



MINNESOTA
HIGHER EDUCATION
FACILITIES AUTHORITY

Fiscal Year 2019 Annual Report

Table of Contents

Mission of the Authority	Page 1
MHEFA Members	Page 2
Letter from the Chair	Page 3
Colleges and Universities with Bond Issues Outstanding	Page 4
Independent Auditor's Report	Page 9
Management Discussion and Analysis	Page 11
Basic Financial Statements	
Statement of Net Position	Page 17
Statement of Revenues, Expenses and Changes in Net Position	Page 19
Statement of Cash Flows	Page 20
Notes to the Financial Statements	Page 22
Required Supplementary Information	Page 43
Notes to Required Supplementary Information	Page 44

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 educational institutions on the various strategies of debt financing, refinancing, post sale compliance, and legal or regulatory challenges to the debt issued for the benefit of the educational institution.

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.

MHEFA Board Members

Gary D. Benson

Director of Project Planning & Development
Kraus-Anderson Construction Company
Resident of New Brighton, Minnesota
Term Expires January 2023*

Kathryn Balstad Brewer

Retired Banker and Educator
Resident of New Brighton, Minnesota
Term Expired June 30, 2019

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

Mary F. Ives, MHEFA Vice Chair

Real Estate Business Owner
Resident of Grand Rapids, Minnesota
Term Expires January 2020

Mark Misukanis

Adjunct Professor, Metropolitan State University
Resident of Mendota Heights, Minnesota
Term Expires January 2021*

Michael D. Ranum, MHEFA Secretary
Chief Financial Officer, BWBR Architects, Inc.
Resident of Circle Pines, Minnesota
Term Expires January 2022*

David Rowland

Executive Vice President and Deputy Chief
Investment Officer, The Travelers Companies, Inc.
Resident of Edina, Minnesota
Term Expires January 2021*

Nancy Sampair, MHEFA Chair

Retired Banker
Resident of Saint Paul, Minnesota
Term Expires January 2022*

Raymond VinZant, Jr.

Founder, Midway Vo-Tech, Saint Paul
Resident of Wyoming, Minnesota
Term Ends January 2020

Poawit Yang, Ex-officio

Accounting Manager, MN Office of Higher
Education

*Pending Senate Confirmation (The Minnesota Senate has not utilized its confirmation authority since 2016.)

Municipal Advisor

Baker Tilly Municipal Advisors, LLC,
Saint Paul, Minnesota

Independent Auditors

BerganKDV, Ltd., Minneapolis, Minnesota

MHEFA Staff

Barry W. Fick, Executive Director
Amanda G. Lee, Operations Manager



HIGHER EDUCATION
FACILITIES AUTHORITY

Letter from the Chair

Greetings:

On behalf of the members of the Minnesota Higher Education Facilities Authority, I am pleased to present the Authority's Annual Report for the fiscal year ended June 30, 2019, including financial statements for the year, audited by the accounting firm BerganKDV, Bloomington, MN. This Report includes information about the financing assistance and related services provided by the Authority to assist nonprofit institutions of higher education in the State of Minnesota. The Authority's mission is to provide conduit financing assistance and related services for capital projects of those colleges and universities, generally through tax-exempt financing.

The financing assistance provided by the Authority for Minnesota's nonprofit colleges and universities is provided without cost to the taxpayers of Minnesota. The bonds issued by the Authority are not backed by the credit of the State, either directly or indirectly. All operating expenses of the Authority are paid solely from fees assessed to the colleges and universities in connection with each school's respective financings.

In fiscal year 2019, the Authority completed three financings for two institutions totaling \$151,060,000. At the end of the fiscal year 2019, the total principal outstanding for Authority-issued debt was: \$983,602,593. The current statutory limit on outstanding debt issued by the Authority is \$1.3 billion. The annual volume of bonds issued by the Authority fluctuates with market conditions and institutional needs. Throughout the year, the Authority provides ongoing additional services that enhance the financing assistance provided to Minnesota nonprofit colleges and universities.

Since 1971, the Authority has proudly served as a consistent source of financing assistance and related services for Minnesota's nonprofit colleges and universities. Through the combined efforts of the Authority Board Members, staff and advisors, the Authority pledges to continue to provide requested services in an efficient and cost-effective manner.

Respectfully submitted,

Nancy Sampair

Chair, Fiscal Year 2019



Colleges and Universities with Bond Issues Outstanding

Augsburg College

- ◆ 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.
- ◆ Series Eight-C issued July 2014 in the amount of \$6,705,000. The proceeds were used for refinancing the Series Six-C Bonds.
- ◆ Series Eight-E issued April 2015 in the amount of \$12,400,000. The proceeds were used for refinancing the Series Six-J1 Bonds.
- ◆ Augsburg Series 2016A in the amount of \$32,240,000 and Series 2016B in the amount of \$13,680,000 issued December 2016. The proceeds were used to finance a portion of a Science, Business and Religion Center.

Bethel University

- ◆ Series Bethel 2017 issued July 2017 in the amount of \$44,565,000. The proceeds were used for the renovation of four residence halls and for refinancing the Series Six-R Bonds.

Carleton College

- ◆ 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.
- ◆ Carleton Series 2017 issued May 2017 in the amount of \$124,900,000. The proceeds were used for the construction of several campus buildings, various utility infrastructure improvements, to refund Series Five-G, Series Six-T and Series Seven-D Bonds and pay for costs of issue.

College of Saint Benedict

- ◆ Series Seven-T issued January 2013 in the amount of \$5,235,000. The proceeds were used for refinancing the Series Five-W Bonds.
- ◆ Series Eight-K issued April 2016 in the amount of \$34,360,000. The proceeds were used to finance improvements on the campus including acquisition and renovation of three buildings, renovation of academic, residential and library buildings, development of sports fields, upgrades to the power plant and other improvements.
- ◆ Series Saint Benedict 2017 issued December 2017 in the amount of \$8,605,000. The proceeds were used to refinance Series Six-V and Seven-M and to pay for costs of issuance.

Colleges and Universities with Bond Issues Outstanding

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 the 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 for additional funding for the expansion and renovation of the 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 Six-Q issued October 2007 in the amount of \$18,155,000. The proceeds were used for the construction a 300-bed residence hall.

Gustavus Adolphus College

- ◆ Series Seven-W issued July 2013 in the amount of \$11,410,000. The proceeds were used for refinancing the Series Five-X Bonds.
- ◆ Gustavus Series 2017 issued September 2017 in the amount of \$52,515,000. The proceeds were used to refinance the Series Seven-B Bonds, renovate and expand two science and fine arts buildings on campus, and pay for costs of issue.

Hamline University

- ◆ Series Seven-Y2 issued September 2013 in the amount of \$6,210,000. The proceeds were used for refinancing the Series Six-E2 Bonds.
- ◆ Hamline Series 2017A issued June 2017 in the amount of \$6,726,000. The proceeds were used for refinancing the Series Seven-K1 Bonds and Seven-L Notes.
- ◆ Hamline Series 2017B issued December 2017 in the amount of \$34,650,000. The proceeds were used to refinance the Series Seven-E and Series Seven-K2 Bonds.

Colleges and Universities with Bond Issues Outstanding

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 for the renovation, refurbishing and data wire 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 Seven-S issued December 2012 in the amount of \$14,730,000. The proceeds were used for phase two of the renovation and expansion of the Janet Wallace Fine Arts Center and the replacement of a boiler.
- ◆ Series Eight-J issued October, 2015 in the amount of \$22,660,000. These Revenue Bonds were issued to refinance a portion of the Series Six-P Bonds and finance a number of infrastructure renovation and improvements on the campus.
- ◆ Macalester Series 2017 issued November 2017 in the amount of \$40,315,000. The proceeds were used to refinance the Series Six-P and Seven-I Bonds, construct a new theater, dance and art building on campus, and to pay for costs of issue.

Minneapolis College of Art and Design

- ◆ Series Seven-N issued April 2012 in the amount of \$3,215,000. The proceeds were used for refinancing the Series Five-K Bonds.
- ◆ Series Eight-D issued March 2015 in the amount of \$7,845,000. The proceeds were used for refinancing Series Six-K Bonds and Series Six-Z Notes.
- ◆ MCAD Series 2018 issued May 2018 in the amount of \$3,643,000. The proceeds were used for roof repair, renovation of studio and classroom space, and to pay for costs of issuance.

Mitchell Hamline School 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.

Colleges and Universities with Bond Issues Outstanding

Saint John's University

- ◆ Series Eight-H issued August 2015 in the amount of \$13,815,000. These Revenue Bonds were issued for refinancing the Series Six-G Bonds.
- ◆ Series Eight-I issued December 2015 in the amount of \$18,275,000. These Revenue Bonds were issued for the construction of a Learning Commons building and improvements to the Alcuin Library.
- ◆ Saint John's Series 2017 issued September 2017 in the amount of \$7,595,000. The proceeds were used to refinance the Series Six-U Bonds and to pay for costs of issue.

Saint Mary's University of Minnesota

- ◆ 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. Mary's Series 2017A in the amount of \$5,546,000 and 2017B in the amount of \$2,471,000 issued June 2017. The proceeds of St. Mary's Series 2017A were used for the construction of a three-story science and learning center of approximately 50,000 square feet and to pay for costs of issue. The proceeds of St. Mary's Series 2017B were used for refinancing the Series Seven-C Bonds.

St. Catherine University

- ◆ Series 2018A issued September 2018 in the amount of \$49,770,000. These Revenue and Refunding Bonds were used to refinance Series 5-N2 Revenue Bonds, Series Eight-B Revenue Note, and to provide funding for a portion of new construction projects on the St. Paul campus of the University.
- ◆ Series 2018B issued September 2018 in the amount of \$20,765,000. These Revenue and Refunding Bonds were issued as taxable to refund, on an advance basis, the Series Seven-Q Revenue Bonds.

St. Olaf College

- ◆ Series Seven-F issued August 2010 in the amount of \$32,440,000. The proceeds were used for refinancing the Series Five-H, Series Five-M1 and a portion of the Series Five-M2 Bonds.
- ◆ Series Eight-G issued July 2015 in the amount of \$53,745,000. These Revenue Bonds were issued for refinancing portions of the Series Six-O and Five-M2 Bonds and for the renovation of various campus buildings.
- ◆ Series Eight-N issued September 2016 in the amount of \$22,845,000. The proceeds were used for refinancing a portion of the Series Seven-F Bonds.

Colleges and Universities with Bond Issues Outstanding

University of St. Thomas

- ◆ Series Seven-U issued March 2013 in the amount of \$25,685,000. The proceeds were used for refinancing the Series Five-L and the Series 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.
- ◆ Series Eight-L issued March 2016 in the amount of \$55,355,000. These Revenue Bonds were issued to refinance the Series Six-W and Six-X Bonds.
- ◆ Series Eight-M issued March 2016 in the amount of \$15,305,000. These Revenue Bonds were issued to refinance the Series Six-I Bonds.
- ◆ St. Thomas Series 2017A issued December 2017 in the amount of \$60,750,000, Series 2017B in the amount of \$8,220,000 and Series 2017C in the amount of \$10,815,000. The proceeds of Series 2017A were used for refinancing the Series Seven-A Bonds and to pay for costs of issuance. The proceeds of Series 2017B were used for refinancing the Series Seven-O Bonds and to pay for costs of issuance. The proceeds of Series 2017C Note were used for refinancing the Series Seven-P Bonds and to pay for costs of issuance.
- ◆ St. Thomas Series 2019 issued May 2019 in the amount of \$80,525,000. These Revenue Bonds were used to construct, equip, and furnish two new residence halls, including the demolition of a current residence hall and faculty residence.



HIGHER EDUCATION
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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, 2019, and the related notes to 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 referred to in the first paragraph present fairly, in all material respects, the financial position of the Minnesota Higher Education Facilities Authority, St. Paul, Minnesota, as of June 30, 2019, 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.

Independent Auditor's Report

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, and the Required Supplementary Information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (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, 2018, from which such partial information was derived.

We have previously audited the Authority's 2018 financial statements and our report, dated October 4, 2018, 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, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BerganKDV, Ltd.
Minneapolis, Minnesota
October 4, 2019



MINNESOTA
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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 the Government Accounting Standards Board (GASB). It introduces the basic financial statements and provides an analytical overview of the Authority's financial activities for the fiscal year ended June 30, 2019.

The Authority was created by the Minnesota 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 232 issues (including refunded and retired issues) totaling over \$3 billion of which \$983,602,593 is outstanding as of June 30, 2019. 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. The Authority receives no funding from the State of Minnesota. 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.

Management Discussion and Analysis

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 refunding outstanding bonds of the Authority and any other outstanding debt.

An annual conference on higher education finance issues has been offered for many years by the Authority. During fiscal year 2019 the conference was held in April, and provided an opportunity for Authority borrowers, along with legal and finance professionals to share information relevant to higher education capital financings. An inaugural roundtable-style conference for Authority borrower staff only was held during fiscal year 2019. The borrower staff only conference allows Authority borrowers a chance to learn about Authority services available to them, discuss common issues between schools, and to explore topical issues as well as ask questions of Authority staff and other conference participants.

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 staff, advisors and members, as well as other public finance professionals, that tax-exempt financing continues to be a vital tool for higher education. The Authority works with all these groups to continue providing affordable financing to the private colleges and universities.

Management Discussion and Analysis

Overview of the Financial Statements

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

Statements of Net Position

This statement presents information reflecting the Authority's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position represents the amount of total assets and deferred outflows of resources less total liabilities and deferred inflows of resources. 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 becoming 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, capital, 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.

Management Discussion and Analysis

The following summarizes the financial position and results of operations of the Authority for the years ended June 30, 2018 and 2019.

	2019	2018
Assets		
Current Assets	\$ 2,188,618	\$ 2,089,561
Noncurrent Assets	5,802	5,193
Total Assets	2,194,420	2,094,754
Deferred Outflows of Resources		
Deferred Outflows of Resources Related to Pensions	101,396	161,113
Liabilities		
Current Liabilities	14,047	31,236
Long Term Liabilities	41,439	201,876
Total Liabilities	55,486	233,112
Deferred Inflows of Resources		
Deferred Inflows of Resources Related to Pensions	159,708	115,517
Net Position		
Invested in Capital Assets	5,802	5,193
Unrestricted	2,074,820	1,902,145
Total Net Position	\$ 2,080,622	\$ 1,907,338
Operating Revenues	\$ 436,786	\$ 411,105
Operating Expenses	(335,729)	(363,576)
Operating Gain (Loss)	101,057	47,529
Nonoperating Revenues		
Interest Income	41,377	33,896
Net Increase/(Decrease) in Fair Value of Investments	30,850	(30,348)
Total Nonoperating Revenue	72,227	3,548
Change In Net Position	173,284	51,077
Net Position		
Beginning of Year	1,907,338	1,856,261
End of Year	\$ 2,080,622	\$ 1,907,338

Management Discussion and Analysis

Financial Highlights

The Authority completed three financings in fiscal year 2019 with a total principal amount of \$151,060,000. This compares to ten financings completed in fiscal year 2018 with a total principal amount of \$271,673,000. Following is a listing of the bond issues for fiscal year 2019.

◆ St. Catherine University

- ◇ St. Catherine Series 2018A was issued September 2018 in the amount of \$49,770,000. These Revenue and Refunding Bonds were issued to refund, on a current basis, the Series Five-N2 and Eight-B Bonds and to provide funding for a portion of new construction projects on the St. Paul campus.
- ◇ St. Catherine Series 2018B as issued September 2018 in the amount of \$20,765,000. These Revenue and Refunding Bonds were issued to refund, on an advance basis, the Series Seven-Q Bonds.

◆ University of St. Thomas

- ◇ St. Thomas Series 2019 was issued May 2019 in the amount of \$80,525,000. These Revenue Refunding Bonds were issued to construct two new student residence halls and related improvements and demolition.

Management Discussion and Analysis

Factors Expected to Affect Future Financial Position and Operation

The Authority has two revenue sources; the administrative fee charged to borrowers and interest earnings generated on its accumulated operating reserve. The administrative fee is based on the outstanding principal amount of each series of bonds at the time of billing. The administrative fee is billed to each borrower on the anniversary of the bond closing. Starting in fiscal year 1997, the Authority's annual administrative fee has been reduced from the allowable maximum of 0.125%. Utilizing the operating reserve to subsidize the operating expenses, the Authority reduced the annual administrative fee to all borrowers in fiscal year 2019 by 65%. The maximum allowable fee for fiscal year 2020 will be reduced by 65%. Although future reductions in the maximum allowable fee are not guaranteed, the Authority is committed to providing its services at an affordable level 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

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, 2019 (with partial comparative information as of June 30, 2018)

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$182,421	\$266,566
Investments	1,996,735	1,815,885
Interest receivable	7,543	6,282
Prepaid items	1,919	828
Total current assets	2,188,618	2,089,561
Noncurrent assets		
Equipment	60,181	68,719
Less accumulated depreciation	(54,379)	(63,526)
Total noncurrent assets	5,802	5,193
Total assets	2,194,420	2,094,754
Deferred Outflows of Resources		
Deferred outflows of resources related to pensions	101,396	161,113
Total assets and deferred outflows of resources	\$2,295,816	\$2,255,867

Continued on page 18

Statement of Net Position

For the year ended June 30, 2019 (with partial comparative information as of June 30, 2018)

Liabilities, Deferred Inflows of
Resources and Net Position

Liabilities

Current liabilities

Accounts payable	\$5,916	\$22,239
Compensated absences payable	8,131	8,897
Total current liabilities	14,047	31,136

Noncurrent liabilities

Compensated absences payable	8,131	8,897
Net pension liability	33,308	192,979
Total noncurrent liabilities	41,439	201,876
Total liabilities	55,486	233,012

Deferred Inflows of Resources

Deferred inflows of resources related to pensions	159,708	115,517

Net Position

Net investment in capital assets	5,802	5,193
Unrestricted	2,074,820	1,902,145
Total net position	2,080,622	1,907,338

Total liabilities, deferred inflows
of resources, and net position

	\$2,295,816	\$2,255,867
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See notes to financial statements.

Statement of Revenues, Expenses and Changes in Net Position

For the year ended June 30, 2019 (with partial comparative information as of June 30, 2018)

	2019	2018
Operating Revenues		
Annual administrative fees	\$433,667	\$404,105
Other income	3,119	7,000
Total operating revenues	436,786	411,105
Operating Expenses		
Payroll, payroll taxes, and employee benefits	198,315	215,401
Legal, audit, and consulting expense	27,929	30,664
Rent	47,224	40,415
Depreciation	2,707	1,651
Other general and administrative expenses	59,554	75,445
Total operating expenses	335,729	363,576
Operating loss	101,057	47,529
Nonoperating Revenues		
Interest income	41,377	33,896
Increase (decrease) in fair value of investments	30,850	(30,348)
Total nonoperating revenues	72,227	3,548
Change in net position	173,284	51,077
Net Position		
Beginning of year	1,907,338	1,856,261
End of year	\$2,080,622	\$1,907,338

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

Statement of Cash Flows

For the year ended June 30, 2019 (with partial comparative information as of June 30, 2018)

	<u>2019</u>	<u>2018</u>
Cash Flows - Operating Activities		
Cash received from annual administrative and other fees	\$436,786	\$411,105
Cash payments to employees	(268,358)	(224,890)
Cash payments to suppliers for goods and services	<u>(139,373)</u>	<u>(146,311)</u>
Net cash flows - operating activities	<u>29,055</u>	<u>39,904</u>
Cash Flows - Capital and Related Financing Activities		
Purchase of Capital Assets	<u>(3,316)</u>	<u>(3,448)</u>
Cash Flows - Investing Activities		
Interest received	40,116	33,621
Net investment purchases		
Net cash flows - investing activities	<u>(109,884)</u>	<u>(166,379)</u>
Net change in cash and cash equivalents	(84,145)	129,923
Cash and Cash Equivalents		
Beginning of year	<u>266,566</u>	<u>396,489</u>
End of year	<u>\$182,421</u>	<u>\$266,566</u>

Continued on page 21

Statement of Cash Flows

For the year ended June 30, 2019 (with partial comparative information as of June 30, 2018)

Reconciliation of Operating Loss to

Net Cash Flows - Operating Activities

Operating loss	\$ 101,057	\$ 47,529
Adjustments to reconcile operating loss to net cash flows - operating activities		
Depreciation expense	2,707	1,651
Prepaid items	(1,091)	467
Accounts payable	(16,323)	3,213
Deferred outflows, inflows, and liability related to pension activity	(55,763)	(16,765)
Compensated absences payable	(1,532)	3,809
Total adjustments	<u>(72,002)</u>	<u>(7,625)</u>
Net cash flows - operating activities	<u>\$ 29,055</u>	<u>\$ 39,904</u>

Noncash Investing Activities

Net increase/(decrease) in fair value of investments	<u>\$ 30,850</u>	<u>\$ (30,348)</u>
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See notes to financial statements.

Notes to the Financial Statements

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 2019, 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, 2019, 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, 2019, the Authority required participating institutions to pay 35% 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.

Notes to the Financial Statements

Note 1—Summary of Significant Accounting Policies, *continued*

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.

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments held by investment pools are measured at amortized cost.

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.

Notes to the Financial Statements

Note 1—Summary of Significant Accounting Policies, *continued*

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, 2019, 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 who meet the requirements of the 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. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until that time. The Authority has one item that qualifies for reporting in this category: deferred outflows of resources related to pensions. Deferred outflows of resources related to pensions is recorded for various estimate differences that will be amortized and recognized over future years.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has one type of item which qualifies for reporting in this category: deferred inflows of resources related to pensions is recorded for various estimate differences that will be amortized and recognized over future years.

Notes to the Financial Statements

Note 1—Summary of Significant Accounting Policies, *continued*

E. Pensions

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

F. Net Position

Net position represents the difference between assets and deferred outflows of resources; and liabilities and deferred inflows of resources 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.

G. 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.

H. Comparative Data

Comparative data for the prior year has been presented only for certain sections of the accompanying financial statements in order to provide an understanding of the changes in the Authority's financial position and operations. This data has been restated where necessary for comparable classifications.

Notes to the Financial Statements

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, 2019, the Authority's bank balance of \$102,164 was not exposed to custodial credit risk because it was insured through FDIC insurance.

As of June 30, 2019, the Authority's carrying value of deposits was as follows:

Deposits \$100,063

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.

Notes to the Financial Statements

Note 2—Deposits and Investments, *continued*

B. Investments

As of June 30, 2019, the Authority had the following investments:

Investment	Maturities	Fair Value	S&P Rating
Sallie Mae Bank Certificate of Deposit	08/20/19	\$99,955	N/A
Umpqua Bank Roseberg Certificate of Deposit	11/12/19	100,090	N/A
Morgan Stanley Bank NA Certificate of Deposit	03/23/20	100,268	N/A
American Express Centurion Certificate of Deposit	06/03/20	99,790	N/A
Capital One Bank USA Certificate of Deposit	06/24/20	119,793	N/A
Synchrony Bank Certificate of Deposit	08/17/20	125,098	N/A
Comenity Capital Bank Certificate of Deposit	03/18/21	99,500	N/A
Comenity Capital Bank Certificate of Deposit	07/16/21	99,588	N/A
Capital One Bank NA Certificate of Deposit	10/05/21	98,307	N/A
Discover Bank Certificate of Deposit	11/16/21	99,013	N/A
State Bank of India, NY Certificate of Deposit	02/24/22	100,019	N/A
Goldman Sachs Bank, NY Certificate of Deposit	04/12/22	99,651	N/A
MetaBank Certificate of Deposit	02/20/20	100,419	N/A
Compass Bank Certificate of Deposit	11/30/20	101,278	N/A
Enerbank USA Certificate of Deposit	12/17/20	100,161	N/A
Merrick Bank Certificate of Deposit	06/21/21	100,286	N/A
Ally Bank Certificate of Deposit	01/31/22	152,485	N/A
Goldman Sachs Bank, NY Certificate of Deposit	06/20/22	100,400	N/A
Eaglebank Certificate of Deposit	10/18/22	100,634	N/A
Wells Fargo Money Market	N/A	82,358	AAA _m
Total investments		<u>\$ 2,079,093</u>	

Notes to the Financial Statements

Note 2—Deposits and Investments, *continued*

B. Investments, *continued*

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single 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. As of June 30, 2019, 3 individual investment balances, with five issuers, exceeded 5% of the 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*. 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.

Interest Rate Risk: This is the risk that market value of securities will fall due to the changes in market 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.

Notes to the Financial Statements

Note 2—Deposits and Investments, *continued*

B. Investments, *continued*

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.

The Authority has the following recurring fair value measurements as of June 30, 2019:

- Brokered money markets of \$82,358 are valued using calculated net asset value (Level 1 inputs)
- Investment securities of \$1,996,735 are valued using quoted market prices (Level 2 inputs)

Deposits and investments are presented in the June 30, 2019, basic financial statements as follows:

Cash and cash equivalents	\$ 182,421
Investments	<u>1,996,735</u>
Total deposits and investments	<u>\$ 2,179,156</u>

Notes to the Financial Statements

Note 3—Capital Assets

Capital asset activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated				
Office furniture and equipment	\$ 68,719	\$ 3,316	\$ (11,854)	\$ 60,181
Less accumulated depreciation	(63,526)	(2,707)	11,854	(54,379)
Capital assets, net	<u>\$ 5,193</u>	<u>\$ 609</u>	<u>\$ -</u>	<u>\$ 5,802</u>

Note 4—Leases

The Authority has a lease commitment for office space through November 2022, with monthly base rent ranging from \$3,666 to \$3,876 throughout the lease term. Total costs were \$47,224 for the year ended June 30, 2019. The future minimum lease payments for this lease are as follows:

Year Ending June 30,	
2020	\$ 47,728
2021	48,252
2022	48,985
2023	<u>20,629</u>
Total	<u>\$ 165,594</u>

Note 5—Long-Term Liabilities

Changes in long-term liability activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	<u>\$ 17,794</u>	<u>\$ 28,116</u>	<u>\$(29,648)</u>	<u>\$ 16,262</u>	<u>\$ 8,131</u>

Notes to the Financial Statements

Note 6—Conduit Debt

At June 30, 2019, there were 50 bond issues and leases outstanding with an aggregate principal balance outstanding of \$983,602,593 as follows:

College/University	Final Maturity	Indebtedness	
		Issued	Outstanding
Series Three - Z, Macalester College Variable Rate Demand Revenue Bonds, September 1994	2024	\$ 6,660,000	\$ 6,660,000
Series Five - Q, Macalester College Variable Rate Demand Revenue Bonds, February 2003	2033	15,300,000	15,300,000
Series Six - D, Carleton College Revenue Bonds, April 2005	2035	31,460,000	6,215,000
Series Six - J2, Augsburg University Variable Rate Demand Revenue Bonds, July 2006	2021	5,000,000	1,200,000
Series Six - Q, Concordia University, St. Paul Revenue Bonds, October 2007	2037	18,155,000	16,435,000
Series Six - S, College of St. Scholastica Revenue Bonds, November 2007	2027	8,170,000	4,630,000
Series Seven - F, St. Olaf College Revenue Bonds, August 2010	2030	32,440,000	1,090,000
Series Seven - G, Augsburg University Revenue Bonds, October 2010	2027	8,860,000	2,880,000
Series Seven - H, College of St. Scholastica Revenue Bonds, October 2010	2040	21,820,000	20,450,000
Series Seven - J, College of St. Scholastica Revenue Bonds, February 2011	2040	10,170,000	10,120,000
Series Seven - N, Minneapolis College of Art and Design Revenue Bonds, April 2012	2023	3,215,000	1,400,000

Notes to the Financial Statements

Note 6—Conduit Debt, *continued*

College/University	Final Maturity	Indebtedness	
		Issued	Outstanding
Series Seven - R, College of St. Scholastica Revenue Bonds, October 2012	2032	9,380,000	6,930,000
Series Seven - S, Macalester College Revenue Bonds, December 2012	2043	14,730,000	13,445,000
Series Seven - T, College of Saint Benedict Revenue Bonds, January 2013	2024	5,235,000	2,350,000
Series Seven - U, University of St. Thomas Revenue Bonds, March 2013	2027	25,685,000	17,670,000
Series Seven - V, William Mitchell College of Law Revenue Note, May 2013	2033	10,800,000	8,589,000
Series Seven - W, Gustavus Adolphus College Revenue Bonds, July 2013	2034	11,410,000	9,470,000
Series Seven - Y2, Hamline University Revenue Note, September 2013	2025	6,210,000	4,025,000
Series Seven - Z, University of St. Thomas Revenue Note, March 2014	2034	24,210,000	16,972,593
Series Eight - A, Saint Mary's University of Minnesota Revenue Note, April 2014	2023	6,025,000	3,233,000
Series Eight - C, Augsburg University Revenue Bond, July 2014	2023	6,705,000	3,715,000
Series Eight - D, Minneapolis College of Art and Design Revenue Bond, March 2015	2023	7,845,000	5,235,000
Series Eight - E, Augsburg University Revenue Note, April 2015	2036	12,400,000	10,795,000
Series Eight - G, St. Olaf College Revenue Bonds, July 2015	2032	53,745,000	47,095,000

Notes to the Financial Statements

Note 6—Conduit Debt, *continued*

College/University	Final	Indebtedness	
	Maturity	Issued	Outstanding
Series Eight - H, St. John's University Revenue Bonds, August 2015	2026	13,815,000	8,615,000
Series Eight - I, St. John's University Revenue Bonds, December 2015	2035	18,275,000	15,445,000
Series Eight - J, Macalaster College Revenue Bonds, September 2015	2032	22,660,000	19,780,000
Series Eight - K, College of Saint Benedict Revenue Bonds, April 2016	2043	34,360,000	33,570,000
Series Eight - L, University of St. Thomas Revenue Bonds, March 2016	2039	55,355,000	50,615,000
Series Eight - M, University of St. Thomas Revenue Bonds, March 2016	2022	15,305,000	7,925,000
Series Eight - N, St. Olaf College Revenue Bonds, September 2016	2035	22,845,000	22,845,000
Series 2016A, Augsburg University Revenue Bonds, December 2016	2046	32,240,000	32,240,000
Series 2016B, Augsburg University Revenue Bonds, December 2016	2046	13,680,000	11,995,000
Series 2017, Carleton College Revenue Bonds, May 2017	2047	124,900,000	119,875,000
Series 2017A, Saint Mary's University of Minnesota Revenue Note, June 2017	2037	5,546,000	5,546,000
Series 2017B, Saint Mary's University of Minnesota Revenue and Refunding Note, June 2017	2026	2,471,000	1,948,000
Series 2017, Hamline University Revenue Note, June 2017	2026	6,726,000	6,049,000

Notes to the Financial Statements

Note 6—Conduit Debt, *continued*

College/University	Final Maturity	Indebtedness	
		Issued	Outstanding
Series 2017, Bethel University Revenue and Refunding Bonds, July 2017	2047	44,565,000	44,565,000
Series 2017, Gustavus Adolphus College Revenue Bonds, September 2017	2047	52,515,000	52,255,000
Series 2017, St. John's University Revenue and Refunding Bonds, September 2017	2033	7,595,000	7,230,000
Series 2017, Macalester College Revenue and Refunding Bonds, November 2017	2048	40,315,000	35,650,000
Series 2017B, Hamline University Revenue and Refunding Bonds, December 2017	2047	34,650,000	34,050,000
Series 2017A, University of St. Thomas Revenue Bonds, December 2017	2037	60,750,000	59,050,000
Series 2017B, University of St. Thomas Revenue and Refunding Note, December 2017	2025	8,220,000	6,810,000
Series 2017C, University of St. Thomas Revenue and Refunding Notes, December 2017	2033	10,815,000	10,260,000
Series 2017, College of Saint Benedict Revenue and Refunding Bonds, December 2017	2036	8,605,000	6,800,000
Series 2018, Minneapolis College of Art and Design Revenue Note, May 2018	2028	3,643,000	3,520,000
Series 2018A, St. Catherine University Revenue and Refunding Bonds, September 2018	2045	49,770,000	49,770,000
Series 2018B, St. Catherine University Taxable Revenue Refunding Bonds, September 2018	2050	20,765,000	20,765,000

Notes to the Financial Statements

Note 6—Conduit Debt, *continued*

College/University	Final Maturity	Indebtedness	
		Issued	Outstanding
Series 2019, University of St. Thomas Revenue and Refunding Notes, May 2019	2044	80,525,000	80,525,000
Total		<u>\$ 1,146,541,000</u>	<u>\$ 983,602,593</u>

A summary of changes in conduit debt outstanding for the year ended June 30, 2019, is presented below:

Conduit debt - July 1, 2018	\$ 928,299,593
Additions	
Revenue Bonds issued	151,060,000
Reductions	
Principal retirements	(35,013,000)
Refunding of principal	<u>(60,744,000)</u>
Conduit debt - June 30, 2019	<u>\$ 983,602,593</u>

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, 2019, 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.

Notes to the Financial Statements

Note 8—State Employees' Retirement Fund

A. Plan Description

The State Employees Retirement Fund (SERF) is administered by the Minnesota State Retirement System (MSRS) and is established and administered in accordance with *Minnesota Statutes*, Chapters 352 and 356. SERF includes the General Employees Retirement Plan (General Plan), which is a multiple-employer, cost-sharing defined benefit plan, and three single-employer defined benefit plans: the Military Affairs Plan, the Transportation Pilots Plan, and the Fire Marshals Plan. Only certain employees of the Department of Military Affairs, the Department of Transportation, and the State Fire Marshal's Office are eligible to be members of those plans, but all state of Minnesota employees who are not members of another plan are covered by the General Plan. The Transportation Pilots Plan has been closed to new entrants since July 1, 2008, and there are no active contributing participants in the plan.

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

B. Benefits Provided

MSRS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefit provisions are established by state statute and can only be modified by the state legislature. Benefits are based on a member's age, years of credit, and the highest average salary for any sixty successive months of allowable service at termination of service. Benefit increases are provided to benefit recipients each January and are related to the funded ratio of the plan. Annuitants receive benefit increases of 2.0% each year. When the fund reaches a 90% funded status for two consecutive years, annuitants will receive a 2.5% increase.

Retirement benefits can be computed using one of two methods: the Step formula and the Level formula. Members hired before July 1, 1989, may use the Step or Level formula, whichever is greater. Members hired on or after July 1, 1989, must use the Level formula. Each formula converts years and months of service to a certain percentage. Under the Step formula, members receive 1.2% of the high-five average salary for each of the first ten years of covered service, plus 1.7% for each year thereafter. It also includes full benefits under the Rule of 90 (age plus years of allowable service equals 90). In contrast, the Level formula does not include the Rule of 90. Under the Level formula, members receive 1.7% of the high-five average salary for all years of covered service, and full benefits are available at normal retirement age.

Notes to the Financial Statements

Note 8—State Employees' Retirement Fund, *continued*

C. Contributions

Minnesota Statutes Chapter 352 sets the rates for employer and employee contributions. Eligible General Plan members and participating employers were required to contribute 5.5% of their annual covered salary in fiscal year 2018. The Authority's contribution to the General Plan for the fiscal year ending June 30, 2018, was \$4,408. These contributions were equal to the contractually required contributions for each year as set by state statute.

D. Actuarial Assumptions

The Authority's net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	Active Member Payroll Growth	Investment Rate of Return
2.50% per year	3.25% per year	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2014 generational mortality tables projected with mortality improvement scale MP-2015 from a base year of 2014, with adjustments to match fund experience.

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of actuarial experience study dated June 30, 2018, a review of inflation and investment return assumptions dated September 11, 2014 and September 11, 2017, and a recent asset liability study obtained by the State Board of Investment (SBI).

The long-term expected rate of return used in the determination of the net pension liability is 7.5%. During fiscal year 2016, the SBI hired an outside consultant to perform a thorough asset and liability study. Based on the study, the SBI staff proposed an update to the asset allocation, which yields a lower nominal expected return. As a result of this study, and keeping in mind the national trends towards lower investment rate assumptions, the MSRS Board of Directors approved the use of a 7.5% long term expected rate of return assumption beginning with the fiscal year 2017 actuarial valuations.

Notes to the Financial Statements

Note 8—State Employees’ Retirement Fund, *continued*

D. Actuarial Assumptions , *continued*

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

Asset Class	Transitional Target Allocation as of June 30, 2018	Final Target Allocation	Long-term Expected Real Rate of Return (Geometric Mean)
Domestic Equity	33%	36%	5.10%
International Equity	16	17	5.30
Fixed Income	16	20	0.75
Treasuries	8	0	0.50
Private Markets	25	25	5.90
Cash	2	2	0.00
Total	100%	100%	

The following changes were made in actuarial assumptions and plan provisions.

- Single discount rate change from 5.42% to 7.50%.
- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Member contributions increased from 5.50% to 5.75% of pay, effective July 1, 2018, and 6.00% of pay effective July 1, 2019.
- Employer contributions increased from 5.50% to 5.875% of pay, effective July 1, 2018, and 6.25% of pay effective July 1, 2019.
- Interest credited on member contributions will decrease from 4.0% to 3.0%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.0% for future accruing benefits effective January 1, 2019.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 2.0% to 2.5% per year increase based upon funded ratio, to a fixed rate of 1.0% for five years beginning January 1, 2019, and 1.5% per year thereafter.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age.

Notes to the Financial Statements

Note 8—State Employees' Retirement Fund, *continued*

E. Discount Rate

A Single Discount Rate used to measure the total pension liability as of June 30, 2018, was 7.50%. This Single Discount Rate was based on an expected rate of return on pension plan investments of 7.50% and a municipal bond rate of 3.62%. The projection of cash flows used to determine this Single Discount Rate assumed that employee and employer contributions will be made at the current statutory contribution rates. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year ending June 30, 2042. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year ending June 30, 2042, and the municipal bond rate was applied to all benefit payments after the point of asset depletion.

F. Net Pension Liability

At June 30, 2019, the Authority reported a liability of \$33,308 for its proportionate share of MSRS' net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on the Authority's contributions received by MSRS during the measurement period July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of MSRS's participating employers. At June 30, 2018, the Authority's proportionate share was 0.0032% at the end of the measurement period and 0.0035% for the beginning of the period.

Notes to the Financial Statements

Note 8—State Employees’ Retirement Fund, *continued*

G. Pension Liability Sensitivity

The following presents the Authority's proportionate share of the net pension liability, calculated using the discount rate disclosed in Note 8.E. above, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.50%)	Discount Rate (7.50%)	1% Increase in Discount Rate (8.50%)
Authority's proportionate share of the net pension	\$ 76,988	\$ 33,308	\$ (2,949)

H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the MSRS Comprehensive Annual Financial Report, available on the MSRS website:

www.msrs.state.mn.us/financial-information

Notes to the Financial Statements

Note 8—State Employees’ Retirement Fund, *continued*

I. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2019, the Authority recognized pension expense of negative \$55,763. At June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 920	\$2,527
Changes of assumptions	95,271	148,750
Net difference between projected and actual earnings on investments	-	8,338
Changes in proportion and differences between actual contributions and proportionate share of contributions	810	93
Contributions paid to MSRS subsequent to the measurement date	4,395	-
Total	\$101,396	\$159,708

4,395 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

Other amounts reported as deferred outflows of resources and (deferred inflows of resources) will be recognized in pension expense as follows:

Year ended June 30	Pension Expense Amount
2020	\$413
2021	2,823
2022	(44,912)
2023	(21,031)
	(\$62,707)

Notes to the Financial Statements

Note 9—State Unclassified Employee’s 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 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 requirement for SUERP is 5.5% for employees and 6% for the employer. Actual contributions were 100% of required contributions. Required contributions for the Authority were:

Year	Amount
2019	\$ 7,081
2018	6,925
2017	6,971

Note 10—GASB Standards Issued But Not Yet Implemented

GASB Statement No. 87, Leases establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This statement will be effective for the year ending June 30, 2021.

Required Supplementary Information

State Employees' Retirement Fund. Last Ten Years.*

A. Schedule of Authority's Share of Net Pension Liability

For Fiscal Year Ended June 30,	Authority's Proportion of the Net Pension Liability (Asset)	Authority's Proportionate Share of the Net Pension Liability (Asset)	Authority's Covered-Employee Payroll	Authority's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.0032%	\$ 33,308	\$ 71,200	46.78%	90.56%
2017	0.0035%	192,979	78,297	244.50%	62.73%
2016	0.0048%	440,386	97,600	451.22%	47.51%
2015	0.0048%	54,876	94,073	58.33%	88.32%
2014	0.0049%	58,367	92,180	63.32%	87.64%

B. Schedule of Authority's Contributions

For Fiscal Year Ended June 30,	Contractually Required Contribution	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Authority's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2019	\$ 4,408	\$ 4,408	\$ -	\$ 80,145	5.50%
2018	3,916	3,916	-	71,200	5.50%
2017	4,341	4,341	-	78,927	5.50%
2016	5,368	5,368	-	97,600	5.50%
2015	5,174	5,174	-	94,073	5.50%
2014	4,609	4,609	-	92,180	5.00%

*Note: These schedules are intended to show ten year trend. Additional years will be reported as they become available.

Notes to Required Supplementary Information

State Employees' Retirement Fund

Fiscal Year 2018 Changes Since the Fiscal Year 2017 Actuarial Valuation

Changes in actuarial assumptions:

- The single discount rate changed from 5.42% to 7.50%.

Changes to plan provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Member contributions increased from 5.50% to 5.75% of pay, effective July 1, 2018, and 6.00% of pay effective July 1, 2019.
- Employer contributions increased from 5.50% to 5.875% of pay, effective July 1, 2018, and 6.25% of pay effective July 1, 2019.
- Interest credited on member contributions will decrease from 4.0% to 3.0%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.0% for future accruing benefits effective January 1, 2019.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 2.0% to 2.5% per year increase based upon funded ratio, to a fixed rate of 1.0% for five years beginning January 1, 2019, and 1.5% per year thereafter.

For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age.

Notes to Required Supplementary Information

Fiscal Year 2017 Changes Since the Fiscal Year 2016 Actuarial Valuation

Changes in actuarial assumptions:

- The Combined Service Annuity loads were changed from 1.2% for active members and 40.0% for deferred members, to 0.0% for active members, 4.0% for vested deferred members, and 5.0% for non-vested deferred members.
- The single discount rate changed from 4.17% to 5.42%.

Changes to Plan Provisions:

- Actuarial equivalent factors were updated to reflect current mortality and interest assumptions, effective January 1, 2017.

Notes to Required Supplementary Information

Fiscal Year 2016 Changes Since the Fiscal Year 2015 Actuarial Valuation

Changes in actuarial assumptions:

- Assumed salary increase rates were changed to rates that average 0.2% greater than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer unreduced retirements and fewer Rule of 90 retirements. Distinct rates for reduced (early) retirements were adopted for members hired prior to July 1, 1989, and members hired after June 30, 1989.
- Assumed rates of termination were changed, with new rates generally greater than the previous rates for years 3 through 9 and less than the previous rates after 15 years.
- Assumed rates of disability for females were reduced to 75.0% of previous rates. Rates for male members were lowered by utilizing the same disability rates as for females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2014), white collar adjustments, with age adjustments. The mortality improvement scale was changed from Scale AA to Scale MP-2015. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table (no projection for future mortality improvement) to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to Scale MP-2015), with age adjustments.
- The percent married assumption was change from 85% of active male members and 70% of female members to 80% of active male members and 65% of active female members.
- The assumed number of married male new retirees electing the 75% Joint & Survivor option changed from 10% to 15%. The assumed number of married female new retirees electing the 75% and 100% Joint & Survivor options changed from 0% to 10% and from 25% to 30%, respectively. The corresponding number of married new retirees electing the life annuity option was adjusted accordingly.
- The assumed post-retirement benefit increase rate was changed from 2.0% per year through 2043 and 2.5% per year thereafter, to 2.0% per year for all future years.
- The long-term expected rate of return on pension plan investments was changed from 7.90% to 7.50%.
- The single discount rate changed from 7.90% to 4.17%.
- The inflation assumption was changed from 2.75% to 2.50%.
- The payroll growth assumption was changed from 3.50% to 3.25%.

Notes to Required Supplementary Information

Fiscal Year 2015 Changes Since the Fiscal Year 2014 Actuarial Valuation

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 2.0% per year through 2015 and 2.5% per year thereafter, to 2.0% per year through 2043 and 2.5% per year thereafter.

Changes to Plan Provisions:

- The *Contribution Stabilizer* statutes were revised to make changes to contribution rates less prescriptive and more flexible.
- Effective July 1, 2015, if the 2.5% post-retirement benefit increase is triggered and the funded ratio subsequently drops below 80.0% for the most recent valuation year or 85.0% for two consecutive years, the post-retirement benefit increase will change to 2.0% until the plan again reaches a 90.0% funded ratio for two consecutive years.



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2019 Annual Report

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