Listing of Mailout Material
October 19, 2022

- Forwarding Letter
- Directions and Parking Memo
- Meeting Agenda

I. *Review and approve minutes of the meeting of June 15, 2022*
- Minutes of June 15, 2022

II. *FY2022 Audit Results Presentation by BerganKDV*
- Communication Letter
- Basic Financial Statements

III. *Policy Updates*
- MHEFA Standing Rules of Operation - Section 500

IV. *MHEFA Services Discussions*
- MHEFA Professional Services – Arbitrage Rebate
- MHEFA Professional Services – Municipal Advisors Memo

V. *Old Business*

VI. *New Business*

VII. *Other Business*
- Executive Director's Report
- September 2022 Budget vs Actual

MEMORANDUM

MINNESOTA
HIGHER EDUCATION
FACILITIES AUTHORITY

860 BLUE GENTIAN ROAD, SUITE 145, EAGAN, MN
55121

Date: 12 October 2022

To: Minnesota Higher Education Facilities Authority Board Members

From: Barry W. Fick, Executive Director

Subject: October 19, 2022, Authority Board Meeting Preview

We have a full agenda for our Minnesota Higher Education Facilities Authority October 19, 2022 Board meeting.

This will be the first opportunity we have to hold Board meetings on the campus of one of our borrowers. This month's meeting will be held on the Macalester College campus in St. Paul. There is information on the meeting location, parking and other logistics included with your meeting information packet.

The focus of the October 2022 Board meeting will be consideration of the Fiscal Year 2022 Financial Statement Audit. There will be additional administrative matters of importance to discuss at this meeting.

After the meeting you are all invited to tour our new office location and then attend a Board Recognition dinner at the Pool and Yacht Club. The new MHEFA office and the P&Y Club are all located close to each other. Information about travel between Macalester, the MHEFA office and the P&Y Club is included with your meeting information packet.

This is an in-person meeting, but if you are not able to attend in person, we will use our video link system for this meeting. Instructions for accessing the video link are available in Board packet material included with this email.

We look forward to your participation in-person or by video conferencing or telephone for the meeting.

MEMORANDUM

MINNESOTA
HIGHER EDUCATION
FACILITIES AUTHORITY

860 BLUE GENTIAN ROAD, SUITE 145, EAGAN, MN
55121

Date: 12 October 2022

To: Minnesota Higher Education Facilities Authority Board Members

From: Amanda G. Lee, Operations Manager

Subject: October 19, 2022 Driving/Parking Directions

The October 2022 Authority Board Meeting will take place in the Conference Room in the Campus Center of Macalester College. A link to an interactive Macalester College campus map can be found here: Macalester Campus Map.

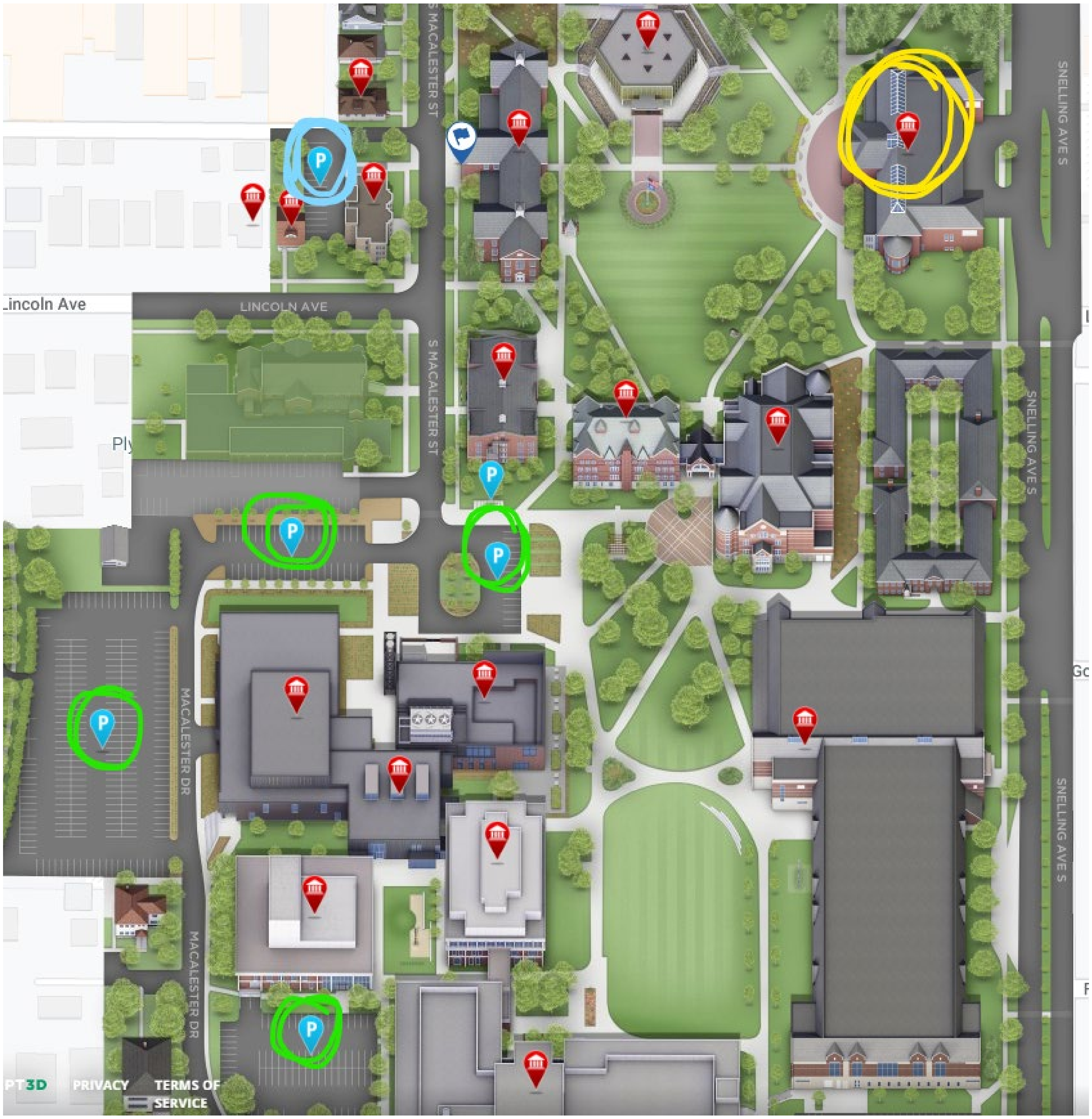
The closest parking is **Visitor 2 Parking, circled in blue on the map on the next page**. The entrance to the parking lot is off an alley along S Macalester Street between Grand Avenue and Lincoln Avenue. The Campus Center is circled in yellow. If Visitor 2 Parking is full, you can park in Visitor 1 or any of the West Parking lots. The additional parking options are circled in green.

Following the Board Meeting at Macalester, we will move to the Authority's new office in Eagan. The address is **860 Blue Gentian Road, Suite 145, Eagan, MN 55121.** The drive should take approximately 15 minutes. The easiest route is 35E South to 494 East to Exit 69 (Hwy 149/ Hwy 55/Dodd Road), left on Dodd, right on Blue Gentian Road and left into the parking lot. There is plenty of free parking. The Authority's suite is on the first floor, down the hall to the left from the front entrance, and it is the second suite from the end on the left. There is signage inside the atrium to help direct you to each suite.

Following our Authority office tour, we will move to the Pool & Yacht Club. **The address of the Pool & Yacht Club is 1600 Lilydale Road, St. Paul, MN 55118.** The easiest route will be 494 West to 35E North to Hwy 13 to Lilydale Road.

MEMORANDUM

MINNESOTA
HIGHER EDUCATION
FACILITIES AUTHORITY



Partners in progress since 1971

Board Meeting Agenda

Wednesday, October 19, 2022

2:00 PM

Conference Room in the Campus Center, Macalester College

The public may utilize the call-in information or link provided below.

Individuals may request reasonable accommodation or modifications in order to participate in Authority programs by contacting the Authority at least 48 hours in advance of the event.

I. Review and approve minutes of the meeting of June 15, 2022

II. FY2022 Audit Results Presentation by BerganKDV

III. Policy Updates

- Standing Rules of Operation - Section 500

IV. MHEFA Services Discussions

- Municipal Advisors Services
- Arbitrage Rebate Services

V. Old Business

VI. New Business

VII. Other Business

- Executive Director's Report

VIII. Tour of new MHEFA Eagan Office *(Travel from Macalester College to Eagan required)*

IX. Board Recognition Dinner *(Travel from Eagan to Pool & Yacht Club required)*

Meeting to be conducted in-person and via video conference

General Public may attend via call-in number: 1-877-978-6969 Access Code: 190-467-219#

or through this link: https://www.gomeet.com/190-467-219

MHEFA, 860 Blue Gentian Road, Suite 145, Eagan, MN 55121 Telephone: 651-296-4690

The Minnesota Higher Education Facilities Authority (the "Authority" or "MHEFA") convened a regular Board meeting at 2:06 pm Central Time, Wednesday, June 15, 2022.

The Board is conducting this meeting subject to the Open Meeting Law by in-person, telephone, and interactive technology as allowed by Minnesota Statutes. Members participating in the meeting can hear each other and all discussion; members of the public can hear all discussion and votes; and all votes are conducted by a roll call. The board has made provision for the public to monitor the meeting electronically from a remote location. The board has provided notice of the meeting location, the fact that some members may participate by interactive technology, and of the public's right to monitor the meeting electronically from a remote location. Authority Chair Benson determined that an in-person meeting was not practical or prudent because of the health pandemic as defined according to current guidance from the Minnesota Department of Health, the Centers for Disease Control and Prevention, and the U.S. Department of Homeland Security.

The Authority Board meeting was held in the Conference Room at the Authority office, 380 Jackson St, Suite 450, St. Paul, MN 55101. Executive Director Fick was physically present, although not required due to the pandemic environment. Mr. Fick meets the state's requirement for COVID-19 safety through vaccination. The location and time of the meeting was duly published and posted on the Authority website and the door of the Authority office.

The public was able to monitor the meeting by calling a toll-free number and able to connect using the video link.

Board members participated in the meeting using a video link. The meeting link was sent to Board members prior to the meeting. The use of a video link as an allowable way to hold the Board meeting was confirmed by the State of Minnesota's Data Practices Office staff prior to the meeting, following Minnesota Statute 13D.015.

Executive Summary – Minnesota Higher Education Facilities Authority

Meeting on June 15, 2022

Board Actions Taken:

Motions:	Result:	Vote:
Approval of Meeting Minutes of May 18, 2022	Passed	Unanimous
Approval of Fiscal Year 2023 Plan of Action	Passed	Unanimous
Approval of the FY2023 Annual Fee Discount	Passed	Unanimous
Approval of the FY2023 Proposed Budget	Passed	Unanimous

Resolutions	Result:	Vote:
Combine Resolution 06-2022-01 and Resolution 06-2022-02 and Approve the combined Resolution Relating to the Authorization of a General Salary Increase from the Managerial Plan for FY22 and a General Salary Increase from the Managerial Plan for FY2023	Passed	Unanimous

The official meeting began with a roll call to determine who was attending the meeting. The following board members or their designees were participating and attending by video link ("V") or telephone ("T"):

Board Members:
Gary Benson – V
Bonnie Anderson Rons – V
David Rowland – V
Nancy Sampair – T
Mary Yang Thao – V
Paul Cerkvenik, Minnesota Private College Council, ex officio w/o vote – V

Absent:
Mary Ives
Ray VinZant
Mikeya Griffin
Poawit Yang

Other Attendees: None

Also Present: Barry W. Fick Executive Director MHEFA – In-person and V
Amanda Lee, Operations Manager, MHEFA – V

Gary Benson, Chair, called the meeting order at 2:06 pm CT. Executive Director Fick confirmed that a quorum was present.

Agenda Item I – Minutes of the May 18, 2022, Board meeting.

The first item on the agenda is the review and consideration of the minutes of the May 18, 2022, Authority Board meeting.

Board members reported no changes to the May 18, 2022 minutes.

A motion was made by Bonnie Anderson Rons to approve the amended May 18, 2022 minutes. The motion was seconded by David Rowland. Chair Benson asked if there were any questions, discussion, or further changes to the minutes of the May 18, 2022 Board meeting. There were no further questions or proposed changes to the minutes from Board members.

Chair Benson called for a vote regarding the approval of the minutes. A roll call vote was conducted, and the Board members voted as follows:

Board Members:	Gary Benson	Yes
	Bonnie Anderson Rons	Yes
	David Rowland	Yes
	Nancy Sampair	Abstain
	Mary Yang Thao	Yes

There were no votes against the motion and the Minutes of the May 18, 2022, MHEFA Board meetings were approved.

Agenda Item II – Summary of May 18, 2022 Closed Session

The performance of Executive Director, Barry Fick, was evaluated by the MHEFA Board during a closed session of the Authority Board. As summarized in the May 18th meeting minutes, the MHEFA Board discussed Mr. Fick's performance and rated his performance as outstanding.

Agenda Item III – Annual Conference Update

Chair Benson called on Operations Manager Amanda Lee to provide an update on the status of the 2022 Annual Finance Conference. Ms. Lee noted that the Authority has looked at a number of site options, including Minnesota Vikings Practice facility Conference hotel, the Lost Spur Golf Cub, as well as others. The preferred candidate is the St. Paul Union Depot, located in downtown St. Paul.

This site is preferred for a number of reasons, including its ability to accommodate a gathering of our size; the availability of convenient parking; spacious, well-lit, comfortable meeting facilities; on-site catering; overlooks the grand hall of the restored Union Depot train station. The Conference will be held in the Red Cap room, named after the persons who handled luggage at the Union Depot when it was a fully operating train station. The room has superior audio and video capability and is easy to access, both by light rail and automobile. Finally, the space is substantially less expensive than other options, the staff is friendly and the preferred date for the Conference (August 11) is available.

Chair Benson asked if there were questions from the Board for Amanda. Board members asked about access to the site, parking, and some questions about the facility in general. Board members expressed satisfaction with the recommended site and indicated they look forward to seeing the location in person.

Ms. Lee noted that there are additional facilities at the Union Depot that would be suitable for a meeting of Borrower CFOs and for future Board meetings if that would be convenient for Board members.

There were no other questions or comments from Board members. There is no required action by the Board and Authority staff will begin planning for the August 11, 2022 conference.

Agenda Item IV – General Salary Increases for FY2022 and FY2023

On May 26, 2022, Minnesota Management and Budget sent an email to state employees noting that the Legislature approved compensation plans for 36,000 state employees. The approval included the Managerial Plan. The plan provides for a 2.5% salary increase in FY2022 and a 2.5% salary increase for FY2023. Since the Authority occupies a unique status in the State of Minnesota system, the Managerial plan is not automatically applied to Authority Staff. The Board must approve the approved Managerial Plan compensation for Authority Staff.

The two resolutions included with the Board information packet for Board Consideration authorize the legislatively approved Managerial Plan components to apply for Authority Staff. There are two Resolutions, one for FY2022 and one for FY2023. If approved by the Board, the FY2022 compensation would be paid in a lump sum and the FY2023 compensation would be applied beginning July 1, 2022. Staff is requesting the Board approve Resolution 06-2022-01 and Resolution 06-2022-02.

Chair Benson asked if there were any questions from Board members. The question was asked if the two resolutions could be combined and the Board vote on both Resolutions at the same time. Executive Director Fick noted this is possible if the Board members plan to vote the same on each resolution. If any Board member wanted to approve one resolution but not the other, it would be preferable to vote on the Resolutions separately.

Board Member Bonnie Anderson Rons made a motion to combine the two Resolutions into one and to approve both Resolution No. 06-2022-01 and Resolution No. 06-2022-02. The motion was seconded by Nancy Sampair.

Chair Benson called for a roll call vote regarding the approval of the two Salary Adjustment Resolutions. A roll call vote was conducted, and the Board members voted as follows:

Board Members:	Gary Benson	Yes
	Bonnie Anderson Rons	Yes
	David Rowland	Yes
	Nancy Sampair	Yes
	Mary Yang Thao	Yes

There were no votes against the motion and Resolution No, 06-2022-01 and Resolution No, 06-2022-02 were approved.

Agenda Item V – FY2023 Administrative Items

Chair Benson called on Barry Fick to present the ***FY2023 Plan of Action***. A Plan of Action is adopted by the Board annually. The Plan of Action outlines tasks for staff to accomplish during the year. Successful completion of the tasks is used as one of the components considered by the Board in their analysis for determining if Staff qualifies for Annual financial Performance Awards.

The FY2023 Plan of Action focuses on client service and continuing to improve the operating efficiency of operations. It also includes a focus on enhancing the Authority's website. The FY2023 Plan continues prior FY components for continuing client service and builds on new areas identified as of increasing importance to borrowers.

Chair Benson asked if Board members had any questions about the FY2023 Plan of Action. There were no questions from Board members. The Chair asked for a motion to approve the FY2023 Plan of Action for Authority Staff. Nancy Sampair moved approval of the Motion. Chair Benson seconded the Motion.

Chair Benson called for a roll call vote regarding the approval of the FY2023 Plan of Action. A roll call vote was conducted, and the Board members voted as follows:

Board Members:	Gary Benson	Yes
	Bonnie Anderson Rons	Yes
	David Rowland	Yes
	Nancy Sampair	Yes
	Mary Yang Thao	Yes

There were no votes against the motion and the FY2023 Plan of action was approved and adopted.

FY2023 Budget – Chair Benson asked Operations Manager Amanda Lee to present the proposed FY2023 Budget to the Board. Ms. Lee outlined the assumptions that were used to develop the budget, noting that the FY2023 Proposed Budget includes relocation expenses for the Authority's move to a new office location. Also included in the FY2023 Proposed Budget are one-time expenditures for office furniture, communications equipment, and capitalizing of rent. The FY2023 budget includes planning for an in-person Finance Conference and a delayed 50th Anniversary event.

Ms. Lee prepared a line-item summary of the FY2023 Proposed Budget for Board members. This was distributed with the Board packet. The FY2023 Proposed Budget is based on three financings, which are in turn based on discussions with borrower institutions. Income from investments may be higher than projected, as maturing Certificate of Deposits are reinvested at current market rates. In some cases, the current rates will be higher and, in some cases, the current rates may be lower than the prior rate. The authority will continue it's investment policy of laddering the Certificates of Deposit to reduce interest rate and reinvestment risk to the Authority.

The FY2023 budget shows a small surplus when excluding capitalized expenditures and a modest deficit if the capitalized items are accounted for as cash expenditures.

Ms. Lee asked if there were questions from Board members. Several Board members commented favorably on the line-by-line budget analysis prepared and presented with the FY2023 budget. Board members found it very helpful for their analysis. Board members asked a number of questions about the derivation of specific line items, which were answered to the satisfaction of Board members. It was suggested that the Authority consider additional investment options besides Certificates of Deposit to obtain higher returns. Options suggested included direct purchase of US Treasury Certificates.

There were no other questions regarding the FY2023 Proposed Budget. Chair Benson noted that, consistent with prior Board procedure, the FY2023 Annual Fee Analysis and Discount Recommendation would be presented to the Board. After presentation and discussion of the Fee Analysis, the Board would take action on both the Proposed FY2023 Budget and the FY2023 Fee Analysis and Recommendation.

FY2023 Fee Analysis & Discount – Chair Benson asked Executive Director Fick and operations Manager Lee to present the FY2023 Annual Review of Authority Fees. Ms. Lee reviewed the memorandum included in the Board packet. She noted the comparison of the fee discount levels and that one of the Authority goals is to keep a level fee discount to enhance budget predictability for borrowers. This may result in annual surplus or deficits for Authority Operations. This variability is acceptable as the Authority maintains a sufficient cash balance to accommodate fluctuations in both expenses and a reduced number of borrowings in a fiscal year.

A chart showing actual 2019-2022 operating results was presented to Board Members. Included also was a chart showing projected FY2023 financial operating results at different fee discount levels. For FY2023, the best match to result in a balanced operating budget is a fee discount of 65.3%. This is consistent with the fee discount that has been in place since 2017.

Based on the analysis of the FY2023 Projected Budget and FY2023 Fee Analysis, Authority staff recommends a 65% fee discount for FY2023. This would be the 7th year of the same fee discount for Authority borrowers.

Ms. Lee and Mr. Fick concluded the presentation and took questions. Board members asked several questions about underlying assumptions and specific line items in the materials. Their questions were answered to the satisfaction of board members.

At the conclusion of the FY2023 Fee Analysis presentation, Chair Benson announced that the Board would consider the FY2023 Proposed Budget and the FY2023 Annual Fee Discount as separate motions.

The Chair asked for a motion to approve the FY2023 Proposed Budget of the Authority. David Rowland moved approval of the Motion. The Motion was seconded by Chair Benson.

Chair Benson called for a roll call vote regarding the approval of the FY2023 Proposed Budget of the Authority. A roll call vote was conducted, and the Board members voted as follows:

Board Members:	Gary Benson	Yes
	Bonnie Anderson Rons	Yes
	David Rowland	Yes
	Nancy Sampair	Yes
	Mary Yang Thao	Yes

There were no votes against the motion and the FY2023 Proposed Budget approved and adopted.

The Chair next asked for a motion to approve the FY2023 Annual Fee Discount for the Authority at 65%. Nancy Sampair moved approval of the Motion. The Motion was seconded by Bonnie Anderson Rons.

Chair Benson called for a roll call vote regarding the approval of the FY2023 Annual Fee Discount for the Authority at 65%. A roll call vote was conducted, and the Board members voted as follows:

Board Members:	Gary Benson	Yes
	Bonnie Anderson Rons	Yes
	David Rowland	Yes
	Nancy Sampair	Yes
	Mary Yang Thao	Yes

There were no votes against the motion and the FY2023 Annual Fee Discount for the Authority of 65% was approved and adopted.

Agenda Item VI - Old Business

Chair Benson asked if there were any Old Business items from Board members for discussion.

Update on St. Thomas 2022A and 2022B – Executive Director Fick reported that the St. Thomas sale was very successful. It was the first time the Authority has offered a "Green" designated bond for sale. It was sold with a standard bond. Both bonds have identical security structures, repayment terms and structures and differ only in the Green designation on Series 2022A. The Series A bonds were sold very quickly. The Underwriter spent the majority of the offering period finding buyers for the non-Green designated bonds. At the conclusion of the order period, nearly all the bonds were sold, and the sale attracted new investors and new holders of MHEFA Bonds, thanks to the inclusion of Green Bonds. The Green Bonds didn't provide an interest rate benefit, but without the inclusion of Green Bonds, the non-Green Bonds would not have been able to be marketed at the rates they were ultimately placed at with investors.

Legislative Update - Our expansion bill, as passed by the House and Senate Conference Committee, was passed by the full House, but the Legislature ran out of time before the Senate could act on our bill (included in the Higher Education Omnibus Bill) or any other bills.

We hope a Special Session is going to be called in the next month where the chance for passage of our bill is very good. We continue to remain cautiously optimistic on our prospects. In discussion with our legislative consultant, the chances of a special session are diminishing due to concerns by Republican leadership about voter perception of any additional spending. Rank and File legislators are hearing from constituents asking for a special session to give final passage to already agreed upon bills (including ours), especially the tax bill.

New Office Update – Staff reported that work on the new office buildout is on pace to be completed by the end of June. Framing is complete and some walls have been installed. Operations Manager Lee reported that movers are scheduled, new furniture installation and data wiring is scheduled. She anticipates the move will be competed by mid-July.

There were no other Old Business items from Board members for discussion.

Agenda Item VII – New Business

Chair Benson asked if there were any New Business items from Board members for discussion. There were no other New Business items from Board members for discussion.

Agenda Item VIII – Other Business

Chair Benson called upon Executive Director Fick to discuss Other Business. Mr. Fick presented his Executive Director's report. It included the following items regarding staff and Authority activity and events and personnel changes at the schools.

Borrower Assistance and Financing Application Update

- We are engaging in preliminary discussions with several schools about financing projects in the next one to two years
- We are collaborating with multiple schools on Moody's rating updates
- We continue to support schools in their compliance with Continuing Disclosure obligations

- If the projected school financings are competed in the next fiscal year, we will be very close to our bonding limit of $1.3 billion. This means we'll want to go back to the Legislature in 2023 at minimum for an expansion of our bonding limit to somewhere around $2 billion.

<u>Borrower Staffing Update</u>

Vacancies exist for the CFO position at St. Scholastica, Bethel, and MCAD. Presidential search is underway at University of St. Thomas. The CFO at NW Health Sciences resigned. The position will be filled by Michelle Hegarty, who served at Hamline for many years.

Retirements

- Mark Gelle, AVP and Chief Investment Officer retired in June 2022 after over 3 decades of service to St. Olaf
- Susan Palmer, CFO at the College of St. Benedict, retires on June 30, 2022 after many years of service to the College
- Beverly Oberman, Administrative Assistant to the CFO at the College of St. Benedict, will retire on June 30, 2022 after many years of service to the College

<u>Various Items of Interest</u>

Executive Director Fick attended the National Government Finance Officers Association (GFOA) in Austin, Texas in early June. He moderated a panel on Bond Structuring, participated in a series of Debt Management Committee meetings on Best Practice updates and connected with Securities and Exchange Commission (SEC) staff members and various Rating Agency staff.

Mr. Fick's term on GFOA Debt Management Committee expires on September 15, 2022. He plans to apply for a second 3-year term unless the MHEFA Board objects.

In his capacity as President of the National Association of Health & Education Facilities Finance Authorities, (NAHEFFA), Executive Director Fick will be meeting with the Municipal Securities Rulemaking Board and Senior Staff in late July, as well as meeting with the SEC Office of Municipal Securities Director to discuss conduit municipal issues.

The fall NAHEFFA Conference will be in Bozeman, MT on Wednesday through Friday, September 14-16, 2022. Board members are welcome to attend.

Chair Benson asked if there was any further business to come before the Board. There was none. Chair Benson asked if there was any business anticipated to need to be considered in July. Staff is not aware of any Authority Business actions for July. Based on this, the Board discussed cancelling the scheduled July 2022 Board meeting. The Board members agreed verbally to cancel the July 2022 Board meeting.

The next meeting of the Board will take place in connection with the Finance Conference on August 11, 2022. Additional information about the topics at that Board meeting will be provided later in June.

Board Chair Benson asked Paul Cerkvenik to provide an update on fall enrollment at borrower schools. Mr. Cerkvenik discussed first-year student enrollment deposits, noting that this does not account for transfer students and others. Board Members had no further questions.

There were no other items from the Board. A motion to adjourn was made by Nancy Sampair with a second provided by Bonnie Anderson Rons. The Board acted by voice vote to adjourn the meeting at 3:35 pm, Central Time.

Respectfully submitted,

____

Assistant Secretary

Minnesota Higher Education
Facilities Authority
St. Paul, Minnesota

Communications Letter

June 30, 2022

Minnesota Higher Education Facilities Authority
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Report on Matters Identified as a Result of the Audit of the Basic Financial Statements

To the Executive Director,
Members of the Minnesota Higher
Education Facilities Authority, and Management
St. Paul, Minnesota

In planning and performing our audit of the basic financial statements of the Minnesota Higher Education Facilities Authority, St. Paul, Minnesota, as of and for the year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error, or fraud may occur and not be detected by such controls. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Authority's basic financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible*. The chance of the future event or events occurring is more than remote but less than likely.

- *Probable*. The future event or events are likely to occur.

We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The significant deficiency identified is stated within this letter.

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated September 29, 2022, on such statements.

This communication, which is an integral part of our audit, is intended solely for the information and use of the Authority, Management, others within the Authority, and state oversight agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

We would like to express our appreciation for the cooperation extended to us during our audit by the employees of the Authority.

Bergan KDV Ltd.

Minneapolis, Minnesota
September 29, 2022

Minnesota Higher Education Facilities Authority
Significant Deficiency

Lack of Segregation of Accounting Duties

During the year ended June 30, 2022, the Authority had a lack of segregation of accounting duties due to a limited number of office employees. The lack of adequate segregation of accounting duties could adversely affect the Authority's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Adequate segregation exists when the following components of a transaction are separated: authorization, custody of the related asset, recording, and reconciliation. With a two person office, overlap occurs among the four components.

Management and the Members of the Authority are aware of this condition and have taken certain steps to compensate for the lack of segregation, including detailed activity review by the Executive Director and significant oversight by the Members of the Authority. However, due to the number of staff needed to properly segregate all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Because of this, management has determined a complete segregation of accounting duties is impractical to correct. However, management, along with the Members of the Authority, must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

Minnesota Higher Education Facilities Authority
Required Communication

We have audited the basic financial statements of the Authority as of and for the year ended June 30, 2022. Professional standards require that we advise you of the following matters related to our audit.

Our Responsibility in Relation to the Basic Financial Statement Audit
As communicated in our engagement letter, our responsibility, as described by professional standards, is to form and express opinions about whether the basic financial statements prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the basic financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the basic financial statements are free of material misstatement. An audit of the basic financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Authority solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgement, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Generally accepted accounting principles provide for certain Required Supplementary Information (RSI) to supplement the basic financial statements. Our responsibility with respect to the RSI, which supplements the basic audited financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

Planned Scope and Timing of the Audit
We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence
The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Significant Risks Identified
We have identified the following significant risks of material misstatement:

- Management Override of Controls – Overall Financial Statements – Management override of internal control is considered a risk in substantially all engagements as management may be incentivized to produce better results. Misappropriation of assets and management override of controls through the journal entry process has been identified as a risk.
- Improper Revenue Recognition – Revenue recognition is considered a fraud risk on substantially all engagements as it generally has a significant impact on the results of the governments operations. In addition, complexities exist surrounding the calculation and recording of various revenue sources.
- Misappropriation of Assets – If duties cannot be appropriately segregated, there is a risk of unauthorized disbursements being made from the Authority.

Qualitative Aspects of the Authority's Significant Accounting Practices

Significant Accounting Policies
Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Authority is included in the notes to the basic financial statements. The Authority adopted a GASB No. 87 – *Leases* accounting policy during 2022. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates
Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's current judgements. Those judgements are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgements. The most sensitive estimates affecting the basic financial statements relate to:

> Depreciation – The Authority is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method.
>
> Net Pension Liability, Deferred Outflows of Resources Related to Pensions, and Deferred Inflows of Resources Related to Pensions – These balances are based on an allocation by the pension plan using estimates based on contributions.

We evaluated the key factors and assumptions used to develop the accounting estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Qualitative Aspects of the Authority's Significant Accounting Practices (Continued)

Financial Statement Disclosures
Certain basic financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The basic financial statement disclosures are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit
We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements
For the purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effects of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the basic financial statements taken as a whole and each applicable opinion unit.

Management did not identify, and we did not notify them of any uncorrected financial statement misstatements.

Disagreements with Management
For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Authority's basic financial statements or the auditor's report. No such disagreements arose during the course of our audit.

Representations Requested from Management
We have requested certain written representations from management, which are included in the management representation letter.

Management's Consultations with Other Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management has informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues
In the normal course of our professional association with the Authority, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating, and regulatory conditions affecting the Authority, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Authority's auditor.

Other Information Included in Annual Reports

Pursuant to professional standards, our responsibility as auditors for other information, whether financial or nonfinancial, included in the Authority's annual reports, does not extend beyond the information identified in the audit report, and we are not required to perform any procedures to corroborate such other information.

We applied certain limited procedures to the RSI that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the basic financial statements.

Minnesota Higher Education Facilities Authority
Financial Analysis

The following pages provide graphic representation of select data pertaining to the financial position and operations of the Authority for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future performance. We suggest you view each graph and document if our analysis is consistent with yours. A subsequent discussion of this information should be useful for planning purposes.

Authority Operations

The revenues of the Authority consist principally of annual administrative fees paid by the participating institutions.

Fee revenues amounted to $481,264 for 2022, as compared to $440,620 in 2021, an increase of $40,644, or 9.2%. Fee revenue is charged based on outstanding debt at the anniversary date of issuance. For the year ended June 30, 2022, the Authority required participating institutions to pay 35% of the contractual administrative fees, which is the same percentage as the year ended June 30, 2021.

Authority operating expenses decreased from 2021 to 2022 by $46,784, or approximately 10.0%, during the year, primarily due to a decrease in the net pension liability in 2022.

Net nonoperating revenues/expenses, which are comprised of interest revenue, changes in fair value of investments, and interest expense, decreased from 2021 to 2022 by $24,773. The Authority's investments experienced a decrease in fair market value in 2022.

The Authority posted operating income of $63,566 in 2022. After accounting for net nonoperating expenses of $(22,488), total net position increased by $41,078. Operating results for the past five years are as follows:

For the Year Ended June 30,	**2018**	**2019**	**2020**	**2021**	**2022**
Operating revenues	$ 411,105	$ 436,786	$ 416,817	$ 442,620	$ 484,264
Operating expenses	(363,576)	(335,729)	(493,081)	(467,482)	(420,698)
Operating income (loss)	47,529	101,057	(76,264)	(24,862)	63,566
Nonoperating revenues (expenses)	3,548	72,227	88,103	2,285	(22,488)
Change in net position	51,077	173,284	11,839	(22,577)	41,078
Total net position, July 1	1,856,261	1,907,338	2,080,622	2,092,461	2,069,884
Total Net Position, June 30	**$ 1,907,338**	**$ 2,080,622**	**$ 2,092,461**	**$ 2,069,884**	**$ 2,110,962**

Over the past five years, the Authority has seen its net position increase by $203,624 or 10.7%.

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.

During the year ended June 30, 2022, the Authority provided financing assistance for five new revenue refunding bond and note issues:

- Series 2022 – Minneapolis College of Art and Design – $1,500,000
- Series 2022A – Mitchell Hamline School of Law – $12,425,000
- Series 2022B – Mitchell Hamline School of Law – $998,000
- Series 2022A – University of St. Thomas – $60,720,000
- Series 2022B – University of St. Thomas – $70,280,000

A five-year history of conduit debt financing activity is as follows:

Revenue Bonds and Other Debt Obligations	2018	2019	2020	2021	2022
Principal at July 1	$ 928,175,593	$ 928,299,593	$ 983,602,593	$ 934,191,593	$ 989,114,593
Issued	271,673,000	151,060,000	31,995,000	120,235,000	145,923,000
Matured/refunded	(271,549,000)	(95,757,000)	(81,406,000)	(65,312,000)	(45,861,987)
Principal at June 30	**$ 928,299,593**	**$ 983,602,593**	**$ 934,191,593**	**$ 989,114,593**	**$ 1,089,175,606**

As granted during the 2009-2010 Minnesota State Legislature session, the Authority is authorized to have a maximum of $1.3 billion of outstanding debt.

Minnesota Higher Education
Facilities Authority
St. Paul, Minnesota

Basic Financial Statements

June 30, 2022

Minnesota Higher Education Facilities Authority
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Independent Auditor's Report

To the Executive Director and
Members of the Minnesota Higher
Education Facilities Authority
St. Paul, Minnesota

Report on the Audit of the Financial Statements

We have audited the financial statements of the Minnesota Higher Education Facilities Authority, St. Paul, Minnesota, as of and for the year ended June 30, 2022, and the related notes to the basic financial statements, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of Minnesota Higher Education Facilities Authority, St. Paul, Minnesota, as of June 30, 2022, and the respective changes in financial position and its cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Higher Education Facilities Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter – Implementation of GASB 87

The Authority has adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The management of Minnesota Higher Education Facilities Authority is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, which raise substantial doubt about the Authority's ability to continue as a going concern for one year beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor′s Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, which raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

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 Required Supplementary information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by 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, 2021, from which such partial information was derived.

We have previously audited the Authority's 2021 financial statements and our report, dated October 25, 2021, 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, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BerganKDV Ltd.

Minneapolis, Minnesota
September 29, 2022

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Minnesota Higher Education Facilities Authority
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, 2022.

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. 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. These procedures and policies are regularly reviewed and updated.

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 245 issues (including refunded and retired issues) totaling over $3.29 billion of which $1,089,175,606 is outstanding as of June 30, 2022. 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.

The Authority may issue bonds for a broad range of projects, including facilities for housing, academic, athletic, 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 2022, the Authority opted to delay the conference until August 2022, resulting in no conference being held in fiscal year 2022.

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.

Minnesota Higher Education Facilities Authority
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.

The following summarizes the financial position and results of operations of the Authority for the years ended June 30, 2021 and 2022.

	2022	2021
Assets		
Current assets	$ 2,192,867	$ 2,197,589
Noncurrent assets	19,925	3,371
Total assets	2,212,792	2,200,960
Deferred Outflows of Resources		
Deferred outflows of resources related to pensions	47,160	8,124
Liabilities		
Current liabilities	44,988	23,464
Long term liabilities	16,028	43,188
Total liabilities	61,016	66,652
Deferred Inflows of Resources		
Deferred inflows of resources related to pensions	87,974	72,548
Net Position		
Invested in capital assets	737	3,371
Unrestricted	2,110,225	2,066,513
Total Net Position	$ 2,110,962	$ 2,069,884

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

	2022	2021
Operating Revenues	$ 484,264	$ 442,620
Operating Expenses	(420,698)	(467,482)
Operating Gain (Loss)	63,566	(24,862)
Nonoperating Revenues (Expenses)		
Interest income	17,053	29,285
Net increase/(decrease) in fair value of investments	(38,016)	(27,000)
Interest expense	(1,525)	-
Total nonoperating revenues (expenses)	(22,488)	2,285
Change in Net Position	41,078	(22,577)
Net Position		
Beginning of year	2,069,884	2,092,461
End of year	$ 2,110,962	$ 2,069,884

FINANCIAL HIGHLIGHTS

The Authority completed five financings in fiscal year 2022 with a total principal amount of $145,923,000. This compares to six financings completed in fiscal year 2021 with a total principal amount of $120,235,000. Following is a listing of the bond issues for fiscal year 2022.

Minneapolis College of Art and Design

- Minneapolis College of Art and Design Series 2022 Revenue Note was issued March 2022 in the amount of $1,500,000. Proceeds from the Series 2022 Revenue Note were used to reimburse the college for the late calendar year 2021 purchase of a residential property and a commercial property located adjacent to the MCAD campus. The residential property will be used to house college administration and the commercial property will be used to house maintenance services and equipment, thereby making space available in the main campus for additional classroom and studio space.

Mitchell Hamline School of Law

- Mitchell Hamline School of Law Series 2022A was issued March 2022 in the amount of $12,425,000. Proceeds from the Series 2022A Revenue and Refunding Note were used to refinance the outstanding balance of Series 7-V and to finance a portion of the construction cost of various facilities, including HVAC improvements and new computer systems.
- Mitchell Hamline school of Law Series 2022B was issued March 2022 in the amount of $998,000. Proceeds from the Series 2022B Taxable Revenue Note were used to finance the Series 7-V Swap Termination Payment.

FINANCIAL HIGHLIGHTS (CONTINUED)

University of St. Thomas

- The University of St. Thomas issued two Series of bonds concurrently in June 2022. The Series 2022A Bonds were designated Green Bonds with independent third-party verification of the Green Bond designation. The Series 2022B Bonds had no special status designation, Both Series of Bonds were issued as tax-exempt bonds.
- University of St. Thomas Series 2022A was issued June 2022 in the amount of $60,720,000. Proceeds from the Series 2022A Green Revenue Bonds are being used to fund a LEED Gold certified STEAM (Science, Technology, Engineering, Arts, Math) building adjacent to and connected to the current University Science building.
- University of St. Thomas Series 2022B was issued June 2022 in the amount of $70,280,000. Proceeds from the Series 2022B Revenue Bonds are being used to fund renovation of two existing residence halls, fund various academic building renovations, and fund the acquisition of land at the Highview Bridge location for future Athletic Complex projects.

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. The Authority annually calculates the operating cost and strives to have the Board set the revenue goal to generate sufficient revenue to cover operating costs and not generate an annual operating surplus or deficit.

Beginning in fiscal year 1997, the Authority's annual administrative fee has been reduced and is less than the allowable maximum of 0.125%. In fiscal year 2022, the Authority reduced the maximum annual administrative fee to all borrowers by 65%. The maximum allowable fee for fiscal year 2023 will again be reduced by 65%. The Authority has maintained a 65% fee reduction each year since fiscal year 2017. Although future reductions in the maximum allowable fee are not guaranteed, the Authority is committed to providing its services at an affordable level to its borrowers.

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 identified risk factors and are kept to a level that is not in excess of a reasonably required reserve.

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
860 Blue Gentian Road, Suite 145
Eagan, MN 55121
Phone: 651-296-4690
Email: info@mnhefa.org
Website: www.mnhefa.org

Please note the Authority's new address as of July 1, 2022.

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BASIC FINANCIAL STATEMENTS

Minnesota Higher Education Facilities Authority
Statement of Net Position
June 30, 2022
(with Partial Comparative Information as of June 30, 2021)

	2022	2021
Assets		
Current assets		
Cash and cash equivalents	$ 944,637	$ 422,953
Investments	1,226,917	1,764,933
Accounts receivable	2,098	2,834
Interest receivable	913	4,608
Prepaid items	18,302	2,261
Total current assets	2,192,867	2,197,589
Noncurrent assets		
Equipment	63,528	63,528
Less accumulated depreciation	(62,323)	(60,157)
Leased building	63,648	-
Less accumulated amortization	(44,928)	-
Total noncurrent assets	19,925	3,371
Total assets	2,212,792	2,200,960
Deferred Outflows of Resources		
Deferred outflows of resources related to pensions	47,160	8,124
Total assets and deferred outflows of resources	$ 2,259,952	$ 2,209,084
Liabilities		
Current liabilities		
Accounts payable	$ 11,889	$ 12,267
Lease liability	19,188	-
Compensated absences payable	13,911	11,197
Total current liabilities	44,988	23,464
Noncurrent liabilities		
Compensated absences payable	13,911	11,197
Net pension liability	2,117	31,991
Total noncurrent liabilities	16,028	43,188
Total liabilities	61,016	66,652
Deferred Inflows of Resources		
Deferred inflows of resources related to pensions	87,974	72,548
Net Position		
Net investment in capital assets	737	3,371
Unrestricted	2,110,225	2,066,513
Total net position	2,110,962	2,069,884
Total liabilities, deferred inflows of resources, and net position	$ 2,259,952	$ 2,209,084

See notes to basic financial statements.

Minnesota Higher Education Facilities Authority
Statement of Revenues, Expenses, and
Changes in Net Position
Year Ended June 30, 2022
(With Partial Comparative Information for the Year Ended June 30, 2021)

	2022	2021
Operating Revenues		
Annual administrative fees	$ 481,264	$ 440,620
Other income	3,000	2,000
Total operating revenues	484,264	442,620
Operating Expenses		
Payroll, payroll taxes, and employee benefits	238,589	276,347
Legal, audit, and consulting expense	70,264	81,385
Rent	1,618	48,481
Depreciation and amortization	47,094	3,264
Other general and administrative expenses	63,133	58,005
Total operating expenses	420,698	467,482
Operating income (loss)	63,566	(24,862)
Nonoperating Revenues (Expenses)		
Interest income	17,053	29,285
Change in fair value of investments	(38,016)	(27,000)
Interest expense	(1,525)	-
Total nonoperating revenues (expenses)	(22,488)	2,285
Change in net position	41,078	(22,577)
Net Position		
Beginning of year	2,069,884	2,092,461
End of year	$ 2,110,962	$ 2,069,884

Minnesota Higher Education Facilities Authority
Statement of Cash Flows
Year Ended June 30, 2022
(With Partial Comparative Information for the Year Ended June 30, 2021)

	2022	2021
Cash Flows - Operating Activities		
Cash received from annual administrative and other fees	$ 485,000	$ 478,589
Cash payments to employees	(290,170)	(287,262)
Cash payments to suppliers for goods and services	(147,909)	(188,215)
Net cash flows - operating activities	46,921	3,112
Cash Flows - Capital and Related Financing Activities		
Lease principal payments	(44,460)	-
Interest paid on leases	(1,525)	-
Purchase of capital assets	-	(3,347)
Net Cash Flows - Capital and Related Financial Activities	(45,985)	(3,347)
Cash Flows - Investing Activities		
Interest received	20,748	33,301
Net investment (purchases) redemptions	500,000	25,000
Net cash flows - investing activities	520,748	58,301
Net change in cash and cash equivalents	521,684	58,066
Cash and Cash Equivalents		
Beginning of year	422,953	364,887
End of year	$ 944,637	$ 422,953
Reconciliation of Operating Income (Loss) to Net Cash Flows - Operating Activities		
Operating income (loss)	$ 63,566	$ (24,862)
Adjustments to reconcile operating income (loss) to net cash flows - operating activities		
Depreciation and amortization expense	47,094	3,264
Accounts receivable	736	35,969
Prepaid items	(16,041)	(784)
Accounts payable	(378)	(15,763)
Deferred outflows, inflows, and liability related to pension activity	(53,484)	2,024
Compensated absences payable	5,428	3,264
Total adjustments	(16,645)	27,974
Net cash flows - operating activities	$ 46,921	$ 3,112
Noncash Investing Activities		
Net change in fair value of investments	$ (38,016)	$ (27,000)

See notes to basic 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 2022, 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, 2022, 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, 2022, 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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Net Position (Continued)

1. Cash and Investments (Continued)

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.

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 basic 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, 2022, 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 assets 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 assets 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.

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: As of June 30, 2022, the Authority's bank balance of $141,848 was not exposed to custodial credit risk because it was insured through FDIC insurance.

As of June 30, 2022, the Authority's carrying value of deposits was as follows:

Deposits	$ 141,407

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.

B. Investments

As of June 30, 2022, the Authority had the following investments:

Investment	Maturities	Amount	S&P Rating
Wex Bank Certificate of Deposit	10/11/22	$ 149,279	N/A
Eaglebank Certificate of Deposit	10/18/22	100,205	N/A
Amerant Bank NA Certificate of Deposit	12/20/22	99,898	N/A
UBS Bank USA Certificate of Deposit	01/17/23	98,905	N/A
Israel Discount Bank of New York Certificate of Deposit	01/27/23	198,084	N/A
State Bank of India, NY Certificate of Deposit	03/29/23	98,352	N/A
Eaglemark Savings Bank Certificate of Deposit	07/14/23	97,325	N/A
UBS Bank USA Certificate of Deposit	07/14/23	97,310	N/A
BMW Bank North American Certificate of Deposit	12/11/23	96,099	N/A
Merrick Bank Certificate of Deposit	12/29/23	95,862	N/A
BMW Bank North American Certificate of Deposit	01/22/24	95,598	N/A
Wells Fargo Money Market	N/A	803,230	AAAm
Total investments		$ 2,030,147	

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, 2022, investments with four separate issuers exceeded the five percent threshold.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

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.

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, 2022:

- Brokered money markets of $803,230 are valued using calculated net asset value (Level 1 inputs)
- Investment securities of $1,226,917 are valued using quoted market prices (Level 2 inputs)

Deposits and investments are presented in the June 30, 2022, basic financial statements as follows:

Cash and cash equivalents	$ 944,637
Investments	1,226,917
Total deposits and investments	$ 2,171,554

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2022, was as follows:

	Beginning Balance	Change in Accounting Principle	Increases	Decreases	Ending Balance
Capital assets					
Office furniture and equipment	$ 63,528	$ -	$ -	$ -	$ 63,528
Leased building	-	63,648	-	-	63,648
Less accumulated depreciation	(60,157)	-	(2,166)	-	(62,323)
Less accumulated amortization	-	-	(44,928)	-	(44,928)
Total captial assets	$ 3,371	$ 63,648	$ (47,094)	$ -	$ 19,925

NOTE 4 – LONG-TERM LIABILITIES

A. Components of Long-Term Liabilities

The Authority has a lease liability related to office space through November 2022 with monthly rent totaling $3,876 through the end of the lease term. The lease liability relates to a right-to-use building asset.

B. Minimum Debt Payments for Lease Liability

Minimum annual principal and interest payments required to retire the lease liability:

Year Ending June 30,	Lease Liability Principal	Lease Liability Interest	Lease Liability Total
2023	$ 19,188	$ 192	$ 19,380

C. Changes in Long-Term Liabilities

Changes in long-term liability activity for the year ended June 30, 2022, was as follows:

	Beginning Balance	Change in Accounting Principle	Additions	Reductions	Ending Balance	Due Within One Year
Lease liability	$ -	$ 63,648	$ -	$ (44,460)	$ 19,188	$ 19,188
Compensated absences	22,394	-	31,348	(25,920)	27,822	13,911
Total long-term liabilities	$ 22,394	$ 63,648	$ 31,348	$ (70,380)	$ 47,010	$ 33,099

NOTE 5 – CONDUIT DEBT

At June 30, 2022, there were 48 conduit bond issues and leases outstanding with an aggregate principal balance outstanding of $1,089,175,606 as follows:

College/University	Final Maturity	Indebtedness Issued	Indebtedness 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-Q, Concordia University, St. Paul			
Revenue Bonds, October 2007	2037	18,155,000	12,800,000
Series Seven-N, Minneapolis College of Art and Design			
Revenue Bonds, April 2012	2023	3,215,000	370,000
Series Seven-R, College of St. Scholastica			
Revenue Bonds, October 2012	2032	9,380,000	5,790,000
Series Seven-T, College of St. Benedict			
Revenue Bonds, January 2013	2024	5,235,000	980,000
Series Seven-U, University of St. Thomas			
Revenue Bonds, March 2013	2027	25,685,000	12,690,000
Series Seven-W, Gustavus Adolphus College			
Revenue Bonds, July 2013	2034	11,410,000	8,160,000
Series Seven-Z, University of St. Thomas			
Revenue Note, March 2014	2034	24,210,000	13,898,593
Series Eight-C, Augsburg College			
Revenue Bond, July 2014	2023	6,705,000	970,000
Series Eight-D, Minneapolis College of Art and Design			
Revenue Bond, March 2015	2026	7,845,000	3,125,000
Series Eight-E, Augsburg College			
Revenue Note, April 2015	2036	12,400,000	9,235,000
Series Eight-G, St. Olaf College			
Revenue Bonds, July 2015	2032	53,745,000	39,490,000
Series Eight-H, St. John's University			
Revenue Bonds, August 2015	2026	13,815,000	3,635,000

NOTE 5 – CONDUIT DEBT (CONTINUED)

College/University	Final Maturity	Indebtedness Issued	Indebtedness Outstanding
Series Eight-I, St. John's University Revenue Bonds, December 2015	2035	$ 18,275,000	$ 13,380,000
Series Eight-J, Macalaster College Revenue Bonds, September 2015	2032	22,660,000	14,160,000
Series Eight-K, College of St. Benedict Revenue Bonds, April 2016	2043	34,360,000	31,005,000
Series Eight-L, University of St. Thomas Revenue Bonds, March 2016	2039	55,355,000	45,140,000
Series Eight-N, St. Olaf College Revenue Bonds, September 2016	2035	22,845,000	22,090,000
Series 2016A, Augsburg College Revenue Bonds, December 2016	2046	32,240,000	32,240,000
Series 2016B, Augsburg College Revenue Bonds, December 2016	2046	13,680,000	11,705,000
Series 2017, Carleton College Revenue Bonds, May 2017	2047	124,900,000	108,895,000
Series 2017A, Saint Mary's University of Minnesota Revenue Note, June 2017	2037	5,546,000	4,796,000
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	50,770,000
Series 2017, St. John's University Revenue and Refunding Bonds, September 2017	2033	7,595,000	6,090,000
Series 2017, Macalester College Revenue and Refunding Bonds, November 2017	2048	40,315,000	30,015,000
Series 2017B, Hamline University Revenue and Refunding Bonds, December 2017	2047	34,650,000	31,710,000
Series 2017A, University of St. Thomas Revenue Bonds, December 2017	2037	60,750,000	55,425,000
Series 2017B, University of St. Thomas Revenue and Refunding Note, December 2017	2025	8,220,000	1,975,000

NOTE 5 – CONDUIT DEBT (CONTINUED)

College/University	Final Maturity	Indebtedness Issued	Indebtedness Outstanding
Series 2017, College of St. Benedict			
Revenue and Refunding Bonds, December 2017	2036	$ 8,605,000	$ 5,900,000
Series 2018, Minneapolis College of Art and Design			
Revenue Note, May 2018	2028	3,643,000	3,443,013
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	79,545,000
Series 2019, Augsburg University			
Revenue Refunding Note, August 2019	2028	2,920,000	2,920,000
Series 2019, College of St. Scholastica			
Revenue Refunding Bonds, September 2019	2040	29,075,000	26,880,000
Series 2020A, University of St. Thomas			
Revenue Refunding Note, October 2020	2032	9,610,000	8,400,000
Series 2020B, University of St. Thomas			
Revenue Note, October 2020	2030	9,135,000	8,295,000
Series 2021, St. Olaf College			
Revenue Bonds, March 2021	2050	57,335,000	57,335,000
Series 2021, Macalester College			
Revenue Refunding Bonds, April 2021	2043	12,870,000	12,425,000
Series 2021, St. John's University			
Revenue Bonds, September 2021	2041	21,560,000	21,560,000
Series 2021, Hamline University			
Revenue Refunding Note, June 2021	2032	9,725,000	8,950,000
Series 2022, Minneapolis College of Art and Design			
Revenue Note, March 2022	2032	1,500,000	1,500,000
Series 2022A, Mitchell Hamline School of Law			
Revenue Note, March 2022	2038	12,425,000	12,425,000
Series 2022B, Mitchell Hamline School of Law			
Revenue Note, March 2022	2034	998,000	998,000
Series 2022A, University of St. Thomas			
Revenue Refunding Bonds, May 2022	2053	60,720,000	60,720,000
Series 2022B, University of St. Thomas			
Revenue Refunding Bonds, May 2022	2053	70,280,000	70,280,000
Total		$1,277,493,000	$1,089,175,606

NOTE 5 – CONDUIT DEBT (CONTINUED)

A summary of changes in conduit debt outstanding for the year ended June 30, 2022, is presented below.

Conduit debt - July 1, 2021	$ 989,114,593
Additions	
Revenue bonds issued	145,923,000
Reductions	
Principal retirements	(38,595,987)
Refunding of principal	(7,266,000)
Conduit debt - June 30, 2022	$ 1,089,175,606

NOTE 6 – 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, 2022, there were no significant reductions in insurance coverage from the prior year. Settled claims have not exceeded the Authority's commercial coverage in any of the past three years.

NOTE 7 – 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.

NOTE 7 – STATE EMPLOYEES RETIREMENT FUND (CONTINUED)

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.

C. Contributions

Minnesota Statutes Chapter 352 sets the rates for employer and employee contributions. Eligible General Plan members were required to contribute 6.00% of their annual covered salary in fiscal year 2021 while participating employers were required to contribute 6.25% of covered salary in fiscal year 2021. The Authority's contribution to the General Plan for the fiscal year ending June 30, 2021, was $5,266. 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, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25% Per year
Active member payroll growth	3.00% Per year
Investment rate of return	6.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on Pub-2010 mortality tables using projection scale MP-2018, with adjustments to match fund experience.

Actuarial assumptions used in the June 30, 2021, valuation were based on the results of an actuarial experience study dated June 27,2019, and a review of inflation and investment return assumptions dated June 24, 2021.

NOTE 7 – 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	33.5 %	5.10 %
International equity	16.5	5.30
Fixed income	25.0	0.75
Private markets	25.0	5.90
Total	100.0 %	

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

- The investment return and single discount rates decreased from 7.5% to 6.5%.
- There were no changes to plan provisions.

E. Discount Rate

A Single Discount Rate used to measure the total pension liability as of June 30, 2021, was 6.50%. This Single Discount Rate was based on an expected rate of return on pension plan investments of 6.5% and a municipal bond rate of 1.92%. 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 2121. 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 7 – STATE EMPLOYEES RETIREMENT FUND (CONTINUED)

F. Net Pension Liability

At June 30, 2021, the Authority reported a liability of $2,117 for its proportionate share of MSRS' net pension liability. The net pension liability was measured as of June 30, 2021, 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, 2020, through June 30, 2021, relative to the total employer contributions received from all of MSRS's participating employers. At June 30, 2021, the Authority's proportionate share was 0.0034% 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 7.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 (5.50%)	Current Discount Rate (6.50%)	1% Increase in Discount Rate (7.50%)
Authority's proportionate share of the net pension liability (asset)	$ 61,054	$ 2,117	$ (46,575)

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 7 – 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, 2022, the Authority recognized pension expense of $(48,010). At June 30, 2022, 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	$ 524	$ 244
Changes of assumptions	38,962	29,171
Net difference between projected and actual earnings on investments	-	58,559
Changes in proportion and differences between actual contributions and proportionate share of contributions	2,200	-
Contributions paid to MSRS subsequent to the measurement date	5,474	-
Total	$ 47,160	$ 87,974

The $5,474 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, 2023.

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
2023	$ (28,951)
2024	(5,570)
2025	(5,984)
2026	(5,783)
Total	$ (46,288)

NOTE 8 – STATE UNCLASSIFIED EMPLOYEES' RETIREMENT PROGRAM

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

The statutory authority for State 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
2022	$ 7,788
2021	7,757
2020	7,524

NOTE 9 – SUBSQUENT EVENT

On July 1, 2022, the Authority entered into an office space lease with Grand Oak Minnesota Realty LP. The lease terminates on November 30, 2029. Annual base rent payments range from $27,120 to $33,448.

NOTE 10 – CHANGE IN ACCOUNTING PRINCIPLE

The Authority implemented GASB Statement No. 87 – Leases, which resulted in the recording of leased equipment and lease liability on July 1, 2021, in offsetting amounts of $63,648. Because there was no net effect on the beginning net position, a change in accounting principle is not reported on the Statement of Revenues, Expenses, and Changes in Net Position.

NOTE 11 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* establishes that a Subscription-Based Information Technology Arrangement (SBITA) results in a right-to-use subscription asset and a corresponding liability. Under this statement, a governmental entity generally should recognize a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability. This statement will be effective for the year ending June 30, 2023.

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REQUIRED SUPPLEMENTARY INFORMATION

Minnesota Higher Education Facilities Authority
Schedule of Authority's Share of Net Pension Liability
State Employees Retirement Fund
Last Ten Years

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 Payroll	Authority's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2021	0.0034%	$ 2,117	$ 84,256	2.51%	99.53%
2020	0.0032%	31,991	78,944	40.52%	91.25%
2019	0.0032%	34,126	75,030	45.48%	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%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

Schedule of Authority's Contributions
State Employees Retirement Fund
Last Ten Years

For Fiscal Year Ended June 30,	Contractually Required Contribution	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Authority's Covered Payroll	Contributions as a Percentage of Covered Payroll
2022	$ 5,443	$ 5,443	$ -	$ 87,088	6.250%
2021	5,266	5,266	-	84,256	6.250%
2020	4,934	4,934	-	78,944	6.250%
2019	4,408	4,408	-	75,030	5.875%
2018	3,916	3,916	-	71,200	5.500%
2017	4,341	4,341	-	78,927	5.500%
2016	5,368	5,368	-	97,600	5.500%
2015	5,174	5,174	-	94,073	5.500%
2014	4,609	4,609	-	92,180	5.000%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

State Employees Retirement Fund

Fiscal Year 2021 Changes Since the Fiscal Year 2020 Actuarial Valuation
Changes in actuarial assumptions
- The investment return and single discount rates decreased from 7.5% to 6.5%

Changes to plan provisions
- No changes

Fiscal Year 2020 Changes Since the Fiscal Year 2019 Actuarial Valuation
Changes in actuarial assumptions
- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed, resulting in proposed rates that average 0.25 percent less than the previous rates.
- Assumed rates of retirement were changed, resulting in more unreduced (normal) retirements, fewer Rule of 90 retirements and fewer early retirements.
- Assumed rates of termination were changed, resulting in new rates which are generally lower than the previous rates for years 1-5 and slightly higher thereafter.
- Assumed rates of disability were changed, resulting in fewer predicted disability retirements.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The mortality improvement scale was changed from Scale MP-2015 to Scale MP-2018. The base mortality table for disabled annuitants was changed from the RP-2014 disable annuitant mortality table (with future mortality improvement according to Scale MP-2015) to the Pub-2010 General/Teacher disabled annuitant mortality table (with future mortality improvement according to Scale MP-2018), with adjustments.
- The percent married assumption for female members was changed from 65 percent to 60 percent.
- The assumed age difference was changed from three years younger for males to 2 years younger.
- The assumed number of married male new retirees electing the 50 percent and 100 percent Joint & Survivor options changed from 15 percent to 10 percent to 65 percent, respectively. The assumed number of married female new retirees electing the 100 percent Joint & Survivor option changed from 30 percent to 40 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes to plan provisions
- No changes

Fiscal Year 2019 Changes Since the Fiscal Year 2018 Actuarial Valuation
Changes in actuarial assumptions
- No changes

Changes to plan provisions
- No changes

State Employees Retirement Fund (Continued)

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.

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.

State Employees Retirement Fund (Continued)

Fiscal Year 2016 Changes Since the Fiscal Year 2015 Actuarial Valuation (Continued)
Changes in actuarial assumptions (Continued)

- 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%.

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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Standing Rules of Operation

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500 Administration – Financial and Accounting

501 Deposit and Investment Policy

Created 3/21/1996, Amended 5/15/1996, 12/7/2005, 12/8/2005, 6/20/2018, 10/19/2022
Policy Review Schedule: *Annual*
Most Recent Review: October 19, 2022

Purpose:

The Authority maintains an invested balance of its General Operating Fund. The purpose of this policy is to define the guidelines for deposit and investment of those funds, in terms of insurance or collateralization of deposits, permitted investment vehicles and the general approach to the makeup of the investment portfolios, within the overall framework provided by Minnesota Statutes.

Policy:

1. Investment Objectives
   a. Preservation of capital shall be the primary objective of the Authority's investment policy.
   b. In order to generate income to support its budget, maximization of income is the secondary objective, consistent with security of principal.
   c. Investments should be made with consideration of cash flow requirements, taking into account budgeted expenditures in the Operating Fund and be scheduled to mature in a "ladder portfolio" structure to reduce interest rate reinvestment risk.
2. Permitted Investments
   a. Investments of Authority funds are limited by law to those permitted in Minnesota Statutes.
   b. Within the legal investments, the Authority shall prioritize investment in the following:
      i. Direct obligations or securities insured by the United States.
      ii. Obligations of agencies, instrumentalities or organization created by an act of Congress.

iii. Commercial paper and bankers' acceptances maturing in not more than 365 days and rated in the top two rating categories by Moody's Investors Service of Standard & Poor's Ratings.
iv. Money market funds investing primarily in U.S. Treasury or agency securities.
v. Certificates of deposit provided they are fully insured by a federal agency.

c. Liquidity and marketability should be considered in the selection of individual securities or investments.
d. Credit quality should be considered in the selection of individual securities or investments of any single issuer that exceed 5% of the Authority's total invested funds.

3. Investment Guidelines for General Operating Fund
   a. A portion (not less than $50,000) of the principal should be in short-term investments (a money market or other readily liquid investment) to provide for reasonably anticipated expenditures.
   b. The balance of the Fund shall be invested according to the prioritization in 2.b. above or in fixed income investments maturing or which may be tendered for purchase at the option of the holiday in not more than seven years, but preferably in a laddered maturity portfolio over not more than a five-year period.
   c. The investments should be reviewed for compliance on a regular basis, not less than quarterly.
4. Deposit with Financial Institutions
   a. In general, funds on deposit with financial institutions shall not exceed available federal deposit insurance.
   b. To the extent that such funds exceed available federal deposit insurance, the Authority shall require the financial institution to furnish collateral security or a corporate surety bond in an amount equal to 110% of the uninsured funds.

502 Checking Account Balances

Created 12/12/1988 through Resolution 12-88-2, 10/19/2022
Policy Review Schedule: *Annual*
Most Recent Review: October 19, 2022

~~The Facilities Authority has operated since its inception, with the understanding that the approximate maximum balance in the Single Signature Checking Account be $5,000. The costs of the Authority are rising and it would be more efficient to make $10,000 transfers from the Double Signature Checking account to the Single Signature Checking account. *Resolution 12-88-2 adopted this change December 12, 1988.*~~

Transfers from the Double Signature Checking Account to the Single Signature Checking Account are typically done when the next upcoming expense exceeds the funds available in the Single Signature Checking Account. This results in an approximate maximum account balance of the amount of the transfer, although balances fluctuate with timing of transfers and payments.

The authorized amount of the transfers (historical and current) is:

1971-1988: $5,000

1988-2022: $10,000

2022 (beginning 10/19/2022): $15,000

503 Policy on Credit Card Use for MHEFA

Amended 10/19/2022
Policy Review Schedule: *Annual*
Most Recent Review: October 19, 2022

Purpose:

The following policy covers the use of the Authority's Wells Fargo VISA Business Platinum credit card and describes responsibilities and procedures to be followed to offer protection from fraud and fiscal damage to the Authority.

Users of the cards:

There are two credit cards issued by Wells Fargo for the Authority's use. One is in the name of and retained by Barry Fick, who is responsible for its security, and the other is in the name of and retained by Amanda Lee who is responsible for its security. Each credit card has a credit limit of $~~2,500~~5,000.

Uses of the cards:

The Wells Fargo credit cards are to be used only for official Authority business. No personal uses are authorized. The card may be used on such things as recurring Authority expenses, travel expenses associated with Authority business or continuing education of staff, authorized conference registration, supplies for Authority office use, computer programs that are used in the Authority offices, and other items directly associated with the operation of the Authority.

Handling of receipts:

~~Receipts will be obtained for every purchase made on the credit card.~~Receipts will be obtained whenever possible for purchases made on the credit card. The Operations Manager will maintain all receipts collected.

Reconciliation of receipts:

The Operations Manager will reconcile receipts with invoices received and prepare payments. The Executive Director will verify receipts and invoices.

Audit of card records:

All documents associated with the credit card account will be available to auditors.

Rebates/Rewards:

There are no rebates or rewards issued by the Wells Fargo credit card.

Cash advances:

No cash advances using this credit card are allowed.

Payment of Monthly Credit Card Statement:

The charges incurred on the credit card will be paid off in full each month.

504 Fixed Asset Capitalization Policy

Amended 10/19/2022
Policy Review Schedule: *Annual*
Most Recent Review: October 19, 2022

Definition of a Fixed Asset

"Land, buildings, equipment, machinery, vehicles, leasehold improvements, and other such items. Fixed assets are not consumed or sold during the normal course of a business, but their owner uses them to carry on its operations. In accounts, 'fixed' does not necessarily mean 'immovable;' any asset expected to last, or be in use, for more than one year is considered a fixed asset. On a balance sheet, these assets are shown at their book value (purchase price less depreciation)."

Capitalize vs. Expense

Items that will be capitalized include items that cost more than $~~500~~ 2,000 and have an expected useful life of three or more years.

Depreciation Method

Straight line depreciation will be used as the depreciation method for all fixed assets subject to depreciation. Depreciation will be calculated for the number of months an asset is in service for the year in which the item is purchased.

Descriptions of Assets over $~~500~~2,000

The Authority purchases furniture, computer software and computer/electronic equipment. Generally, furniture is depreciated over 10 years, and software and computer/electronic equipment is depreciated over 3 years.

Disposal of Assets

Assets are not generally disposed of before they are fully depreciated, but in the case of an asset being disposed of before being fully depreciated, any remaining net asset value (i.e. fixed asset cost less accumulated depreciate) is to be expensed in the year of disposal.

505 Lease Accounting Policy GASB 87 (Governmental Accounting Standards Board – Statement No. 87)

Created 10/19/2022
Policy Review Schedule: *Annual*
Most Recent Review: October 19, 2022

Purpose: To define the policies and procedures needed to gain control and efficiencies in the lease process to ensure the Minnesota Higher Education Facilities Authority ("MHEFA" or "Authority") properly and accurately accounts for leases in the Authority's financial statements beginning with the fiscal year ending June 30, 2022, following Governmental Accounting Standards Board ("GASB") Statement No. 87.

Below are the policies that the Authority has established, and the Authority Board has approved regarding the handling of leases. These policies are subject to modification or amendment as recommended by staff and approved by the Authority Board.

1. Capitalization Threshold: The Minnesota Higher Education Facilities Authority will capitalize any leases that have a present value of $10,000 or more at the commencement date of the lease or the implementation date of this GASB statement. This threshold will apply to leases of capital assets, including buildings, land, and equipment whether the Authority is a Lessor or a Lessee.

2. **Discount Rate:** Unless otherwise noted in the lease agreement, the discount rate used to calculate the present value of the lease payments should be the Federal Home Loan Bank of Des Moines Fixed Rate Advances Five (5) Year Rate, rounded to the nearest 1% at the commencement of the lease or the implementation date of this GASB statement. See Advances - FHLB Des Moines (fhlbdm.com).

3. **Compiling Lease Agreements:** The Board designates the Operations Manager with responsibility to maintain the information on the various leases entered into by the Authority.

4. **Lease Reviews:** The Executive Director and the Operations Manager will review the lease agreements and contracts to determine if they qualify as a lease under GASB Statement No. 87.*

5. **Lease Entries for Annual Financial Report (AFR):** The Executive Director and the Operations Manager will review the details of each lease to determine the classification of each lease under GASB Statement No. 87. The Operations Manager will make the appropriate lease entries in the Authority's accounting records. The entries will be completed at the end of each fiscal year.*

* The Authority may consult with accountants or other qualified parties to independently review the determination of the status of Authority Leases and obtain confirmation or clarification to ensure that leases are properly and accurately accounted for.

Memorandum

MHEFA Services

Date: October 12, 2022

To: Minnesota Higher Education Board Members

Re: MHEFA Professional Services – Arbitrage Rebate

The MHEFA engages professional organizations to provide services to the Authority directly and to assist the Authority in providing financing and other services to borrowers. Two primary professional relationships are the use of Municipal Advisors and providing borrowers with Arbitrage Rebate Calculations. The purpose of this memorandum is to discuss the current status of Arbitrage Rebate provider and outline options for the near term.

Arbitrage Rebate

The MHEFA recommends the use of Baker Tilly Municipal Advisors ("BTMA") to provide Arbitrage Rebate services to borrowers. BTMA has signed contracts with each MHEFA Borrower to provide arbitrage rebate services.

The Arbitrage Rebate contracts were assigned by Springsted Incorporated to BTMA upon the completion of the merger between Springsted and BTMA. The arbitrage rebate calculations are performed by BTMA staff and shared with the Authority, as well as the borrower.

When the Authority undertook a Request for Proposal process in 2020 for Municipal Advisory Services, the Authority did not undertake a similar process for Arbitrage Rebate services. The reason was to minimize disruption for borrowers at the same time as Municipal Advisor services were potentially changing.

Now that time has passed, staff is of the opinion that it is appropriate to review the Arbitrage Rebate engagement and consider if a Request for Proposal process should be undertaken for recommending Arbitrage Rebate Service providers.

MHEFA staff proposes to consult with borrowers regarding their thoughts regarding Arbitrage Rebate services and determine if there are any concerns or issues related to the service being received. MHEFA staff would also ask borrowers if there would be interest on their part to have MHEFA conduct an RFP process for Arbitrage Rebate Services.

The results of the consultation will be presented to the Board at a later date for consideration of any further action.

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Memorandum

MHEFA Services

Date: October 12, 2022

To: Minnesota Higher Education Board Members

Re: MHEFA Professional Services – Municipal Advisors

The MHEFA engages professional organizations to provide services to the Authority directly and to assist the Authority in providing financing and other services to borrowers. Two primary professional relationships is the use of Municipal Advisors and providing borrowers with Arbitrage Rebate Calculations. The purpose of this memorandum is to restate and clarify the circumstances for using a MA on a financing transaction.

Municipal Advisors

The MHEFA uses a roster of qualified Municipal Advisor (MA) firms, selected through a Request for Proposal (RFP) process in 2020. The Authority engages the MA for professional services related to borrower financings and non-financing advisory services. While not often used, the borrower has the option to also engage a MA firm, independent of the Authority's MA. The use of dual advisors generally results in additional costs and duplication of services or uncertainty about which firm is responsible for providing services. In addition, there is a theoretical issue about fiduciary responsibility and the duty of care between MA firms, the Authority, and the borrower.

The Authority staff strive to provide professional service to borrowers and keep costs as low as possible for borrowers. In the past, the Authority has almost always engaged a MA for a financing. With changes to the market, including consolidation and regulatory requirements, the role of the MA firm is subject to review and updating.

The Authority staff have discussed options for using MA firms on financings with other Authorities through NAHEFFA. There are many options for using MA firms in other states.

For future use of MA firms on financings through MHEFA, the MHEFA Staff propose the following Policy guidelines for consideration and discussion with the Board:

- For a Private Placement financing, the Authority will generally engage a MA on a limited basis. The MA will prepare an Application Analysis and conduct a Finance Plan Review. This limited role for the MA is the result of regulatory changes and the private placement being a transaction between the bank and the school. In addition, Authority staff have the experience to negotiate with the Private Placement Bank on behalf of the Authority and the borrower.
- For a debt financing using Bonds, the Authority will generally engage a MA. The MA will be one of the firms on the Authority Roster of MA firms and will be chosen after consultation with the Borrower.
- For a debt financing using Bonds, when the Borrower has engaged a MA, the Authority will generally not engage an MA, but will rely on the Borrowers MA, so long as the MA engaged by the Borrower is on the Authority Roster of MA firms.
- For a debt financing using Bonds, when the Borrower has engaged a MA, the Authority may choose to engage an MA if the MA to the Borrower is not on the Authority Roster of MA firms.
- The Authority reserves the right to engage a MA on any financing or refinancing, if in the opinion of the Authority, engaging a MA would provide value to the overall financing transaction.

EXEC. DIR. REPORT

MINNESOTA
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860 BLUE GENTIAN ROAD, SUITE 145, EAGAN, MN
55121

Date: October 12, 2022

To: Minnesota Higher Education Facilities Authority Board Members

From: Barry W. Fick, Executive Director

Subject: Executive Director's Report

Legislative Update

It does not appear that a Special Session is going to be called in the next month, so we are planning to go back to the legislature in 2023, where the chance for passage of our bill is very good. We have had discussions with one of our House sponsors, who provided guidance on some fine-tuning of our bill language that we will incorporate, along with improved explanatory material.

Rating Agency Update

- Moody's Investors Service has published their ESG scores
- These include assignment of a Credit Impact Score (CIS)

Borrower Assistance and Financing Application Update

- We are engaging in preliminary discussions with several schools about financing projects in the next one to two years
- We are collaborating with multiple schools on Moody's rating updates
- We continue to support schools in their compliance with Continuing Disclosure obligations
- If the projected school financings are competed in the next fiscal year, we will be very close to our bonding limit of $1.3 billion. This means we'll want to go back to the Legislature in 2023 at minimum for an expansion of our bonding limit to somewhere around $2 billion.

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Borrower Staffing Update

Vacancy exists for the CFO position at Bethel. St. Scholastica, MCAD and NW Health Sciences have filled their financial staff vacancies. Presidential search continues at the University of St. Thomas.

Various Items of Interest

Executive Director Fick attended and presided as President at the National Association of Health and Educational Facilities Financing Authorities (NAHEFFA) in Bozeman, MT this past September.

Mr. Fick's has been appointed to a second term on GFOA Debt Management Committee beginning September 15, 2022.

In his capacity as President of the National Association of Health & Education Facilities Finance Authorities, (NAHEFFA), Executive Director Fick met with the Municipal Securities Rulemaking Board and Senior Staff in late July and met with the SEC Office of Municipal Securities Director to discuss conduit municipal issues.

Includes October checks written

Minnesota Higher Education Facilities Authority

Budget vs. Actuals: FY2023 Original Budget - FY23 P&L

July 2022 - June 2023

	TOTAL				
	ACTUAL	BUDGET	REMAINING	% OF BUDGET	% REMAINING
Income					
4010 Annual Fee Income	394,876.24	1,503,695.00	1,108,818.76	26.26 %	73.74 %
4020 Application Fee Income		3,000.00	3,000.00		100.00 %
Discounts given	-256,669.57	-977,400.00	-720,730.43	26.26 %	73.74 %
Total Income	**$138,206.67**	**$529,295.00**	**$391,088.33**	**26.11 %**	**73.89 %**
GROSS PROFIT	**$138,206.67**	**$529,295.00**	**$391,088.33**	**26.11 %**	**73.89 %**
Expenses					
6000 Stipends	55.00	3,520.00	3,465.00	1.56 %	98.44 %
6001 Board Travel	77.50	5,000.00	4,922.50	1.55 %	98.45 %
6002 Communications	3,551.06	18,050.00	14,498.94	19.67 %	80.33 %
6003 Staff Travel		20,000.00	20,000.00		100.00 %
6004 Office Rent	15,503.00	50,000.00	34,497.00	31.01 %	68.99 %
6005 Office Supplies	131.74	2,750.00	2,618.26	4.79 %	95.21 %
6006 Repairs		3,000.00	3,000.00		100.00 %
6007 Printing Expense		1,500.00	1,500.00		100.00 %
6008 Periodicals/Memberships	5,676.00	8,000.00	2,324.00	70.95 %	29.05 %
6009 Fiscal Consultant Fees		5,000.00	5,000.00		100.00 %
6010 Audit Fees		19,950.00	19,950.00		100.00 %
6012 Legal Fees		5,000.00	5,000.00		100.00 %
6013 Insurance Expense		1,849.00	1,849.00		100.00 %
6015 Miscellaneous Expense	2,701.35	4,000.00	1,298.65	67.53 %	32.47 %
6016 Bank Service Charges	521.28	3,500.00	2,978.72	14.89 %	85.11 %
6017 Conference Expenses	17,687.94	27,000.00	9,312.06	65.51 %	34.49 %
6018 Professional Development-Board		2,000.00	2,000.00		100.00 %
6020 Professional Development-STAFF	550.00	5,000.00	4,450.00	11.00 %	89.00 %
6021 IT	7,726.61	20,350.00	12,623.39	37.97 %	62.03 %
6023 Postage/Delivery Expense	28.35	350.00	321.65	8.10 %	91.90 %
6100 Salaries	51,474.04	225,000.00	173,525.96	22.88 %	77.12 %
6101 Fringe Benefits	16,526.43	87,000.00	70,473.57	19.00 %	81.00 %
6104 Worker's Compensation		170.00	170.00		100.00 %
6107 Office Contract Work	90.00	1,000.00	910.00	9.00 %	91.00 %
6200 Equipment Leases	1,747.89	7,170.00	5,422.11	24.38 %	75.62 %
Total Expenses	**$124,048.19**	**$526,159.00**	**$402,110.81**	**23.58 %**	**76.42 %**
NET OPERATING INCOME	**$14,158.48**	**$3,136.00**	**$ -11,022.48**	**451.48 %**	**-351.48 %**
Other Income					
4000 Interest Income	3,501.51	6,000.00	2,498.49	58.36 %	41.64 %
Total Other Income	**$3,501.51**	**$6,000.00**	**$2,498.49**	**58.36 %**	**41.64 %**
Other Expenses					
Other Miscellaneous Expense		59,000.00	59,000.00		100.00 %
Total Other Expenses	**$0.00**	**$59,000.00**	**$59,000.00**	**0.00%**	**100.00 %**
NET OTHER INCOME	**$3,501.51**	**$ -53,000.00**	**$ -56,501.51**	**-6.61 %**	**106.61 %**

Minnesota Higher Education Facilities Authority

Budget vs. Actuals: FY2023 Original Budget - FY23 P&L

July 2022 - June 2023

	TOTAL				
	ACTUAL	BUDGET	REMAINING	% OF BUDGET	% REMAINING
NET INCOME	**$17,659.99**	**$ -49,864.00**	**$ -67,523.99**	**-35.42 %**	**135.42 %**