

MINNESOTA OFFICE OF HIGHER EDUCATION

(A Component Unit of the State of Minnesota)

Saint Paul, Minnesota

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Year Ended June 30, 2020

MINNESOTA OFFICE OF HIGHER EDUCATION

TABLE OF CONTENTS As of and for the Year Ended June 30, 2020

Independent Auditors' Report	i – ii
Required Supplementary Information	
Management's Discussion and Analysis	iii – xiv
Basic Financial Statements	
Government-Wide Statements	
Statement of Net Position	1
Statement of Activities	2
Fund Financial Statements	
Balance Sheet – Governmental Funds	3
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	4
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6
Statement of Revenues, Expenses and Changes in Net Position – Proprietary (Enterprise) Fund – Loan Capital Fund	7
Statement of Cash Flows – Proprietary (Enterprise) Fund – Loan Capital Fund	8
Index to Notes to the Financial Statements	9
Notes to Financial Statements	10 – 35
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	36 – 37
Schedule of Agency's Proportionate Share of the Net Pension Liability – State Employees Retirement Fund (SERF)	38
Schedule of Contributions – State Employees Retirement Fund (SERF)	38
Notes to Required Supplementary Information	39 – 42
Supplementary Information	
Combining Balance Sheet – Nonmajor Governmental Funds	43
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	44

INDEPENDENT AUDITORS' REPORT

To the Commissioner
Minnesota Office of Higher Education
St. Paul, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Minnesota Office of Higher Education, a component unit of the State of Minnesota, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Minnesota Office of Higher Education'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.

Auditors' Responsibility

Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 over financial reporting relevant to the entity'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 entity'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Minnesota Office of Higher Education as of June 30, 2020 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the 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 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Minnesota Office of Higher Education's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2020 on our consideration of the Minnesota Office of Higher Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Minnesota Office of Higher Education's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Minnesota Office of Higher Education's internal control over financial reporting and compliance.



Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)
Minneapolis, Minnesota
October 23, 2020

**MINNESOTA OFFICE OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
UNAUDITED**

Our discussion and analysis of the financial performance of the Minnesota Office of Higher Education (the "Agency") provides an overview of the Agency's financial activities for the fiscal year ended June 30, 2020.

Introduction

Minnesota Statutes, 136A; Minnesota Statutes 136G, Minnesota Rules 4800-4880

The Minnesota Office of Higher Education is a cabinet-level state agency providing students with financial aid programs and information to help them gain access to postsecondary education. The Agency also serves as the state's clearinghouse for data, research and analysis on postsecondary enrollment, financial aid, and postsecondary finance trends. Specifically, the Agency, and its staff of 64 FTE (25 state funded), work to:

- Help students achieve financial access to postsecondary education;
- Enable students to choose among postsecondary education options;
- Protect and inform educational consumers;
- Produce independent, statewide information on postsecondary education; and
- Facilitate interaction and collaboration among organizations that share responsibility for education in Minnesota.

The Agency's programs and services are provided through different means, including:

Financial Aid

The Agency administers numerous financial aid programs that enable thousands of Minnesota students to have financial access to, and choice of, postsecondary educational opportunities, including, but not limited to:

- *The Minnesota State Grant Program* - provides more than \$207.8 million in need-based aid to Minnesota students annually.
- *Postsecondary Child Care Grant Program* – provides \$4.9 million for students with demonstrated financial need to pay for child care while students attend classes.
- *Minnesota Indian Scholarship Program* – provides \$3 million for eligible Minnesota resident students who are one-fourth or more Indian ancestry and demonstrate financial need.
- *Tuition Reciprocity* – allows Minnesota residents (and residents of participating states) to be treated as a resident for the purposes of admission and tuition.
- *Student Educational Loan Fund ("SELF")* – provides long-term, low-interest rate student loans for Minnesota residents attending a participating postsecondary institution as well as non-residents attending a Minnesota postsecondary institution.
- *SELF Refi* – provides various low-rate loan options for Minnesota residents to refinance their student loans.
- *Minnesota College Savings Plan* – Minnesota's 529 college savings plan that provides tax-advantaged savings accounts for qualified higher education expenses.
- *State Work Study Program* – provides \$14.4 million for students with demonstrated financial need through jobs provided through the postsecondary institutions.

**MINNESOTA OFFICE OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
UNAUDITED**

Introduction (cont.)

Financial Aid (cont.)

- *Spinal Cord and Traumatic Brain Injury Research Grant* - provides medical research grants to conduct research that would lead to new and innovative treatments and rehabilitative efforts for the functional improvement of people with spinal cord or traumatic brain injuries.
- *Dual Training Competency Grants* - provides grants to institutions or programs that enter into agreements with employers to provide training to their employees.

Outreach

The Agency's publications, web content, interactive media, and direct contact with students and families enable the Agency to provide outreach to communities of color, low-income families, and families with no previous higher education experience. In addition, Gear Up, a federally funded college access program, aims to increase the number of students from low-income backgrounds and communities of color who are graduating from high school, participating in postsecondary education, and successfully transitioning into a career pathway. The program builds high-need middle and high schools' capacity to: deliver postsecondary readiness programming to students and their families, effectively utilize data to drive continuous improvement, and make the systemic changes necessary to sustain a culture of college-going.

Research & Information

The Agency's Research, Policy, and Analysis Division provides credible, politically neutral, research-based data, information and analysis on higher education. Research products are used to operate programs, develop and inform policies, and provide assistance to individuals, colleges, communities, and the state.

The Agency's web presence includes information for students, parents, educators, and financial aid administrators, postsecondary enrollment data, information concerning private postsecondary institutions licensed or registered by the Agency, online financial aid applications, and a financial aid estimator.

The Statewide Longitudinal Education Data System (SLEDS) is a tool to connect existing data from pre-kindergarten through completion of postsecondary education and into the workforce. SLEDS is a partnership between the Agency and the Departments of Education (MDE) and Employment and Economic Development (DEED). By bridging existing data with other incoming data, a range of educational programmatic and delivery questions can be answered to gauge the effectiveness of current programs and design targeted improvement strategies to help students.

Consumer Protection

Through state laws, which undergird the registration and licensure of private colleges, universities, career schools, and certain out-of-state public postsecondary institutions, the Agency provides students with consumer protection by assuring that those postsecondary institutions meet state standards in order to operate legally in Minnesota. Minnesota is an approved SARA (State Authorization Reciprocity Agreement) state. An institution authorized under SARA criteria in its home state is considered authorized in all other SARA states.

**MINNESOTA OFFICE OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
UNAUDITED**

Financial Highlights

- The Agency's net position increased \$10.1 million or 1.9% from fiscal year 2019 to 2020 mainly as a result of student loan financing activities and investment income.
- The Agency received \$258.1 million for fiscal year 2020 state appropriations. \$12.4 million will be deferred to fiscal year 2021 while \$220,000 has been cancelled and returned back to the state.
- The Agency administers the Minnesota College Savings Plan. The assets in that plan have increased to \$1.55 billion.
- The Loan Capital Fund issued 7,053 and 7,662 new SELF Loans in fiscal years 2020 and 2019, respectively, with the average student loan amount of \$8,847 and \$8,584, respectively.
- The Loan Capital Fund disbursed approximately \$2.5 million in SELF Refi Loans in fiscal year 2020.
- Net Loan Receivables in the Loan Capital Fund shrunk by \$22.8 million or 4.6% during fiscal year 2020 and shrunk by \$20.4 million or 3.9% during fiscal year 2019.
- The Agency has legislative approval to enter into interest rate exchange or swap agreements, or other comparable interest rate protection agreements. This option is limited to agreements related to bonds and notes with an aggregate value of no more than \$20 million. As of June 30, 2020 the Agency has not entered into any interest rate exchange or swap agreements or other comparable interest rate protection agreements.
- On March 25, 2020 the Agency closed on the Series 2020 bonds. The structured finance transaction with \$57.69 million in tax exempt fixed rate bonds was a current refunding of a portion of the Series 2012 bonds. \$60 million out of the total \$261.4 million outstanding Series 2012 bonds were early redeemed on April 1, 2020.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The Agency's basic financial statements consist of three components: government-wide financial statements, fund financial statements, and notes to the financial statements. The report also contains other supplementary information.

Government-Wide Financial Statements

The two government-wide financial statements are designed to provide readers with a broad overview of the Agency's finances in a manner similar to private-sector business entities. The Statement of Net Position presents information on all of the Agency's assets, liabilities, and deferred inflows/outflows of resources with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

**MINNESOTA OFFICE OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
UNAUDITED**

Government-Wide Financial Statements (cont.)

The *Statement of Activities* presents information showing how the Agency's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., earned but unused compensated absences). The government-wide financial statements can be found on pages 1 and 2 of this report.

In the Statements of Net Position and the Statement of Activities, we divide the Agency into two kinds of activities:

- *Governmental Activities* — General appropriation funds are received by the Agency for the administration of postsecondary educational grant programs, the state work study program, negotiating and administering reciprocity agreements, publishing and distributing financial aid information and materials, collecting and maintaining student enrollment and financial aid data, and administering various federal grant programs that affect students and postsecondary institutions. Licensing and registration fees finance the cost for administering the registration and licensing of private college and career schools and certain out-of-state public postsecondary institutions.
- *Business-Type Activities* — The Agency is designated by statute as the administrative agency for the establishment of one or more loan programs. The purpose of the loan programs is to provide financial assistance for the postsecondary education of students. The loan programs currently being administered by the Agency are the Student Educational Loan Fund ("SELF") Program and the SELF Refi Program.

Fund Financial Statements

The fund financial statements begin on page 3 and provide detailed information about the most significant funds — not the Agency as a whole. Some funds are required to be established by state law, and the Agency established other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for certain grants. The Agency's two kinds of funds — governmental and proprietary — use different accounting approaches.

- *Governmental Funds* — Governmental funds are used for primarily the same functions reported as governmental activities. The governmental fund financial statements are used to analyze resources available in the near-term to manage the Agency's near-term financial obligations. These funds are reported using the modified accrual basis of accounting. The differences are illustrated between governmental activities and governmental funds in a statement following each governmental fund financial statement.
- *Proprietary Funds* — When the Agency charges customers for the services it provides — whether to outside customers or to other units of the Agency — these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the government-wide financial statements. In fact, the Agency's proprietary funds are the same as the business-type activities the Agency reports in the government-wide statements but provides more detail and additional information, such as cash flows, for proprietary funds.

**MINNESOTA OFFICE OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
UNAUDITED**

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional detail that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found beginning on page 10 of this report.

Required Supplemental Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information, including the management's discussion and analysis and other RSI which contains the Agency's budget and actual results of its major governmental fund and schedules for the state employees' retirement fund. This information can be found beginning on page 36 of this report.

Additional Supplemental Information

Following the required supplemental information are combining statements for the non-major governmental funds.

The Agency as a Whole

The Agency's combined net position increased by \$10.1 million or 1.9%. The analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Agency's governmental and business-type activities.

**MINNESOTA OFFICE OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
UNAUDITED**

The Agency as a Whole (cont.)

**Table 1
Net Position**

	2020			2019		
	Governmental Activities	Business- Type Activities	Totals	Governmental Activities	Business- Type Activities	Totals
Assets						
Current and other assets	\$ 27,064,640	\$ 1,035,387,951	\$ 1,062,452,591	\$ 16,604,050	\$ 1,026,045,167	\$ 1,042,649,217
Capital assets—net	1,178,603	25,741	1,204,344	1,310,368	27,648	1,338,016
Total assets	28,243,243	1,035,413,692	1,063,656,935	17,914,418	1,026,072,815	1,043,987,233
Deferred Outflows of Resources						
OPEB related amounts	17,250	5,750	23,000	17,250	5,750	23,000
Pension related amounts	2,571,860	489,140	3,061,000	4,366,269	1,024,731	5,391,000
Total deferred outflows of resources	2,589,110	494,890	3,084,000	4,383,519	1,030,481	5,414,000
Liabilities						
Current liabilities	4,482,070	1,960,127	6,442,197	5,001,559	2,520,230	7,521,789
Non-current liabilities	2,466,836	501,502,117	503,968,953	2,294,492	501,685,606	503,980,098
Total liabilities	6,948,906	503,462,244	510,411,150	7,296,051	504,205,836	511,501,887
Deferred Inflows of Resources						
Unearned revenue	12,414,570	-	12,414,570	1,962,769	-	1,962,769
OPEB related amounts	32,250	10,750	43,000	33,750	11,250	45,000
Pension related amounts	4,943,644	1,465,356	6,409,000	6,549,248	1,940,752	8,490,000
Total deferred inflows of resources	17,390,464	1,476,106	18,866,570	8,545,767	1,952,002	10,497,769
Net position						
Invested in capital assets	1,178,603	25,741	1,204,344	1,310,368	27,648	1,338,016
Restricted for administration and financial aid programs	9,172,430	-	9,172,430	8,721,492	-	8,721,492
Restricted for debt service	-	530,944,491	530,944,491	-	520,917,810	520,917,810
Unrestricted (deficit)	(3,858,050)	-	(3,858,050)	(3,575,741)	-	(3,575,741)
Total net position	\$ 6,492,983	\$ 530,970,232	\$ 537,463,215	\$ 6,456,119	\$ 520,945,458	\$ 527,401,577

Net position of the Agency's governmental activities increased by \$36,864 during the current fiscal year. State appropriations are retained for the portion of severance liability and retired employees insurance benefits liability that the Agency has at fiscal year-end. Unrestricted net position — the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements — decreased from (\$3,575,741) at June 30, 2019 to (\$3,858,050) at the end of this year.

**MINNESOTA OFFICE OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
UNAUDITED**

The Agency as a Whole (cont.)

Net loans receivable have decreased by approximately \$22.8 million, or 4.6%, to \$469.6 million. In May 2015 the state legislature passed language allowing the maximum amount of the SELF Loan to be determined annually by the Agency, not to exceed cost of attendance less all other financial aid. The Agency has set the maximum SELF Loan amount at \$20,000 for four-year postsecondary and graduate programs. Contributing to the decline in volume was the reduction in May 2016 of the loan limit from \$7,500 to \$3,500 for borrowers enrolled in programs of less than one year. Closures of some private for-profit institutions have also resulted in a small decline in volume.

U.S. Treasury regulations limit the student loan revenue yield over bond expenses to 2% on tax exempt student loan bond issues (bond expenses are limited to the bond interest paid to bondholders, cost of defaulted loans, and credit liquidity). Excess earnings generated from the student loans must either be paid back to the IRS every 10 years or reduced through a decrease in the student loan interest rate charged, loan forgiveness programs, and/or borrower benefits. The Agency has no current arbitrage or excess yield liability.

**Table 2
Changes in Net Position**

	2020			2019		
	Governmental Activities	Business-Type Activities	Totals	Governmental Activities	Business-Type Activities	Totals
REVENUES						
Program revenues						
Charges for services	\$ 1,263,949	\$ 17,981,294	\$ 19,245,243	\$ 626,752	\$ 26,680,024	\$ 27,306,776
State appropriations	258,072,594	-	258,072,594	270,293,508	-	270,293,508
Federal grants	3,797,468	-	3,797,468	3,106,875	-	3,106,875
Capital grants & contributions	-	-	-	527,742	-	527,742
Investment Income	-	7,780,988	7,780,988	-	10,667,101	10,667,101
Total revenues	<u>263,134,011</u>	<u>25,762,282</u>	<u>288,896,293</u>	<u>274,554,877</u>	<u>37,347,125</u>	<u>311,902,002</u>
EXPENSES						
Program expenses						
Loan capital fund	-	15,737,508	15,737,508	-	17,040,234	17,040,234
Administration and financial aid programs	259,216,228	-	259,216,228	266,633,317	-	266,633,317
Federal grants	<u>3,880,919</u>	-	<u>3,880,919</u>	<u>2,318,555</u>	-	<u>2,318,555</u>
Total expenses	<u>263,097,147</u>	<u>15,737,508</u>	<u>278,834,655</u>	<u>268,951,872</u>	<u>17,040,234</u>	<u>285,992,106</u>
CHANGE IN NET POSITION	<u>\$ 36,864</u>	<u>\$ 10,024,774</u>	<u>\$ 10,061,638</u>	<u>\$ 5,603,005</u>	<u>\$ 20,306,891</u>	<u>\$ 25,909,896</u>

Governmental Activities

Revenues for the Agency's governmental activities (see Table 2) decreased by \$11.42 million (or 4.2%) to \$263.1 million, while total expenses decreased by \$5.85 million (2.2%). The decrease in revenue is mainly attributed to state appropriations which decreased by \$12.2 million to \$258.1 million. The decrease to state appropriations was slightly offset by an increase of \$690,593 in federal grants as the Get Ready program continues to ramp up its model of building capacity through local school districts, and by an increase of \$637,197 in revenue in our licensing and registration department and through small grant funding. Decreases to expenditures in financial aid programs and increases to federal grant expenditures directly correlate with the decrease in state appropriations and increase in federal grant revenue.

**MINNESOTA OFFICE OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
UNAUDITED**

The Agency as a Whole (cont.)

Governmental Activities (cont.)

The Agency currently receives federal grant monies from three different programs within the U.S. Department of Education and the U.S. Department of Justice. These federal grants are designed to assist students in meeting their postsecondary education financial obligations and increase college attendance and success of low-income students. The Agency also manages the SLEDS data system that merges data from preschool to college to workforce. The data is used in developing public reports and producing original research.

Business-Type Activities

The excess of revenues over expenses of the Agency's business-type activities was \$10.02 million in fiscal year 2020, which was 63.7% of expenses. See the discussion under *Proprietary Fund* below for an analysis of business-type activities.

Financial Analysis of the Agency's Major Funds

Governmental Funds

The General Fund is the chief governmental fund of the Agency representing approximately 96.1% of the Agency's governmental spending. At the end of fiscal year 2020, the fund balance was \$0. Since the state operates on a biennial budget, every other year all appropriation resources not expended are returned to the state's General Fund. At the end of the first fiscal year, unused appropriations are deferred to the second fiscal year in the biennium.

For the General Fund, student grant payments were \$236.6 million, a decrease from \$245.1 million in fiscal year 2019. Grant aid to postsecondary institutions and organizations decreased \$165,641 to \$11.29 million. Employee salaries and benefits increased 7% over the prior fiscal year, due to cost of living and performance increases, and increase in cost of health insurance.

Proprietary Fund

The Agency's proprietary fund statement provides the same type of information found in the government-wide financial statements, but in greater detail. Revenues of the Agency's proprietary fund (see Table 2) decreased by 31% and expenses decreased by 7.6%. A drop in the 1 month and 3 month Libor index along with the Agency providing 0% interest rate on student loans from March 13, 2020 to June 30, 2020 to provide relief to borrowers because of the COVID-19 crisis resulted in a decrease in student loan interest income of \$8.69 million. Decrease in interest rates on investments resulted in a decrease in investment income of \$2.89 million. The drop in the 1 month Libor index also resulted in decreased bond interest expense of \$1.24 million. In fiscal year 2020, there was a decrease in the rate of return for interest and investment interest income. The current rate for SELF III, SELF IV and SELF V program variable rate student loans is 3.5%, a decrease of 1.2% from fiscal year 2019. The SELF III, SELF IV and SELF V variable rate loans use the same method to calculate the variable interest rate. Under the SELF IV and SELF V programs, loans have an optional extended repayment period depending upon the aggregate SELF student loan balance.

**MINNESOTA OFFICE OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
UNAUDITED**

Financial Analysis of the Agency's Major Funds (cont.)

Proprietary Fund (cont.)

The interest rate for the SELF V fixed rate program changes periodically. Rate changes are as follows:

Effective Date	Rate
10/2010	7.25%
05/2013	6.90%
04/2015	6.50%
08/2016	6.00%
07/2019	5.75%
04/2020	4.85%

The SELF Refi loan has a variety of rate and repayment term options.

SELF Refi Loan current rates			
Repayment Term	5 years	10 years	15 years
Fixed rate	3.80%	4.55%	5.30%
Variable rate	3.90%	4.55%	5.25%

General Fund Budgetary Highlights

The Agency receives biennial appropriations in the General Fund. We budget the full amount of the appropriation and adjust the budget over the course of the year dependent upon demand for our programs. In fiscal year 2020, the first year of the biennium, unspent appropriations are reduced from the budget and deferred and added to the budget for the second year of the biennium. Unspent appropriations after the second year of the biennium are returned to the State. In fiscal year 2020 the Agency deferred \$12.4 million to fiscal year 2021. The variance schedule on page 37, represents \$5.6 million of funds that were deferred to fiscal year 2021 but were still included in the fiscal year 2020 final budget. This can occur for a number of reasons; \$451,983 for American Indian Scholarship, \$1.7 million for Child Care Grants, \$409,068 for State Grant Program, and \$293,500 for MN Reconnect, have the summer period included in the fiscal year 2020 budget, but grant and financial aid payments made to schools on behalf of the students don't occur until early fall (fiscal year 2021). \$609,949 for General Administration, \$473,271 for Statewide Longitudinal Data, \$501,000 for United Family Practice, and \$483,750 for HCMC Program are contracts, grant agreements, and grant awards budgeted in fiscal year 2020 on which the Agency is waiting on final wrap up and billing from contractors, partner organizations, and grantees which will occur in fiscal year 2021.

**MINNESOTA OFFICE OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
UNAUDITED**

Cash Management

Unexpended general appropriated funds are invested pursuant to Minnesota Statutes 11A under the State Board of Investment. Monies in the Loan Capital Fund are managed by the Agency and invested in instruments allowed by state statute, such as U.S. Treasury bills and notes, general obligation municipals, collateralized certificates of deposit, repurchase agreements, federal agency notes, bankers' acceptances, and commercial paper. The Agency's investment policy prohibits the Agency from investing in instruments with maturities in excess of three years. The total investment income, including change in the fair value of investments, was down from 2019 by \$2.89 million. As of June 30, 2020, the fair value of the Agency's investments was greater than cost by \$98,315. The Agency's policy is to hold all securities until maturity; therefore, it is highly unlikely that any differences between cost and market in investments would be realized.

Capital Assets

At year-end, the Agency had \$1,204,344 of net capital assets as shown in Table 3:

**Table 3
Capital Assets at Year-End
(net of accumulated depreciation)**

	2020			2019		
	Governmental Activities	Business- Type Activities	Totals	Governmental Activities	Business- Type Activities	Totals
Office Improvements	\$ 1,020,377	\$ -	\$ 1,020,377	\$ 1,140,421	\$ -	\$ 1,140,421
Furniture and equipment	<u>158,226</u>	<u>25,741</u>	<u>183,967</u>	<u>169,947</u>	<u>27,648</u>	<u>197,595</u>
Total capital assets	<u>\$ 1,178,603</u>	<u>\$ 25,741</u>	<u>\$ 1,204,344</u>	<u>\$ 1,310,368</u>	<u>\$ 27,648</u>	<u>\$ 1,338,016</u>

The State, on the Agency's behalf, finalized a 10-year lease through November 30, 2028 for the Agency's current office space. As a part of the lease agreement, a major renovation of the office space was agreed upon. In fiscal year 2019 the Agency paid for \$672,700 of the capitalized office improvements while the commercial real estate company contributed \$527,742 to the project. As a part of the overall renovation, the Agency also purchased and capitalized shared workspace furniture in the amount of \$204,408 in fiscal year 2019.

Additional information about the Agency's capital assets can be found in Note II.E. to the financial statements.

**MINNESOTA OFFICE OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
UNAUDITED**

Debt Administration

At year-end, the Agency had \$498,625,000 in bonds outstanding — as shown in Table 4:

	Outstanding Debt at Year-End (in millions)					
	2020			2019		
	Governmental Activities	Business- Type Activities	Totals	Governmental Activities	Business- Type Activities	Totals
Revenue bonds	\$ -	\$ 498.6	\$ 498.6	\$ -	\$ 500.9	\$ 500.9

The 2012B & 2017A, 2017B, and 2017C supplemental revenue bonds are currently held as private placement bonds and do not require a rating.

The 2018 and 2020 supplemental revenue bonds have a rating of AA by S&P Global rating agency.

Other obligations of the Agency include accrued compensated absences, total OPEB liability, and net pension liability. More detailed information about the Agency's long-term liabilities is presented in Note II.F. to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Agency's management considered many factors when setting future fiscal year budgets, rates, and fees that will be charged for the business-type activities. Careful consideration was given to legislative goals and the Agency's mission when adopting the General Fund budget for fiscal year 2021. The Agency's biennial budget request submitted to the Governor and Legislature takes into account the overall costs of administering the programs, salary costs, inflationary costs, as well as new agency priorities. If an appropriation for either year of the biennium is insufficient, the appropriation for the other year is available for it.

The management team for the SELF and SELF Refi programs consult with their financial advisors and bond partners when considering and evaluating bond financing options for the programs. In addition, when establishing loan interest rates the management team takes into account current and anticipated future economic and market conditions.

State Grant Program

For fiscal year 2021, the private tuition maximums used in the state grant formula are a maximum of \$15,445 for students enrolled in four-year programs and \$6,142 for students enrolled in two-year programs. The living and miscellaneous expense allowance is set at \$10,530. Grant awards are based on a state grant recognized cost of attendance which is the sum of the living and miscellaneous expense allowance and the lesser of the average tuition and fees charged by the institution for the term or the maximum established by law.

**MINNESOTA OFFICE OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
UNAUDITED**

Economic Factors and Next Year's Budgets and Rates (cont.)

SELF Loan

The 2012 Series bonds have a mandatory tender date of April 8, 2021. The Agency is pursuing options to extend the private placement deal.

The SELF Loan program has several phases based on changes in calculating interest and other loan terms. In fiscal year 2002, the Agency received approval for the SELF III phase of the loan program, which bases the interest rate charged to borrowers on the average of the three-month LIBOR during the calendar quarter immediately preceding the interest rate adjustment date plus a margin. The SELF IV phase of the loan program began in July 2006 with minor changes. The SELF V phase of the loan program began in October 2010 with a fixed and variable interest rate option. The SELF III, SELF IV, and SELF V current margin is 2.00% for variable rate loans. For the fixed rate option of the SELF V phase of the loan program, effective April 1, 2020 the rate is set at 4.85% for new loans. To provide relief to student loan borrowers during the COVID-19 emergency, the Agency will charge an interest rate of 0% through September 30, 2020.

For students enrolled in a bachelor's degree, post-baccalaureate, or graduate program the annual loan limit is \$20,000. The undergraduate student annual loan limit for non-four-year degree programs is \$7,500 and the annual loan limit for programs less than one year is \$3,500.

The Agency's Loan Capital Fund cash and investment balance increased by \$21.3 million, the restricted cash and investment balance increased by \$13.6 million, and the loans receivable – net balance decreased \$22.8 million. Current outstanding bonds rely on the Loan Capital Fund for the payment of various bond fees, student loan servicing costs, reimbursement of defaulted loans, and administrative expenses.

Contacting the Agency's Financial Management

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Agency's finances and to show the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Agency at (651) 259-3951.

MINNESOTA OFFICE OF HIGHER EDUCATION

STATEMENT OF NET POSITION As of June 30, 2020

ASSETS	Governmental Activities	Business- type Activities	Totals
CURRENT ASSETS			
Cash and investments	\$ 25,792,520	\$ 250,106,895	\$ 275,899,415
Receivables			
Accounts	284,079	583,420	867,499
Interest	-	198,189	198,189
Loans receivable - net	-	76,444,278	76,444,278
Due from other governments	988,041	-	988,041
Total Current Assets	<u>27,064,640</u>	<u>327,332,782</u>	<u>354,397,422</u>
NONCURRENT ASSETS			
Restricted cash and investments	-	314,947,545	314,947,545
Loans receivable - net	-	393,107,624	393,107,624
Capital assets (net of accumulated depreciation)	1,178,603	25,741	1,204,344
Total Noncurrent Assets	<u>1,178,603</u>	<u>708,080,910</u>	<u>709,259,513</u>
Total Assets	<u>28,243,243</u>	<u>1,035,413,692</u>	<u>1,063,656,935</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension related amounts	2,571,860	489,140	3,061,000
OPEB related amounts	17,250	5,750	23,000
Total Deferred Outflows of Resources	<u>2,589,110</u>	<u>494,890</u>	<u>3,084,000</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	3,595,641	240,679	3,836,320
Accrued liabilities	339,303	91,184	430,487
Accrued interest	-	1,604,264	1,604,264
Due to other governments	19,946	-	19,946
Due to primary government - unspent appropriations	189,938	-	189,938
Deposits	303,242	-	303,242
Compensated absences payable	34,000	24,000	58,000
Total Current Liabilities	<u>4,482,070</u>	<u>1,960,127</u>	<u>6,442,197</u>
NONCURRENT LIABILITIES			
Revenue bonds payable	-	501,084,953	501,084,953
Compensated absences payable	414,000	179,000	593,000
Net pension liability	1,756,586	139,414	1,896,000
Total OPEB liability	296,250	98,750	395,000
Total Noncurrent Liabilities	<u>2,466,836</u>	<u>501,502,117</u>	<u>503,968,953</u>
Total Liabilities	<u>6,948,906</u>	<u>503,462,244</u>	<u>510,411,150</u>
DEFERRED INFLOWS OF RESOURCES			
Unearned revenue	12,414,570	-	12,414,570
Pension related amounts	4,943,644	1,465,356	6,409,000
OPEB related amounts	32,250	10,750	43,000
Total Deferred Inflows of Resources	<u>17,390,464</u>	<u>1,476,106</u>	<u>18,866,570</u>
NET POSITION			
Net investment capital assets	1,178,603	25,741	1,204,344
Restricted for administration and financial aid programs	9,172,430	-	9,172,430
Restricted for debt service	-	530,944,491	530,944,491
Unrestricted (deficit)	<u>(3,858,050)</u>	<u>-</u>	<u>(3,858,050)</u>
TOTAL NET POSITION	<u>\$ 6,492,983</u>	<u>\$ 530,970,232</u>	<u>\$ 537,463,215</u>

See accompanying notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position		Totals
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business- type Activities	
Governmental Activities						
Administration and financial aid programs	\$ 259,216,228	\$ 1,263,949	\$ 258,072,594	\$ 120,315	\$ -	\$ 120,315
Federal grants	3,880,919	-	3,797,468	(83,451)	-	(83,451)
Total Governmental Activities	<u>263,097,147</u>	<u>1,263,949</u>	<u>261,870,062</u>	<u>36,864</u>	<u>-</u>	<u>36,864</u>
Business-type Activities						
Loan capital fund	<u>15,737,508</u>	<u>17,981,294</u>	<u>-</u>	<u>-</u>	<u>2,243,786</u>	<u>2,243,786</u>
Totals	<u>\$ 278,834,655</u>	<u>\$ 19,245,243</u>	<u>\$ 261,870,062</u>			
Investment income				<u>-</u>	<u>7,780,988</u>	<u>7,780,988</u>
Change in Net Position				<u>36,864</u>	<u>10,024,774</u>	<u>10,061,638</u>
NET POSITION - Beginning of Year				<u>6,456,119</u>	<u>520,945,458</u>	<u>527,401,577</u>
NET POSITION - END OF YEAR				<u>\$ 6,492,983</u>	<u>\$ 530,970,232</u>	<u>\$ 537,463,215</u>

See accompanying notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2020

	General	Nonmajor Governmental Funds	Totals
ASSETS			
Cash and investments	\$ 14,875,007	\$ 10,917,513	\$ 25,792,520
Accounts receivable	186,183	97,896	284,079
Due from other governments	541,577	446,464	988,041
Due from other funds	11,259	-	11,259
TOTAL ASSETS	\$ 15,614,026	\$ 11,461,873	\$ 27,075,899
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 2,851,488	\$ 744,153	\$ 3,595,641
Accrued liabilities	158,030	181,273	339,303
Due to other governments	-	19,946	19,946
Due to primary government - unspent appropriations	189,938	-	189,938
Due to other funds	-	11,259	11,259
Deposits	-	303,242	303,242
Total Liabilities	3,199,456	1,259,873	4,459,329
Deferred Inflows of Resources			
Unearned revenue	12,414,570	-	12,414,570
Total Deferred Inflows of Resources	12,414,570	-	12,414,570
Fund Balances			
Restricted for administration and financial aid programs	-	9,172,430	9,172,430
Assigned for agency programs	-	77,984	77,984
Assigned for indirect costs	-	924,994	924,994
Assigned financial aid information	-	26,592	26,592
Total Fund Balances	-	10,202,000	10,202,000
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 15,614,026	\$ 11,461,873	\$ 27,075,899

See accompanying notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION As of June 30, 2020

Total fund balances - governmental funds	\$ 10,202,000
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund statements. Capital assets at year-end consist of:

Capital assets	1,376,250
Less accumulated depreciation	(197,647)

Some deferred outflows of resources and deferred inflows of resources do not relate to current financial resources and are not reported in the fund statements. These consist of:

Deferred outflows - pension related amounts	2,571,860
Deferred inflows - pension related amounts	(4,943,644)
Deferred outflows - OPEB related amounts	17,250
Deferred inflows - OPEB related amounts	(32,250)

Certain liabilities are not due in the current period and, therefore, are not reported in the fund statements. These liabilities at year-end consist of:

Compensated absences payable	(448,000)
Net pension liability	(1,756,586)
Total OPEB liability	<u>(296,250)</u>

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	<u>\$ 6,492,983</u>
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MINNESOTA OFFICE OF HIGHER EDUCATION

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the Year Ended June 30, 2020

	General	Nonmajor Governmental Funds	Totals
REVENUES			
State appropriations	\$ 252,422,594	\$ 5,650,000	\$ 258,072,594
Federal grants	-	3,797,468	3,797,468
Registration and licensing fees	-	311,495	311,495
Other revenue	-	952,454	952,454
Total Revenues	252,422,594	10,711,417	263,134,011
EXPENDITURES			
Administration and financial aid programs	252,422,594	6,424,877	258,847,471
Federal grants	-	3,752,662	3,752,662
Total Expenditures	252,422,594	10,177,539	262,600,133
Excess of revenues over expenditures	-	533,878	533,878
FUND BALANCE - Beginning of Year	-	9,668,122	9,668,122
FUND BALANCE - END OF YEAR	\$ -	\$ 10,202,000	\$ 10,202,000

See accompanying notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended June 30, 2020

Net change in fund balances - total governmental funds	\$ 533,878
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. The following differ in their presentation in the two statements:

Depreciation is reported in the government-wide statements	(131,765)
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Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. The following did not require the use of current financial resources:

Compensated absences payable	(87,500)
Net pension liability	(96,444)
Deferred outflows of resources related to pensions	(1,794,409)
Deferred inflows of resources related to pensions	1,605,604
Total OPEB liability	6,000
Deferred inflows of resources related to OPEB	<u>1,500</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 36,864</u>
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MINNESOTA OFFICE OF HIGHER EDUCATION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION PROPRIETARY (ENTERPRISE) FUND - LOAN CAPITAL FUND For the Year Ended June 30, 2020

OPERATING REVENUES	
Interest on student loans	<u>\$ 17,981,294</u>
OPERATING EXPENSES	
General and administrative	5,579,326
Depreciation	1,907
Provision for loans losses - net	<u>(2,197,485)</u>
Total Operating Expenses	<u>3,383,748</u>
Operating Income	<u>14,597,546</u>
NONOPERATING REVENUES (EXPENSES)	
Investment income	7,780,988
Interest expense	<u>(12,353,760)</u>
Total Nonoperating Revenues (Expenses)	<u>(4,572,772)</u>
CHANGE IN NET POSITION	10,024,774
NET POSITION - Beginning of Year	<u>520,945,458</u>
NET POSITION - END OF YEAR	<u>\$ 530,970,232</u>

See accompanying notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

STATEMENT OF CASH FLOWS
 PROPRIETARY (ENTERPRISE) FUND - LOAN CAPITAL FUND
 For the Year Ended June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from loan holders	\$ 110,268,258
Cash paid for loan origination	(64,974,086)
Cash paid to employees and suppliers	<u>(5,754,656)</u>
Net Cash Flows From Operating Activities	<u>39,539,516</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(122,085,616)
Proceeds from maturity of investments	167,633,525
Interest received from investments	<u>9,496,135</u>
Net Cash Flows From Investing Activities	<u>55,044,044</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Bond redemption	(60,000,000)
Proceeds from bonds issued	57,690,000
Premium from bonds issued	2,308,241
Interest paid on bonds	<u>(13,020,258)</u>
Net Cash Flows From Noncapital Financing Activities	<u>(13,022,017)</u>
Net Increase in Cash and Cash Equivalents	81,561,543
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>433,685,257</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 515,246,800</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS	
Cash and investments per Statement of Net Position	\$ 250,106,895
Restricted cash and investments per Statement of Net Position	314,947,545
Less: Non-cash equivalents	<u>(49,807,640)</u>
CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS	<u><u>\$ 515,246,800</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income	\$ 14,597,546
Adjustments to Reconcile Operating Income to Net Cash Flows From Operating Activities	
Noncash items included in income/expense	
Depreciation	1,907
Provision for loan losses	3,311,986
Write-off of loans	(3,687,138)
Origination of student loans	(64,974,086)
Principal payments on student loans	88,161,661
Changes in assets, deferred outflows, liabilities, and deferred inflows	
Interest receivable	2,129,527
Other receivables	13,754
Accounts payable and accruals	(101,892)
Net pension liability and related deferred outflows and inflows	88,751
Total OPEB liability and related deferred outflows and inflows	<u>(2,500)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u><u>\$ 39,539,516</u></u>
NONCASH CAPITAL, INVESTING AND FINANCING ACTIVITIES	
None	

See accompanying notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

INDEX TO NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020

NOTE	Page
I. Summary of Significant Accounting Policies	10
A. Reporting Entity	10
B. Government-Wide and Fund Financial Statements	10
C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation	12
D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity	13
1. Deposits and Investments	13
2. Receivables	14
3. Restricted Assets	14
4. Capital Assets	14
5. Deferred Outflows of Resources	14
6. Compensated Absences	15
7. Long-Term Obligations	15
8. Deferred Inflows of Resources	16
9. Equity Classifications	16
10. Pension	17
11. Other Postemployment Benefits (OPEB)	17
II. Detailed Notes on All Funds	18
A. Deposits and Investments	18
B. Receivables	20
C. Restricted Assets	22
D. Interfund Receivables/Payables	23
E. Capital Assets	23
F. Long-Term Obligations	24
G. Net Position	29
III. Other Information	30
A. Pension	30
B. Risk Management	34
C. Commitments and Contingencies	34
D. Subsequent Event	34
E. Effect of New Accounting Standards on Current Period Financial Statements	35

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Minnesota Office of Higher Education conform to generally accepted accounting principles as applicable to governmental units. The accepted standard-setting body for establishing governmental accounting and financial reporting principles is the Governmental Accounting Standards Board (GASB).

A. REPORTING ENTITY

Effective July 1, 1995, the Minnesota Office of Higher Education (formerly known as Minnesota Higher Education Services Office) (the “Agency”) was created in accordance with laws of Minnesota for 1995 as a component unit of the State of Minnesota. The Agency is responsible for the administration of state of Minnesota financial aid programs to students enrolled in eligible postsecondary institutions. In addition, the Agency is also responsible for administrating federal financial aid programs that affect eligible students and institutions on a statewide basis. The Commissioner, who is appointed by the governor, oversees the performance of the Agency.

The Agency’s financial statements are presented discretely in the State of Minnesota’s Comprehensive Annual Financial Report as a component unit.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements

The statement of net position and statement of activities display information about the reporting government entity as a whole. They include all funds of the reporting entity, since the reporting entity has no fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through state appropriations and federal grants. Business-type activities are generally financed by fees and charges from student loans.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The Agency does not allocate indirect expenses to functions in the statement of activities. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Fund Financial Statements

Financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position/fund equity, revenues, and expenditures/expenses.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (cont.)

Fund Financial Statements (cont.)

Funds are organized as major funds or nonmajor funds within the governmental and proprietary statements. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Agency or meets the following criteria:

- a. Total assets/deferred outflows of resources, liabilities/deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type, and
- b. The same element of the individual governmental fund or enterprise fund that met the 10% test is at least 5% of the corresponding total for all governmental and enterprise funds combined.

In addition, any other governmental or enterprise fund that the Agency believes is particularly important to financial statement users may be reported as a major fund.

The Minnesota Office of Higher Education reports the following major governmental funds:

General Fund – accounts for the Agency’s primary operating activities. It is used to account for and report all financial resources not accounted for and reported in another fund. The General Fund is used to account and report for the funds received and disbursed for the State of Minnesota’s research and financial aid programs.

The Minnesota Office of Higher Education reports the following major enterprise funds:

Loan Capital Fund (LCF) – accounts for the Agency’s student loan activities including the Supplemental Loan programs (SELF III, SELF IV, SELF V and SELF Refi) and payment of expenses of administering such programs. In addition, the Loan Capital Fund is used to account for related long-term debt payable and interest expense.

The Minnesota Office of Higher Education reports the following nonmajor governmental funds:

Special Revenue Funds – used to account for and report the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

Special Revenues and Gifts Fund (Federal grants passed through other entities, certain state appropriations, gifts, and licensing)

Federal Grant Fund (Direct federal grants)

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements

The government-wide statement of net position and statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met. Unbilled receivables are recorded as revenues when services are provided.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Agency's funds for indirect costs. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt, claims, judgments, compensated absences, and pension expenditures, which are recorded as a fund liability when expected to be paid with expendable available financial resources.

State appropriations are recognized in the year designated by Minnesota Statutes. Federal grants are recognized in the year during which the eligible expenditures are made. If the amounts of federal grants cannot be reasonably estimated, or realization is not reasonably assured, they are not recognized as revenue in the current year. Amounts owed to the Agency which are not available are recorded as receivables and unavailable revenues. Amounts received prior to the entitlement period are also recorded as deferred inflows.

Revenues susceptible to accrual include federal grants and interest on investments. Other general revenues such as registration and licensing fees and miscellaneous revenues are recognized when received in cash or when measurable and available under the criteria described above.

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as described previously in this note.

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2020

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (cont.)

Fund Financial Statements (cont.)

The proprietary fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Loan Capital Fund is payment of interest on student loans. Operating expenses for the proprietary fund include administrative expenses and provision for loan losses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

All Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY

1. Deposits and Investments

For purposes of the statement of cash flows, the Agency considers all highly liquid investments with an initial maturity of three months or less when acquired to be cash equivalents.

Minnesota Statutes 136A.16 Subd. 8 and 11A.24 describe the investments the Agency is authorized to have.

The Agency has adopted an investment policy that addresses investment risks; that policy follows the state statute for allowable investments. The Agency may only invest in obligations maturing within three years of the date of purchase except those invested in the debt service reserve funds which can be invested to the bond maturity date. In addition, the Agency's investment policy outlines the maximum percentage of any type of deposit or investment it may have at one time and the maximum percentage of investment securities to be held at one bank or bank investment subsidiary.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on methods and inputs as outlined in Note II.A. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit.

See Note II.A. for further information.

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2020

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)

2. Receivables

Loans receivable have been shown net of an allowance for uncollectible accounts.

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as “due to and from other funds.” Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

3. Restricted Assets

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Restricted assets will be used for issuing new student loans and retirement of related long-term debt.

4. Capital Assets

Government-Wide Statements

Capital assets, which include office improvements and furniture and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Agency as assets with an initial cost of more than \$30,000 for general capital assets, and an estimated useful life in excess of two years. All capital assets are valued at historical cost or estimated historical cost if actual amounts are unavailable. Donated capital assets are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets’ estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Office Improvements	10 Years
Furniture and Equipment	15 Years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same way as in the government-wide statements.

5. Deferred Outflows of Resources

A deferred outflow of resources represents a consumption of net position/fund balance that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that future time.

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)

6. Compensated Absences

Under terms of employment, employees are granted sick leave and vacation time in varying amounts. Only benefits considered to be vested are disclosed in these statements.

All vested sick leave and vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements, and are payable with expendable available resources.

Employees are not compensated for unused sick leave upon termination; however, unused sick leave enters into the computation of severance pay. All employees who have provided 5 to 20 years or more, of continuous State of Minnesota service (depending on employment contract terms) are entitled to receive severance pay upon any separation, except discharge for just cause from service. Severance is calculated based upon a formula using an employee's unused sick leave balance.

All eligible employees accrue vacation at a rate that varies with length of service. Any employee who has been employed more than six months and who has separated from state of Minnesota service is compensated in cash at his or her current rate at the time of separation. However, no payment shall exceed 275 to 280 hours (depending on employment contract terms), except in the case of death.

Accumulated sick leave and vacation time liabilities at June 30, 2020 are determined on the basis of current salary rates.

7. Long-Term Obligations

All long-term obligations to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term obligations consist of bonds payable, accrued compensated absences, net pension liability, and total other post-employment benefits (OPEB) liability.

Long-term obligations for governmental funds are not reported as liabilities in the fund financial statements. The face values of debts (plus any premiums) are reported as other financing sources and payments of principal and interest are reported as expenditures. The accounting in proprietary funds is the same as it is in the government-wide statements.

For the government-wide statements and proprietary fund statements, bond premiums and discounts are amortized over the life of the issue using the straight-line method. The balance at year-end for premiums/discounts is shown as an increase or decrease in the liability section of the statement of net position.

The Agency is restricted on the amount of interest that can be earned on loans pledged as collateral to nontaxable bonds compared to interest expense. This limit is 2% and in the current year, the yield did not exceed this limit. An arbitrage liability was not recorded.

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2020

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)

8. Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net position/fund balance that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

9. Equity Classifications

Government-Wide Statements

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets less any unspent debt proceeds.
- b. Restricted net position – Consists of net position with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – All other net positions that do not meet the definitions of “restricted” or “net investment in capital assets.”

When both restricted and unrestricted resources are available for use, it is the Agency’s policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Statements

Governmental fund equity is classified as fund balance and displayed as follows:

- a. Nonspendable – includes fund balance amounts that cannot be spent either because they are not in spendable form or because legal or contractual requirements require them to be maintained intact.
- b. Restricted – Consists of fund balances with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
- c. Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority. Fund balance amounts are committed through a formal action of the Commissioner. This formal action must occur prior to the end of the reporting period, but the amount of the commitment, which will be subject to the constraints, may be determined in the subsequent period. Any changes to the constraints imposed require the same formal action of the Commissioner that originally created the commitment.

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2020

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)

9. Equity Classifications (cont.)

Fund Statements (cont.)

- d. Assigned – includes spendable fund balance amounts that are intended to be used for specific purposes that do not meet the criteria to be classified as restricted or committed. The Commissioner may take official action to assign amounts for a specific purpose. Assignments may take place after the end of the reporting period.
- e. Unassigned – includes residual positive fund balance within the general fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed or assigned for those specific purposes.

Proprietary fund equity is classified the same as in the government-wide statements.

The Agency considers restricted amounts to be spent first when both restricted and unrestricted fund balances are available unless there are legal documents / contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the Agency would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

10. Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Minnesota State Retirement System (MSRS) and additions to/deductions from MSRS' fiduciary net position have been determined on the same basis as they are reported by MSRS. For this purpose, 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.

11. Other Postemployment Benefits (OPEB)

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources, and OPEB expense, the Agency is part of the State's single-employer defined benefit retiree healthcare plan. The Agency recognizes benefit payments when due and payable in accordance with the benefit terms. As the total OPEB liability, deferred outflows of resources and deferred inflows of resources, and OPEB expense are immaterial to the Agency's financial statements, additional disclosures regarding the plan description, benefits provided, employees covered, assumptions and other inputs, details of changes in the total OPEB liability, sensitivity of the total OPEB liability to changes in the discount rate and healthcare cost trend rates, and covered payroll are intentionally omitted from these financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020

NOTE II – DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

The Agency's cash and investments at year-end were comprised of the following:

	Carrying Value	Bank Balance	Associated Risks
Money market mutual fund investments	\$ 320,333,947	\$ 320,261,215	None
Demand deposits	4,803,295	4,803,295	Custodial credit risk
Commercial paper	49,807,640	49,807,640	Credit, custodial credit, concentration of credit, and interest rate risks
Pooled cash held by State Treasury	215,902,078	215,902,078	N/A
Total Cash and Investments	\$ 590,846,960	\$ 590,774,228	
Reconciliation to financial statements			
Per statement of net position			
Cash and investments	\$ 275,899,415		
Restricted cash and investments	314,947,545		
Total Cash and Investments	\$ 590,846,960		

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts) and \$250,000 for demand deposit accounts (interest-bearing and noninterest-bearing). In addition, if deposits are held in an institution outside of the state in which the government is located, insured amounts are further limited to a total of \$250,000 for the combined amount of all deposit accounts.

The Securities Investor Protection Corporation (SIPC), created by the Securities Investor Protection Act of 1970, is an independent government-sponsored corporation (not an agency of the U.S. government). SIPC membership provides account protection up to a maximum of \$500,000 per customer, of which \$100,000 may be in cash.

Deposits in accounts at U.S. Bank are also secured by a \$2,000,000 Federal Home Loan Bank letter of credit.

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020

NOTE II – DETAILED NOTES ON ALL FUNDS (cont.)

A. DEPOSITS AND INVESTMENTS (cont.)

Custodial Credit Risk

Deposits – Custodial credit risk is the risk that in the event of a financial institution failure, the Agency’s deposits may not be returned to the Agency.

As of June 30, 2020, \$2,303,295 of the Agency’s deposits were exposed to custodial credit risk due to deposit account balances in excess of the letter of credit and FDIC coverage.

Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

As of June 30, 2020, the Agency did not have any investments exposed to custodial credit risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

As of June 30, 2020, the Agency’s investments in commercial paper were rated as follows:

<u>Commercial Paper</u>	<u>S&P</u>	<u>Moody’s</u>
U.S. Bank National Association	A-1+	P-1
Natixis New York Branch	A-1	P-1
Mitsubishi Financial Group Bank LTD/NY	A-1	P-1

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an Agency’s investment in a single issuer.

As of June 30, 2020, the Agency’s investment portfolio was concentrated as follow:

<u>Issuer</u>	<u>Investment Type</u>	<u>Percentage of Portfolio</u>
Natixis New York Branch	Commercial Paper	6.75%
Mitsubishi Financial Group Bank LTD/NY	Commercial Paper	5.40%

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020

NOTE II – DETAILED NOTES ON ALL FUNDS (cont.)

A. DEPOSITS AND INVESTMENTS (cont.)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

As of June 30, 2020, the Agency's investment of commercial paper had a fair value of \$49,807,640 and a weighted average maturity of 0.36 years.

See Note I.D.1. for further information on deposit and investment policies.

Fair Value Measurements

The Agency categorizes its fair value measurements within the fair value hierarchy established by accepted accounting principles generally accepted in the United States of America. 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.

The market approach valuation method is used for recurring fair value measurements of the commercial paper.

Investment Type	Level 1	Level 2	Level 3	Total
Commercial paper	\$ -	\$ 49,807,640	\$ -	\$ 49,807,640

B. RECEIVABLES

Receivables as of year-end for the Agency's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Fund	Gross Receivables	Allowance For Uncollectibles	Net Receivables	Amounts Not Expected to Be Collected Within One Year
General	\$ 727,760	\$ -	\$ 727,760	\$ -
Loan Capital	477,969,791	7,636,280	470,333,511	393,107,624
Nonmajor Funds	544,360	-	544,360	-

Loans receivable include amounts due within one year and amounts due in more than one year, based upon loan schedules with each student (loan holder). Approximately 17.6% of the balance is expected to be collected during fiscal year 2021.

SELF III and IV loans are no longer being issued by the Agency. The interest rate on outstanding loans is equal to the three month average of the London InterBank Offered Rate (LIBOR) plus a current margin of 2.0%. The interest rate cannot change more than three percentage points in any four consecutive calendar quarters. The rate was 3.5% as of June 30, 2020.

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020

NOTE II – DETAILED NOTES ON ALL FUNDS (cont.)

B. RECEIVABLES (cont.)

SELF V variable and fixed rate loans were offered for the first time in October 2010 to students who meet the eligibility requirements set forth by the Agency. The interest rate on the SELF V variable rate loan is equal to the three month average of LIBOR, plus a current margin of 2.0%. The interest rate cannot change more than three percentage points in any four consecutive calendar quarters. Various SELF V fixed rates have been offered since 2010. The interest rates on June 30, 2020 were 3.5% for the variable rate and 4.85% for the fixed rate. Fixed rates do not change over the life of the loan. The Agency has the option to offer a different fixed rate to future borrowers.

Repayment of interest for SELF loans begins within 90 days after disbursement and is due quarterly thereafter. Principal payments begin no later than 36 months after graduation or when the borrower drops below less than half time enrollment.

SELF Refi variable and fixed rate loans were offered for the first time in January 2016 to Minnesota residents who have earned a postsecondary credential and meet other eligibility requirements set forth by the Agency. Multiple fixed and variable interest rate options are available based on the repayment term of 5, 10 or 15 years. All SELF Refi Loans enter immediate repayment. The interest rate on the SELF Refi variable rate loan is equal to the three month average of the one-month LIBOR, plus a current margin ranging from 2.40% - 3.75%. The SELF Refi variable rates ranged from 3.9% - 5.25% and fixed rates ranged from 3.80% - 5.30% on June 30, 2020. The interest rate on fixed rate loans will not change over the life of the loan. The Agency has the option to offer different fixed rates to future borrowers.

To provide relief to borrowers due to the COVID-19 emergency, the Agency charged an interest rate of 0.00% on SELF III, IV, V and SELF Refi loans from the period of March 13, 2020 through June 30, 2020. This rate is different from the rates disclosed above which are the rates calculated and disclosed per the loan promissory notes. See Note III.D. for further information regarding subsequent events.

All SELF and SELF Refi loans are unsecured. The Agency requires a credit worthy cosigner on each SELF III, IV, and V loan. For SELF Refi loans, if a borrower meets the minimum credit score and maximum debt-to-income ratio, a cosigner is not required. For all SELF and SELF Refi loans, the Agency is able to intercept state tax refunds for both borrower and cosigner (where applicable) in the event of default in addition to other collection methods. The balance of all SELF loans at June 30, 2020 was \$477,188,182.

An allowance for uncollectible SELF III, SELF IV, SELF V, and SELF Refi loans is provided for in the financial statements, and an equal amount of the allowance is maintained as restricted cash in the Loan Capital Fund. The Loan Capital Fund provides for loan losses sufficient to maintain the total balance in the allowance at a level equal to 1.6% of the total outstanding loan balance and also designates restricted cash equal to the balance of the allowance. Recoveries on defaulted SELF loans are credited to the Loan Capital Fund as revenue in the year received.

The activity for the allowance for uncollectible loans on all loan types for the year ended June 30, 2020 is as follows:

Beginning balance	\$ 8,011,432
Provision for loan losses	3,311,986
Write-off of loans	<u>(3,687,138)</u>
Ending Balance	<u>\$ 7,636,280</u>

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020

NOTE II – DETAILED NOTES ON ALL FUNDS (cont.)

B. RECEIVABLES (cont.)

Recovery on defaulted loans of \$5,509,471 for the year ended June 30, 2020 is recognized as a reduction in the provision for loan losses.

C. RESTRICTED ASSETS

The following represent the balances of the restricted assets:

Long Term Debt Accounts

- Revenue – Used to deposit student loan payments of principal and interest. Payments from this account are made to investors for bond interest and to finance additional student loans.
- Surplus – Used to deposit excess funds from the revenue account and to finance additional student loans.
- Acquisition – Used to deposit initial funds at bond issuance and used to finance student loans.
- Debt Service Reserve – Used to reserve funds based on bond indenture requirements for potential deficiencies in the revenue account or the surplus account.
- Capitalized Interest – Used to pay program expenses and interest on the Series 2018 and 2020 bonds through December 1, 2021, when any unused amounts will be transferred to the Revenue Fund.

Bad Debt Reserve Account

The Loan Capital Fund established a bad debt reserve account to purchase uncollectible student loans. This account equals the allowance for uncollectible SELF loans and SELF Refi loans. This fund is replenished quarterly.

Following is a list of restricted assets (long term debt and bad debt reserve accounts) at June 30, 2020:

	<u>Restricted Assets</u>
Revenue account	\$ 118,837,785
Surplus account	149,539,214
Acquisition account	28,619,866
Debt service reserve account	6,214,387
Capitalized interest account	4,100,013
Bad debt reserve account	<u>7,636,280</u>
Total Restricted Assets	<u>\$ 314,947,545</u>

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2020

NOTE II – DETAILED NOTES ON ALL FUNDS (cont.)

D. INTERFUND RECEIVABLES/PAYABLES

The following is a schedule of interfund receivables and payables including any overdrafts on pooled cash and investment accounts:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Federal Grant Fund	\$ 11,259
Less: Fund eliminations		<u>(11,259)</u>
Total – Government-Wide Statement of Net Position		<u><u>\$ -</u></u>

The interfund payable is expected to be paid within one year. The purpose of the interfund is to cover an overdraft of pooled cash.

For the statement of net position, interfund balances which are owed within the governmental activities or business-type activities are netted and eliminated.

E. CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities				
Capital Assets Being Depreciated				
Office improvements	\$ 1,200,443	\$ -	\$ -	\$ 1,200,443
Furniture and equipment	<u>175,807</u>	<u>-</u>	<u>-</u>	<u>175,807</u>
Total Capital Assets Being Depreciated	<u>1,376,250</u>	<u>-</u>	<u>-</u>	<u>1,376,250</u>
Less: Accumulated Depreciation for				
Office improvements	(60,022)	(120,044)	-	(180,066)
Furniture and equipment	<u>(5,860)</u>	<u>(11,721)</u>	<u>-</u>	<u>(17,581)</u>
Total Accumulated Depreciation	<u>(65,882)</u>	<u>(131,765)</u>	<u>-</u>	<u>(197,647)</u>
Capital Assets, Net of Depreciation	<u><u>\$ 1,310,368</u></u>	<u><u>\$ (131,765)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,178,603</u></u>

\$131,765 of depreciation expense was charged to the governmental activities function of administration expense.

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2020

NOTE II – DETAILED NOTES ON ALL FUNDS (cont.)

E. CAPITAL ASSETS (cont.)

	Beginning Balance	Additions	Deletions	Ending Balance
Business-type Activities				
Capital Assets Being Depreciated				
Furniture and equipment	\$ 28,601	\$ -	\$ -	\$ 28,601
Total Capital Assets Being Depreciated	28,601	-	-	28,601
Less: Accumulated Depreciation for				
Furniture and equipment	(953)	(1,907)	-	(2,860)
Total Accumulated Depreciation	(953)	(1,907)	-	(2,860)
Capital Assets, Being Depreciated, Net	\$ 27,648	\$ (1,907)	\$ -	\$ 25,741

\$1,907 of depreciation expense was charged to the loan capital fund.

F. LONG-TERM OBLIGATIONS

Long-term obligations activity for the year ended June 30, 2020 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Other Liabilities					
Vested compensated absences	\$ 360,500	\$ 475,500	\$ 388,000	\$ 448,000	\$ 34,000
Total OPEB liability	302,250	-	6,000	296,250	-
Net pension liability	1,660,142	96,444	-	1,756,586	-
Total Governmental Activities Long-Term Liabilities	\$ 2,322,892	\$ 571,944	\$ 394,000	\$ 2,500,836	\$ 34,000
BUSINESS-TYPE ACTIVITIES					
Bonds Payable					
Revenue bonds	\$ 54,535,000	\$ 57,690,000	\$ -	\$ 112,225,000	\$ -
Revenue bonds – direct placement	446,400,000	-	60,000,000	386,400,000	-
Add/(Subtract) Amounts For: (Discounts)/Premiums	381,198	2,308,241	229,486	2,459,953	-
Subtotal	501,316,198	59,998,241	60,229,486	501,084,953	-
Other Liabilities					
Vested compensated absences	177,600	144,400	119,000	203,000	24,000
Total OPEB liability	100,750	-	2,000	98,750	-
Net pension liability	110,858	28,556	-	139,414	-
Subtotal	389,208	172,956	121,000	441,164	24,000
Total Business-type Activities Long-Term Liabilities	\$ 501,705,406	\$ 60,171,197	\$ 60,350,486	\$ 501,526,117	\$ 24,000

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020

NOTE II – DETAILED NOTES ON ALL FUNDS (cont.)

F. LONG-TERM OBLIGATIONS (cont.)

The issued revenue bonds and direct placement revenue bonds do not constitute debt of the State of Minnesota.

In accordance with Minnesota Statutes, the aggregate amount of revenue bonds and direct placement revenue bonds, issued directly by the Agency, outstanding at any one time, not including refunded bonds or otherwise defeased or discharged bonds, shall not exceed \$850,000,000. Revenue bonds and direct placement revenue bonds outstanding at year-end were \$498,625,000.

All of the revenue and direct placement revenue bonds were issued to provide SELF student loans to borrowers.

	<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Interest Rate as of 6-30-20</u>	<u>Interest Rates Reset (days)</u>	<u>Original Indebted- ness</u>	<u>Balance 6-30-20</u>
REVENUE BONDS						
<u>Supplemental Student Loan Program Fixed Rate Revenue Bonds</u>						
Series 2020 revenue bonds	March 20	Nov 38	3.12%	n/a	\$ 57,690,000	\$ 57,690,000
Series 2018 revenue bonds	Nov 18	Nov 38	4.19%	n/a	54,535,000	<u>54,535,000</u>
Total Revenue Bonds						<u>\$ 112,225,000</u>
REVENUE BONDS – DIRECT PLACEMENT						
<u>Supplemental Student Loan Program Variable Rate Revenue Bonds</u>						
Series 2017A taxable revenue bonds	July 17	Oct 46	1.09%	30	\$ 66,700,000	\$ 66,700,000
Series 2017C revenue bonds	July 17	Oct 46	0.89	30	58,300,000	58,300,000
Series 2012B revenue bonds	Sept 12	Aug 47	0.85	30	270,800,000	164,000,000
<u>Supplemental Student Loan Program Fixed Rate Revenue Bonds</u>						
Series 2017B revenue bonds	July 17	Oct 46	2.32	n/a	60,000,000	60,000,000
Series 2012B revenue bonds	Sept 12	May 38	2.58	n/a	37,400,000	<u>37,400,000</u>
Total Revenue Bonds – Direct Placement						<u>\$ 386,400,000</u>

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2020

NOTE II – DETAILED NOTES ON ALL FUNDS (cont.)

F. LONG-TERM OBLIGATIONS (cont.)

Annual debt service requirements to maturity for revenue bonds and direct placement revenue bonds, including interest at June 30, 2020 rates for variable rate bonds, are as follows:

Years Ending June 30	Business-type Activities			
	Revenue Bonds		Revenue Bonds – Direct Placement	
	Principal	Interest	Principal	Interest
2021	\$ -	\$ 4,084,945	\$ -	\$ 5,000,401
2022	-	4,084,945	-	5,000,401
2023	1,335,000	4,074,038	-	5,000,401
2024	2,790,000	3,978,883	-	5,000,401
2025	4,240,000	3,819,629	-	5,000,401
2026 - 2030	34,325,000	15,283,754	-	25,002,007
2031 - 2035	32,085,000	9,184,860	-	25,002,007
2036 - 2040	37,450,000	3,108,896	93,400,000	23,807,008
2041 - 2045	-	-	101,300,000	16,360,514
2046 - 2048	-	-	191,700,000	5,139,240
Totals	<u>\$ 112,225,000</u>	<u>\$ 47,619,950</u>	<u>\$ 386,400,000</u>	<u>\$ 120,312,781</u>

All the bond series, including direct placement bonds, are secured by the revenues derived by the Agency from student loans financed by the proceeds of the bonds. There is no additional collateral maintained for any of the bonds.

Rates on Revenue Bonds

The rates on the tax-exempt Series 2018 bonds are fixed and range from 4% - 5%. The serial bonds have a rate of 5% and maturity dates that range from November 2022 through November 2026. The term bond has a rate of 4% and a maturity date of 2037, but has mandatory sinking fund payments and mandatory redemption from November 2027 through November 2037.

The rates on the tax-exempt Series 2020 bonds are fixed and range from 2.65% - 5%. The serial bonds have a rate of 5% and maturity dates that range from November 2023 through November 2027. The term bond has a rate of 2.65% and a maturity date of 2038, but has mandatory sinking fund payments and mandatory redemption from November 2028 through November 2038.

Rates on Revenue Bonds – Direct Placement

The rates on the tax-exempt Series 2012B bonds are both fixed rate and variable rate. For the fixed rate bonds, the rate is set at 2.58%. For the variable rate bonds, the rate is a percentage of the one-month LIBOR plus a set margin and the rate changes monthly. The rate is adjusted by the margin rate factor if the maximum corporate tax rate changes. The bonds have mandatory redemption dates at various years throughout the life of the bonds with a balloon payment due at final maturity.

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020

NOTE II – DETAILED NOTES ON ALL FUNDS (cont.)

F. LONG-TERM OBLIGATIONS (cont.)

Rates on Revenue Bonds – Direct Placement (cont.)

The rates on the taxable Series 2017A bonds are variable rate. For the variable rate bonds, the rate is a percentage of the one-month LIBOR plus a set margin and the rate changes monthly. The bonds have a mandatory balloon payment due at final maturity.

The rates on the tax-exempt Series 2017B bonds are fixed rate. For the fixed rate bonds, the rate is set at 2.32%. The bonds have a mandatory redemption date in 2043 and a balloon payment due at final maturity.

The rates on the tax-exempt Series 2017C bonds are variable rate. For the variable rate bonds, the rate is a percentage of the one-month LIBOR plus a set margin and the rate changes monthly. The bonds have a mandatory balloon payment due at final maturity.

Bond Indentures – Revenue Bonds and Direct Placement Revenue Bonds

The Series 2020 bonds require the Agency to maintain a debt service account equal to the greater of 2% of the outstanding revenue bond balance or \$572,250. The amount required to be on deposit at year-end is \$1,153,800 and the Agency met this requirement. The Series 2018 bonds require the Agency to maintain a debt service account equal to the greater of 2% of the outstanding revenue bond balance or \$550,000. The amount required to be on deposit at year-end is \$1,090,700 and the Agency met this requirement. The Series 2017A, 2017B, and 2017C bonds require the Agency to maintain a debt service account equal to 1% of the outstanding revenue bond balance, subject to a minimum of \$500,000. The amount required to be on deposit at year-end is \$1,850,000 and the Agency met this requirement. The Series 2012B bonds require the Agency to maintain a debt service account equal to 1% of the outstanding revenue bond balance. The amount required to be on deposit at year-end is \$2,014,000 and the Agency met this requirement. There are a number of other limitations and restrictions contained in the various bond indentures (see also Note II.C.). The Agency believes it is in compliance with all significant limitations and restrictions.

The Agency's outstanding debt related to business-type activities of \$112,225,000 and outstanding debt from direct placements related to business-type activities of \$386,400,000 contain provisions that in an event of default the Agency may pursue remedies to cure the default. Bondholders may further pursue the default including, but not limited to, declaring the entire outstanding balance of the debt immediately due and payable.

All bond series, including direct placement bonds, are to be repaid solely from the money and investments held by the trustees.

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020

NOTE II – DETAILED NOTES ON ALL FUNDS (cont.)

F. LONG-TERM OBLIGATIONS (cont.)

Bond Indentures – Revenue Bonds and Direct Placement Revenue Bonds (cont.)

For all bonds, including direct placement bonds, an early repayment provision exists. For the Series 2012B bonds, the Agency must receive the written consent of the credit provider or bank purchaser, as applicable, prior to an optional redemption. The Agency must also pay a fee to the bank purchaser in connection with each optional redemption prior to the second anniversary of the effective date of the Continuing Covenant Agreement. While in variable mode, any Series 2017 bonds may be redeemed in whole or in part on any business day at the option of the issuer, with the prior written consent of the credit provider or bank purchaser, as applicable, at the redemption price. If only part of the Series 2017 bonds is to be redeemed, the part to be redeemed must be in the minimum amount of \$1,000,000 and integral multiples of \$1,000 thereafter. The foregoing sentence does not apply if the aggregate outstanding principal balance of a Series 2017 bonds to be redeemed is less than \$1,000,000. The Series 2018 bonds maturing on November 1, 2037 are subject to optional redemptions on any date occurring on or after November 1, 2026 at the option of the issuer. The Series 2018 Bonds maturing on November 1, 2037, are subject to optional redemptions prior to their stated maturity, in whole or in part, on each interest payment date that is a potential special optional excess revenues redemption date, in such amounts as directed by the issuer, but solely from excess revenues derived from or allocable to the Series 2018 bonds. The Series 2020 bonds maturing on November 1, 2038 are subject to optional redemptions on any date occurring on or after November 1, 2027 at the option of the issuer. The Series 2020 Bonds maturing on November 1, 2038, are subject to optional redemptions prior to their stated maturity, in whole or in part, on each interest payment date that is a potential special optional excess revenues redemption date, in such amounts as directed by the issuer, but solely from excess revenues derived from or allocable to the Series 2020 bonds.

Current Refunding

On March 25, 2020 the Agency issued \$57,690,000 of revenue bonds, with fixed interest rates ranging from 2.65% - 5%, to refund \$60,000,000 of outstanding 2012B revenue bonds with variable interest rates that were a percentage of the one-month LIBOR plus a set margin and reset every month. The net proceeds, including issuance premium, were used to prepay the outstanding debt. Because the old debt had a variable interest rate, cash flow requirements and any economic gain or loss (difference between the present values of the debt service payments on the old and new debt) on this transaction are not determinable.

Prior-Year Defeasance of Debt

In prior years, the Agency defeased certain revenue bonds by placing existing funds in an irrevocable trust to provide for all future debt service payments on the old bonds. Substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is prohibited by the escrow agreement. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Agency's financial statements. At June 30, 2020, \$7,810,000 of bonds outstanding are considered defeased. The bonds are callable on November 1, 2020.

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020

NOTE II – DETAILED NOTES ON ALL FUNDS (cont.)

F. LONG-TERM OBLIGATIONS (cont.)

Arbitrage Regulations

The \$431,925,000 of tax-exempt bonds issued by the Agency are subject to the 1986 Tax Reform Act regulations relating to arbitrage reporting and rebate. Any earnings in excess of the bond yield plus 2% must be remitted to the U.S. government not more than five years following the issue date of the bonds. As of June 30, 2020, the Agency accrued no liability resulting from the excess yield on interest rates.

Other Debt Information

Estimated payments of vested compensated absences, total OPEB liability, and net pension liability are not included in the debt service requirement schedules. These liabilities that are attributable to governmental activities will be liquidated by the general, special revenue and gifts, and federal grant funds. See Note III.A. for additional disclosures related to the net pension liability.

G. NET POSITION

Certain net positions are classified in the statement of net position as restricted because their use is limited. The business-type activities report restricted net position for amounts that are not available for operations or are legally restricted by outside parties for use for a specific purpose. As of June 30, 2020, the business-type activities restricted net position is restricted for debt service.

The Agency's business-type activities net position (up to a certain level) is restricted for debt service according to bond financial covenants. The amount subject to the restriction increases each year and is as follows:

Years Ending June 30,

2020	\$ 650,000,000
2021	675,000,000
2022	700,000,000
2023	725,000,000
2024 and thereafter	750,000,000

As the Agency's net position is less than the required minimum per the bond covenants, the net position is shown first as invested in capital assets and then as restricted for loan capital fund use, as required in the bond financial covenants.

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020

NOTE III – OTHER INFORMATION

A. PENSION

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.

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/annual-reports-fy-2019; by writing to MSRS at 60 Empire Drive, Suite 300, St. Paul, Minnesota, 55103; or by calling 651.296.2761 or 800.657.5757.

Benefits Provided

MSRS provides retirement, disability, and death benefits to plan members and their beneficiaries through the SERF. 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. Annuitants received a benefit increase of 1.0 percent in 2019 and will receive a 1.0 percent increase through 2023 and 1.5 percent thereafter.

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 percent of the high-five average salary for each of the first 10 years of covered service, plus 1.7 percent 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 percent of the high-five average salary for all years of covered service, and full benefits are available at normal retirement age.

Contributions

Minnesota Statutes Chapter 352 sets the rates for employer and employee contributions. Eligible General Plan members and participating employers were required to contribute 6.00 percent and 6.25 percent, respectively, of their annual covered salary in fiscal year 2019. The Agency's contribution to the General Plan for the fiscal year ending June 30, 2020 was \$294,721. These contributions were equal to the contractually required contributions as set by state statute.

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020

NOTE III – OTHER INFORMATION (cont.)

A. PENSION (cont.)

Actuarial Assumptions

The Agency's net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 generational mortality tables projected with mortality improvement scale MP-2015 from a base year of 2014. Benefit increases for retirees are assumed to be 1.0 percent in 2019, 1.0 percent through 2023, and 1.5 percent thereafter.

Actuarial assumptions used in the June 30, 2019 valuation were based on the results of actuarial experience studies for the period July 1, 2008, through June 30, 2014, with an update of economic assumptions in the fall of 2014.

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

The SBI's long-term expected rate of return was determined using a building-block method. Best estimates of future real rates of return (expected returns, net of inflation) were developed for each asset class using both long-term historical returns and long-term capital market expectations from a number of investment management and consulting organizations. The asset class estimates and target allocations were then combined to produce a geometric, long-term expected real rate of return for the portfolio. Inflation expectations were applied to derive the nominal rate of return for the portfolio as summarized in the following table:

Asset Class	Target Allocation	SBI's Long-Term Expected Real Rate of Return (Geometric Mean)
Domestic Equity	35.5%	5.10%
International Equity	17.5%	5.30%
Fixed Income	10.0%	0.75%
Treasuries	10.0%	0.50%
Private Markets	25.0%	5.90%
Cash	2.0%	0.00%

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2020

NOTE III – OTHER INFORMATION (cont.)

A. PENSION (cont.)

Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2019, was 7.50 percent. The projection of cash flows used to determine the single discount rates assumes that plan member and employer contributions will be made at the current statutory contribution rates. Based on the selected assumptions, the fiduciary net position was projected to be available to make all future benefit payments of current plan members through fiscal year 2119. Therefore, 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. The discount rate used to measure the total pension liability was 7.50 percent, the same single discount rate that was used in fiscal year 2018.

Net Pension Liability

At June 30, 2020, the Agency reported a liability of \$1,896,000 for its proportionate share of MSRS' net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Agency's proportion of the net pension liability was based on the Agency's contributions received by MSRS during the measurement period July 1, 2018, through June 30, 2019, relative to the total employer contributions received from all of MSRS's participating employers. At June 30, 2019, the Agency's proportion was .17786 percent, which was an increase of .00812 percent from its proportion measured as of June 30, 2018.

There were no changes of benefit terms for any participating employer in the Minnesota State Retirement System. There were no changes in actuarial assumptions and plan provisions since the previous valuation.

Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.50%)	Discount Rate (7.50%)	1% Increase in Discount Rate (8.50%)
Agency's proportionate share of the net pension liability (asset):	\$4,415,000	\$1,896,000	\$(196,000)

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2020

NOTE III – OTHER INFORMATION (cont.)

A. PENSION (cont.)

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/annual-reports-fy-2019).

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

For the year ended June 30, 2020, the Agency recognized pension expense (income) of \$416,000. At June 30, 2020, the Agency 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	\$ 57,000	\$ 7,000
Changes of assumptions	2,671,000	5,939,000
Net difference between projected and actual earnings on investments	-	463,000
Changes in proportion and differences between actual contributions and proportionate share of contributions	59,000	-
Contributions paid to MSRS subsequent to the measurement date	274,000	-
Totals	\$ 3,061,000	\$ 6,409,000

Amounts reported as deferred outflows of resources related to pensions resulting from Agency contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2021	\$ 115,000
2022	(2,561,000)
2023	(1,190,000)
2024	14,000

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2020

NOTE III – OTHER INFORMATION (cont.)

B. RISK MANAGEMENT

The Agency is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care of its employees. The Agency is self-insured through the State of Minnesota for all types of losses. A fee is paid annually for property insurance and an administrative fee is paid annually for workers' compensation, but no other premiums are paid.

C. COMMITMENTS AND CONTINGENCIES

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. The liability and expenditure for claims and judgments is only reported in governmental fund types if it has matured. Claims and judgments are recorded in the government-wide statements and proprietary funds as expenses when the related liabilities are incurred. There were no significant claims or judgments at year-end.

From time to time, the Agency is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the Agency's attorney that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the Agency's financial position or results of operations.

The Agency has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

Funding for the operating budget of the Agency's general fund comes from the State of Minnesota. The Agency's general fund is dependent on continued approval and funding by the Minnesota governor and legislature, through their budget processes. Any changes made by the State to appropriations for the Agency's general fund could have a significant impact on the future operating results of the Agency.

D. SUBSEQUENT EVENT

In December 2019, a novel strain of coronavirus was reported in Wuhan, Hubei province, China. In the first several months of 2020, the virus, SARS-CoV-2, and resulting disease, COVID-19, spread to the United States, including to areas impacting the Agency. As of the audit opinion date, the Agency's evaluation of the effects of these events is ongoing; however, based on current information we believe this situation will impact:

- > Reduction in loan and investment interest income
- > Decreased demand for new loan originations due to the uncertainty of students attending postsecondary institutions, shifts to lower cost institutions, and lower cost living arrangements
- > Increase in delinquencies or uncollectible accounts receivable or loans receivable
- > Increased financial requirements for future bond issues
- > Increased costs related to pensions, OPEBs, insurance, etc.

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2020

NOTE III – OTHER INFORMATION (cont.)

D. SUBSEQUENT EVENT (cont.)

To provide relief to student loan borrowers during the emergency, the Agency charged an interest rate of 0.00% on SELF III, IV, V, and SELF Refi loans from the period July 1, 2020 through September 30, 2020. This rate is different from the rates disclosed in Note II.B. which are the rates calculated and disclosed per the loan promissory notes.

The extent of the impact of COVID-19 on the Agency's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related governmental or other regulatory actions.

E. EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) has approved the following:

- > Statement No. 84, *Fiduciary Activities*
- > Statement No. 87, *Leases*
- > Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- > Statement No. 90, *Majority Equity Interests*
- > Statement No. 91, *Conduit Debt Obligations*
- > Statement No. 92, *Omnibus*
- > Statement No. 93, *Replacement of Interbank Offered Rates*
- > Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

The statements listed above through Statement No. 93 had their required effective dates postponed by one year with the issuance of Statement No. 95, *Postponement of Effective Dates of Certain Authoritative Guidance*, with the exception of Statement No. 87, which was postponed by one and a half years.

When they become effective, application of these standards may restate portions of these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

MINNESOTA OFFICE OF HIGHER EDUCATION

BUDGETARY COMPARISON SCHEDULE GENERAL FUND For the Year Ended June 30, 2020

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
General Administration	\$ 4,577,000	\$ 3,064,732	\$ 3,064,732	\$ -
MN Link Gateway and Minitex Library	5,905,000	5,905,000	5,905,000	-
Student Loan Debt Counsel	200,000	91,583	91,583	-
Emergency Assistance	269,000	236,096	236,096	-
Alternative Teacher Prep	-	342,950	342,950	-
American Indian Scholarship	3,500,000	3,023,394	3,023,394	-
Tribal College Grants	150,000	126,670	126,670	-
State Grant Program	207,437,000	207,907,999	207,907,999	-
Child Care Grants	6,694,000	4,962,242	4,962,242	-
MN Reconnect	1,005,000	450,030	450,030	-
Safety Officer Survivors	100,000	61,980	61,980	-
Summer Academic Enrichment	250,000	50,475	50,475	-
Summer Academic Enrichment Administration	-	7,500	7,500	-
Interstate Reciprocity	11,018,000	6,084,524	6,084,524	-
State Work Study	14,502,000	14,379,683	14,379,683	-
Grants to Teacher Candidates	1,250,000	1,202,859	1,202,859	-
Grants to Teacher Candidates - Admin.	-	26,208	26,208	-
Large Animal Veterinarian Loan Forgiveness	375,000	-	-	-
Teacher Shortage Loan Forgiveness	200,000	-	-	-
Agriculture Loan Forgiveness	50,000	-	-	-
Aviation Loan Forgiveness	25,000	-	-	-
Intellectual and Developmental Disabilities Grant	200,000	194,108	194,108	-
Loan Repayment Assistance Program	25,000	25,000	25,000	-
Minnesota Life College	1,000,000	1,357,375	1,357,375	-
MN GI Bill Program	-	(101,594)	(101,594)	-
Student Parent Information	122,000	107,626	107,626	-
MN Education Equity Partnership	45,000	45,000	45,000	-
Get Ready	180,000	125,739	125,739	-
Intervention College Attendance	796,000	736,107	736,107	-
Statewide Longitudinal Data	1,782,000	1,019,199	1,019,199	-
College Possible	500,000	276,479	276,479	-
Equity in Postsecondary Education	-	55,533	55,533	-
Equity Grants Administrative	-	13,792	13,792	-
Student Employer Information System	-	86,360	86,360	-
Midwest Compact	115,000	115,000	115,000	-
United Family Practice	501,000	-	-	-
HCMC Program	645,000	161,250	161,250	-
Spinal Cord & Traumatic Brain Injury Research Grants	3,000,000	-	-	-
Campus Sexual Assault Reporting	25,000	14,148	14,148	-
Sexual Violence Prevention	100,000	43,234	43,234	-
Sexual Prevention Outreach	50,000	12,840	12,840	-
Dual Training Competency Grants: OHE	2,000,000	-	-	-
Dual Training Competency Grants: DOLI (Department of Labor & Industry)	200,000	-	-	-
Concurrent Enrollment Courses - New	225,000	180,562	180,562	-
Concurrent Enrollment Courses - Existing	115,000	30,911	30,911	-
Total Revenues	<u>269,133,000</u>	<u>252,422,594</u>	<u>252,422,594</u>	<u>-</u>

See independent auditors' report and accompanying notes to required supplementary information.

MINNESOTA OFFICE OF HIGHER EDUCATION

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended June 30, 2020

	Budgeted Amounts		Actual	Variance
	Original	Final		With Final Budget
EXPENDITURES				
General Administration	\$ 4,577,000	\$ 3,674,681	\$ 3,064,732	\$ 609,949
MN Link Gateway and Minitex Library	5,905,000	5,905,000	5,905,000	-
Student Loan Debt Counsel	200,000	199,981	91,583	108,398
Emergency Assistance	269,000	269,000	236,096	32,904
Alternative Teacher Prep	-	243,166	342,950	(99,784)
American Indian Scholarship	3,500,000	3,475,377	3,023,394	451,983
Tribal College Grants	150,000	126,670	126,670	-
State Grant Program	207,437,000	208,317,067	207,907,999	409,068
Child Care Grants	6,694,000	6,693,999	4,962,242	1,731,757
MN Reconnect	1,005,000	743,530	450,030	293,500
Safety Officer Survivors	100,000	100,000	61,980	38,020
Summer Academic Enrichment	250,000	242,500	50,475	192,025
Summer Academic Enrichment Administration	-	7,500	7,500	-
Interstate Reciprocity	11,018,000	6,084,524	6,084,524	-
State Work Study	14,502,000	14,502,000	14,379,683	122,317
Grants to Teacher Candidates	1,250,000	1,212,500	1,202,859	9,641
Grants to Teacher Candidates - Admin.	-	26,208	26,208	-
Large Animal Veterinarian Loan Forgiveness	375,000	-	-	-
Teacher Shortage Loan Forgiveness	200,000	-	-	-
Agriculture Loan Forgiveness	50,000	-	-	-
Aviation Loan Forgiveness	25,000	-	-	-
Intellectual and Developmental Disabilities Grant	200,000	200,000	194,108	5,892
Loan Repayment Assistance Program	25,000	25,000	25,000	-
Minnesota Life College	1,000,000	1,500,000	1,357,375	142,625
MN GI Bill Program	-	-	(101,594)	101,594
Student Parent Information	122,000	107,653	107,626	27
MN Education Equity Partnership	45,000	45,000	45,000	-
Get Ready	180,000	42,618	125,739	(83,121)
Intervention College Attendance	796,000	787,046	736,107	50,939
Statewide Longitudinal Data	1,782,000	1,492,470	1,019,199	473,271
College Possible	500,000	500,000	276,479	223,521
Equity in Postsecondary Education	-	-	55,533	(55,533)
Equity Grants Administrative	-	13,792	13,792	-
Student Employer Information System	-	-	86,360	(86,360)
Midwest Compact	115,000	115,000	115,000	-
United Family Practice	501,000	501,000	-	501,000
HCMC Program	645,000	645,000	161,250	483,750
Spinal Cord & Traumatic Brain Injury Research Grants	3,000,000	-	-	-
Campus Sexual Assault Reporting	25,000	14,148	14,148	-
Sexual Violence Prevention	100,000	43,284	43,234	50
Sexual Prevention Outreach	50,000	12,840	12,840	-
Dual Training Competency Grants: OHE	2,000,000	-	-	-
Dual Training Competency Grants: DOLI (Department of Labor & Industry)	200,000	-	-	-
Concurrent Enrollment Courses - New	225,000	96,195	180,562	(84,367)
Concurrent Enrollment Courses - Existing	115,000	31,643	30,911	732
Total Expenditures	<u>269,133,000</u>	<u>257,996,392</u>	<u>252,422,594</u>	<u>5,573,798</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ (5,573,798)</u>	<u>\$ -</u>	<u>\$ 5,573,798</u>

See independent auditors' report and accompanying notes to required supplementary information.

MINNESOTA OFFICE OF HIGHER EDUCATION

SCHEDULE OF AGENCY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
STATE EMPLOYEES RETIREMENT FUND (SERF)
For the Year Ended June 30, 2020

SERF Fiscal Year End Date (Measurement Date)	Agency's Proportion of the Net Pension Liability	Agency's Proportionate Share of the Net Pension Liability	Agency's Covered Payroll	Agency's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/19	0.17786%	\$ 1,896,000	\$ 4,407,947	43.01%	90.73%
6/30/18	0.16974%	1,771,000	4,081,578	43.39%	90.56%
6/30/17	0.17890%	9,949,000	4,064,510	244.78%	62.73%
6/30/16	0.16806%	15,549,000	3,674,811	423.12%	47.51%
6/30/15	0.16390%	1,883,000	3,365,517	55.95%	88.32%
6/30/14	0.16080%	1,930,000	3,847,610	50.16%	87.64%

SCHEDULE OF CONTRIBUTIONS
STATE EMPLOYEES RETIREMENT FUND (SERF)
For the Year Ended June 30, 2020

Agency Year End Date	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
6/30/20	\$ 294,721	\$ 294,721	\$ -	\$ 4,738,043	6.22%
6/30/19	261,562	261,562	-	4,407,947	5.93%
6/30/18	225,299	225,299	-	4,081,578	5.52%
6/30/17	215,688	215,688	-	4,064,510	5.31%
6/30/16	198,648	198,648	-	3,674,811	5.41%
6/30/15	182,084	182,084	-	3,365,517	5.41%

See independent auditors' report and accompanying notes to required supplementary information.

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION For the Year Ended June 30, 2020

BUDGETARY INFORMATION

Budgetary information is derived from the annual operating budget and is presented using generally accepted accounting principles and the modified accrual basis of accounting.

The State of Minnesota operates on a biennial budget. Every other year Agency appropriations must be approved by the Senate and the House of Representatives, and signed by the governor for the upcoming two year period, which begins in July of odd numbered years. Budgets for each appropriation awarded to the Agency are prepared by the Agency and submitted to the Minnesota Management and Budget Agency and set up in the state's accounting system.

Expenditures cannot legally exceed the total initially appropriated unless supplemental appropriations are enacted into law.

The budget is prepared in accordance with generally accepted accounting principles. Budgetary control is at the appropriation level. Unexpended appropriations from the first year (year ended June 30, 2020) of the biennium are carried over and are available for operations in the second year (year ended June 30, 2021) of the biennium.

Unspent appropriations at the end of a biennium shall be returned to the fund from which appropriated. The Agency's expenditures are classified according to the State administrative guidelines. Agency funds are disbursed by the Minnesota Management and Budget Agency.

A budget has been legally adopted for the Agency's general fund. The budgeted amounts presented include any amendments made. The chief financial officer may authorize transfers of budgeted amounts between appropriations as allowable by state statutes.

MINNESOTA STATE RETIREMENT SYSTEM

The amounts determined for each fiscal year were determined as of June 30 of the prior fiscal year.

The Agency is required to present the last 10 fiscal years of data; however accounting standards allow the presentation of as many years as are available until 10 fiscal years are presented.

Changes in benefit terms. There were no changes of benefit terms for any participating employer in the Minnesota State Retirement System.

Changes in Actuarial Assumptions and Plan Provisions

2019 Changes

Changes in Actuarial Assumptions:

- > There have been no changes since the previous valuation.

Changes in Plan Provisions:

- > There have been no changes since the previous valuation.

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION For the Year Ended June 30, 2020

MINNESOTA STATE RETIREMENT SYSTEM (cont.)

Changes in Actuarial Assumptions and Plan Provisions (cont.)

2018 Changes

Changes in Actuarial Assumptions:

- > The single discount rate changed from 5.42 percent to 7.50 percent.

Changes in 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 percent to 5.75 percent of pay, effective July 1, 2018, and 6.00 percent of pay effective July 1, 2019.
- > Employer contributions increased from 5.50 percent to 5.875 percent of pay, effective July 1, 2018, and 6.25 percent of pay effective July 1, 2019.
- > Interest credited on member contributions will decrease from 4.0 to 3.0 percent, beginning July 1, 2018.
- > Deferred augmentation was changed to 0.0 percent for future accruing benefits effective January 1, 2019.
- > Contribution stabilizer provisions were repealed.
- > Post-retirement benefit increases were changed from a 2.0 to 2.5 percent per year increase based upon funded ratio, to a fixed rate of 1.0 percent for five years beginning January 1, 2019, and 1.5 percent per year thereafter.
- > For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age.

2017 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

2016 Changes

Changes in Actuarial Assumptions:

- > Assumed salary increase rates were changed to rates that average 0.2 percent greater than the previous rates.
- > Assumed rates of retirement were changed, resulting in fewer unreduced retirements and fewer Rule of 90 retirements. Distinct rates for reduced (Early) retirements were adopted for members hired prior to July 1, 1989, and members hired after June 30, 1989.
- > Assumed rates of termination were changed, with new rates generally greater than the previous rates for years 3 through 9 and less than the previous rates after 15 years.
- > Assumed rates of disability for females were reduced to 75.0 percent of previous rates. Rates for male members were lowered by utilizing the same disability rates as for females.

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION For the Year Ended June 30, 2020

MINNESOTA STATE RETIREMENT SYSTEM (cont.)

Changes in Actuarial Assumptions and Plan Provisions (cont.)

2016 Changes (cont.)

Changes in Actuarial Assumptions: (cont.)

- > 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 changed from 85 percent of active male members and 70 percent of female members to 80 percent of active male members and 65 percent of active female members.
- > The assumed number of married male new retirees electing the 75 percent Joint & Survivor option changed from 10 percent to 15 percent. The assumed number of married female new retirees electing the 75 percent and 100 percent Joint & Survivor options changed from 0 percent to 10 percent and from 25 percent to 30 percent, 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 percent per year through 2043 and 2.5 percent per year thereafter, to 2.0 percent per year for all future years.
- > The long-term expected rate of return on pension plan investments was changed from 7.90 percent to 7.50 percent.
- > The single discount rate changed from 7.90 percent to 4.17 percent.
- > The inflation assumption was changed from 2.75 percent to 2.50 percent.
- > The payroll growth assumption was changed from 3.50 percent to 3.25 percent.

Changes in Plan Provisions:

- > There were no changes in plan provisions in 2016.

2015 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION For the Year Ended June 30, 2020

MINNESOTA STATE RETIREMENT SYSTEM (cont.)

Changes in Actuarial Assumptions and Plan Provisions (cont.)

2014 Changes

Changes in Actuarial Assumptions:

- > The assumed post-retirement benefit increase rate was changed from 2.0 percent per year indefinitely, to 2.0 percent per year through 2015 and 2.5 percent per year thereafter.
- > The long-term expected rate of return on pension plan investments changed from 6.63 percent to 7.90 percent.

Changes in Plan Provisions:

- > The member and employer contribution rates increased from 5.0 percent to 5.5 percent of pay.
- > The funded ratio threshold that must be attained to pay a 2.5 percent post-retirement benefit increase to benefit recipients was changed from 90.0 percent for one year to 90.0 percent for two consecutive years.

SUPPLEMENTARY INFORMATION

MINNESOTA OFFICE OF HIGHER EDUCATION

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
As of June 30, 2020

	<u>Special Revenues and Gifts Fund</u>	<u>Federal Grant Fund</u>	<u>Totals</u>
ASSETS			
Cash and investments	\$ 10,917,513	\$ -	\$ 10,917,513
Accounts receivable	77,453	20,443	97,896
Due from other governments	<u>77,056</u>	<u>369,408</u>	<u>446,464</u>
		-	
TOTAL ASSETS	<u>\$ 11,072,022</u>	<u>\$ 389,851</u>	<u>\$ 11,461,873</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 517,957	\$ 226,196	\$ 744,153
Accrued liabilities	48,823	132,450	181,273
Due to other governments	-	19,946	19,946
Due to other funds	-	11,259	11,259
Deposits	<u>303,242</u>	-	<u>303,242</u>
Total Liabilities	<u>870,022</u>	<u>389,851</u>	<u>1,259,873</u>
Fund Balances			
Restricted for administration and financial aid programs	9,172,430	-	9,172,430
Assigned for agency programs	77,984	-	77,984
Assigned for indirect costs	924,994	-	924,994
Assigned financial aid information	<u>26,592</u>	-	<u>26,592</u>
Total Fund Balances	<u>10,202,000</u>	-	<u>10,202,000</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 11,072,022</u>	<u>\$ 389,851</u>	<u>\$ 11,461,873</u>

MINNESOTA OFFICE OF HIGHER EDUCATION

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2020

	Special Revenues and Gifts Fund	Federal Grant Fund	Totals
REVENUES			
State appropriations	\$ 5,650,000	\$ -	\$ 5,650,000
Federal grants	320,090	3,477,378	3,797,468
Registration and licensing fees	311,495	-	311,495
Other revenue	<u>952,454</u>	<u>-</u>	<u>952,454</u>
Total Revenues	<u>7,234,039</u>	<u>3,477,378</u>	<u>10,711,417</u>
EXPENDITURES			
Administration and financial aid programs	6,424,877	-	6,424,877
Federal grants	<u>275,284</u>	<u>3,477,378</u>	<u>3,752,662</u>
Total Expenditures	<u>6,700,161</u>	<u>3,477,378</u>	<u>10,177,539</u>
Excess of revenues over expenditures	533,878	-	533,878
FUND BALANCE - Beginning of Year	<u>9,668,122</u>	<u>-</u>	<u>9,668,122</u>
FUND BALANCE - END OF YEAR	<u>\$ 10,202,000</u>	<u>\$ -</u>	<u>\$ 10,202,000</u>