

Minnesota Office of Higher Education

*Schedule of Expenditures of Federal Awards
for the Year Ended June 30, 2006, and
Independent Auditors' Reports*

MINNESOTA OFFICE OF HIGHER EDUCATION

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Director of
Minnesota Office of Higher Education
Saint Paul, Minnesota

We have audited the basic financial statements of Minnesota Office of Higher Education (the "Agency") as of and for the year ended June 30, 2006, and have issued our report thereon dated September 18, 2006. 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.

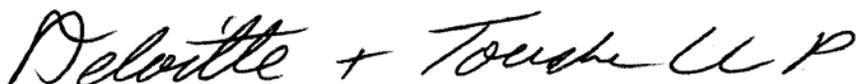
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the director, management, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



September 18, 2006

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM

To the Director of
Minnesota Office of Higher Education
Saint Paul, Minnesota

Compliance

We have audited the compliance of Minnesota Office of Higher Education (the "Agency") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Agency's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to each of its major federal programs is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the Agency's internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grant agreements that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the Agency's internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Agency as of and for the year ended June 30, 2006, and have issued our report thereon dated September 18, 2006. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the Agency. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the director, management, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Deloitte + Touche LLP".

September 18, 2006

MINNESOTA OFFICE OF HIGHER EDUCATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2006

Grantor/Program Title	Federal CFDA Number	Expenditures	Amounts Passed Through to Subrecipients
U.S. DEPARTMENT OF EDUCATION:			
Leveraging Educational Assistance Partnership	84.069A	\$ 581,461	\$ 581,461
Title II—Eisenhower Professional Development Program	84.367B	927,528	870,662
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	2,038,559	
Guaranteed Student Loan Program (special interest allowances and loan servicing)	84.032	<u>3,039</u>	<u> </u>
Total U.S. Department of Education		3,550,587	1,452,123
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE—Learn and Serve America Higher Education			
	94.005	<u>439,076</u>	<u>430,157</u>
TOTAL FEDERAL AWARDS		<u>\$ 3,989,663</u>	<u>\$ 1,882,280</u>

See notes to Schedule of Expenditures of Federal Awards.

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2006

1. BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting. Expenditures are recognized when they become a demand on current available financial resources. Encumbrances are used during the year for budgetary control purposes and lapse at fiscal year-end, unless the amount specifically relates to the prior-year and there is approval to extend the encumbrance.

Federal financial awards provided to subrecipients are treated as expenditures when they are paid to the subrecipients. The Minnesota Office of Higher Education (the "Agency") received no noncash awards under its federal awards programs for the year ended June 30, 2006.

2. REPORTING ENTITY

The Agency, for purposes of the Schedule of Expenditures of Federal Awards, includes all the funds of the primary government as defined by Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*.

The Agency administers certain federal financial awards programs through subrecipients. Those subrecipients are not considered part of the reporting entity of the Agency.

3. GUARANTEED STUDENT LOAN ("GSL") PROGRAM

The U.S. government pays the Loan Capital Fund of the Agency a special interest allowance quarterly on outstanding guaranteed loans. During fiscal 2006, \$3,039 (CFDA No. 84.032) was received for special interest allowances, all of which was expended to Firstmark Services, LLC for the servicing of loans under the program. As of June 30, 2006, total loans outstanding under the GSL program is \$152,926.

4. RECONCILIATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE AGENCY'S COMBINED STATEMENT OF ACTIVITIES

The following schedule is a reconciliation of total expenditures of federal awards as shown on the Schedule of Expenditures of Federal Awards to the federal appropriations expenses on the combined statement of activities for the year ended June 30, 2006, which is included in the Agency's basic financial statements:

Expenditures per schedule	\$3,989,663
Encumbrances	(23,846)
Special interest allowances	<u>(3,039)</u>
Federal appropriations expense per combined statement of activities within the financial statements	<u>\$3,962,778</u>

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MINNESOTA OFFICE OF HIGHER EDUCATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2006

SECTION I—SUMMARY OF AUDITORS' RESULTS

Financial Statements

A. Type of auditors' report issued: unqualified

B. Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no

- Reportable condition(s) identified
that are not considered to be material
weaknesses? _____ yes X none reported

C. Noncompliance material to financial
statements noted? _____ yes X no

Federal Awards

D. Internal control over major programs:

- Material weakness(es) identified? _____ yes X no

- Reportable condition(s) identified
that are not considered to be material
weaknesses? _____ yes X none reported

E. Type of auditors' report issued on compliance for major programs: unqualified

F. Any audit findings disclosed that are required
to be reported in accordance with Section 510(a)
of OMB Circular A-133: _____ yes X no

G. Identification of major programs:

Name of Federal Program or Cluster	CFDA Number(s)
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A
Title II – Eisenhower Professional Development Program	84.367B

H. Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

I. Auditee qualified as a low-risk auditee: X yes _____ no

MINNESOTA OFFICE OF HIGHER EDUCATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2006

SECTION II—FINANCIAL STATEMENT FINDINGS

No matters are reportable.

SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters are reportable.