# MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY

## Fiscal Year 2020 Annual Report

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# 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 statues 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, expect as may be required by law and prudent fiscal policy in the course of providing assistance to such educational institutions.

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## MHEFA Staff

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

## Municipal Advisor

**Baker Tilly Municipal Advisors, LLC**
Saint Paul, Minnesota
*Augsburg University Series 2019*
*College of St. Scholastica Series 2019*

## Independent Auditors

**BerganKDV, Ltd.**
Minneapolis, Minnesota

## Bond Counsel

**McGrann Shea, Carnival Straughn & Lamb, Chartered**
Minneapolis, Minnesota
*Augsburg University Series 2019*

**Fryberger, Buchanan, Smith & Frederick, P.A.**
Duluth, Minnesota
*College of St. Scholastica Series 2019*

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# MHEFA Board Members

**Bonnie M. Anderson Rons**
General Member
Retired Banker
Resident of Rosemount, Minnesota
Term Expires January 2023

**Gary D. Benson**, MHEFA Secretary
Member with Construction Experience
Director of Project Planning & Development
Kraus-Anderson Construction Company
Resident of New Brighton, Minnesota
Term Expires January 2023

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

**Mary F. Ives,**
Member Residing Outside of Metro
Member with Higher Education Affiliation
Emeritus Trustee of the College of St. Scholastica
Real Estate Agent and
Owner-Operator of Hospitality Properties
Resident of Grand Rapids, Minnesota
Term Expires January 2024

**Mark Misukanis**
Member with Higher Education Affiliation
Adjunct Professor, Metropolitan State University
Resident of Mendota Heights, Minnesota
Term Expires January 2021

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

**David Rowland**, MHEFA Vice-Chair
Member with Municipal Finance Experience
Executive Vice President, Co-Chief Investment
Officer, The Travelers Companies, Inc.
Resident of Edina, Minnesota
Term Expires January 2021

**Nancy Sampair**
General Member
Retired Banker
Resident of Saint Paul, Minnesota
Term Expires January 2022

**Raymond VinZant, Jr.**
Member Residing Outside of Metro
Founder, Midway Vo-Tech, Saint Paul
Resident of Wyoming, Minnesota
Term Ends January 2024

**Poawit Yang**
Ex-officio Member
Accounting Manager, Minnesota Office of Higher
Education

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# Letter from the Board 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, 2020, including financial statements for the year, audited by the accounting firm BerganKDV, Ltd., Bloomington, Minnesota. This Report includes information about the financing assistance and related services the Authority provides 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 the Authority provides to Minnesota's nonprofit colleges and universities is without cost to the taxpayers of Minnesota. The bonds the Authority issues are not backed by the credit of the State, either directly or indirectly. All Authority operating expenses are paid solely from fees assessed to the colleges and universities in connection with each school's respective financings.

In fiscal year 2020, the Authority completed two financings for two institutions totaling $31,995,000. At the end of the fiscal year 2020, the total principal outstanding for Authority-issued debt was: $934,191,593. The current statutory limit on outstanding debt issued by the Authority is $1.3 billion. The annual volume of bonds the Authority issues 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,

Michael Ranum

Chair, Fiscal Year 2020

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# Colleges and Universities with Bond Issues Outstanding

## Augsburg University

- Series Eight-C issued July 2014 in the amount of $6,705,000. The proceeds were used to refund the Series Six-C Bonds.
- Series Eight-E issued April 2015 in the amount of $12,400,000 as a Private Bank Placement. The proceeds were used to refund 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.
- Augsburg Series 2019 issued August 2019 in the amount of $2,920,000 as a Private Bank Placement. The proceeds were used to refund the Series Six-J2 and Seven-G Bonds.

## Bethel University

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

## Carleton College

- 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 the Series Five-G, Series Six-T and Series Seven-D Bonds.

## College of Saint Benedict

- Series Seven-T issued January 2013 in the amount of $5,235,000 as a Private Bank Placement. The proceeds were used to refund 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.
- Saint Benedict Series 2017 issued December 2017 in the amount of $8,605,000. The proceeds were used to refund the Series Six-V and Seven-M Bonds.

# Colleges and Universities with Bond Issues Outstanding

## College of St. Scholastica

- Series Seven-R issued October 2012 in the amount of $9,380,000. The proceeds were used to refund the Series Five-R Bonds.
- St. Scholastica Series 2019 issued September 2019 in the amount of $29,075,000. The proceeds were used to refund the Series Six-S, Seven-H and Seven-J 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 to refund the Series Five-X Bonds.
- Gustavus Series 2017 issued September 2017 in the amount of $52,515,000. The proceeds were used to refund the Series Seven-B Bonds, and to renovate and expand two science and fine arts buildings on campus.

## Hamline University

- Series Seven-Y2 issued September 2013 in the amount of $6,210,000 as a Private Bank Placement. The proceeds were used to refund the Series Six-E2 Bonds.
- Hamline Series 2017A issued June 2017 in the amount of $6,726,000 as a Private Bank Placement. The proceeds were used to refund 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 refund 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, refurnishing 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. The proceeds were used to refund a portion of the Series Six-P Bonds and to 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 refund the Series Six-P and Seven-I Bonds, and to construct a new theater, dance and art building on campus.

## Minneapolis College of Art and Design

- Series Seven-N issued April 2012 in the amount of $3,215,000. The proceeds were used to refund the Series Five-K Bonds.
- Series Eight-D issued March 2015 in the amount of $7,845,000. The proceeds were used to refund the Series Six-K Bonds and Series Six-Z Notes.
- MCAD Series 2018 issued May 2018 in the amount of $3,643,000 as a Private Bank Placement. The proceeds were used for roof repair and renovation of studio and classroom space.

## Mitchell Hamline School of Law

- Series Seven-V issued May 2013 in the amount of $10,800,000. The proceeds were used to refund 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. The proceeds were used to refund the Series Six-G Bonds.
- Series Eight-I issued December 2015 in the amount of $18,275,000. The proceeds were used 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 refund the Series Six-U Bonds.

## Saint Mary's University of Minnesota

- Series Eight-A issued April 2014 in the amount of $6,025,000 as a Private Bank Placement. The proceeds were used to refund the Series Five-U Bonds.
- Saint Mary's Series 2017A in the amount of $5,546,000 issued June 2017 as a Private Bank Placement. 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.
- Saint Mary's Series 2017B in the amount of $2,471,000 issued June 2017 as a Private Bank Placement. The proceeds of St. Mary's Series 2017B were used to refund the Series Seven-C Bonds.

## St. Catherine University

- St. Catherine Series 2018A issued September 2018 in the amount of $49,770,000. The proceeds were used to refund the Series 5-N2 Bonds, Series Eight-B Note, and to provide funding for a portion of new construction projects on the University's Saint Paul campus.
- St. Catherine Series 2018B issued September 2018 in the amount of $20,765,000. These Bonds were issued as taxable and the proceeds were used to refund the Series Seven-Q Bonds.

# Colleges and Universities with Bond Issues Outstanding

## St. Olaf College

- Series Seven-F issued August 2010 in the amount of $32,440,000. The proceeds were used to refund 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. The proceeds were used to refund 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 to refund a portion of the Series Seven-F Bonds.

## University of St. Thomas

- Series Seven-U issued March 2013 in the amount of $25,685,000. The proceeds were used to refund the Series Five-L and the Series Five-Z Bonds.
- Series Seven-Z issued March 2014 in the amount of $24,210,000 as a Private Bank Placement. The proceeds were used to refund the Series Five-Y Bonds.
- Series Eight-L issued March 2016 in the amount of $55,355,000. The proceeds were used to refund the Series Six-W and Six-X Bonds.
- Series Eight-M issued March 2016 in the amount of $15,305,000. The proceeds were used to refund the Series Six-I Bonds.
- St. Thomas Series 2017A issued December 2017 in the amount of $60,750,000. The proceeds of Series 2017A were used to refund the Series Seven-A Bonds.
- St. Thomas Series 2017B issued December 2017 in the amount of $8,220,000 as a Private Bank Placement. The proceeds of Series 2017B were used to refund the Series Seven-O Bonds.
- St. Thomas Series 2017C issued December 2017 in the amount of $10,815,000 as a Private Bank Placement. The proceeds of Series 2017C were used to refund the Series Seven-P Bonds.
- St. Thomas Series 2019 issued May 2019 in the amount of $80,525,000. The proceeds were used to construct, equip, and furnish two new residence halls, including the demolition of a current residence hall and faculty residence.

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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, 2020, 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.

# Independent Auditor's Report

## 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, 2020, 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, 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.

# Independent Auditor's Report

## 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, 2019, from which such partial information was derived.

We have previously audited the Authority's 2019 financial statements and our report, dated October 4, 2019, 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, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BerganKDV, Ltd.
Minneapolis, Minnesota
October 5, 2020

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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, 2020.

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 234 issues (including refunded and retired issues) totaling over $3 billion of which $934,191,593 is outstanding as of June 30, 2020. 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 2020, the Authority was unable to hold its annual conference due to the COVID-19 pandemic.

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, 2019 and 2020.

| | 2020 | 2019 |
|---|---|---|
| **Assets** | | |
| Current assets | $ 2,230,724 | $ 2,188,618 |
| Noncurrent assets | 3,288 | 5,802 |
| Total assets | 2,234,012 | 2,194,420 |
| **Deferred Outflows of Resources** | | |
| Deferred outflows of resources related to pensions | 55,110 | 101,396 |
| **Liabilities** | | |
| Current liabilities | 37,595 | 14,047 |
| Long term liabilities | 43,691 | 41,439 |
| Total liabilities | 81,286 | 55,486 |
| **Deferred Inflows of Resources** | | |
| Deferred inflows of resources related to pensions | 115,375 | 159,708 |
| **Net Position** | | |
| Invested in capital assets | 3,288 | 5,802 |
| Unrestricted | 2,089,173 | 2,074,820 |
| **Total Net Position** | $ 2,092,461 | $ 2,080,622 |
| **Operating Revenues** | $ 416,817 | $ 436,786 |
| **Operating Expenses** | (493,081) | (335,729) |
| **Operating Gain (Loss)** | (76,264) | 101,057 |
| **Nonoperating Revenues** | | |
| Interest income | 47,905 | 41,377 |
| Net increase in fair value of investments | 40,198 | 30,850 |
| Total nonoperating revenue | 88,103 | 72,227 |
| **Change in Net Position** | 11,839 | 173,284 |
| **Net Position** | | |
| Beginning of year | 2,080,622 | 1,907,338 |
| End of year | $ 2,092,461 | $ 2,080,622 |

# Management Discussion and Analysis

## Financial Highlights

The Authority completed two financings in fiscal year 2020 with a total principal amount of $31,995,000. This compares to three financings completed in fiscal year 2019 with a total principal amount of $151,060,000. Following is a listing of the bond issues for fiscal year 2020.

- Augsburg University
  - ◊ Augsburg University Series 2019 was issued August 2019 in the amount of $2,920,000 as a Private Bank Placement. Proceeds of the 2019 Revenue Refunding Note, along with an existing debt service reserve fund (Series Seven-G) and University funds were used to refund, on a current basis, the outstanding principal of the Authority's Series Six-J2 and Seven-G Bonds.

- College of St. Scholastica
  - ◊ College of St. Scholastica, Inc., Series 2019 (St. Scholastica Series 2019) was issued September 2019 in the amount of $29,075,000. Proceeds of the 2019 Revenue Refunding Bonds were used to refund the outstanding principal of the Authority's Series Six-S, Seven-H, and Seven-J Bonds.

# 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 2020 by 65%. The maximum allowable fee for fiscal year 2021 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.

The interest earnings generated on accumulated operating reserves varies depending on the level of reserves and market interest rates. The Authority does not rely on interest earnings to generate a material level of income to support operations. Operating reserves are designated to offset risk factors and are kept to a level that is not in excess of a reasonably required reserve.

The first quarter of 2020 saw a global outbreak of COVID-19, a respiratory disease declared to be a pandemic (the "Pandemic") by the World Health Organization, is affecting the national capital markets and may negatively impact the Minnesota higher education market and the financial health of all higher education institutions. The threat from the Pandemic is being addressed on a national, federal, state, and local level in various forms, including executive orders and legislative actions. Authority borrowers have postponed capital projects in response to the uncertain financial effects on the borrower institution. No assurance can be given about future effects on Authority borrower finances or funding or construction of capital projects affected by COVID-19.

# Management Discussion and Analysis

## 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, would like a copy in an alternative format, or need additional financial information, please contact:

Minnesota Higher Education Facilities Authority

380 Jackson Street, Suite 450

Saint Paul, MN 55101

Phone: 651-296-4690

Email: info@mnhefa.org

Website: www.mnhefa.org

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# Statement of Net Position

For the year ended June 30, 2020 (with partial comparative information as of June 30, 2019)

| | 2020 | 2019 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $364,887 | $ 182,421 |
| Investments | 1,816,933 | 1,996,735 |
| Interest receivable | 8,624 | 7,543 |
| Prepaid items | 1,477 | 1,919 |
| Total current assets | 2,230,724 | 2,188,618 |
| Noncurrent assets | | |
| Equipment | 60,181 | 60,181 |
| Less accumulated depreciation | (56,893) | (54,379) |
| Total noncurrent assets | 3,288 | 5,802 |
| Total assets | 2,234,012 | 2,194,420 |
| Deferred Outflows of Resources | | |
| Deferred outflows of resources related to pensions | 55,110 | 101,396 |
| Total assets and deferred outflows of resources | $2,289,122 | $2,295,816 |

*Continued on page 21*

# Statement of Net Position

For the year ended June 30, 2020 (with partial comparative information as of June 30, 2019)

| | | |
|---|---|---|
| **Liabilities, Deferred Inflows of Resources and Net Position** | | |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable | $28,030 | $ 5,916 |
| Compensated absences payable | 9,565 | 8,131 |
| Total current liabilities | 37,595 | 14,047 |
| Noncurrent liabilities | | |
| Compensated absences payable | 9,565 | 8,131 |
| Net pension liability | 34,126 | 33,308 |
| Total noncurrent liabilities | 43,691 | 41,439 |
| Total liabilities | 81,286 | 55,486 |
| **Deferred Inflows of Resources** | | |
| Deferred inflows of resources related to pensions | 115,375 | 159,708 |
| **Net Position** | | |
| Net investment in capital assets | 3,288 | 5,802 |
| Unrestricted | 2,089,173 | 2,074,820 |
| Total net position | 2,092,461 | 2,080,622 |
| Total liabilities, deferred inflows of resources, and net position | $2,289,122 | $ 2,295,816 |

See notes to financial statements.

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# Statement of Revenues, Expenses and Changes in Net Position

For the year ended June 30, 2020 (with partial comparative information as of June 30, 2019)

| | 2020 | 2019 |
|---|---|---|
| **Operating Revenues** | | |
| Annual administrative fees | $ 412,781 | $433,667 |
| Other income | 4,036 | 3,119 |
| Total operating revenues | 416,817 | 436,786 |
| **Operating Expenses** | | |
| Payroll, payroll taxes, and employee benefits | 273,028 | 198,315 |
| Legal, audit, and consulting expense | 69,756 | 27,929 |
| Rent | 47,957 | 47,224 |
| Depreciation | 2,514 | 2,707 |
| Other general and administrative expenses | 99,826 | 59,554 |
| Total operating expenses | 493,081 | 335,729 |
| Operating gain (loss) | (76,264) | 101,057 |
| **Nonoperating Revenues** | | |
| Interest income | 47,905 | 41,377 |
| Increase in fair value of investments | 40,198 | 30,850 |
| Total nonoperating revenues | 88,103 | 72,227 |
| Change in net position | 11,839 | 173,284 |
| **Net Position** | | |
| Beginning of year | 2,080,622 | 1,907,338 |
| End of year | $ 2,092,461 | $2,080,622 |

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

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# Statement of Cash Flows

For the year ended June 30, 2020 (with partial comparative information as of June 30, 2019)

| | 2020 | 2019 |
|---|---|---|
| **Cash Flows - Operating Activities** | | |
| Cash received from annual administrative and other fees | $378,014 | $436,786 |
| Cash payments to employees | (245,610) | (268,358) |
| Cash payments to suppliers for goods and services | (216,762) | (139,373) |
| Net cash flows - operating activities | (84,358) | 29,055 |
| **Cash Flows - Capital and Related Financing Activities** | | |
| Purchase of Capital Assets | - | (3,316) |
| **Cash Flows - Investing Activities** | | |
| Interest received | 46,824 | 40,116 |
| Net investment purchases | 220,000 | (150,000) |
| Net cash flows - investing activities | 266,824 | (109,884) |
| Net change in cash and cash equivalents | 182,466 | (84,145) |
| **Cash and Cash Equivalents** | | |
| Beginning of year | 182,421 | 266,566 |
| End of year | $364,887 | $182,421 |

*Continued on page 24*

# Statement of Cash Flows

For the year ended June 30, 2020 (with partial comparative information as of June 30, 2019)

| | 2020 | 2019 |
|---|---|---|
| **Reconciliation of Operating Gain (Loss) to Net Cash Flows - Operating Activities** | | |
| Operating gain (loss) | $ (76,264) | $ 101,057 |
| Adjustments to reconcile operating loss to net cash flows - operating activities | | |
| Depreciation expense | 2,514 | 2,707 |
| Prepaid items | 442 | (1,091) |
| Accounts payable | 22,114 | (16,323) |
| Deferred outflows, inflows, and liability related to pension activity | 2,771 | (55,763) |
| Compensated absences payable | 2,868 | (1,532) |
| Total adjustments | (8,094) | (72,002) |
| Net cash flows - operating activities | $ (84,358) | $ 29,055 |
| **Noncash Investing Activities** | | |
| Net increase in fair value of investments | $ 40,198 | $ 30,850 |

See notes to financial statements.

MINNESOTA
HIGHER EDUCATION
FACILITIES AUTHORITY

# 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 2020, 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, 2020, 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, 2020, 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*

### 1. Cash and Investments, *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.

## 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, 2020, 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

# Notes to the Financial Statements

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

### D. Deferred Outflows/Inflows of Resources, *continued*

resources related to pensions is recorded for various estimate differences that will be amortized and recognized over future years.

### 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.

## Note 2—Deposits and Investments

### A. Deposits

Deposits are maintained at depository banks authorized by the Authority.

**Custodial Credit Risk – Deposits:** Deposits: As of June 30, 2020, the Authority's bank balance of $41,855 was not exposed to custodial credit risk because it was insured through FDIC insurance.

As of June 30, 2020, the Authority's carrying value of deposits was as follows:

**Deposits** ……………………. $40,706

**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.

## Note 2—Deposits and Investments, *continued*

### B. Investments

As of June 30, 2020, the Authority had the following investments:

| Investment | Maturities | Fair Value | S&P Rating |
|---|---|---|---|
| Synchrony Bank Certificate of Deposit | 08/17/20 | 125,357 | N/A |
| Compass Bank Certificate of Deposit | 11/30/20 | 101,264 | N/A |
| Oceanfirst Bank NA Certificate of Deposit | 01/19/21 | 100,520 | N/A |
| Comenity Capital Bank Certificate of Deposit | 03/18/21 | 101,267 | N/A |
| Comenity Capital Bank Certificate of Deposit | 07/16/21 | 101,917 | N/A |
| Fifth Third Bank Certificate of Deposit | 04/22/21 | 100,828 | N/A |
| Sallie Mae Bank/Salt Lake Certificate of Deposit | 09/20/21 | 102,056 | N/A |
| Capital One Bank NA Certificate of Deposit | 10/05/21 | 101,612 | N/A |
| Discover Bank Certificate of Deposit | 11/16/21 | 102,240 | N/A |
| State Bank of India, NY Certificate of Deposit | 02/24/22 | 103,388 | N/A |
| Goldman Sachs Bank, NY Certificate of Deposit | 04/12/22 | 103,411 | N/A |
| Enerbank USA Certificate of Deposit | 12/17/20 | 101,009 | N/A |
| Merrick Bank Certificate of Deposit | 06/21/21 | 102,135 | N/A |
| Ally Bank Certificate of Deposit | 01/31/22 | 156,429 | N/A |
| Goldman Sachs Bank, NY Certificate of Deposit | 06/20/22 | 104,321 | N/A |
| Eaglebank Certificate of Deposit | 10/18/22 | 105,279 | N/A |
| Amerant Bank NA Certificate of Deposit | 12/20/22 | 103,900 | N/A |
| Wells Fargo Money Market | N/A | 324,181 | AAAm |
| Total investments | | $ 2,141,114 | |

## 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, 2020, two individual investment balances, with two 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, 2020:

- Brokered money markets of $324,181 are valued using calculated net asset value (Level 1 inputs)
- Investment securities of $1,816,933 are valued using quoted market prices (Level 2 inputs)

Deposits and investments are presented in the June 30, 2020, basic financial statements as follows:

| | | |
|---|---|---|
| Cash and cash equivalents | $ | 364,887 |
| Investments | | 1,816,933 |
| Total deposits and investments | $ | 2,181,820 |

## Note 3—Capital Assets

Capital asset activity for the year ended June 30, 2020, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital assets, being depreciated | | | | |
| Office furniture and equipment | $ 60,181 | $ - | $ - | $ 60,181 |
| Less accumulated depreciation | (54,379) | (2,514) | - | (56,893) |
| Capital assets, net | $ 5,802 | $ (2,514) | $ - | $ 3,288 |

## 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 $47,957 for the year ended June 30, 2020. The future minimum lease payments for this lease are as follows:

| Year Ending June 30, | Annual Lease |
|---|---|
| 2021 | 48,252 |
| 2022 | 48,985 |
| 2023 | 20,629 |
| Total | $ 117,866 |

## Note 5—Long-Term Liabilities

Changes in long-term liability activity for the year ended June 30, 2020, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Compensated absences | $ 16,262 | $ 29,087 | $ (26,219) | $ 19,130 | $ 9,565 |

## Note 6—Conduit Debt

At June 30, 2020, there were 45 bond issues and leases outstanding with an aggregate principal balance outstanding of $934,191,593 as follows:

| College/University | Final Maturity | Indebtedness Issued | Indebtedness Outstanding |
|---|---|---|---|
| Series Three-Z, Macalester College<br>Variable Rate Demand Revenue Bonds, September 1994 | 2024 | $ 6,660,000 | $ 6,660,000 |
| Series Five-Q, Macalester College<br>Variable Rate Demand Revenue Bonds, February 2003 | 2033 | 15,300,000 | 15,300,000 |
| Series Six-Q, Concordia University, St. Paul<br>Revenue Bonds, October 2007 | 2037 | 18,155,000 | 14,635,000 |
| Series Seven-N, Minneapolis College of Art and Design<br>Revenue Bonds, April 2012 | 2023 | 3,215,000 | 1,070,000 |
| Series Seven-R, College of St. Scholastica<br>Revenue Bonds, October 2012 | 2032 | 9,380,000 | 6,565,000 |
| Series Seven-S, Macalester College<br>Revenue Bonds, December 2012 | 2043 | 14,730,000 | 13,055,000 |
| Series Seven-T, College of St. Benedict<br>Revenue Bonds, January 2013 | 2024 | 5,235,000 | 1,905,000 |
| Series Seven-U, University of St. Thomas<br>Revenue Bonds, March 2013 | 2027 | 25,685,000 | 16,090,000 |
| Series Seven-V, William Mitchell College of Law<br>Revenue Note, May 2013 | 2033 | 10,800,000 | 8,168,000 |
| Series Seven-W, Gustavus Adolphus College<br>Revenue Bonds, July 2013 | 2034 | 11,410,000 | 9,045,000 |
| Series Seven-Y2, Hamline University<br>Revenue Note, September 2013 | 2025 | 6,210,000 | 3,510,000 |

## Note 6—Conduit Debt, *continued*

| College/University | Final Maturity | Indebtedness Issued | Outstanding |
|---|---|---|---|
| Series Seven-Z, University of St. Thomas Revenue Note, March 2014 | 2034 | 24,210,000 | 15,977,593 |
| Series Eight-A, Saint Mary's University of Minnesota Revenue Note, April 2014 | 2023 | 6,025,000 | 2,623,000 |
| Series Eight-C, Augsburg College Revenue Bond, July 2014 | 2023 | 6,705,000 | 2,825,000 |
| Series Eight-D, Minneapolis College of Art and Design Revenue Bond, March 2015 | 2026 | 7,845,000 | 4,550,000 |
| Series Eight-E, Augsburg College Revenue Note, April 2015 | 2036 | 12,400,000 | 10,340,000 |
| Series Eight-G, St. Olaf College Revenue Bonds, July 2015 | 2032 | 53,745,000 | 44,685,000 |
| Series Eight-H, St. John's University Revenue Bonds, August 2015 | 2026 | 13,815,000 | 7,035,000 |
| Series Eight-I, St. John's University Revenue Bonds, December 2015 | 2035 | 18,275,000 | 14,335,000 |
| Series Eight-J, Macalaster College Revenue Bonds, September 2015 | 2032 | 22,660,000 | 18,000,000 |
| Series Eight-K, College of St. Benedict Revenue Bonds, April 2016 | 2043 | 34,360,000 | 32,740,000 |
| Series Eight-L, University of St. Thomas Revenue Bonds, March 2016 | 2039 | 55,355,000 | 48,860,000 |
| Series Eight-M, University of St. Thomas Revenue Bonds, March 2016 | 2022 | 15,305,000 | 5,250,000 |
| Series Eight-N, St. Olaf College Revenue Bonds, September 2016 | 2035 | 22,845,000 | 22,845,000 |

## Note 6—Conduit Debt, *continued*

| College/University | Final Maturity | Indebtedness Issued | Outstanding |
|---|---|---|---|
| Series 2016A, Augsburg College<br>Revenue Bonds, December 2016 | 2046 | 32,240,000 | 32,240,000 |
| Series 2016B, Augsburg College<br>Revenue Bonds, December 2016 | 2046 | 13,680,000 | 12,000,000 |
| Series 2017, Carleton College<br>Revenue Bonds, May 2017 | 2047 | 124,900,000 | 116,370,000 |
| Series 2017A, Saint Mary's University of Minnesota<br>Revenue Note, June 2017 | 2037 | 5,546,000 | 5,303,000 |
| Series 2017B, Saint Mary's University of Minnesota<br>Revenue and Refunding Note, June 2017 | 2026 | 2,471,000 | 1,688,000 |
| Series 2017A, Hamline University<br>Revenue Note, June 2017 | 2026 | 6,726,000 | 5,356,000 |
| Series 2017, Bethel University<br>Revenue and Refunding Bonds, July 2017 | 2047 | 44,565,000 | 44,565,000 |
| Series 2017, Gustavus Adolphus College<br>Revenue Bonds, September 2017 | 2047 | 52,515,000 | 51,885,000 |
| Series 2017, St. John's University<br>Revenue and Refunding Bonds, September 2017 | 2033 | 7,595,000 | 6,860,000 |
| Series 2017, Macalester College<br>Revenue and Refunding Bonds, November 2017 | 2048 | 40,315,000 | 33,930,000 |
| Series 2017B, Hamline University<br>Revenue and Refunding Bonds, December 2017 | 2047 | 34,650,000 | 33,300,000 |
| Series 2017A, University of St. Thomas<br>Revenue Bonds, December 2017 | 2037 | 60,750,000 | 57,625,000 |
| Series 2017B, University of St. Thomas<br>Revenue and Refunding Note, December 2017 | 2025 | 8,220,000 | 5,240,000 |

## Note 6—Conduit Debt, *continued*

| College/University | Final Maturity | Indebtedness Issued | Outstanding |
|---|---|---|---|
| Series 2017C, University of St. Thomas Revenue and Refunding Notes, December 2017 | 2033 | 10,815,000 | 9,610,000 |
| Series 2017, College of St. Benedict Revenue and Refunding Bonds, December 2017 | 2036 | 8,605,000 | 6,510,000 |
| Series 2018, Minneapolis College of Art and Design Revenue Note, May 2018 | 2028 | 3,643,000 | 3,496,000 |
| 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 |
| Series 2019, University of St. Thomas Revenue Bonds, May 2019 | 2044 | 80,525,000 | 80,525,000 |
| Series 2019, Augsburg University Series 2019, College of St. Scholastica | 2040 | 2,920,000 | 2,920,000 |
| Series 2019, College of St. Scholastica Revenue and Refunding Bonds, 2019 | 2028 | 29,075,000 | 28,165,000 |
| Total | | $ 1,060,616,000 | $ 934,191,593 |

## Note 6—Conduit Debt, *continued*

A summary of changes in conduit debt outstanding for the year ended June 30, 2020, is presented below.

| | |
|---|---|
| Conduit debt - July 1, 2019 | $ 983,602,593 |
| Additions | |
| Revenue bonds issued | 31,995,000 |
| Reductions | |
| Principal retirements | (42,126,000) |
| Refunding of principal | (39,280,000) |
| Conduit debt - June 30, 2020 | $ 934,191,593 |

## 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, 2020, 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.

## 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 were required to contribute 5.75% of their annual covered salary in fiscal year 2019 while participating employers were required to contribute 5.875% of covered salary in fiscal year 2019. The Authority's contribution to the General Plan for the fiscal year ending June 30, 2019, 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, 2019, 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, 2019, valuation were based on the results of an actuarial experience study dated in the fall of 2014, 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.

## 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) were 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 | Target Allocation | Long-term Expected Real Rate of Return (Geometric Mean) |
|---|---|---|
| Domestic Equity | 35.5% | 5.10% |
| International Equity | 17.5 | 5.30 |
| Fixed Income | 10.0 | 0.75 |
| Treasuries | 10.0 | 0.50 |
| Private Markets | 25.0 | 5.90 |
| Cash | 2.0 | 0.00 |
| Total | 100% | |

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

- The assumed post-retirement benefit increase rate was changed from 1.75% per year through 2037, 2.00% per year for 2038 through 2051, and 2.50% thereafter to 1.75% per year through 2039, 2.00% per year for 2040 through 2056, and 2.50% thereafter.

### E. Discount Rate

A Single Discount Rate used to measure the total pension liability as of June 30, 2019, 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 3.13%. 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 of current plan members through fiscal year 2119. As a result, the discount rate is the long-term expected rate of return on pension plan investments which, was applied to all periods of projected benefit payments to determine the total pension liability.

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

### F. Net Pension Liability

At June 30, 2020, the Authority reported a liability of $34,126 for its proportionate share of MSRS' net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2018, through June 30, 2019, relative to the total employer contributions received from all of MSRS's participating employers. At June 30, 2019, the Authority's proportionate share was 0.0032% at the end of the measurement period and 0.0032% for the beginning of the period.

### 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 liability: | $ 79,482 | $ 34,126 | $ (3,525) |

### 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*

## 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, 2020, the Authority recognized pension expense of $2,771. At June 30, 2020, 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 | $ 1,034 | $ 118 |
| Changes of assumptions | 48,083 | 106,922 |
| Net difference between projected and actual earnings on investments | - | 8,335 |
| Changes in proportion and differences between actual contributions and proportionate share of contributions | 1,056 | - |
| Contributions paid to MSRS subsequent to the measurement date | 4,937 | - |
| Total | $ 55,110 | $ 115,375 |

$4,937 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, 2021.

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 |
|---|---|
| 2021 | $ 2,076 |
| 2022 | (46,106) |
| 2023 | (21,412) |
| 2024 | 240 |
| | ($ 65,202) |

## 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 6.00% for employees and 6.25% for the employer. Actual contributions were 100% of required contributions. Required contributions for the Authority were:

| Year | Amount |
|---|---|
| 2020 | $ 7,524 |
| 2019 | 7,081 |
| 2018 | 6,925 |

## Note 10—Subsequent Events

On March 13, 2020, a national emergency was declared for the COVID-19 outbreak in the United States of America. This event affects the economy and financial markets. The extent of the impact on the District may be both direct and indirect and will vary based on the duration of the outbreak and various other factors. An estimate of the financial effect on the District's financial statements cannot be determined at this time.

## Note 11—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, 2022.

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# 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-Employee Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|---|---|---|---|---|
| 2019 | 0.0032% | $ 34,126 | $ 75,155 | 45.41% | 90.73% |
| 2018 | 0.0032% | 33,308 | 71,200 | 46.78% | 90.56% |
| 2017 | 0.0035% | 192,979 | 78,927 | 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 | Contribution Deficiency (Excess) | Authority's Covered-Employee Payroll | Contributions as a Percentage of Covered-Employee Payroll |
|---|---|---|---|---|---|
| 2020 | $ 4,934 | $ 4,934 | $ - | $ 83,983 | 5.88% |
| 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.

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# Notes to Required Supplementary Information

## State Employees' Retirement Fund

Fiscal Year 2019 Changes Since the Fiscal Year 2018 Actuarial Valuation

Changes in Actuarial Assumptions:

- No changes

Changes to Plan Provisions:

- No changes

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.

## 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.

# Notes to Required Supplementary Information

Fiscal Year 2016 Changes Since the Fiscal Year 2015 Actuarial Valuation, *continued*

Changes in Actuarial Assumptions, *continued*:

- 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%.

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.
- The *Contribution Stabilizer* statutes were revised to make changes to contribution rates less prescriptive and more flexible.

Changes to Plan Provisions:

- 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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2020 Annual Report

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