

# Minnesota Office of Higher Education

Financial Statements as of and for the Years Ended  
June 30, 2008 and 2007, Supplemental Schedules  
for the Years Ended June 30, 2008 and 2007, and  
Independent Auditors' Report

# MINNESOTA OFFICE OF HIGHER EDUCATION

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## INDEPENDENT AUDITORS' REPORT

Director  
Minnesota Office of Higher Education  
Saint Paul, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Minnesota Office of Higher Education (the "Agency"), a component unit of the state of Minnesota as of and for the years ended June 30, 2008 and 2007, which collectively comprise the Agency's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, and each major fund of the Minnesota Office of Higher Education as of June 30, 2008 and 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 15, 2008, on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The required supplementary information, such as management's discussion and analysis and budgetary comparison information on pages 3 through 12 and 34 through 37, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Deloitte + Touche LLP*

September 15, 2008

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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 years ended June 30, 2008 and 2007.

### Introduction

The purpose of the Agency is stated in the agency mission and goals:

Mission:

To achieve the promise of higher education to all Minnesotans and provide the critical information that guides higher education decisions.

Goals:

- Achieve student 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 among and collaborate with organizations that share responsibility for education in Minnesota.

The Agency's specific core statutory responsibilities are as follows:

- Administration of state financial aid programs for students;
- Negotiation and administration of statewide interstate tuition reciprocity programs;
- Publication and distribution to students and parents information about academic and financial preparation, including financial aid;
- Approval, registration, and licensure of private colleges and career schools;
- Oversight of statewide library service programs that improve access to information and support cost-effective library operations;
- Collection, maintenance, and analysis of student enrollment and financial aid data and reporting data on students and post-secondary institutions to develop and implement a process to measure and report on the effectiveness of post secondary institutions;
- Administration of statewide federal programs; and
- Prescribing policies, procedures, and rules necessary to administer the programs under the Agency's supervision.

The Agency is authorized to issue bonds up to a total outstanding of \$850 million. The bonds by law are not a debt of the state of Minnesota or any political subdivision thereof.

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

The Minnesota State Grant Program (which provides more than \$140 million in need-based aid to Minnesota students annually), and other student financial aid programs such as the Post-Secondary Child Care Grant Program, State Work Study Program, the Public Safety Officers' Survivors Benefit Program, Achieve Scholarship Program, Minnesota GI Bill Program, and the American Indian Scholarship Program. Other core programs are the Student Educational Loan Fund (SELF), the Minnesota College Savings Plan, and the Interstate Tuition Reciprocity Program. These programs enable thousands of Minnesota students to have financial access to, and choice of, postsecondary educational opportunities.

The Agency's publications, videos, 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. The Get Ready! Program, working in tandem with the federally sponsored GEAR UP (Gaining Early Awareness and Readiness for Undergraduate Programs) and state sponsored Intervention for College Attendance Program Grants, helps to sustain a continuum of contact and service to low-income students from fourth grade through high school as they prepare for college admission and attendance.

The Agency's Web presence includes information for students, parents, educators, and financial aid administrators, enrollment data which can be customized by the user, information concerning private postsecondary institutions licensed or registered by the Agency, online tuition reciprocity applications, and a financial aid estimator.

A portion of the Agency's state appropriations are for the following two programs:

- The MINITEX Library Information Network provides students, scholars, and residents of Minnesota and contiguous states with cost-effective access to a wide range of library resources and information, including delivery of interlibrary loan materials, cooperative licensing, and access to electronic resources. The Minnesota Library Information Network (MnLINK) is a statewide virtual library that electronically links major Minnesota libraries. The MnLINK Gateway connects the online catalogs of 20 Minnesota library systems and selected commercial databases so that they appear to a user as a single source of information. The MnLINK Integrated Library System is a shared library automation system for the University of Minnesota, Minnesota State Colleges and Universities, Minnesota state agencies, and interested private college, public, school and special libraries.
- The Learning Network of Minnesota provides access to educational programs and library resources through telecommunications technology. The Learning Network enables students to have access to learning opportunities that otherwise would be unavailable at their college or in their geographic area.

Through state laws which undergird the registration and licensure of private colleges, universities, and career schools, the Agency provides students with consumer protection by assuring that private post-secondary institutions meet state standards in order to operate legally in Minnesota.

## Financial Highlights

- The Agency's net position increased \$16.4 million or 5.0% from fiscal year 2007 to 2008, and increased \$20.9 million or 6.9% from fiscal year 2006 to 2007. The increase during both years is mainly a result of student loan financing activities.
- Loan receivables in the Loan Capital Fund grew by \$42.8 million or 6.7% during fiscal year 2008 and grew by \$40.4 million or 6.7% during fiscal year 2007.
- The Loan Capital Fund issued 28,302 and 30,577 of new loans in fiscal years 2008 and 2007, respectively, with an average loan amount of \$5,002 and \$4,425, respectively.
- The Agency received \$196.6 million for fiscal year 2008 appropriations in addition to the \$0.5 million carryforward from previous fiscal year. Approximately \$8.0 million will be carried forward to fiscal year 2009. The Agency received \$177.2 million for fiscal year 2007 appropriations in addition to a \$15.0 million carryforward from the previous year. The Agency received 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, 2008, the Agency has not entered into any interest rate exchange or swap agreements or other comparable interest rate protection agreements.

## Using This Annual Report

This annual report consists of a series of financial statements. The Combined Statements of Net Position and the Combined Statement of Activities (on pages 13, 14, and 15) provide information about the activities of the Agency as a whole and present a longer-term view of the Agency's finances. Fund financial statements start on page 16. Fund financial statements also report the Agency's operations in more detail than the government-wide statements by providing information about the Agency's funds.

## Reporting the Agency as a Whole

### *The Statements of Net Position and the Statement of Activities*

Our analysis of the Agency as a whole begins on page 7. The Combined Statements of Net Position and the Combined Statement of Activities report information about the Agency as a whole and about its activities in a way that helps the reader grasp the Agency's fiscal years 2008 and 2007 financial activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

These statements report the Agency's net position and changes in position. You can think of the Agency's net position — the difference between assets and liabilities — as one way to measure the Agency's financial health, or financial position. Over time, increases or decreases in the Agency's net position is one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, to assess the overall health of the Agency.

In the combined 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 and the Work Study Program and the MnLINK 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 collegiate and career schools.

- **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 two loan programs currently being administered by the Agency are the Student Educational Loan Fund (SELF) Program and the Graduated Repayment Income Protection (GRIP) Program.

## Reporting the Agency's Most Significant Funds

### *Fund Financial Statements*

The fund financial statements begin on page 16 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 and pass-through funds (like MINITEX payments to the Ohio College Library Center). The Agency's two kinds of funds — governmental and proprietary — use different accounting approaches.

- **Governmental Funds** — Most of the Agency's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Agency's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs.
- **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 Statements of Net Position and the Statements of Activities. In fact, the Agency's enterprise 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.

### *Reporting the Agency's Fiduciary Responsibilities*

The state of Minnesota performs a fiduciary role for the Minnesota State Retirement System (MSRS), Teachers Retirement Association (TRA), and the Public Employees Retirement Association (PERA). The Agency contributes to the pension plans as an employer but does not act as trustee for any of the pension plans.

## The Agency as a Whole

The Agency's combined net position increased by \$16.4 million or 5.0%. 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.

**Table 1**  
**Net Position**

	2008			2007		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Assets:						
Current and other assets	\$12,575,468	\$ 868,196,532	\$ 880,772,000	\$ 7,358,605	\$ 880,155,681	\$ 887,514,286
Deferred charges		3,107,456	3,107,456		3,378,110	3,378,110
Total assets	<u>12,575,468</u>	<u>871,303,988</u>	<u>883,879,456</u>	<u>7,358,605</u>	<u>883,533,791</u>	<u>890,892,396</u>
Liabilities:						
Other liabilities	11,360,024	3,426,700	14,786,724	5,097,383	3,101,318	8,198,701
Revenue bonds		527,000,000	527,000,000		557,000,000	557,000,000
Total liabilities	<u>11,360,024</u>	<u>530,426,700</u>	<u>541,786,724</u>	<u>5,097,383</u>	<u>560,101,318</u>	<u>565,198,701</u>
Net position:						
Restricted for debt service		279,327,344	279,327,344		273,709,155	273,709,155
Trust net assets		61,549,944	61,549,944		49,723,318	49,723,318
Unrestricted	<u>1,215,444</u>		<u>1,215,444</u>	<u>2,261,222</u>		<u>2,261,222</u>
Total net position	<u>\$ 1,215,444</u>	<u>\$ 340,877,288</u>	<u>\$ 342,092,732</u>	<u>\$ 2,261,222</u>	<u>\$ 323,432,473</u>	<u>\$ 325,693,695</u>

Net position of the Agency's governmental activities decreased by \$1,045,778 during the current fiscal year versus a \$1,610,860 decrease during the prior fiscal year.

This change in net position is due to the Agency being assigned as the fiscal agent for the Rochester higher education development account in fiscal year 2006. The legislature appropriated \$3.0 million to be placed in a special revenue fund for implementation of activities to expand educational programs or institutions in Rochester. Of the \$3.0 million received in fiscal year 2006, \$1.8 million was spent in fiscal year 2007, and \$1.2 million was spent in fiscal year 2008.

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 \$2,261,222 at June 30, 2007 to \$1,236,444 at the end of this year.

Net loans receivables have increased by approximately \$42.8 million to \$686.7 million or 6.7%. This increase reflects the impact of tuition increases in higher education and an increase in loan limits. This increase is partially offset by an 8.0% decrease in loan 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 revenue generated from the student loans must either be paid back to the IRS every ten years or lowered through a decrease in the student loan interest rate charged, loan forgiveness

programs and/or borrower benefits. As of June 30, 2008, the agency has accrued \$1,538,071 in excess revenue on the 2005B and 2006 tax exempt bond issues.

In February 2008 the agency redeemed \$30,000,000 of taxable bonds. As the auction rate securities market grew unstable and bond interest costs increased substantially, the agency decided to redeem taxable bonds in an amount that would not negatively impact its ability to disburse student loans in the coming school year.

The excess of revenues over expenses of the Agency's business-type activities was \$17.4 million in fiscal year 2008, which was 46.7% of expenses. In the previous year the excess of revenues over expenses was 62.7% of expenses.

**Table 2**  
**Changes in Net Position**

	2008			2007		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
REVENUES —						
Program revenues:						
Charges for services	\$ 835,362	\$54,762,705	\$ 55,598,067	\$ 796,494	\$58,458,173	\$ 59,254,667
State appropriations	188,775,186		188,775,186	191,749,305		191,749,305
Federal appropriations	4,856,912		4,856,912	4,847,315		4,847,315
Total revenues	<u>194,467,460</u>	<u>54,762,705</u>	<u>249,230,165</u>	<u>197,393,114</u>	<u>58,458,173</u>	<u>255,851,287</u>
PROGRAM EXPENSES:						
General government	8,005,323	8,799,609	16,804,932	9,453,333	9,202,563	18,655,896
State and other grants	185,005,163		185,005,163	187,121,609		187,121,609
Federal grants	2,502,752		2,502,752	2,429,032		2,429,032
Provision for loan losses — net		2,901,736	2,901,736		2,223,197	2,223,197
Amortization		1,808,724	1,808,724		103,307	103,307
Interest expense		23,807,821	23,807,821		24,390,043	24,390,043
Total expenses	<u>195,513,238</u>	<u>37,317,890</u>	<u>232,831,128</u>	<u>199,003,974</u>	<u>35,919,110</u>	<u>234,923,084</u>
(DECREASE) INCREASE IN NET POSITION	<u>\$ (1,045,778)</u>	<u>\$ 17,444,815</u>	<u>\$ 16,399,037</u>	<u>\$ (1,610,860)</u>	<u>\$ 22,539,063</u>	<u>\$ 20,928,203</u>

The Agency's total revenues decreased \$6.6 million (or 2.6%) (see discussion within governmental activities below). Net business program revenue decreased \$3.7 million (or 6.3%) due to lower interest rates in the current year.

### *Governmental Activities*

Revenues for the Agency's governmental activities (see Table 2) decreased by \$2.9 million (or 1.5%) to \$194.5 million, while total expenses decreased by \$3.5 million (or 1.8%) to \$195.5 million. The majority of the governmental activities revenue decrease was due to lower state appropriations for student grants. The expenditures decrease was due to lower state appropriations for individual student state grants.

- State grant expenditures decreased by \$2.5 million to \$184.6 million. \$147.4 million was appropriated by legislature. For the state grant program, if the appropriation for either year of the biennium is insufficient, the appropriation for the other year is available for it. \$400,000 appropriated for fiscal year 2009 was transferred to fiscal year 2008.

The Agency currently received federal grant monies from four different programs within the U.S. Department of Education. These federal grants are designed to assist students in meeting their postsecondary education financial obligations for tuition and other related expenses, improve teacher quality and instructional leadership, and increase college attendance and success of low-income students.

### ***Business-Type Activities***

Revenues of the Agency's business-type activities (see Table 2) decreased by 6.5% (\$54,762,705 in 2008 compared to \$58,548,173 in 2007) and expenses increased by 3.9%. In fiscal year 2007, there was a higher return for interest and investment interest income. The current interest rate charged to SELF II, SELF III and SELF IV program student loans is set a rate of 5.00%, 6.00% and 6.00%, respectively. Rates for the SELF II program have decreased 2.00% over the past fiscal year, and rates for the SELF III and SELF IV programs have decreased 1.40% over the past fiscal year. Under the SELF IV program, loans have an optional extended repayment period depending upon the aggregate SELF student loan balance. The SELF IV program calculates the interest rate charged to borrowers with the same method as the SELF III program.

- As shown in the statement of cash flows, the financing of operating activities was not offset with cash provided by noncapital financing activities in the current year. Bond redemption activity used additional cash by redeeming \$30 million of debt. In addition, the provision for loan loss increased due to an increase in loans this year. Cash from investing activities decreased this year as investments matured within three months and were reinvested into longer maturity short term investments versus cash and cash equivalents.

### ***Governmental Funds Budgetary Highlights***

Over the course of fiscal years 2008 and 2007, changes were made to the Agency's budget. During 2008, other operating costs increased by \$2 million, loans and advances increased \$10 million, aid to school districts increased \$1.9 million, and other payments to individuals decreased \$3.6 million. During 2007, other payments to individuals increased by \$13.1 million, aid to nongovernmental organizations increased by \$0.8 million and aid to higher education decreased by \$0.6 million.

Even with these adjustments, the actual expenditures were \$17.0 million and \$8.2 million during fiscal years 2008 and 2007, respectively, below the total budgeted expenditures. The most significant positive variance occurred in other operating costs where most current-year payments went to higher education institutions.

### **Cash Management**

Unexpended general appropriated funds are invested pursuant to Minnesota Statutes 11A under the State Board of Investments. 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 2007 by \$1.8 million. As of June 30, 2008, the fair value of the Agency's investments was greater than cost by \$121,970. 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. All of the Agency's investment securities are held in trust in the Agency's name.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2008, the Agency had \$0 invested in equipment. The Agency does not own any land or building capital assets. In fiscal year 2004, the Agency adopted the state of Minnesota's valuation for capital assets to include only equipment purchased for \$30,000 or more unless specific grant or other funding sources require a lower capitalization threshold. More detailed information about the Agency's capital assets is presented in Note 5 to the financial statements.

### Debt

At year-end, the Agency had \$527 million in bonds and notes outstanding — as shown in Table 3.

**Table 3**  
**Outstanding Debt at Year-End**  
**(in millions)**

	2008			2007		
	Governmental Activities	Business- Type Activities	Total Primary Government	Governmental Activities	Business- Type Activities	Total Primary Government
Revenue bonds	\$ -	\$ 527	\$ 527	\$ -	\$ 557	\$ 557

Since 1984, the Agency's revenue bond rating has been AAA, the highest rating possible, in the current year the rating was downgraded to AA as a result of Municipal Bond Insurance Association, Inc.'s (MBIA) downgrade to A2 in the current year.

Other obligations of the Agency include accrued vacation pay and sick leave, which are included in accounts payable and accrued liabilities on the combined statements of net position. More detailed information about the Agency's long-term liabilities is presented in Note 6 to the financial statements.

### Economic Factors and Next Year's Budgets and Rates

The Agency's officials considered many factors when setting the fiscal year 2008 budget, rates, and fees that will be charged for the business-type activities. One of the factors continues to be the current trend within the economy. Student loan borrowing has greatly increased within the past several years. This increase has required the Agency to seek additional funding through the issuance of taxable and tax-exempt (AMT) bonds.

The current SELF II loan program margin rate is set at 2.0%, the highest margin allowed under the SELF II Loan program, to compensate for the additional interest cost and other charges associated with the bonds. In fiscal year 2002, the Agency received approval for the SELF III program that 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 current SELF III margin is 3.0%. The Agency also received approval to establish other rates or utilize a fixed rate when terms can be obtained at a favorable rate to borrowers. The SELF IV loan program margin is also based on the average of the three-month LIBOR rate and is currently set at the same percentage as the SELF III margin.

Effective July 1, 2007, the undergraduate student annual loan limits for grade levels 1, 2, 3, 4, and 5 have a limit of \$7,500.

The Agency believes its current allowance for losses on all loan types is adequate, however the significant increases in college tuitions experienced over the past few years have significantly increased the average amount of loans outstanding for each student as compared to starting salaries upon graduation. If the national economy enters an economic recession, which negatively impacts college graduate entry level employment, the Agency could be required to increase its allowance for loan losses as discussed in Note 3 to the financial statements.

Careful consideration was given to legislative goals and the Agency's mission when adopting the General Fund budget for fiscal year 2009. For the current biennium, the private tuition maximums used in the state grant formula is a maximum of \$9,838 for the first year and \$9,838 for the second year for students enrolled in four-year programs and \$6,114 the first year and \$5,808 the second year for students enrolled in two-year programs. The living and miscellaneous expense allowance is set at \$5,900 each year. Grant awards are based on the lesser of the average tuition and fees charged by the institution for the term, or the maximum established by law.

Due to an anticipated shortfall in state revenue for the upcoming fiscal year, Agency appropriations for fiscal year 2009 have been reduced by approximately \$1.4 million.

The maximum annual award for Post-secondary Child Care Grants is set at \$2,600 for the current biennium. This grant program received an additional \$1.25 million per fiscal year for the current biennium.

In 2007, the state legislature added additional scholarship and grant programs to the Agency's responsibilities:

- The Achieve Scholarship Program awards scholarships to low and middle income high school students who complete a set of courses in high school related to science, math, social studies, and foreign language.
- The Minnesota G.I. Bill Program provides up to \$1,000 per academic term to veterans, and the dependents of deceased and disabled veterans, who served in active duty after September 11, 2001.
- The Agency also began administering the Indian Scholarship program. The scholarship is awarded to any Minnesota resident student who is of one-fourth or more Indian ancestry, who has applied for other existing state and federal scholarship and grant programs, and who has the capabilities to benefit from further education.

The Agency implemented an electronic signature process for the SELF student loans. This process allows students and cosigners to sign their promissory note online, expediting the processing of the student loan.

As shown on the Statement of Net Position, the Agency's cash and investment balance decreased \$49.0 million, the loans receivable balance increased \$42.8 million, and \$30.0 million of bonds were retired in the current year. The Agency did not issue bonds in the current year, but intends to issue \$100 million in new bonds and refinance a portion of the current outstanding Auction Rate Securities (ARS) bonds into Variable Rate Demand Obligation bonds

In February 2008 the Agency's current bonds at auctions began to fail, and continue to fail, as the nation's auction process collapsed. For the outstanding taxable ARS bonds, bond documents limit the interest rate to the lesser of LIBOR plus 1%, 17%, or the 91 day average of the three month T-Bill plus an applicable spread of 1.25%. For the outstanding tax-exempt ARS bonds, bond documents limit the interest rate to the lesser of the Applicable Percentage of the Kenny index or the After-Tax Equivalent Rate (the current applicable

percentage is 175%), 14%, or the three month average of the three month T-Bill plus an Applicable Spread of 1.25%. MBIA is the insurance provider. If MBIA's rating were to fall below A3, and it is currently at A2, then the applicable spread and applicable percentage increase in the calculations. The greatest applicable percentage allowed is 250% and the greatest applicable spread allowed is 2.00%. On June 30, 2008, the average taxable bond interest rate was 3.47% and the average tax-exempt bond interest rate was 2.79%.

### **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

## COMBINED STATEMENTS OF NET POSITION AS OF JUNE 30, 2008 AND 2007

	2008			2007		
	Governmental Activities	Business- Type Activities	Total Primary Government	Governmental Activities	Business- Type Activities	Total Primary Government
<b>CURRENT ASSETS:</b>						
Cash and cash equivalents (Note 4)	\$ 11,074,658	\$ 129,555,672	\$ 140,630,330	\$ 5,981,190	\$ 205,591,245	\$ 211,572,435
Investments (Note 4)		39,176,752	39,176,752		17,694,969	17,694,969
Prepaid expenses		222,683	222,683		232,058	232,058
Receivables — net (Note 3)	1,500,810	5,632,104	7,132,914	1,377,415	6,267,869	7,645,284
Total current assets	12,575,468	174,587,211	187,162,679	7,358,605	229,786,141	237,144,746
<b>NONCURRENT ASSETS:</b>						
Designated cash equivalents (Note 4)		6,938,074	6,938,074		6,519,172	6,519,172
Loans receivable — net (Note 3)		686,671,247	686,671,247		643,850,368	643,850,368
Deferred charges, at cost less accumulated amortization of \$527,811 in 2008 and \$421,092 in 2007		3,107,456	3,107,456		3,378,110	3,378,110
Total assets	12,575,468	871,303,988	883,879,456	7,358,605	883,533,791	890,892,396
<b>CURRENT LIABILITIES:</b>						
Accounts payable and accrued liabilities	3,006,913	1,691,600	4,698,513	4,287,758	2,922,198	7,209,956
Deferred revenue	7,979,720		7,979,720	453,354		453,354
Total current liabilities	10,986,633	1,691,600	12,678,233	4,741,112	2,922,198	7,663,310
<b>COMPENSATED ABSENCES PAYABLE — Due beyond one year</b>						
	373,391	197,030	570,421	356,271	179,120	535,391
<b>EXCESS BOND YIELD PAYABLE</b>						
		1,538,070	1,538,070			
<b>REVENUE BONDS (Note 6)</b>						
		527,000,000	527,000,000		557,000,000	557,000,000
Total liabilities	11,360,024	530,426,700	541,786,724	5,097,383	560,101,318	565,198,701
<b>NET POSITION:</b>						
Restricted for debt service		279,327,344	279,327,344		273,709,155	273,709,155
Trust net assets		61,549,944	61,549,944		49,723,318	49,723,318
Unrestricted	1,215,444		1,215,444	2,261,222		2,261,222
TOTAL NET POSITION	\$ 1,215,444	\$ 340,877,288	\$ 342,092,732	\$ 2,261,222	\$ 323,432,473	\$ 325,693,695

See notes to financial statements.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## COMBINED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008

	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
	Expenses	Primary Government		Primary Government		Total
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business- Type Activities	
<b>PRIMARY GOVERNMENT:</b>						
Governmental activities:						
State appropriations	\$ 188,775,186	\$ -	\$ 188,775,186	\$ -	\$ -	\$ -
Federal appropriations	4,880,867		4,856,912	(23,955)		(23,955)
Registration and licensing fees and other	<u>1,857,185</u>	<u>835,362</u>		<u>(1,021,823)</u>		<u>(1,021,823)</u>
Total governmental activities	195,513,238	835,362	193,632,098	(1,045,778)	-	(1,045,778)
Business-type activities — loan fund	<u>37,317,890</u>	<u>54,762,705</u>			<u>17,444,815</u>	<u>17,444,815</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 232,831,128</u>	<u>\$ 55,598,067</u>	<u>\$ 193,632,098</u>			
<b>CHANGE IN NET POSITION</b>				(1,045,778)	17,444,815	16,399,037
<b>NET POSITION — Beginning of year</b>				<u>2,261,222</u>	<u>323,432,473</u>	<u>325,693,695</u>
<b>NET POSITION — End of year</b>				<u>\$ 1,215,444</u>	<u>\$ 340,877,288</u>	<u>\$ 342,092,732</u>

See notes to financial statements.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## COMBINED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2007

	Expenses	Program Revenues		Net Revenue (Expense) and Changes in Net Position Primary Government		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business- Type Activities	Total
PRIMARY GOVERNMENT:						
Governmental activities:						
State appropriations	\$ 191,755,316	\$ -	\$ 191,749,305	\$ (6,011)	\$ -	\$ (6,011)
Federal appropriations	4,843,228		4,847,315	4,087		4,087
Registration and licensing fees and other	<u>2,405,430</u>	<u>796,494</u>		<u>(1,608,936)</u>		<u>(1,608,936)</u>
Total governmental activities	199,003,974	796,494	196,596,620	(1,610,860)	-	(1,610,860)
Business-type activities — loan fund	<u>35,919,110</u>	<u>58,458,173</u>			<u>22,539,063</u>	<u>22,539,063</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 234,923,084</u>	<u>\$ 59,254,667</u>	<u>\$ 196,596,620</u>			
CHANGE IN NET POSITION				(1,610,860)	22,539,063	20,928,203
NET POSITION — Beginning of year				<u>3,872,082</u>	<u>300,893,410</u>	<u>304,765,492</u>
NET POSITION — End of year				<u>\$ 2,261,222</u>	<u>\$ 323,432,473</u>	<u>\$ 325,693,695</u>

See notes to financial statements.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## BALANCE SHEETS — GOVERNMENTAL FUND TYPES AS OF JUNE 30, 2008 AND 2007

	2008			2007		
	General	Special Revenue	Total	General	Special Revenue	Total
<b>ASSETS</b>						
CASH AND CASH EQUIVALENTS	\$ 9,762,723	\$ 1,311,935	\$ 11,074,658	\$3,635,518	\$2,345,672	\$5,981,190
RECEIVABLES — Net	995,419	505,391	1,500,810	709,404	668,011	1,377,415
TOTAL	<u>\$10,758,142</u>	<u>\$1,817,326</u>	<u>\$12,575,468</u>	<u>\$4,344,922</u>	<u>\$3,013,683</u>	<u>\$7,358,605</u>
<b>LIABILITIES AND FUND BALANCES</b>						
LIABILITIES:						
Accounts payable and accrued liabilities	\$ 2,778,422	\$ 601,882	\$ 3,380,304	\$3,891,568	\$ 752,461	\$4,644,029
Deferred revenue	<u>7,979,720</u>		<u>7,979,720</u>	<u>453,354</u>		<u>453,354</u>
Total liabilities	<u>10,758,142</u>	<u>601,882</u>	<u>11,360,024</u>	<u>4,344,922</u>	<u>752,461</u>	<u>5,097,383</u>
FUND BALANCES —						
Unreserved		<u>1,215,444</u>	<u>1,215,444</u>		<u>2,261,222</u>	<u>2,261,222</u>
Total fund balances		<u>1,215,444</u>	<u>1,215,444</u>	<u>-</u>	<u>2,261,222</u>	<u>2,261,222</u>
TOTAL	<u>\$10,758,142</u>	<u>\$1,817,326</u>	<u>\$12,575,468</u>	<u>\$4,344,922</u>	<u>\$3,013,683</u>	<u>\$7,358,605</u>

See notes to financial statements.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES — GOVERNMENTAL FUND TYPES FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008			2007		
	General	Special Revenue	Total	General	Special Revenue	Total
REVENUES:						
State appropriations	\$ 188,775,186	\$ -	\$ 188,775,186	\$ 191,749,305	\$ -	\$ 191,749,305
Federal appropriations		4,856,912	4,856,912		4,847,315	4,847,315
Registration and licensing fees		208,354	208,354		233,737	233,737
Other revenue		627,008	627,008		562,757	562,757
Total revenues	<u>188,775,186</u>	<u>5,692,274</u>	<u>194,467,460</u>	<u>191,749,305</u>	<u>5,643,809</u>	<u>197,393,114</u>
EXPENDITURES:						
General government	3,770,023	4,235,300	8,005,323	4,633,707	4,819,626	9,453,333
State and other grants	185,005,163		185,005,163	187,121,609		187,121,609
Federal grants		2,502,752	2,502,752		2,429,032	2,429,032
Total expenditures	<u>188,775,186</u>	<u>6,738,052</u>	<u>195,513,238</u>	<u>191,755,316</u>	<u>7,248,658</u>	<u>199,003,974</u>
DEFICIT OF REVENUES OVER EXPENDITURES	-	(1,045,778)	(1,045,778)	(6,011)	(1,604,849)	(1,610,860)
FUND BALANCE — Beginning of year		<u>2,261,222</u>	<u>2,261,222</u>	<u>6,011</u>	<u>3,866,071</u>	<u>3,872,082</u>
FUND BALANCE — End of year	<u>\$ -</u>	<u>\$ 1,215,444</u>	<u>\$ 1,215,444</u>	<u>\$ -</u>	<u>\$ 2,261,222</u>	<u>\$ 2,261,222</u>

See notes to financial statements.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION — PROPRIETARY FUND TYPES FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

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	2008	2007
OPERATING REVENUES:		
Interest on student loans	\$ 46,149,895	\$ 48,056,174
United States government interest allowance (Note 3)		<u>1,904</u>
Total operating revenues	<u>46,149,895</u>	<u>48,058,078</u>
OPERATING EXPENSES:		
General and administrative expenses	8,799,609	9,202,563
Provision for loan losses — net (Note 3)	2,901,736	2,223,197
Amortization	<u>1,808,724</u>	<u>103,307</u>
Total operating expenses	<u>13,510,069</u>	<u>11,529,067</u>
OPERATING INCOME	<u>32,639,826</u>	<u>36,529,011</u>
NONOPERATING REVENUES (EXPENSES):		
Investment income	8,612,810	10,400,095
Interest expense	<u>(23,807,821)</u>	<u>(24,390,043)</u>
Total nonoperating expenses — net	<u>(15,195,011)</u>	<u>(13,989,948)</u>
INCREASE IN NET POSITION	17,444,815	22,539,063
NET POSITION — Beginning of year	<u>323,432,473</u>	<u>300,893,410</u>
NET POSITION — End of year	<u>\$ 340,877,288</u>	<u>\$ 323,432,473</u>

See notes to financial statements.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## STATEMENTS OF CASH FLOWS — PROPRIETARY FUND TYPES FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from loan holders	\$ 142,737,256	\$ 140,748,600
Cash paid for loan origination	(141,335,039)	(135,440,463)
Cash paid to employees and suppliers	<u>(9,516,036)</u>	<u>(9,755,689)</u>
Net cash used in operating activities	<u>(8,113,819)</u>	<u>(4,447,552)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(576,377,503)	(709,533,376)
Proceeds from maturity of investments	554,918,018	697,537,575
Interest received from investments	<u>8,835,725</u>	<u>10,319,475</u>
Net cash used in investing activities	<u>(12,623,760)</u>	<u>(1,676,326)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from bonds		70,000,000
Bond issuance costs		(534,594)
Interest paid on bonds	(24,879,092)	(23,819,427)
Bond redemption	<u>(30,000,000)</u>	<u>                    </u>
Net cash (used in) provided by noncapital financing activities	<u>(54,879,092)</u>	<u>45,645,979</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(75,616,671)	39,522,101
CASH AND CASH EQUIVALENTS — Beginning of year	<u>212,110,417</u>	<u>172,588,316</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 136,493,746</u>	<u>\$ 212,110,417</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating income	\$ 32,639,826	\$ 36,529,011
Adjustments to reconcile operating income to net cash used in operating activities:		
Amortization	106,717	103,307
Defeasement of bond issuance costs	163,935	
Decrease in fair value of investments	(22,295)	(49,130)
Provision for loan loss	9,194,727	8,000,038
Write-off of loans	(8,775,825)	(7,594,400)
Origination of student loans	(141,335,039)	(135,440,463)
Principal payments on student loans	98,095,258	94,664,426
Changes in assets and liabilities:		
Decrease (increase) in interest receivable	825,815	(131,132)
Increase in other receivable and prepaid expenses	(403,589)	(517,708)
Increase in excess bond yield payable	1,538,070	
Decrease in accounts payable and accruals	<u>(141,419)</u>	<u>(11,501)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (8,113,819)</u>	<u>\$ (4,447,552)</u>

See notes to financial statements.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

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### 1. BASIS OF PRESENTATION

**Nature of Organization** — Effective July 1, 1995, the Minnesota Office of Higher Education (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 administering federal financial aid programs that affect eligible students and institutions on a statewide basis. The director, who is appointed by the governor, oversees the performance of the Agency.

**Government-Wide Basis of Presentation** — The government-wide financial statements (i.e., the combined statements of net position and the statements of changes in net position) report information on all of the nonfiduciary activities of the Agency. Governmental activities, which are supported primarily by state appropriations and federal grants, are reported separately from business-type activities, which rely to a significant extent on fees and charges from student loans.

The statements of activities demonstrate 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. 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 and (2) grants and contributions that are restricted to meeting the operational requirements of a particular function.

Separate financial statements are provided for governmental funds and proprietary funds.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Fund Accounting Basis of Presentation** — The financial statements are presented in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”). In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units — an amendment of GASB Statement No. 14*, the Agency’s financial statements are presented discretely in the state of Minnesota’s Comprehensive Annual Financial Report as a component unit. The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into three generic fund types and two broad fund types. A description of the fund types used by the Agency follows.

**Governmental Fund Types** — The focus of governmental fund measurement is on the determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than on net income. The following is a description of the Governmental Funds used by the Agency:

*General Fund* — The general fund is the general operating fund of the Agency. It is used to account for all financial resources except those required to be accounted for in another fund. In addition, the General Fund is used to account for the funds received and disbursed for the state of Minnesota's financial aid programs.

*Special Revenue Funds* — Special revenue funds are used to account for the proceeds of specific revenue sources requiring separate accounting because of legal, regulatory, or grant provisions or administrative action. They include the miscellaneous grant and federal grant funds. The Miscellaneous Grant Fund receives and disburses grant funds received from private sources under private financial aid programs. The Federal Grant Fund receives and disburses federal government grants and reimbursements under the federal financial aid programs. The Federal Grant Fund is administered in accordance with grant agreements between the Agency and the federal agencies.

*Proprietary Fund Types* — The focus of proprietary fund measurement is on the determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The Agency's sole Proprietary Fund is the Loan Capital Fund (LCF) (see Note 3).

## 2. BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

**Basis of Accounting** — The basis of accounting refers to the time at which revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All Governmental Funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to pay current 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 generally recognized under the modified accrual basis of accounting when the related liability is incurred, as under accrual accounting.

Proprietary Funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. All applicable GASB pronouncements have been applied to Proprietary Funds. Additionally, the following pronouncements issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB: Statements and Interpretations of the Financial Accounting Standards Board, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

**Cash and Cash Equivalents** — The Agency considers cash on hand, demand deposits, and highly liquid investments with a maturity at date of purchase of three months or less to be cash equivalents.

**Designated Cash Equivalents** — These amounts represent funds maintained or in transit to the Minnesota Department of Finance and are designated by the Agency to cover loan losses of the LCF.

**Investments** — In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the Agency reports investments at fair value in the combined statements of net position. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value of investments was determined based on quoted market prices as of the reporting date.

**Liabilities** — Governmental Fund types record only short-term liabilities of the funds. Proprietary Fund types record both long- and short-term liabilities of the fund.

**Sick Pay, Severance Pay, and Vacation Pay** — The Agency’s employee vacation and sick leave policies provide for granting of a specific number of days for unused sick leave upon retirement if certain conditions are met. This pay is vested when earned. In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, sick pay that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a liability of the Governmental Fund that will pay it.

The Agency offers to its employees sick pay, which accrues at various rates depending on classification of employment. Employees are not compensated for unused sick leave upon termination; however, unused sick leave enters into the computation of severance pay. Sick pay is charged as an expenditure as accrued.

All employees who have provided 5 to 20 years or more, depending on employment contract terms, of continuous state of Minnesota service 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. Severance pay is charged as an expenditure as earned.

The Agency records vacation pay for applicable employees when the employees’ rights to receive compensation are attributable to services already rendered and it is probable that the Agency will compensate the employees through paid time off or some other means. 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 280 hours, except in the case of death.

**Excess Bond Yield Payable** — The Agency is restricted on the amount of interest that can be earned on nontaxable loans compared to the interest expense. This limit is 2% and in the current year, the yield exceeded this limit and a liability was recorded (see Note 6).

**Revenues and Deferred Revenue** — Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction can be determined, and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. State revenues are recognized in the year designated by Minnesota Statutes. Federal revenues are recognized in the year during which the eligible expenditures are made. If the amounts of state or federal revenues cannot be reasonably estimated, or realization is not reasonably assured, they are not recognized as revenue in the current year.

The Agency reports deferred revenue in its combined statements of net position. Deferred revenues arise when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the Agency before it has a legal claim to them, as when grant monies are received prior to the incurred qualifying expenditures. In

subsequent periods, when both revenue recognition criteria are met or when the Agency has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

**Deferred Charges** — Deferred charges consist of bond issuance costs. Deferred charges are amortized over the life of the bonds using a method that produces substantially the same results as the effective interest method.

**Income Taxes** — The Agency is an agency of the state of Minnesota and is exempt from federal and state income taxes. Accordingly, no provision for income taxes is necessary.

**Use of Estimates** — The presentation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions, such as an allowance for loan losses and vacation and sick accrual, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates. The Agency invests in various securities, including U.S. government securities, corporate debt instruments, and corporate stocks. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the combined statements of net position.

### 3. LOAN CAPITAL FUND

The LCF, the enterprise fund of the Agency, is dedicated to supporting the Agency's student loan activities, both present and future, including and without limitation: the Guaranteed Student Loan Program (GSL), Supplemental Loan programs (SELF II, SELF III, and SELF IV), Graduated Repayment Loan programs (GRIP), and payment of expenses of administering such programs. The Agency is authorized to issue an aggregate amount of outstanding revenue bonds, exclusive of refunded and defeased bonds, of \$850,000,000 at June 30, 2008 and 2007. Bonds issued do not constitute debt of the state of Minnesota.

**Deferred Loan Costs** — In accordance with Financial Accounting Standards Board (FASB) Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases — an amendment of FASB Statements No. 13, 60, and 65 and a rescission of FASB Statement No. 17*, SELF II, SELF III, SELF IV, and GRIP loans are reported at the principal amount outstanding, plus the unamortized amount of costs incurred to originate the loans. The origination costs are amortized over the average life of the loans as a reduction of yield. Interest income is recognized at a constant rate over the life of the loans. For SELF loans, the origination costs are being deferred and the net amount amortized using a method that approximates the effective interest method. Amortization of total deferred loan costs for the years ended June 30, 2008 and 2007, was \$504,215 and \$514,551, respectively, and is included within general and administrative expenses on the proprietary fund type statements of revenues, expenses, and changes in net position.

**Receivables** — Receivables for the Agency’s LCF, including the applicable allowances for uncollectible accounts for the years ended June 30, 2008 and 2007, are as follows:

	<b>2008</b>	<b>2007</b>
Interest	\$ 3,959,676	\$ 5,008,405
Other	<u>1,672,428</u>	<u>1,259,464</u>
Current receivables — net	<u>5,632,104</u>	<u>6,267,869</u>
Loans	693,609,321	650,369,540
Less allowance for uncollectibles	<u>6,938,074</u>	<u>6,519,172</u>
Loans receivables — net	<u>686,671,247</u>	<u>643,850,368</u>
Total receivables — net	<u>\$692,303,351</u>	<u>\$650,118,237</u>

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 15% of the balance is expected to be collected during fiscal year 2009.

**Loans Receivable** — GSL loans were made to students who met certain eligibility requirements under the Federal Higher Education Act of 1965, as amended. Loans bear interest at 7% to 9% annually. The Agency is no longer issuing new GSL loans to students and has sold the remaining outstanding loans to National Education Loan Network, Inc. effective July 27, 2007. The balance at June 30, 2007, was \$61,701.

SELF II loans are no longer being issued by the Agency. The interest rate on the loans is equal to the average of the weekly auction average (investment) interest rate on three-month U.S. Treasury bills, plus a current margin of 2%. The interest rate cannot change more than two percentage points in any four consecutive calendar quarters. The rate was 5% and 7% as of June 30, 2008 and 2007, respectively.

SELF III loans, offered for the first time in May 2002, are made to students who meet the eligibility requirements set forth by the Agency. The interest rate on the loans is equal to the London InterBank Offered Rate (LIBOR), plus a current margin of 2.7%. The interest rate cannot change more than three percentage points in any four consecutive calendar quarters. The rate was 6% and 7.4% as of June 30, 2008 and 2007, respectively.

SELF IV loans, offered for the first time in July 2006, are made to students who meet the eligibility requirements set forth by the Agency. The interest rate on the loans is equal to the LIBOR, plus a current margin of 2.7%. The interest rate cannot change more than three percentage points in any four consecutive calendar quarters. The rate was 6% and 7.4% as of June 30, 2008 and 2007, respectively.

Repayment of interest for SELF loans begins 90 days after disbursement and is due quarterly thereafter. Principal payments begin no later than 36 months after graduation or termination. The balance of SELF II, SELF III, and SELF IV loans at June 30, 2008 and 2007, was \$692,949,194 and \$649,419,313, respectively.

GRIP loans were made to borrowers who met certain income and debt standards and had graduated with an eligible medical degree. The LCF makes the required monthly payments on the borrower’s student loans, and the borrower makes monthly payments to the Agency based on the average income for their

medical profession. The borrower's loan payments increase annually in proportion to the growth of the average income for their profession. The interest rate on GRIP loans is fixed at 8%. The Agency is no longer issuing GRIP loans to new participants. The balance at June 30, 2008 and 2007, was \$660,127 and \$888,526, respectively.

Included in general and administrative expenses are fees paid to a third-party service corporation to administer and service the student loans of \$5,986,996 and \$6,119,883 for the years ended June 30, 2008 and 2007, respectively.

**Cash Reserve on Loans** — GSL loans, and the accrued interest thereon, are fully guaranteed by Great Lakes Higher Education Guaranty Corp. ("Great Lakes"). Great Lakes is a nonprofit agency, which has been designated as the guarantee agency for the state of Minnesota. Loans guaranteed by Great Lakes are reinsured by the U.S. government. Therefore, an allowance for uncollectible loans has not been provided.

An allowance for uncollectible SELF II, SELF III, and SELF IV loans is provided for in the financial statements, and an equal amount of the allowance is maintained as designated cash equivalents in the LCF. For loans with loan periods beginning before July 1, 1989, an amount equal to 6.25% of the original loan balance was collected from the students. For loans with loan periods beginning on or after July 1, 1989, the LCF provides for loan losses sufficient to maintain the total balance in the allowance at a level equal to 1% of the total outstanding loan balance and also designates cash equivalents equal to the balance of the allowance. An allowance for uncollectible GRIP loans equal to 4% of the total outstanding loan balance is maintained as designated cash equivalents in the LCF. The designated cash has been deposited with the Minnesota Department of Finance. Recoveries on defaulted SELF loans are credited to the LCF as revenue in the year received.

The activity for the allowance for losses on all loan types for the years ended June 30, 2008 and 2007, is as follows:

	<b>2008</b>	<b>2007</b>
Beginning balance	\$ 6,519,172	\$ 6,113,534
Provision for loan losses	9,194,727	8,000,038
Write-off of loans	<u>(8,775,825)</u>	<u>(7,594,400)</u>
Ending balance	<u>\$ 6,938,074</u>	<u>\$ 6,519,172</u>

Recovery on defaulted loans of \$6,292,991 and \$5,776,841 for the years ended June 30, 2008 and 2007, respectively, are recognized as a reduction in the provision for loan losses.

**United States Government Allowance** — The U.S. government pays the LCF a special interest allowance quarterly on outstanding guaranteed loans. For loans made prior to October 1, 1980, the allowance is determined from the average yield of 91-day U.S. Treasury bills auctioned during the quarter, less 3.5% on 7% loans, 5.5% on 9% loans, and 4.5% on 8% loans. The allowance for loans made on or after October 1, 1980, is one-half the previous amount, but not less than 2.5% for 7% loans, 0.5% for 9% loans, and 1.5% for 8% loans.

**4. CASH AND CASH EQUIVALENTS, DESIGNATED CASH EQUIVALENTS, AND INVESTMENTS**

**Deposits** — As of June 30, 2008 and 2007, the carrying amounts of LCF’s deposits were \$95,661 and \$42,944, respectively, and the bank balances were \$10,616,249 and \$42,944, respectively. The difference of \$10,520,588 as of June 30, 2008, between the carrying amount and book balance relates to the purchase of an investment prior to June 30, 2008, that was not recorded by the bank until July 2009. All of the deposits are insured, collateralized, registered, or held by the Agency’s trustee in the Agency’s name.

**Investments** — Investments are made in accordance with the bond resolutions and various Minnesota Statutes.

Cash and cash equivalents, investments, and designated cash equivalents as of June 30, 2008 and 2007, consist of the following:

<b>Investment Type</b>	<b>Weighted-Average Maturity (Years)</b>	<b>2008 Fair Value</b>	<b>2007 Fair Value</b>
Noninterest-bearing cash		\$ 11,074,658	\$ 5,981,191
Interest-bearing cash	0.30	80,086,379	95,611,091
Commercial paper	0.08	63,986,574	105,838,351
Municipal funds	0.08	25,062,508	21,836,771
State treasurer’s investment pool	0.31	6,535,037	6,519,172
		<u>\$ 186,745,156</u>	<u>\$ 235,786,576</u>
Portfolio weighted average	0.19		
Cash and cash equivalents		\$ 140,630,330	\$ 211,572,435
Investments		39,176,752	17,694,969
Designated cash equivalents		<u>6,938,074</u>	<u>6,519,172</u>
Total		<u>\$ 186,745,156</u>	<u>\$ 235,786,576</u>

**Interest Rate Risk** — The Agency’s investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk** — State law limits investments in commercial paper, government debt securities, agency securities, repurchase agreements, and certificates of deposits with ratings from nationally recognized statistical rating organizations. The Agency’s investment policy requires commercial paper to be rated both A1 and P1 and the remaining fair market value of the portfolio is held in mutual funds and the state treasurers’ investment pool and is rated AAA by S&P and Aaa by Moody’s.

**Concentration of Credit Risk** — The Agency’s investment policy does not allow for more than 70% of investment securities to be held at more than one bank or investment institution. In addition, the policy further limits banker’s acceptances to 30% of the portfolio and 10% to any one corporation, certificates of deposits to no more than 30% of the portfolio and 6% to any one bank, repurchase agreements, and reverse repurchase agreements to 10% of the portfolio each. At June 30, 2008, New Center Asset Trust

Commercial Paper, accounted for 5.92% of the Agency's portfolio. At June 30, 2007, Rhineland Funding Commercial Paper, accounted for 4.2% of the Agency's portfolio.

**Custodial Risk-Deposits** — The Agency's investment policy limits the use of banks and brokerage firms to those that have net capital excess of \$100,000,000 and must be members of the National Association of Securities Dealers, Inc. and covered by Securities Investor Protection Corporation insurance. Any deposits made by the Agency at a bank or brokerage firm over the \$100,000 Federal Deposit Insurance Corporation insurance limit have pledged collateral to cover the excess.

## 5. CAPITAL ASSETS

There were no additions or disposals during 2008. Capital assets activity for the year ended June 30, 2007, was as follows:

	<b>Primary Government</b>			<b>Ending Balance</b>
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	
Governmental activities:				
Equipment	\$ 133,110	\$ -	\$ (94,143)	\$ 38,967
Less accumulated depreciation for equipment	<u>(127,099)</u>	<u>(6,011)</u>	<u>94,143</u>	<u>(38,967)</u>
Government activities capital assets — net	<u>6,011</u>	<u>(6,011)</u>	<u>-</u>	<u>-</u>
Business-type activities:				
Equipment	46,769		(46,769)	-
Less accumulated depreciation for equipment	<u>(46,769)</u>	<u>          </u>	<u>46,769</u>	<u>-</u>
Business-type activities capital assets — net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets — net	<u>\$ 6,011</u>	<u>\$ (6,011)</u>	<u>\$ -</u>	<u>\$ -</u>

**6. SUPPLEMENTAL STUDENT LOAN PROGRAM REVENUE BONDS**

The revenue bonds payable activity within the LCF for the year ended June 30, 2008, was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Supplemental Student Loan Program Variable Rate Revenue Bonds (taxable), Series 1999A, due November 2034	\$ 61,200,000	\$	\$	\$ 61,200,000
Supplemental Student Loan Program Variable Rate Revenue Bonds (taxable), Series 2002A, due January 2037	68,200,000			68,200,000
Supplemental Student Loan Program Variable Rate Revenue Bonds, Series 2002B, due January 2037	27,100,000			27,100,000
Supplemental Student Loan Program Variable Rate Revenue Bonds (taxable), Series 2003A, due May 2038	64,700,000			64,700,000
Supplemental Student Loan Program Variable Rate Revenue Bonds, Series 2003B, due May 2038	10,300,000			10,300,000
Supplemental Student Loan Program Variable Rate Revenue Bonds (taxable), Series 2004A, due May 2039	67,000,000			67,000,000
Supplemental Student Loan Program Variable Rate Revenue Bonds, Series 2004B, due May 2039	88,500,000			88,500,000
Supplemental Student Loan Program Variable Rate Revenue Bonds (taxable), Series 2005A, due May 2040	30,000,000		30,000,000	
Supplemental Student Loan Program Variable Rate Revenue Bonds, Series 2005B, due May 2040	70,000,000			70,000,000
Supplemental Student Loan Program Variable Rate Revenue Bonds, Series 2006, due May 2041	<u>70,000,000</u>			<u>70,000,000</u>
	<u>\$557,000,000</u>	<u>\$</u>	<u>\$30,000,000</u>	<u>\$527,000,000</u>

The issued bonds of the LCF do not constitute debt of the state of Minnesota.

The revenue bonds payable activity within the LCF for the year ended June 30, 2007, was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Supplemental Student Loan Program Variable Rate Revenue Bonds (taxable), Series 1999A, due November 2034	\$ 61,200,000	\$	\$	\$ 61,200,000
Supplemental Student Loan Program Variable Rate Revenue Bonds (taxable), Series 2002A, due January 2037	68,200,000			68,200,000
Supplemental Student Loan Program Variable Rate Revenue Bonds, Series 2002B, due January 2037	27,100,000			27,100,000
Supplemental Student Loan Program Variable Rate Revenue Bonds (taxable), Series 2003A, due May 2038	64,700,000			64,700,000
Supplemental Student Loan Program Variable Rate Revenue Bonds, Series 2003B, due May 2038	10,300,000			10,300,000
Supplemental Student Loan Program Variable Rate Revenue Bonds (taxable), Series 2004A, due May 2039	67,000,000			67,000,000
Supplemental Student Loan Program Variable Rate Revenue Bonds, Series 2004B, due May 2039	88,500,000			88,500,000
Supplemental Student Loan Program Variable Rate Revenue Bonds (taxable), Series 2005A, due May 2040	30,000,000			30,000,000
Supplemental Student Loan Program Variable Rate Revenue Bonds, Series 2005B, due May 2040	70,000,000			70,000,000
Supplemental Student Loan Program Variable Rate Revenue Bonds, Series 2006, due May 2041	<u>                    </u>	<u>70,000,000</u>	<u>                    </u>	<u>70,000,000</u>
	<u>\$487,000,000</u>	<u>\$70,000,000</u>	<u>\$                    </u>	<u>\$557,000,000</u>

The issued bonds of the LCF do not constitute debt of the state of Minnesota.

Annual debt service requirements to maturity for revenue bonds as of June 30, 2008, are as follows:

Years Ending June 30	Business-Type Activities		
	Principal	Interest	Total
2009		\$ 16,482,001	\$ 16,482,001
2010		16,482,001	16,482,001
2011		16,482,001	16,482,001
2012		16,482,001	16,482,001
2013		16,482,001	16,482,001
2014–2018		82,410,005	82,410,005
2019–2023	72,673,334	79,560,267	152,233,601
2024–2028	142,200,000	62,986,962	205,186,962
2029–2033	152,833,335	39,070,792	191,904,127
2034–2038	130,159,998	15,710,604	145,870,602
2039–2041	29,133,333	1,352,266	30,485,599
	<u>\$ 527,000,000</u>	<u>\$ 363,500,901</u>	<u>\$ 890,500,901</u>

The interest rate on the taxable Series 1999A bonds, taxable Series 2002A bonds, tax-exempt Series 2002B bonds, taxable Series 2003A bonds, tax-exempt Series 2003B bonds, taxable Series 2004A bonds, tax-exempt Series 2004B bonds, taxable Series 2005A bonds, tax-exempt Series 2005B bonds, and tax-exempt Series 2006 bonds are reset every 7, 7, 7, 28, 35, 28, 35, 28, 35, and 35 days, respectively, based on a determination by the auction agent through auction proceedings. The rate cannot exceed the lesser of the applicable LIBOR rate, plus 1% or 17%. The interest rate as of June 30, 2008 and 2007, for the Series 1999A bonds was 3.48% and 5.32%, respectively. The interest rate as of June 30, 2008 and 2007, for the Series 2002A and 2002B bonds was 3.48% and 5.05% and 2.62% and 3.90%, respectively. The interest rate as of June 30, 2008 and 2007, for the Series 2003A and 2003B bonds was 3.45% and 5.24% and 2.62% and 3.90%, respectively. The interest rate as of June 30, 2008 and 2007, for the Series 2004A and 2004B bonds was 3.48% and 5.23% and 2.85% and 3.82%, respectively. The interest rate as of June 30, 2007, for the Series 2005A bonds was 5.28%. The interest rate as of June 30, 2008 and 2007, for the Series 2005B bonds was 2.89% and 3.96%, respectively. The interest rate as of June 30, 2008 and 2007, for the Series 2006 bonds was 2.70% and 3.80%, respectively.

For the Series 1999A, 2002A taxable bonds, 2002B tax-exempt bonds, 2003A taxable bonds, 2003B tax-exempt bonds, 2004A taxable bonds, 2004B tax-exempt bonds, 2005A taxable bonds, 2005B tax-exempt bonds, and 2006 tax-exempt bonds, the Agency maintains liquidity insurance coverage in the amount of \$11,140,000. The fees to maintain this coverage are calculated as 0.12% for Series 1999A, 2002A, 2002B, and 2006 and 0.14% for Series 2003A and 2003B and 0.125% for Series 2004A, 2004B, 2005A, and 2005B of the outstanding principal amount per year. General and administrative expenses include liquidity insurance fees of \$686,800 and \$664,493 for the years ended June 30, 2008 and 2007, respectively.

In fiscal year 2007, the Agency issued variable rate tax-exempt 2006 bonds for \$70,000,000. In fiscal year 2008, the Agency retired \$30,000,000 of Series 2005A taxable bonds.

All bond series are to be repaid solely from the money and investments held by the trustees. All the bond series are secured by the revenues derived by the Agency from the student loans financed by the proceeds of the bonds. For all bonds, an early repayment provision exists. For the tax-exempt bonds, the Agency must give written notice to exercise its option to redeem bonds at least 45 days prior to the

desired redemption date. The paying agent would notify the Agency in writing of bonds selected for redemption and the principal amount to be redeemed. The Agency would then be required to make satisfactory provision for deposit in the Redemption Fund for the principal and interest accrued. For the taxable bond issue, the Agency must give written notice to the bond trustee and credit provider not less than 20 days but no greater than 65 days prior to redemption.

**Arbitrage Regulations** — The \$265.9 million 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 must be remitted to the U.S. government not more than five years following the issue date of the bonds. As of June 30, 2008, the Agency accrued a \$1.5 million liability resulting from the excess yield on interest rates. As of June 30, 2007, amounts rebatable relating to such excess earnings were not significant as determined by Public Financial Management, the Agency’s financial advisors.

## 7. RESTRICTED NET POSITION — BUSINESS-TYPE ACTIVITIES

Certain net positions are classified in the combined statements 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, 2008, the business-type activities restricted net position are restricted for debt service.

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

June 30, 2008	\$ 360,000,000
June 30, 2009	380,000,000
June 30, 2010	400,000,000
June 30, 2011	425,000,000
June 30, 2012	450,000,000
June 30, 2013	475,000,000
June 30, 2014	500,000,000
June 30, 2015	525,000,000
June 30, 2016	550,000,000
June 30, 2017 and thereafter	575,000,000

As the Agency’s net position is fully less than the required minimum per the bond covenant, the net position is restricted for loan capital fund use as required in the bond financial covenants.

## 8. PENSION PLAN

Employees of the Agency meeting certain age and length of service requirements participate in the State Employees’ Retirement Fund (SERF) of the Minnesota State Retirement System (MSRS). The SERF requires contributions by both employers and employees. The Agency’s contribution to the SERF for the years ended June 30, 2008 and 2007, was \$169,862 and \$147,817, respectively. The total covered payroll of the Agency for the years ended June 30, 2008 and 2007, was \$3,680,341 and \$3,219,977, respectively.

The SERF is a statewide plan that covers employees of the state of Minnesota, school districts, counties, cities, and other political subdivisions. The SERF is a multiple-employer, cost-sharing defined benefit plan administered by MSRS. Benefits are based on average salary and are fully vested after three years of credited service. Participants are required to contribute 4.25% of their total compensation with a

matching contribution of 4.25%. As of July 1, 2008 the required contribution and matching contribution increased to 4.50%. The contribution rates for the SERF are not actuarially determined, but rather are determined by the state statute.

The pension benefit obligation is a standardized measure of the actuarial present value of credited projected benefits. The measure is intended to help users assess the SERF's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems.

The unfunded vested benefit liabilities of the SERF are not actuarially segregated by employer unit. As of June 30, 2007 (the most recent information available), the Agency's contributions and employees represented less than 1% of all participating entity contributions and active plan participants in SERF.

The SERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing or calling the plan at:

Minnesota State Retirement System  
Affinity Plus Building, Suite 300  
175 West Lafayette Frontage Road  
Saint Paul, MN 55107-1425  
(651) 296-2761

As of June 30, 2007, the SERF had a projected benefit obligation of \$8,904,517,000, unfunded liabilities of \$722,788,000, and net position available for benefits, at fair value, of \$9,627,305,000. As of June 30, 2006, the SERF had a projected benefit obligation of \$8,819,161,000, unfunded liabilities of \$332,405,000, and net position available for benefits, at fair value, of \$8,486,756,000. Ten-year historical trend information showing the SERF's progress in accumulating sufficient assets to pay benefits when due is presented in the SERF's June 30, 2007 Comprehensive Annual Financial Report.

## 9. CONTINGENCIES

**General Litigation** — The Agency is involved in litigation arising in the normal course of business. It is management's opinion that these matters will be resolved without material adverse effect on the Agency's financial statements.

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**SUPPLEMENTAL SCHEDULES**

# MINNESOTA OFFICE OF HIGHER EDUCATION

## BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
Resources (inflows):				
Governmental:				
State appropriations	\$ 190,088,000	\$ 196,578,000	\$ 191,755,316	\$ (4,822,684)
Federal grants	4,760,677	5,984,148	4,684,998	(1,299,150)
Student loan repayments	10,000	10,000	11,120	1,120
Interest on student loans	10,000	10,000	1,755	(8,245)
Private postsecondary registration	105,000	105,000	90,620	(14,380)
Professional career schools registration	150,000	150,000	117,734	(32,266)
All other reimbursements	297,516	413,911	388,473	25,438
Total governmental resources	<u>195,421,193</u>	<u>203,251,059</u>	<u>197,050,016</u>	<u>(6,150,167)</u>
Business-type activities:				
Student loan repayments	14,344,000	14,344,000	15,300,860	956,860
Interest on short-term investments	4,011,000	4,011,000	3,230,017	(780,983)
All other reimbursements	<u>135,005,000</u>	<u>135,005,000</u>	<u>123,680,000</u>	<u>(11,325,000)</u>
Total business-type activities resources	<u>153,360,000</u>	<u>153,360,000</u>	<u>142,210,877</u>	<u>(11,149,123)</u>
Total resources	<u>\$ 348,781,193</u>	<u>\$ 356,611,059</u>	<u>\$ 339,260,893</u>	<u>\$ (17,299,290)</u>
Expenditures (outflows):				
Governmental:				
Salaries and benefits	\$ 3,395,600	\$ 3,636,684	\$ 3,605,350	\$ 31,334
Space rental, maintenance, and utility	398,000	327,588	299,863	27,725
Repairs, alterations, and maintenance	27,000	23,300	5,059	18,241
Printing and advertising	273,000	326,350	202,745	123,605
Professional and technical outside vendors	690,400	1,041,842	710,925	330,917
Computer and systems services	431,000	369,863	280,818	89,045
Communications	101,500	113,676	67,434	46,242
Travel and subsistence — in state	56,500	73,348	49,342	24,006
Travel and subsistence — out state	48,000	55,379	47,357	8,022
Supplies	255,000	332,783	274,284	58,499
Equipment	83,000	139,253	103,936	35,317
Employee development	64,000	98,327	88,677	9,650
Other operating costs	335,000	484,893	336,739	148,154
Agency indirect costs	155,000	260,000	219,581	40,419
Statewide indirect costs	44,400	45,885	41,424	4,461
Attorney general costs	15,000	27,806	17,806	10,000
State agency reimbursement	-	-	(640)	640
Professional and technical agency provided	-	38,990	19,482	19,508
Other payments to individuals	181,238,268	177,650,907	173,107,649	4,543,258
Aid to school districts	-	1,900,000	456,619	1,443,381
Aid to other governments	-	250,000	200,337	49,663
Aid to higher education institutions	13,195,192	13,552,906	13,015,370	537,536
Aid to nongovernmental organizations	1,223,000	1,794,410	1,581,065	213,345
Loans and advances	<u>20,000</u>	<u>20,000</u>	<u>12,875</u>	<u>7,125</u>
Total governmental expenditures	<u>202,048,860</u>	<u>202,564,190</u>	<u>194,744,098</u>	<u>7,820,092</u>

(Continued)

# MINNESOTA OFFICE OF HIGHER EDUCATION

## BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive Negative
	Original	Final		
Expenditures (outflows) (continued):				
Business-type activities:				
Salaries and benefits	\$ 1,348,000	\$ 1,225,900	\$ 1,165,991	\$ 59,909
Space rental, maintenance, and utility	152,000	151,100	111,705	39,395
Repairs, alterations, and maintenance	25,000	24,000	3,125	20,875
Printing and advertising	87,000	87,000	30,077	56,923
Professional and technical outside vendors	365,000	484,000	352,402	131,598
Computer and systems services	34,000	39,000	25,751	13,249
Communications	62,000	62,000	53,508	8,492
Travel and subsistence — in state	16,000	16,000	6,054	9,946
Travel and subsistence — out state	12,000	12,000	9,090	2,910
Supplies	40,000	40,000	19,265	20,735
Equipment	40,000	40,000	19,973	20,027
Employee development	19,000	19,000	6,716	12,284
Other operating costs	17,555,000	19,540,132	15,182,154	4,357,978
Statewide indirect costs	50,000	50,000	44,706	5,294
Attorney general costs	25,000	25,000	9,509	15,491
State agency reimbursement	-	-	(4,796)	4,796
Professional and technical agency provided	20,000	20,000	9,774	10,226
Loans and advances	135,010,000	145,010,000	140,576,037	4,433,963
Total business-type activities expenditures	154,860,000	166,845,132	157,621,041	9,224,091
Total expenditures	\$356,908,860	\$369,409,322	\$352,365,139	\$17,044,183

(Concluded)

The previous schedule is supplementary information and was used by the Agency for budgetary purposes based on a cash flow budget. All of the differences between the budgetary schedules and the statement of activities is due to full accrual basis of accounting.

Budgeted amounts are as originally adopted, or as amended by the chief financial officer. The fiscal 2008 revenue budget was amended during the year to increase budgeted revenues by \$7.8 million to reflect additional known revenues. The expenditure budget was amended to increase budgeted expenditures by \$12.5 million due to increases in other operating costs and loans and advances offset by decreases in other payments to individuals.

All other amendments were not material in relation to the original appropriations. Total fund expenditures are the legal level of budgetary control, and expenditures in excess of the adopted budget require approval of the legislature for state governmental activities. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at line-item levels.

The actual revenues and expenditures for the year have been compared to the Agency's budget for the fiscal year where applicable. Variances in parentheses ( ) indicate instances where actual revenues were less than budgeted, or expenditures were greater than budgeted.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
Resources (inflows):				
Governmental:				
State appropriations	\$ 177,181,000	\$ 192,210,660	\$ 190,652,422	\$ (1,558,238)
Federal grants	5,034,124	6,204,124	4,655,453	(1,548,671)
Student loan repayments	15,000	15,000	11,171	(3,829)
Interest on student loans	10,000	10,000	9,122	(878)
Private postsecondary registration	89,000	89,000	71,521	(17,479)
Professional career schools registration	125,000	125,000	162,216	37,216
All other reimbursements	<u>248,225</u>	<u>536,141</u>	<u>547,629</u>	<u>11,488</u>
Total governmental resources	<u>182,702,349</u>	<u>199,189,925</u>	<u>196,109,534</u>	<u>(3,080,391)</u>
Business-type activities:				
Student loan repayments	12,346,000	21,346,000	13,543,291	(7,802,709)
Interest on short-term investments	2,310,000	2,310,000	2,941,391	631,391
All other reimbursements	<u>143,372,000</u>	<u>143,372,000</u>	<u>143,570,140</u>	<u>198,140</u>
Total business-type activities resources	<u>158,028,000</u>	<u>167,028,000</u>	<u>160,054,822</u>	<u>(6,973,178)</u>
Total resources	<u>\$ 340,730,349</u>	<u>\$ 366,217,925</u>	<u>\$ 356,164,356</u>	<u>\$ (10,053,569)</u>
Expenditures (outflows):				
Governmental:				
Salaries and benefits	\$ 3,472,084	\$ 3,184,722	\$ 3,101,355	\$ 83,367
Space rental, maintenance, and utility	345,000	280,067	268,282	11,785
Repairs, alterations, and maintenance	29,000	25,061	16,061	9,000
Printing and advertising	361,000	378,086	207,946	170,140
Professional and technical outside vendors	871,446	1,251,620	1,058,024	193,596
Computer and systems services	210,000	241,960	239,435	2,525
Communications	104,700	101,097	63,028	38,069
Travel and subsistence — in state	62,000	57,727	40,293	17,434
Travel and subsistence — out state	64,500	62,201	43,971	18,230
Supplies	194,853	341,557	291,748	49,809
Equipment	93,000	143,392	126,298	17,094
Employee development	60,000	75,521	67,138	8,383
Other operating costs	328,850	377,450	(245,996)	623,446
Agency indirect costs	150,000	265,542	230,375	35,167
Statewide indirect costs	46,732	40,672	29,551	11,121
Attorney general costs	13,000	16,111	6,111	10,000
Professional and technical agency provided	27,000	394,124	366,845	27,279
Other payments to individuals	165,845,653	178,965,338	178,793,882	171,456
Aid to higher education institutions	12,734,766	12,182,596	11,562,065	620,531
Aid to nongovernmental organizations	1,095,766	1,930,102	1,595,522	334,580
Loans and advances	<u>25,000</u>	<u>25,000</u>	<u>20,294</u>	<u>4,706</u>
Total governmental expenditures	<u>186,134,350</u>	<u>200,339,946</u>	<u>197,882,228</u>	<u>2,457,718</u>

(Continued)

# MINNESOTA OFFICE OF HIGHER EDUCATION

## BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
Expenditures (outflows) (continued):				
Business-type activities:				
Salaries and benefits	\$ 1,406,000	\$ 1,266,855	\$ 1,159,526	\$ 107,329
Space rental, maintenance, and utility	172,000	140,400	123,191	17,209
Repairs, alterations, and maintenance	25,000	26,000	3,140	22,860
Printing and advertising	87,000	71,006	35,383	35,623
Professional and technical outside vendors	365,000	454,000	320,957	133,043
Computer and systems services	26,000	36,910	29,124	7,786
Communications	66,000	75,051	56,438	18,613
Travel and subsistence — in state	16,000	16,000	5,512	10,488
Travel and subsistence — out state	12,000	15,314	3,304	12,010
Supplies	42,000	33,210	25,000	8,210
Equipment	40,000	40,000	29,938	10,062
Employee development	18,000	18,969	6,580	12,389
Other operating costs	13,043,000	18,871,816	14,277,830	4,593,986
Statewide indirect costs	50,000	50,000	28,705	21,295
Attorney general costs	-	22,469	22,469	-
State agency reimbursement	-	-	(436)	436
Professional and technical agency provided	-	30,000	25,083	4,917
Loans and advances	135,020,000	136,020,000	135,314,334	705,666
Total business-type activities expenditures	<u>150,388,000</u>	<u>157,188,000</u>	<u>151,466,078</u>	<u>5,721,922</u>
Total expenditures	<u>\$ 336,522,350</u>	<u>\$ 357,527,946</u>	<u>\$ 349,348,306</u>	<u>\$ 8,179,640</u>

(Concluded)

The previous schedule was supplementary information and was used by the Agency for budgetary purposes based on a cash flow budget. All of the differences between the budgetary schedules and the statement of activities is due to full accrual basis of accounting.

Budgeted amounts are as originally adopted, or as amended by the chief financial officer. The fiscal 2007 revenue budget was amended during the year to increase budgeted revenues by \$25.5 million to reflect additional known revenues. The expenditure budget was amended to increase budgeted expenditures by \$21 million for other operating costs and other payments to individuals.

All other amendments were not material in relation to the original appropriations. Total fund expenditures are the legal level of budgetary control, and expenditures in excess of the adopted budget require approval of the legislature for state governmental activities. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at line-item levels.

The actual revenues and expenditures for the year have been compared to the Agency's budget for the fiscal year where applicable. Variances in parentheses ( ) indicate instances where actual revenues were less than budgeted, or expenditures were greater than budgeted.