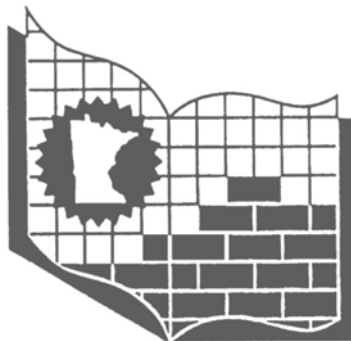


**Minnesota Higher Education Facilities Authority**  
**2017 Annual Report**



# Mission of the Authority

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

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

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

## For the Fiscal Year Ended June 30, 2017

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## Letter from the Chair

Greetings:

We are pleased to present the Annual Report of the Minnesota Higher Education Facilities Authority for the fiscal year ended June 30, 2017, including financial statements for the year as audited by the accounting firm BerganKDV. This report includes information about the services provided by the Authority to benefit nonprofit institutions of higher education in the State of Minnesota. The primary service is to provide financing for capital projects of those colleges and universities, generally through tax-exempt financing.

The financing assistance provided by the Authority for Minnesota's nonprofit colleges and universities has always been provided without cost to the taxpayers of Minnesota. The Bonds issued by the Authority are not backed by the credit of the State, either directly or indirectly, and all operating expenses of the Authority are paid from fees assessed to the colleges and universities associated with the various financings.

In fiscal year 2017, the Authority completed seven financings for five institutions. The total principal amount issued of \$208,408,000 is slightly lower than the previous year's total of \$213,515,000, which was the largest principal amount the Authority has ever issued in one year. At the end of the fiscal year 2017, the total principal outstanding for Authority-issued debt stands at \$928,175,593. The current statutory limit on outstanding debt issued by the Authority is \$1.3 billion.

The annual volume of bonds issued by the Authority will fluctuate with market conditions and institutional needs. Since 1971, the Authority has provided a consistent source of financing for Minnesota's nonprofit colleges and universities. Through the combined efforts of the Authority members, staff and advisors, the Authority will continue to provide requested services in an efficient and cost-effective manner.

Respectfully submitted,  
Mark Misukanis  
Chair, Fiscal Year 2017

## MHEFA Board Members

**Gary D. Benson**, MHEFA Vice Chair  
Director of Project Planning & Development  
Kraus-Anderson Construction Company  
Resident of New Brighton, Minnesota  
Term Expires January 2019

**Kathryn Balstad Brewer**  
Retired Banker and Educator  
Resident of New Brighton, Minnesota  
Term Expires January 2019

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

**Mary F. Ives**  
Real Estate Business Owner  
Resident of Grand Rapids, Minnesota  
Term Expires January 2020

**Mark Misukanis**, MHEFA Chair  
Assistant Professor, Metropolitan State University  
Resident of Mendota Heights, Minnesota  
Term Expires January 2021\*

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

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

**Nancy Sampair**, MHEFA Secretary  
Retired Banker  
Resident of Saint Paul, Minnesota  
Term Expires January 2018

**Raymond VinZant, Jr.**  
Founder, Midway Vo-Tech, Saint Paul  
Resident of Wyoming, Minnesota  
Term Ends January 2020

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

### MHEFA Staff

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

### Municipal Advisor

**Springsted Incorporated**, Saint Paul, Minnesota

### Independent Auditors

**BerganKDV, Ltd.**, Minneapolis, Minnesota

\*Pending Senate Confirmation

# Colleges and Universities with Bond Issues Outstanding

## Augsburg College

- ◆ Series Six-J2 issued July 2006 in the amount of \$5,000,000. The proceeds were used to construct an addition to the Si Melby Athletic facility, renovate the Augsburg House and Event Center and finance certain construction costs of the Gateway Project.
- ◆ Series Seven-G issued October 2010 in the amount of \$8,860,000. The proceeds were used for refinancing the Series Four-Y Bonds.
- ◆ Series Eight-C issued July 2014 in the amount of \$6,705,000. The proceeds were used for refinancing the Series Six-C Bonds.
- ◆ Series Eight-E issued April 2015 in the amount of \$12,400,000. The proceeds were used for refinancing the Series Six-J1 Bonds.
- ◆ Augsburg Series 2016A in the amount of \$32,240,000 and Series 2016B in the amount of \$13,680,000 issued December 2016. The proceeds were used to finance a portion of a Science, Business and Religion Center.

## Bethel University

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

## Carleton College

- ◆ Series Six-D issued April 2005 in the amount of \$31,460,000. The proceeds were used for the construction and furnishing of a townhouse for student occupancy, for the acquisition of real estate near campus, and for refinancing the Series Three-L1 and Four-N Bonds.
- ◆ Carleton Series 2017 issued May 2017 in the amount of \$124,900,000. The proceeds were used for the construction of several campus buildings, various utility infrastructure improvements, to refund Series Five-G, Series Six-T and Series Seven-D Bonds and pay for costs of issue.

## College of Saint Benedict

- ◆ Series Six-V issued May 2008 in the amount of \$19,430,000. The proceeds were used for refinancing the Series Four-G and Four-T Bonds and for the acquisition of four condominium units for student or faculty use.
- ◆ Series Seven-M issued December 2011 in the amount of \$9,135,000. The proceeds were used for the construction of new student housing facilities consisting of four residence buildings and a separate common area building.
- ◆ Series Seven-T issued January 2013 in the amount of \$5,235,000. The proceeds were used for refinancing the Series Five-W Bonds.
- ◆ Series Eight-K issued April 2016 in the amount of \$34,360,000. The proceeds were used to finance improvements on the campus including acquisition and renovation of three buildings, renovation of academic, residential and library buildings, development of sports fields, upgrades to the power plant and other improvements.



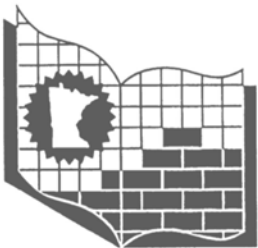
# Colleges and Universities with Bond Issues Outstanding

## College of St. Scholastica

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

## Concordia University St. Paul

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



## Gustavus Adolphus College

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

## Hamline Mitchell School of Law

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

## Hamline University

- ◆ Series Seven-E issued June 2010 in the amount of \$14,890,000. The proceeds were used for refinancing the Series Five-B Bonds and also for refinancing the outstanding balance of a bank line of credit that had been used for various capital improvements for the University.
- ◆ Series Seven-K2 issued March 2011 in the amount of \$18,330,000. The proceeds were used for the construction of a new University Center and related parking facilities for the St. Paul campus.
- ◆ Series Seven-Y2 issued September 2013 in the amount of \$6,210,000. The proceeds were used for refinancing the Series Six-E2 Bonds.
- ◆ Hamline Series 2017A issued June 2017 in the amount of \$6,726,000. The proceeds were used for refinancing the Series Seven-K1 Bonds and Seven-L Notes.

# Colleges and Universities with Bond Issues Outstanding

## Macalester College

- ◆ Series Three-Z issued September 1994 in the amount of \$6,660,000. The proceeds were used for the expansion of the College's athletic fields and other renovations on the campus.
- ◆ Series Five-Q issued February 2003 in the amount of \$15,300,000. The proceeds were used for the renovation, refurbishing and data wire upgrades to Doty Hall, Wallace Hall and Turck Hall and to install fire sprinkler systems in Doty, Wallace, Turck, Bigelow, Dupre, 30 Macalester and Kirk Halls.
- ◆ Series Six-P issued March 2007 in the amount of \$39,490,000. The proceeds were used for the construction of a new athletic and recreation center and for refinancing the outstanding portion of the Series Four-U1 and Four-U2 Bonds.
- ◆ Series Seven-I issued December 2010 in the amount of \$16,000,000. The proceeds were used for the renovation and expansion of the Janet Wallace Fine Arts Center.
- ◆ Series Seven-S issued December 2012 in the amount of \$14,730,000. The proceeds were used for phase two of the renovation and expansion of the Janet Wallace Fine Arts Center and the replacement of a boiler.
- ◆ Series Eight-J issued October, 2015 in the amount of \$22,660,000. These revenue bonds were issued to refinance a portion of the Series Six-P Bonds and finance a number of infrastructure renovation and improvements on the campus.

## Minneapolis College of Art and Design

- ◆ Series Seven-N issued April 2012 in the amount of \$3,215,000. The proceeds were used for refinancing the Series Five-K Bonds.
- ◆ Series Eight-D issued March 2015 in the amount of \$7,845,000. The proceeds were used for refinancing Series Six-K Bonds and Series Six-Z Notes.

## Saint John's University

- ◆ Series Six-U issued June 2008 in the amount of \$11,375,000. The proceeds were used for the construction of a 58-bed student apartment building and an 8,000 square foot community center. A portion of the proceeds were also used for the renovation of the dining facilities and Seton Apartments.
- ◆ Series Eight-H issued August 2015 in the amount of \$13,815,000. These revenue bonds were issued for refinancing the Series Six-G Bonds.
- ◆ Series Eight-I issued December 2015 in the amount of \$18,275,000. These revenue bonds were issued for the construction of a Learning Commons building and improvements to the Alcuin Library.

## St. Mary's University of Minnesota

- ◆ Series Eight-A issued April 2014 in the amount of \$6,025,000. The proceeds were used for refinancing the Series Five-U Bonds.
- ◆ St. Mary's Series 2017A in the amount of \$5,546,000 and 2017B in the amount of \$2,471,000 issued June 2017. The proceeds of St. Mary's Series 2017A were used for the construction of a three-story science and learning center of approximately 50,000 square feet and to pay for costs of issue. The proceeds of St. Mary's Series 2017B were used for refinancing the Series Seven-C Bonds.



# Colleges and Universities with Bond Issues Outstanding

## St. Catherine University

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

## St. Olaf College

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



## University of St. Thomas

- ◆ Series Seven-A issued December 2009 in the amount of \$79,440,000. The proceeds were used for the construction of the Anderson Student Center, for improvements to the University's athletic facilities and for renovating the McCarthy Gymnasium on the St. Paul campus.
- ◆ Series Seven-O issued May 2012 in the amount of \$15,325,000. The proceeds were used for refinancing the Series Four-O and Series Five-C Bonds.
- ◆ Series Seven-P issued May 2012 in the amount of \$12,300,000. The proceeds were used for refinancing the Series Six-H Bonds.
- ◆ Series Seven-U issued March 2013 in the amount of \$25,685,000. The proceeds were used for refinancing the Series Five-L and the Series Five-Z Bonds.
- ◆ Series Seven-Z issued March 2014 in the amount of \$24,210,000. The proceeds were used for refinancing the Series Five-Y Bonds.
- ◆ Series Eight-L issued March 2016 in the amount of \$55,355,000. These revenue bonds were issued to refinance the Series Six-W and Six-X Bonds.
- ◆ Series Eight-M issued March 2016 in the amount of \$15,305,000. These revenue bonds were issued to refinance the Series Six-I Bonds.

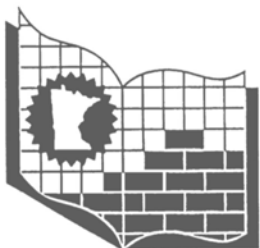
# Independent Auditor's Report

## Report on the Financial Statements

We have audited the accompanying financial statements of the Minnesota Higher Education Facilities Authority, St. Paul, Minnesota, as of and for the year ended June 30, 2017, and the related notes to financial statements, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents.

## Management's Responsibility for the Financial Statements

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



## Auditor's Responsibility

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

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

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

## Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Minnesota Higher Education Facilities Authority, St. Paul, Minnesota, as of June 30, 2017, and the changes in its financial position and its cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America.



# Independent Auditor's Report

## Other Matters — Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and the Required Supplementary Information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and

other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## Report on Summarized Comparative Information

The financial statements include partial prior year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Authority's financial statement for the year ended June 30, 2016, from which such partial information was derived.

We have previously audited the Authority's 2016 financial statements and our report, dated September 7, 2016, 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, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**BerganKDV, Ltd.**  
Minneapolis, Minnesota  
October 5, 2017



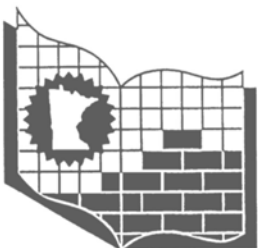
# Management Discussion and Analysis

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, 2017.

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

The Authority is authorized to issue revenue bonds whose aggregate outstanding principal amount at any time cannot exceed a statutory limit of \$1.3 billion. The Authority has had 219 issues (including refunded and retired issues) totaling over \$2.575 billion of which \$928,175,593 is outstanding as of June 30, 2017. Bonds issued by the Authority are payable only from the loan repayments, rentals, and other revenues and moneys pledged for their payment. The bonds of the Authority do not represent or constitute a debt or pledge of the faith or credit or moral obligation of the State of Minnesota. The operations of the Authority are financed from fees paid by the participating institutions and investment income. It has no taxing power. The Authority receives no funding from the State of Minnesota. Bond issuance costs are paid by the participating institution.

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



# Management Discussion and Analysis, *continued*

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

An annual conference on higher education finance issues has been offered for many years by the Authority. During fiscal year 2017 the conference was held in April, and provided an opportunity for Authority borrowers, along with legal and finance professionals to share information relevant to higher education capital financings.

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.

## Overview of the Financial Statements

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

### Statements of Net Position -

This statement presents information reflecting the Authority's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position represents the amount of total assets and deferred outflows of resources less total liabilities and deferred inflows of resources. The statement of net position is categorized as to current and noncurrent assets and liabilities. For purposes of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within one year of the statement date.

### Statement of Revenues, Expenses, and Changes in Net Position -

This statement reflects the operating revenues and expenses during the year. Operating revenue is from administrative fees charged to colleges and universities. The change in net position for an enterprise fund is similar to net profit or loss for any other business enterprise.

### Statement of Cash Flows -

The statement of cash flows is presented on the direct method of reporting which reflects cash flows from operating, capital, and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash for the year.



## Management Discussion and Analysis, *continued*

The following summarizes the financial position and results of operations of the Authority for the years ended June 30, 2016 and 2017.

	2017	2016
<b>Assets</b>		
Current Assets	\$ 2,050,024	\$ 2,043,143
Noncurrent Assets	<u>3,396</u>	<u>2,902</u>
Total Assets	<u>\$ 2,053,420</u>	<u>\$ 2,046,045</u>
<b>Deferred Outflows of Resources</b>		
Deferred Outflows of Resources Related to Pensions	<u>308,387</u>	<u>18,198</u>
<b>Liabilities</b>		
Current Liabilities	\$ 26,018	\$ 78,675
Long Term Liabilities	<u>447,379</u>	<u>54,876</u>
Total Liabilities	<u>473,397</u>	<u>133,551</u>
<b>Deferred Inflows of Resources</b>		
Deferred Inflows of Resources Related to Pensions	<u>32,149</u>	<u>69,230</u>
<b>Net Position</b>		
Invested in Capital Assets	3,396	2,902
Unrestricted	<u>1,852,865</u>	<u>1,858,560</u>
Total Net Position	<u>\$ 1,856,261</u>	<u>\$ 1,861,462</u>
<b>Operating Revenues</b>		
Operating Revenues	\$ 422,264	\$ 327,787
Operating Expenses	<u>(435,786)</u>	<u>(374,409)</u>
Operating Loss	(13,522)	(46,622)
<b>Nonoperating Revenues</b>		
Interest Income	30,804	32,055
Net Increase/(Decrease) in Fair Value of Investments	<u>(22,483)</u>	<u>18,131</u>
Total Nonoperating Revenue	<u>8,321</u>	<u>50,186</u>
<b>Change In Net Position</b>	(5,201)	3,564
<b>Net Position</b>		
Beginning of year, as previously stated	1,857,898	1,857,898
Change in accounting principle	-	-
Beginning of Year	<u>1,861,462</u>	<u>1,857,898</u>
End of Year	<u>\$ 1,856,261</u>	<u>\$ 1,861,462</u>

# Management Discussion and Analysis, *continued*

## Financial Highlights

The Authority completed seven financings in fiscal year 2017 with a total principal amount of \$208,408,000. This compares to seven financings completed in fiscal year 2016 with a total principal amount of \$213,515,000. Following is a listing of the bond issues for fiscal year 2017.

### St. Olaf College

- ◆ Series Eight-N was issued September 2016 in the amount of \$22,845,000. These revenue bonds were issued for refinancing portions of the Series Seven-F Bond.

### Augsburg University

- ◆ Augsburg Series 2016A was issued December 2016 in the amount of \$32,240,000. These revenue bonds were issued to finance a portion of a science center during the construction period, fund a debt service reserve, and pay for costs of issue.
- ◆ Augsburg Series 2016B was issued December 2016 in the amount of \$13,680,000. These revenue bonds were issued to finance a portion of a science center during the construction period, fund a debt service reserve, and pay for costs of issue.

### Carleton College

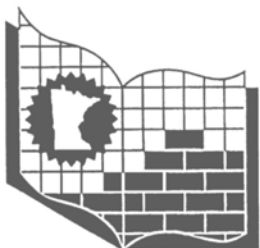
- ◆ Carleton Series 2017 was issued May 2017 in the amount of \$124,900,000. These revenue bonds were issued to finance a portion of the acquisition, design, construction, renovation, improving and equipping various facilities on campus, various utility infrastructure improvements, and to refund Series Five-G, Series 6-T, and Series Seven-D, and pay for costs of issue.

### St. Mary's University of Minnesota

- ◆ St. Mary's Series 2017A was issued June 2017 in the amount of \$5,546,000. This revenue note was issued to finance a portion of the acquisition, design, construction, renovation, improving and equipping science and learning space on campus.
- ◆ St. Mary's Series 2017B was issued June 2017 in the amount of \$2,471,000. This revenue note was issued to refund Series Seven-C.

### Hamline University

- ◆ Hamline Series 2017A issued June 2017 in the amount of \$6,726,000. This revenue note was issued to refund the outstanding Series Seven-K1 bonds and to defease the outstanding Seven-L Notes.



# Management Discussion and Analysis, *continued*

## Factors Expected to Affect Future Financial Position and Operation

The Authority has two revenue sources; the administrative fee charged to borrowers and interest earnings generated on its accumulated operating reserve. The administrative fee is based on the outstanding principal amount of each series of bonds at the time of billing. The administrative fee is billed to each borrower on the anniversary of the bond closing. Starting in fiscal year 1997, the Authority's annual administrative fee has been reduced from the allowable maximum of 0.125%. Utilizing the operating reserve to subsidize the operating expenses, the Authority reduced the annual administrative fee to all borrowers in fiscal year 2017 by 65%. The maximum allowable fee for fiscal year 2018 will be reduced by 65%. Although future reductions in the maximum allowable fee are not guaranteed, the Authority is committed to providing its services at an affordable level to colleges and universities in Minnesota.

## Requests for Information:

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

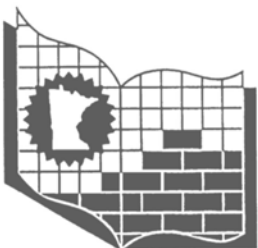
### **Minnesota Higher Education Facilities Authority**

380 Jackson Street, Suite 450

Saint Paul, MN 55101

Phone: 651-296-4690

Website: [www.mnhefa.org](http://www.mnhefa.org)



# Statement of Net Position

For the year ended June 30, 2017 (with partial comparative information as of June 30, 2016)

	2017	2016
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 396,489	\$ 245,297
Investments	1,646,233	1,788,715
Interest receivable	6,007	7,239
Prepaid items	1,295	1,892
Total current assets	<u>2,050,024</u>	<u>2,043,143</u>
Noncurrent assets		
Equipment	69,951	69,534
Less accumulated depreciation	<u>(66,555)</u>	<u>(66,632)</u>
Total noncurrent assets	3,396	2,902
Total assets	<u>\$ 2,053,420</u>	<u>\$ 2,046,045</u>
Deferred Outflows of Resources		
Deferred outflows of resources related to pensions	<u>308,387</u>	<u>18,198</u>
Total assets and deferred outflows of resources	<u>\$ 2,361,807</u>	<u>\$ 2,064,243</u>
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>		
Liabilities		
Current liabilities		
Accounts payable	\$ 19,026	\$ 14,985
Compensated absences payable	<u>6,992</u>	<u>63,690</u>
Total current liabilities	26,018	78,675
Noncurrent liabilities		
Compensated absences payable	6,993	-
Net pension liability	<u>440,386</u>	<u>54,876</u>
Total noncurrent liabilities	<u>447,379</u>	<u>54,876</u>
Total liabilities	<u>473,397</u>	<u>133,551</u>
Deferred Inflows of Resources		
Deferred inflows of resources related to pensions	<u>32,149</u>	<u>69,230</u>
<b>Net Position</b>		
Net investment in capital assets	3,396	2,902
Unrestricted	<u>1,852,865</u>	<u>1,858,560</u>
Total net position	<u>1,856,261</u>	<u>1,861,462</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 2,361,807</u>	<u>\$ 2,064,243</u>

See NOTES TO THE FINANCIAL STATEMENTS

# Statement of Revenues, Expenses and Changes in Net Position

For the year ended June 30, 2017 (with partial comparative information as of June 30, 2016)

	2017	2016
<b>Operating Revenues</b>		
Annual administrative fees	\$414,729	\$323,577
Other income	7,535	4,210
Total operating revenues	<u>422,264</u>	<u>327,787</u>
<b>Operating Expenses</b>		
Payroll, payroll taxes, and employee benefits	302,426	245,484
Legal, audit, and consulting expense	39,373	42,805
Rent	48,481	48,481
Depreciation	1,279	230
Other general and administrative expenses	44,227	37,409
Total operating expenses	<u>435,786</u>	<u>374,409</u>
Operating loss	13,522	(46,622)
<b>Nonoperating Revenues</b>		
Interest income	30,804	32,055
Increase (decrease) in fair value of investments	(22,483)	18,131
Total nonoperating revenues	<u>8,321</u>	<u>50,186</u>
Change in net position	(5,201)	3,564
<b>Net Position</b>		
Beginning of year	<u>1,861,462</u>	<u>1,857,898</u>
End of year	<u>\$1,856,261</u>	<u>\$1,861,462</u>



# Statement of Cash Flows

For the year ended June 30, 2017 (with partial comparative information as of June 30, 2016)

	2017	2016
<b>Cash Flows - Operating Activities</b>		
Cash received from annual administrative and other fees	\$422,264	\$327,787
Cash payments to employees	(291,305)	(257,793)
Cash payments to suppliers for goods and services	(130,029)	(133,017)
Net cash flows - operating activities	<u>930</u>	<u>(63,023)</u>
<b>Cash Flows - Capital and Related Financing Activities</b>		
Purchase of Capital Assets	<u>(1,773)</u>	<u>(1,781)</u>
<b>Cash Flows - Investing Activities</b>		
Interest received	32,036	32,792
Net investment purchases	<u>119,999</u>	<u>-</u>
Net cash flows - investing activities	<u>152,035</u>	<u>32,792</u>
Net change in cash and cash equivalents	151,192	(32,012)
<b>Cash and Cash Equivalents</b>		
Beginning of year	<u>245,297</u>	<u>277,309</u>
End of year	<u>\$396,489</u>	<u>\$245,297</u>
<b>Reconciliation of Operating Loss to Net Cash Flows - Operating Activities</b>		
Operating loss	\$ (13,522)	\$ (46,622)
Adjustments to reconcile operating loss to net cash flows - operating activities		
Depreciation expense	1,279	230
Prepaid items	597	(1,055)
Accounts payable	4,041	6,247
Deferred outflows, inflows, and liability related to pension activity	58,240	(20,093)
Compensated absences payable	(49,705)	(1,730)
Total adjustments	<u>14,452</u>	<u>(16,401)</u>
Net cash flows - operating activities	<u>\$ 930</u>	<u>\$ (63,023)</u>
<b>Noncash Investing Activities</b>		
Net increase/(decrease) in fair value of investments	<u>\$ (22,483)</u>	<u>\$ 18,131</u>

See NOTES TO THE FINANCIAL STATEMENTS

## Note 1—Summary of Significant Accounting Policies

### A. Reporting Entity

The Authority is a state agency created to assist nonprofit institutions of higher education in financing the construction of educational facilities. The Authority finances projects through the issuance of bonds; the principal and interest of which are paid by the lease/loan payments collected from the higher education institutions. In 2017, 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, 2017, 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, 2017, 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.

*Continued on page 18*

## Note 1—Summary of Significant Accounting Policies, *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 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, 2017, 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 Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The Authority has one item that qualifies for reporting in this category: deferred outflows of resources related to pensions. Deferred outflows of resources related to pensions is recorded for various estimate differences that will be amortized and recognized over future years.

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

### 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, deferred outflows of resources, 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, 2017, the Authority's bank balance of \$172,565 was not exposed to custodial credit risk because it was insured through FDIC insurance.

As of June 30, 2017, the Authority's carrying value of deposits was as follows:

**Deposits** ..... \$137,866

**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, 2017, the Authority had the following investments:

Investment	Maturities	Fair Value	S&P Rating
American Express Centurion Certificate of Deposit	01/31/18	\$99,912	N/A
CIT Bank, UT Certificate of Deposit	03/27/18	99,903	N/A
Discover Bank Certificate of Deposit	03/27/18	100,014	N/A
JP Morgan Chase Bank Certificate of Deposit	12/05/18	99,695	N/A
Webster Bank NAWaterbury, CT Certificate of Deposit	03/19/19	100,439	N/A
Goldman Sachs Bank, NY Certificate of Deposit	05/21/19	100,770	N/A
Beal Bank SSB Certificate of Deposit	06/05/19	99,243	N/A
Sallie Mae Bank Certificate of Deposit	08/20/19	100,751	N/A
American Express Centurion Certificate of Deposit	06/03/20	100,479	N/A
Capital One Bank USA Certificate of Deposit	06/24/20	120,724	N/A
Synchrony Bank Certificate of Deposit	08/17/20	126,640	N/A
Comenity Capital Bank Certificate of Deposit	03/18/21	99,947	N/A
Capital One Bank NA Certificate of Deposit	10/05/21	97,597	N/A
Discover Bank Certificate of Deposit	11/16/21	98,836	N/A
State Bank of India, NY Certificate of Deposit	02/24/22	100,386	N/A
Goldman Sachs Bank, NY Certificate of Deposit	04/12/22	100,897	N/A
Wells Fargo Money Market	N/A	<u>258,623</u>	AAAm
Total investments		<u>\$ 1,904,856</u>	

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

### B. Investments (*continued*)

**Concentration of Credit Risk:** This is the risk of loss attributed to the magnitude of an investment in a single issuer. The Authority's policy states the Authority should consider the credit quality in the selection of individual securities of any single issuer in excess of 5% of the Authority's total investments. As of June 30, 2017, all of the Authority's individual investment balances exceeded 5% of the total investments.

**Custodial Credit Risk – Investments:** For an investment, this is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investment policy does not address custodial credit risk for investments other than to follow the overall framework provided by *Minnesota Statutes*. Investments of the Authority are not registered in the Authority's name. The securities are held in bank safekeeping in third party depositories under the bank's name and ownership. Pursuant to federal banking laws and regulations, the bank's customer accounts are segregated from and not considered part of the bank's assets. Thus, the account ownership of assets in bank safekeeping accounts remain vested in the customers and are protected from claims of creditors of the bank.

**Interest Rate Risk:** This is the risk that market value of securities will fall due to the changes in market interest rates. The Authority's investment policy states the Authority's investments should be made with consideration for cash flow requirements, taking into account budgeted expenditures.

**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, 2017:

- Brokered money markets of \$258,623 are valued using calculated net asset value (Level 1 inputs)
- Investment securities of \$1,646,233 are valued using quoted market prices (Level 2 inputs)

Deposits and investments are presented in the June 30, 2017, basic financial statements as follows:

Cash and cash equivalents	\$ 396,489
Investments	<u>1,646,233</u>
Total deposits and investments	<u>\$ 2,042,722</u>

## Note 3—Capital Assets

Capital asset activity for the year ended June 30, 2017, was as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, being depreciated				
Office furniture and equipment	\$ 69,534	\$ 1,773	\$ (1,356)	\$ 69,951
Less accumulated depreciation	<u>(66,632)</u>	<u>(1,279)</u>	<u>1,356</u>	<u>(66,555)</u>
Capital assets, net	<u>\$ 2,902</u>	<u>\$ 494</u>	<u>\$ -</u>	<u>\$ 3,396</u>

## Note 4—Leases

The Authority has a lease commitment for office space through November 2017, with monthly base rent of \$3,771. Total costs were \$48,481 for the year ended June 30, 2017. The future minimum lease payments for this lease are as follows:

### Year Ending June 30

2017	\$ 48,252
2018	<u>20,105</u>
Total	<u>\$ 68,357</u>

## Note 5—Long-Term Liabilities

Changes in long-term liability activity for the year ended June 30, 2017, was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Compensated absences	<u>\$ 63,690</u>	<u>\$ 20,662</u>	<u>\$ (70,367)</u>	<u>\$ 13,985</u>	<u>\$ 6,992</u>

**Note 6—Conduit Debt**

At June 30, 2017, there were 53 bond issues and leases outstanding with an aggregate principal balance outstanding of \$928,175,593 as follows:

College/University	Final Maturity	Indebtedness	
		Issued	Outstanding
Series Three-Z, Macalester College Variable Rate Demand Revenue Bonds, September 1994	2024	\$6,660,000	\$6,660,000
Series Five-N2, College of St. Catherine Variable Rate Demand Revenue Bonds, August 2002	2032	24,625,000	24,625,000
Series Five-P1, Concordia University, St. Paul Variable Rate Demand Revenue Bonds, March 2003	2027	4,250,000	125,000
Series Five-Q, Macalester College Variable Rate Demand Revenue Bonds, February 2003	2033	15,300,000	15,300,000
Series Six-D, Carleton College Revenue Bonds, April 2005	2035	31,460,000	12,165,000
Series Six-J2, Augsburg College Variable Rate Demand Revenue Bonds, July 2006	2021	5,000,000	2,000,000
Series Six-P, Macalester College Revenue Bonds, March 2007	2032	39,490,000	5,905,000
Series Six-Q, Concordia University, St. Paul Revenue Bonds, October 2007	2037	18,155,000	16,435,000
Series Six-R, Bethel University Revenue Bonds, August 2007	2037	44,000,000	39,200,000
Series Six-S, College of St. Scholastica Revenue Bonds, November 2007	2027	8,170,000	5,405,000
Series Six-U, St. John's University Revenue Bonds, June 2008	2033	11,375,000	8,955,000
Series Six-V, College of St. Benedict Revenue Bonds, May 2008	2023	19,430,000	3,060,000
Series Seven-A, University of St. Thomas Revenue Bonds, December 2009	2039	79,440,000	68,800,000



**Note 6—Conduit Debt, *continued***

College/University	Final Maturity	Indebtedness	
		Issued	Outstanding
Series Seven-B, Gustavus Adolphus College Revenue Bonds, August 2010	2035	41,680,000	38,880,000
Series Seven-E, Hamline University Revenue Bonds, June 2010	2029	14,890,000	13,100,000
Series Seven-F, St. Olaf College Revenue Bonds, August 2010	2030	32,440,000	2,115,000
Series Seven-G, Augsburg College Revenue Bonds, October 2010	2027	8,860,000	3,380,000
Series Seven-H, College of St. Scholastica Revenue Bonds, October 2010	2040	21,820,000	21,025,000
Series Seven-I, Macalester College Revenue Bonds, December 2010	2035	16,000,000	13,865,000
Series Seven-J, College of St. Scholastica Revenue Bonds, February 2011	2040	10,170,000	10,150,000
Series Seven-K2, Hamline University Revenue Bonds, March 2011	2040	18,330,000	18,330,000
Series Seven-M, College of St. Benedict Revenue Bonds, December 2011	2036	9,135,000	7,830,000
Series Seven-N, Minneapolis College of Art and Design Revenue Bonds, April 2012	2023	3,215,000	2,040,000
Series Seven-O, University of St. Thomas Revenue Bonds, May 2012	2025	15,325,000	9,480,000
Series Seven-P, University of St. Thomas Revenue Bonds, May 2012	2032	12,300,000	11,280,000
Series Seven-Q, St. Catherine University Revenue Bonds, September 2012	2032	25,630,000	21,765,000
Series Seven-R, College of St. Scholastica Revenue Bonds, October 2012	2032	9,380,000	7,610,000
Series Seven-S, Macalester College Revenue Bonds, December 2012	2043	14,730,000	14,190,000

**Note 6—Conduit Debt, *continued***

College/University	Final Maturity	Indebtedness	
		Issued	Outstanding
Series Seven-T, College of St. Benedict Revenue Bonds, January 2013	2024	5,235,000	3,210,000
Series Seven-U, University of St. Thomas Revenue Bonds, March 2013	2027	25,685,000	20,610,000
Series Seven-V, William Mitchell College of Law Revenue Note, May 2013	2033	10,800,000	9,386,000
Series Seven-W, Gustavus Adolphus College Revenue Bonds, July 2013	2034	11,410,000	10,275,000
Series Seven-Y2, Hamline University Revenue Note, September 2013	2025	6,210,000	5,005,000
Series Seven-Z, University of St. Thomas Revenue Note, March 2014	2034	24,210,000	18,887,593
Series Eight-A, Saint Mary's University of Minnesota Revenue Note, April 2014	2023	6,025,000	4,402,000
Series Eight-B, St. Catherine University Revenue Note, June 2014	2042	15,867,000	15,867,000
Series Eight-C, Augsburg College Revenue Bond, July 2014	2023	6,705,000	5,430,000
Series Eight-D, Minneapolis College of Art and Design Revenue Bond, March 2015	2023	7,845,000	6,570,000
Series Eight-E, Augsburg College Revenue Note, April 2015	2036	12,400,000	11,635,000
Series Eight-G, St. Olaf College Revenue Bonds, July 2015	2032	53,745,000	51,600,000
Series Eight-H, St. John's University Revenue Bonds, August 2015	2026	13,815,000	11,990,000
Series Eight-I, St. John's University Revenue Bonds, December 2015	2035	18,275,000	17,975,000
Series Eight-J, Macalaster College Revenue Bonds, September 2015	2032	22,660,000	21,985,000

**Note 6—Conduit Debt, *continued***

College/University	Final Maturity	Indebtedness	
		Issued	Outstanding
Series Eight-K, College of St. Benedict Revenue Bonds, April 2016	2043	34,360,000	34,360,000
Series Eight-L, University of St. Thomas Revenue Bonds, March 2016	2039	55,355,000	53,935,000
Series Eight-M, University of St. Thomas Revenue Bonds, March 2016	2022	15,305,000	12,970,000
Series Eight-N, St. Olaf College Revenue Bonds, September 2016	2035	22,845,000	22,845,000
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	13,680,000
Series 2017, Carleton College Revenue Bonds, May 2017	2047	124,900,000	124,900,000
Series 2017A, Saint Mary's University of Minnesota Revenue Bonds, June 2017	2037	5,546,000	5,546,000
Series 2017B, Saint Mary's University of Minnesota Revenue Bonds, June 2017	2026	2,471,000	2,471,000
Series 2017A, Hamline University Revenue Bonds, June 2017	2026	6,726,000	6,726,000
Total		<u>\$ 1,115,575,000</u>	<u>\$ 928,175,593</u>

A summary of changes in conduit debt outstanding for the year ended June 30, 2017, is presented below:

CONDUIT DEBT - July 1, 2016	\$ 870,532,203
ADDITIONS:	
Revenue bonds issued	208,408,000
REDUCTIONS:	
Principal retirements	(50,684,610)
Refunding of principal	<u>(100,080,000)</u>
CONDUIT DEBT - June 30, 2017	<u>\$ 928,175,593</u>

## Note 7—

### Risk Management

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

During the year ended June 30, 2017, there were no significant reductions in insurance coverage from the prior year. Settled claims have not exceeded the Authority's commercial coverage in any of the past three years.

## Note 8—

### State Employees' Retirement Fund

#### 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), 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 Division 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.

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](http://www.msrs.state.mn.us/financial-information); by writing to MSRS at 60 Empire Drive, #300, St. Paul, Minnesota, 55103; or by calling (651) 296-2761 or 1-800-657-5757.

#### B. Benefits Provided

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

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

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

### C. Contributions

*Minnesota Statutes* Chapter 352 sets the rates for employer and employee contributions. Eligible General Plan members and participating employers were required to contribute 5.5% of their annual covered salary in fiscal year 2016. The Authority's contribution to the General Plan for the fiscal year ending June 30, 2017, was \$5,603. 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, 2016, 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

2.50% per year

#### Active Member Payroll Growth

3.25% per year

#### Investment Rate of Return

7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disability beneficiaries were based on RP-2014 generational mortality tables for males or females, as appropriate, with adjustments to match fund experience.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience study dated June 30, 2015, a review of inflation and investment return assumptions dated September 11, 2014, and a recent asset liability study obtained by the State Board of Investment (SBI).

The long-term expected rate of return on pension plan investments is 7.5%. This is a reduction from the assumed rate of 7.9% in fiscal year 2015. The earlier rate assumption was selected as the result of a 2014 actuarial review of economic assumptions. The review combined the asset class target allocations and long-term rate of return expectations from the State Board of Investment (SBI) with return expectations from eight other investment consultants. The review also factored in information from the Social Security Trustees Report, U.S. Department of the Treasury yield curve rates, and historical observations of inflation statistics and investment returns.

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 are developed for each major asset class. These asset class estimates and target allocations are combined to produce a geometric, expected long-term rate of return as summarized in the following table:

Asset Class	Target Allocation	SBI's Long-Term Expected Real Rate of Return (Geometric Mean)	
Domestic Stocks	45%	5.50	%
Internal Stocks	15%	6.00	%
Bonds	18%	1.45	%
Alternative Assets	20%	6.40	%
Cash	2%	0.50	%
	100%		

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

### E. Discount Rate

A Single Discount Rate used to measure the total pension liability as of June 30, 2016, was 4.17%. This Single Discount Rate was based on an expected rate of return on pension plan investments of 7.50% and a municipal bond rate of 2.85%. The projection of cash flows used to determine this Single Discount Rate assumed that employee and employer contributions will be made at the current statutory contribution rates. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year ending June 30, 2042. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year ending June 30, 2042, and the municipal bond rate was applied to all benefit payments after the point of asset depletion.

### F. Net Pension Liability

At June 30, 2017, the Authority reported a liability of \$440,386 for its proportionate share of MSRS' net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of MSRS's participating employers. At June 30, 2016, the Authority's proportion was 0.0048%, which was the same as its proportion measured as of June 30, 2015.

### G. Pension Liability Sensitivity

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

	<b>1% Decrease in Discount Rate (3.17%)</b>	<b>Discount Rate (4.17%)</b>	<b>1% Increase in Discount Rate (5.17%)</b>
Authority's proportionate share of the net pension liability:	\$ 580,626	\$ 440,386	\$ 327,636

### 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](http://www.msrs.state.mn.us/financial-information)

**Note 8— State Employees' Retirement Fund, *continued*****I. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended June 30, 2017, the Authority recognized pension expense of \$58,240. At June 30, 2017, 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	\$ 603	\$11,136
Changes of assumptions	281,625	20,988
Net difference between projected and actual earnings on investments	19,380	-
Changes in proportion and differences between actual contributions and proportionate share of contributions	1,176	25
Contributions paid to MSRS subsequent to the measurement date	<u>5,603</u>	<u>-</u>
Total	<u>\$308,687</u>	<u>\$32,149</u>

\$5,603 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, 2018.

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

<u>Year ended June 30</u>	<u>Pension Expense Amount</u>
2018	\$61,967
2019	61,968
2020	72,480
2021	74,220

## Note 9— State Unclassified Employee’s Retirement Program

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

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

The funding requirement for SUERP is 5% for employees and 6% for the employer. Actual contributions were 100% of required contributions. Required contributions for the Authority were:

<u>Year</u>	<u>Amount</u>
2017	\$ 6,971
2016	7,154
2015	6,672

## Note 10 – GASB Standards Issued but Not Yet Implemented

GASB has issued GASB statement 75 relating to accounting and financial reporting for postemployment benefits other than pensions. The new statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about OPEB liabilities.



## Required Supplementary Information

State employees' retirement fund. Last ten years.\*

### A. Schedule of Authority's share of net pension liability

For Fiscal Year Ended June 30,	Authority's Proportion of the Net Pension Liability (Asset)	Authority's Proportionate Share of the Net Pension Liability (Asset)	Authority's Covered-Employee Payroll	Authority's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.0048%	\$ 440,386	\$ 97,600	451.22%	47.51%
2015	0.0048%	54,876	94,073	58.33%	88.32%
2014	0.0049%	58,367	92,180	63.32%	87.64%

### B. Schedule of Authority's contributions

For Fiscal Year Ended June 30,	Contractually Required Contribution	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Authority's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2017	\$ 2,737	\$ 2,737	\$ -	\$ 49,764	5.50%
2016	5,368	5,368	-	97,600	5.50%
2015	5,174	5,174	-	94,073	5.50%
2014	4,609	4,609	-	92,180	5.00%

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