673
Total Net Position	2,002,383	2,005,701
Total Liabilities and Net Position	$ 2,070,680	$ 2,084,673

The Notes to the Financial Statements are an integral part of this statement

Statement of Revenues, Expenses and Changes in Net Position

For the year ended June 30, 2014
(with partial comparative information as of June 30, 2013)

	2014	2013
OPERATING REVENUES:		
Annual Administrative Fees	$ 344,875	$ 356,580
Other Income	5,395	6,000
Total Operating Revenues	350,270	362,580
OPERATING EXPENSES:		
Payroll, Payroll Taxes and Employee Benefits	249,869	233,816
Legal, Audit and Consulting Expense	42,378	42,812
Rent	45,338	46,648
Depreciation	1,502	1,488
Other General and Administrative Expenses	45,373	40,394
Total Operating Expenses	384,460	365,158
Operating Loss	(34,190)	(2,578)
NONOPERATING REVENUES:		
Interest Income	37,145	45,542
Decrease in Fair Value of Investments	(6,273)	(28,922)
Total Nonoperating Revenues	30,872	16,620
Change in Net Position	(3,318)	14,042
NET POSITION:		
Beginning of Year	2,005,701	1,991,659
End of Year	$ 2,002,383	$ 2,005,701

Statement of Cash Flows

For the year ended June 30, 2014

(with partial comparative information as of June 30, 2013)

	2014	2013
CASH FLOWS - OPERATING ACTIVITIES:		
Cash Received from		
Annual Administrative and Other Fees	$ 350,270	$ 362,580
Cash Payments to Employees	(248,327)	(229,870)
Cash Payments to Suppliers for Goods and Services	(143,639)	(125,545)
Net Cash Flows - Operating Activities	(41,696)	7,165
CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of Capital Assets	—	(1,802)
CASH FLOWS - INVESTING ACTIVITIES:		
Interest Received	39,344	49,049
Net Investment Purchases	90,000	(110,000)
Net Cash Flows - Investing Activities	129,344	(60,951)
Net Change in Cash and Cash Equivalents	87,648	(55,588)
CASH AND CASH EQUIVALENTS:		
Beginning of the Year	156,035	211,623
End of the Year	$ 243,683	$ 156,035
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS - OPERATING ACTIVITIES:		
Operating Loss	$ (34,190)	$ (2,578)
Adjustments to Reconcile Operating Loss to Net Cash Flows - Operating Activities:		
Depreciation Expense	1,502	1,488
Prepaid Items	1,667	(1,857)
Accounts Payable	(15,472)	10,625
Compensated Absences Payable	4,797	(513)
Total Adjustments	(7,506)	9,743
Net Cash Flows - Operating Activities	$ (41,696)	$ 7,165
NONCASH INVESTING ACTIVITIES:		
Net Decrease in Fair Value of Investments	$ (6,273)	$ (28,922)

The Notes to the Financial Statements are an integral part of this statement

Note 1 – Summary of Significant Accounting Policies

A. Reporting Entity

The Authority is a state agency created to assist nonprofit institutions of higher education in financing the construction of educational facilities. The Authority finances projects through the issuance of bonds; the principal and interest of which are paid by the lease/loan payments collected from the higher education institutions. In 2014, the Authority was authorized to have a maximum of $ 1.3 billion of revenue bonds outstanding. Bonds issued by the Authority are payable only from specified revenues and collateral and do not constitute a debt of the State of Minnesota.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Authority utilizes the accrual basis of accounting and is reported using the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The operating revenues of the Authority consist principally of annual administrative fees paid by the participating institutions. While the annual administrative fee rate for new bond issues has changed periodically, the fee rate remains constant for the life of the bonds, with the exception of fee reductions for operating reserve stabilization purposes. The fees for bonds outstanding at June 30, 2014 are 0.125% of the outstanding balance of the bonds. In an effort to stabilize its unrestricted net position balance, the Authority periodically evaluates the administrative fees charged to participating institutions. For the year ended June 30, 2014, the Authority required participating institutions to pay 30% of the contractual administrative fees.

C. Assets, Liabilities and Net Position

1. Cash and Investments

Cash and investment balances are invested to the extent available in various securities as authorized by state law. Securities in which the Authority may invest include government bonds, notes, bills, mortgages and other securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities or organizations created by an act of Congress.

Subject to applicable law, the Authority may also invest in general obligation (G.O.) or revenue bonds of any state or any political subdivision provided the G.O. bonds are rated AA or better for states and AAA or better for political subdivisions and revenue bonds are rated AAA or better for both. Time deposits are allowed, provided they are fully insured by Federal Deposit Insurance Corporation (FDIC) insurance. In some cases, investment agreements with corporations rated AA by Standard & Poor's (S&P) or AA by Moody's are allowed as well as repurchase agreements fully collateralized by U.S. government securities. Commercial paper maturing in 270 days or less and rated within the top two categories without gradation by either S&P's or Moody's is also allowed.

The Authority's cash and cash equivalents are considered to be cash on hand, deposits and highly liquid debt instruments purchased with original maturities of three months or less from the date of acquisition. Investments are stated at fair value.

Custodial Credit Risk – Deposits: For deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority has a deposit policy that requires the Authority's deposits be collateralized in an amount equal to 110% of an amount exceeding FDIC coverage.

Interest Rate Risk: Managing exposure to fair value arising from increasing interest rates. The Authority's investment policy states the Authority's investments should be made with consideration for cash flow requirements, taking into account budgeted expenditures.

Cash and Investments, cont on next pg

Note 1 – Summary of Significant Accounting Policies *cont from pg. 13*

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The Authority's investment policy requires their investments to be rated in the top two categories by S&P or Moody's.

Concentration of Credit Risk: This limits the amount the Authority may invest in any one issuer. The Authority's policy states the Authority should consider the credit quality in the selection of individual securities of any single issuer in excess of 5% of the Authority's total investments.

Custodial Credit Risk – Investments: For an investment, this is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investment policy does not address custodial credit risk for investments other than to follow the overall framework provided by Minnesota Statutes.

2. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are recorded as an expense at the time of consumption.

3. Capital Assets

Capital assets, which include office furniture and equipment, are stated at historical cost and depreciated on the straight-line method over the estimated useful lives of the assets, generally three, five or ten years. The Authority's threshold for capitalization of assets is $ 500.

4. Conduit Debt

The Authority issues tax exempt instruments (bonds, notes or other obligations), which do not constitute a debt of the Authority. These debt instruments are limited obligations of the Authority, payable solely from payments made by the related borrowing institutions and related assets held by trustees. The Authority has no general liability with respect to these obligations and has no beneficial interest in the related assets held by trustees. Acting solely in an agency capacity, the Authority serves as a financing conduit, bringing the ultimate borrower and the ultimate lender together. The Authority has elected to exclude these obligations and the related assets held by trustees, from the financial statements.

5. Compensated Absences

The Authority compensates all employees upon termination of employment for unused vacation up to a maximum of 275 hours. At June 30, 2014, the Authority recorded a liability for all unused vacation up to this limit.

Authority employees accrue sick leave at the rate of four hours for each ten day pay period of full-time service. Employees are compensated for unused sick leave upon termination of employment only if they meet the requirements of the plan under which they are employed. Employees working under the managerial plan shall be paid a sum equal to the regular rate of pay at the time of separation multiplied by 35% of the accumulated but unused sick leave.

D. Net Position

Net position represents the difference between assets and liabilities in the basic financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets.

E. Use of Estimates

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

Note 2– Deposits and Investments

A. Deposits

Deposits are maintained at depository banks authorized by the Authority.

Custodial Credit Risk – Deposits: As of June 30, 2014, the Authority's bank balance of $ 11,975 was not exposed to custodial credit risk because it was insured through FDIC insurance.

As of June 30, 2014, the Authority's carrying value of deposits was as follows:

Deposits. . . . . $ 8,793

B. Investments
As of June 30, 2014, the Authority had the following investments:

INVESTMENT	MATURITIES	FAIR VALUE	S&P RATING
Platinum Bank FL Certificate of Deposit	08/12/14	$ 95,241	N/A
BMW Bank NA Certificate of Deposit	08/13/14	100,183	N/A
Town Bank Hartland Wis Certificate of Deposit	03/05/15	96,488	N/A
Citi Bank National Las Vegas Certificate of Deposit	05/12/15	96,840	N/A
Capital One NA Certificate of Deposit	06/25/15	99,079	N/A
Toyota Financial Savings NV Certificate of Deposit	02/23/16	102,552	N/A
Discover Bank Certificate of Deposit	09/19/16	101,084	N/A
State Bank of India, Il Certificate of Deposit	08/12/16	102,343	N/A
Goldman Sachs Bank NY Certificate of Deposit	01/25/17	122,532	N/A
GE Capital Financial Certificate of Deposit	02/21/17	104,023	N/A
GE Money Bank Int Certificate of Deposit	06/27/17	102,931	N/A
American Express Centurion Certificate of Deposit	01/31/18	99,875	N/A
CIT Bank UT Certificate of Deposit	03/27/18	99,287	N/A
Discover Bank Certificate of Deposit	03/27/18	99,289	N/A
JP Morgan Chase Bank Certificate of Deposit	12/05/18	98,533	N/A
Beal Bank SSB Certificate of Deposit	06/05/19	95,724	N/A
Webster Bank NA Certificate of Deposit	03/19/19	99,897	N/A
Goldman Sachs Bank NY Certificate of Deposit	05/21/19	99,464	N/A
Wells Fargo Money Market	N/A	234,890	AAA
Total Investments		$ 2,050,255	

Concentration of Credit Risk: As of June 30, 2014, the Authority's investment balances with Goldman Sachs Bank, NY certificate of deposit, Toyota Financial Savings, NV certificate of deposit, GE Capital Financial certificate of deposit and GE Money Bank certificate of deposit each exceeded 5% of the total investments.

Custodial Credit Risk – Investments: Investments of the Authority are not registered in the Authority's name. The securities are held in bank safekeeping in third party depositories under the bank's name and ownership. Pursuant to federal banking laws and regulations, the bank's customer accounts are segregated from and not considered part of the bank's assets. Thus, the account ownership of assets in bank safekeeping accounts remain vested in the customers and are protected from claims of creditors of the bank.

Deposits and investments are presented in the June 30, 2014 basic financial statements as follows:

Cash and Cash Equivalents	$ 243,683
Investments	1,815,365
Total Deposits and Investments	$ 2,059,048

Note 3 – Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

BEGINNING ENDING	BALANCE	INCREASES	DECREASES	BALANCE
Capital Assets, being Depreciated:				
Office Furniture and Equipment	$ 68,985	$ —	$ —	$ 68,985
Less Accumulated Depreciation	(64,957)	(1,502)	—	(66,459)
Capital Assets, Net	$ 4,028	$ (1,502)	$ —	$ 2,526

Note 4 – Leases

The Authority has a lease commitment for office space through November 2017, with monthly base rent from $ 3,509 to $ 3,771. Total costs were $ 45,338 for the year ended June 30, 2014. The future minimum lease payments for this lease are as follows:

YEAR ENDING JUNE 30	
2015	$ 45,371
2016	48,252
2017	48,252
2018	20,105
Total	$ 161,980

Note 5 – Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2014 was as follows:

	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	DUE WITHIN ONE YEAR
Compensated Absences	$ 57,280	$ 29,618	$ (24,821)	$ 62,077	$ 31,039

Note 6 – Conduit Debt

At June 30, 2014, there were 58 bond issues and leases outstanding with an aggregate principal balance outstanding of $ 891,420,609 as follows:

COLLEGE/UNIVERSITY	MATURITY	ISSUED	OUTSTANDING
Series Three-Z, Macalester College Variable Rate Demand Revenue Bonds, September 1994	2024	$ 6,660,000	$ 6,660,000
Series Five-G, Carleton College Variable Rate Demand Revenue Bonds, June 2000	2029	23,000,000	23,000,000
Series Five-M2, St. Olaf College Variable Rate Demand Revenue Bonds, July 2002	2020	13,420,000	8,750,000
Series Five-N2, College of St. Catherine Variable Rate Demand Revenue Bonds, August 2002	2032	24,625,000	24,625,000
Series Five-P1, Concordia University, St. Paul Variable Rate Demand Revenue Bonds, March 2003	2027	4,250,000	2,255,000
Series Five-P2, Concordia University, St. Paul Variable Rate Demand Taxable Revenue Bonds, March 2003	2021	7,230,000	1,440,000
Series Five-Q, Macalester College Variable Rate Demand Revenue Bonds, February 2003	2033	15,300,000	15,300,000
Series Six-C, Augsburg College Revenue Bonds, April 2005	2023	6,780,000	6,635,000
Series Six-D, Carleton College Revenue Bonds, April 2005	2035	31,460,000	20,465,000
Series Six-F, Macalester College Revenue Notes, July 2005	2014	3,000,000	196,796
Series Six-G, St. John's University Revenue Bonds, August 2005	2026	39,300,000	22,325,000
Series Six-I, University of St. Thomas Revenue Bonds, February 2006	2023	38,860,000	23,315,000
Series Six-J1, Augsburg College Revenue Bonds, July 2006	2036	15,655,000	13,670,000
Series Six-J2, Augsburg College Variable Rate Demand Revenue Bonds, July 2006	2021	5,000,000	3,200,000
Series Six-K, Minneapolis College of Art and Design Revenue Bonds, July 2006	2026	7,670,000	5,405,000
Series Six-M, College of St. Benedict Revenue Notes, October 2006	2016	7,345,000	2,342,813
Series Six-O, St. Olaf College Revenue Bonds, March 2007	2032	45,405,000	38,060,000
Series Six-P, Macalester College Revenue Bonds, March 2007	2032	39,490,000	30,245,000
Series Six-Q, Concordia University, St. Paul Revenue Bonds, October 2007	2037	18,155,000	16,435,000
Series Six-R, Bethel University Revenue Bonds, August 2007	2037	44,000,000	42,230,000

Note 6 – Conduit Debt *cont from pg. 17*

COLLEGE/UNIVERSITY	MATURITY	ISSUED	OUTSTANDING
Series Six-S, College of St. Scholastica Revenue Bonds, November 2007	2027	8,170,000	6,440,000
Series Six-T, Carleton College Revenue Bonds, December 2008	2028	19,665,000	17,815,000
Series Six-U, St. John's University Revenue Bonds, June 2008	2033	11,375,000	9,955,000
Series Six-V, College of St. Benedict Revenue Bonds, May 2008	2023	19,430,000	8,760,000
Series Six-W, University of St. Thomas Revenue Bonds, December 2008	2030	18,305,000	16,165,000
Series Six-X, University of St. Thomas Revenue Bonds, June 2009	2039	58,405,000	53,430,000
Series Six-Z, Minneapolis College of Art and Design Revenue Notes, November 2009	2024	2,660,000	2,660,000
Series Seven-A, University of St. Thomas Revenue Bonds, December 2009	2039	79,440,000	74,325,000
Series Seven-B, Gustavus Adolphus College Revenue Bonds, August 2010	2035	41,680,000	40,345,000
Series Seven-C, Saint Mary's University of Minnesota Revenue Bonds, May 2010	2026	4,085,000	3,310,000
Series Seven-D, Carleton College Revenue Bonds, June 2010	2040	30,455,000	28,655,000
Series Seven-E, Hamline University Revenue Bonds, June 2010	2029	14,890,000	13,885,000
Series Seven-F, St. Olaf College Revenue Bonds, August 2010	2030	32,440,000	29,050,000
Series Seven-G, Augsburg College Revenue Bonds, October 2010	2027	8,860,000	6,230,000
Series Seven-H, College of St. Scholastica Revenue Bonds, October 2010	2040	21,820,000	21,570,000
Series Seven-I, Macalester College Revenue Bonds, December 2010	2035	16,000,000	15,280,000
Series Seven-J, College of St. Scholastica Revenue Bonds, February 2011	2040	10,170,000	10,170,000
Series Seven-K1, Hamline University Revenue Bonds, March 2011	2018	8,810,000	6,505,000
Series Seven-K2, Hamline University Revenue Bonds, March 2011	2040	18,330,000	18,330,000
Series Seven-L, Hamline University Revenue Note, February 2011	2021	8,000,000	6,000,000
Series Seven-M, College of St. Benedict Revenue Bonds, December 2011	2036	9,135,000	8,635,000
Series Seven-N, Minneapolis College of Art and Design Revenue Bonds, April 2012	2023	3,215,000	2,930,000

COLLEGE/UNIVERSITY	MATURITY	ISSUED	OUTSTANDING
Series Seven-O, University of St. Thomas Revenue Bonds, May 2012	2025	15,325,000	13,115,000
Series Seven-P, University of St. Thomas Revenue Bonds, May 2012	2032	12,300,000	12,300,000
Series Seven-Q, St. Catherine University Revenue Bonds, September 2012	2032	25,630,000	24,710,000
Series Seven-R, College of St. Scholastica Revenue Bonds, October 2012	2032	9,380,000	8,810,000
Series Seven-S, Macalester College Revenue Bonds, December 2012	2043	14,730,000	14,730,000
Series Seven-T, College of St. Benedict Revenue Bonds, January 2013	2024	5,235,000	4,425,000
Series Seven-U, University of St. Thomas Revenue Bonds, March 2013	2027	25,685,000	24,515,000
Series Seven-V, William Mitchell College of Law Revenue Note, May 2013	2033	10,800,000	10,469,000
Series Seven-W, Gustavus Adolphus College Revenue Bonds, July 2013	2034	11,410,000	11,410,000
Series Seven-X, Macalester College Revenue Note, February 2014	2017	3,995,000	3,995,000
Series Seven-Y1, Hamline University Revenue Note, September 2013	2017	2,900,000	2,900,000
Series Seven-Y2, Hamline University Revenue Note, September 2013	2025	6,210,000	6,210,000
Series Seven-Y3, Hamline University Revenue Note, September 2013	2016	730,000	730,000
Series Seven-Z, University of St. Thomas Revenue Note, March 2014	2034	24,210,000	24,210,000
Series Eight-A, Saint Mary's University of Minnesota Revenue Note, April 2014	2023	6,025,000	6,025,000
Series Eight-B, St. Catherine University Revenue Note, June 2014	2042	15,867,000	15,867,000
Total		$ 1,032,377,000	$ 891,420,609

A summary of changes in conduit debt outstanding for the year ended June 30, 2014 is presented below:

CONDUIT DEBT - July 1, 2013	$ 927,560,991
ADDITIONS:	
Revenue Bonds Issued	71,347,000
REDUCTIONS:	
Principal Retirements	(43,206,068)
Refunding of Principal	(64,281,314)
CONDUIT DEBT - June 30, 2014	$ 891,420,609

Note 7 – Risk Management

The Authority is exposed to various risk of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In order to protect against these risks of loss, the Authority purchases commercial insurance through the State of Minnesota Department of Administration Risk Management Division.

During the year ended June 30, 2014, there were no significant reductions in insurance coverage from the prior year. Settled claims have not exceeded the Authority's commercial coverage in any of the past three years.

Note 8 – State Employees' Retirement Fund and State Unclassified Employees' Retirement Program

Pension fund information is provided by the Minnesota State Retirement System (MSRS), who prepares and publishes their own stand-alone Comprehensive Annual Financial Report (CAFR), including financial statements and required supplementary information. Copies of the report may be obtained directly from MSRS at 60 Empire Drive, #300, St. Paul, Minnesota 55103-3000.

The statutory authority for State Employees' Retirement Fund (SERF) is Minnesota Statutes Chapter 352. The SERF is a cost-sharing, multiple-employer defined benefit plan. All classified employees are covered by this plan. The annuity formula is the greater of a step rate reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarial reduction for early retirement. The applicable rates are 1.2% and 1.7%.

The statutory authority for State Unclassified Employees' Retirement Program (SUERP) is Minnesota Statutes Chapter 352D. Only certain unclassified employees are covered by this defined contribution program. The cash value may not be withdrawn prior to termination of the covered employee.

The funding requirements for SERF are 5%, for both employer and employee; for SUERP the requirement is 5% for employees and 6% for the employer. Actual contributions were 100% of required contributions. Required contributions for the Authority were:

FISCAL YEAR	AMOUNT
2014	$ 10,757
2013	$ 10,607
2012	$ 10,153

Note 9 – GASB Standards Issued but Not Yet Implemented

GASB Statement No. 68 replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers and Statement No. 50, Pension Disclosures, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits.

Building the places where education takes place

Minnesota Higher Education Facilities Authority

ANNUAL REPORT 2014

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