Minnesota Office of Higher Education

Financial Statements and Supplemental Schedules as of and for the Years Ended June 30, 2006 and 2005, 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 Minnesota Office of Higher Education (the "Agency"), a component unit of the state of Minnesota, as of and for the years ended June 30, 2006 and 2005, 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 respective 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 Agency as of June 30, 2006 and 2005, 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.

The required supplementary information, such as management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 34 through 37, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Agency's management. 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 such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 18, 2006, 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.

Deloitte + Touche LLP

September 18, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the financial performance of Minnesota Office of Higher Education (the "Agency") provides an overview of the Agency's financial activities for the fiscal year ended June 30, 2006.

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 of 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 $120 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, and the Public Safety Officers' Survivors Benefit 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 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 administers, 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.

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 being implemented as 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 assets increased $19.2 million or 6.7% from fiscal year 2005 to 2006, mainly as a result of student loan financing activities.

- Loan receivables in the Loan Capital Fund grew by $42.8 million or 7.6% during fiscal year 2006.

- The Loan Capital Fund issued 33,051 and 36,162 of new loans is fiscal years 2006 and 2005, respectively, with an average loan amount of $3,748 and $3,848, respectively.

- The Agency received $172 million for fiscal year 2006 appropriations in addition to the $0.5 million carryforward from previous fiscal year. Approximately $14.7 million will be carried forward to fiscal year 2007.

Using This Annual Report

This annual report consists of a series of financial statements. The Combined Statements of Net Assets and the Combined Statement of Activities (on pages 12 and 13) 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 14. 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. The remaining statements provide financial information about activities for which the Agency acts solely as a trustee or agent for the benefit of those outside of the government (on pages 32 and 33).

Reporting the Agency as a Whole

The Statements of Net Assets and the Statement of Activities

Our analysis of the Agency as a whole begins on page 7. The Combined Statements of Net Assets 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 year 2006 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 assets and changes in them. You can think of the Agency's net assets—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 assets are 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 Statements of Net Assets 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 14 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 Assets 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 assets increased by $19.2 million or 6.7%. The analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Agency's governmental and business-type activities.

Table 1
Net Assets

	2006			2005		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Assets:						
Current and other assets	$21,810,315	$787,488,790	$809,299,105	$55,733,256	$671,094,035	$726,827,291
Capital assets—net	6,011		6,011	20,080		20,080
Deferred charges		2,946,823	2,946,823		2,448,659	2,448,659
Total assets	21,816,326	790,435,613	812,251,939	55,753,336	673,542,694	729,296,030
Liabilities:						
Other liabilities	17,944,244	2,542,203	20,486,447	54,822,306	1,939,190	56,761,496
Revenue bonds		487,000,000	487,000,000		387,000,000	387,000,000
Total liabilities	17,944,244	489,542,203	507,486,447	54,822,306	388,939,190	443,761,496
Net assets:						
Invested in capital assets	6,011		6,011	20,080		20,080
Restricted for debt service		300,893,410	300,893,410		284,603,504	284,603,504
Unrestricted	3,866,071		3,866,071	910,950		910,950
Total net assets	$ 3,872,082	$300,893,410	$304,765,492	$ 931,030	$284,603,504	$285,534,534

Net assets of the Agency's governmental activities increased by $2,941,052 during the current fiscal year versus a $425,276 increase during the prior fiscal year. State appropriations are retained for the portion of severance liability and retired employees insurance benefits liability that the Agency has at fiscal year-end. Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements—increased from $910,950 at June 30, 2005 to $3,866,071 at the end of this year.

Net receivables have increased by approximately $45.4 million to $611.1 million or 8.0%. This increase reflects the impact of tuition increases in higher education of over 10% offset by a slight decrease in loan volume.

The excess of revenues over expenses of the Agency's business-type activities was $16.3 million in fiscal year 2006, which was 52.7% of expenses. In the previous year the excess of revenues over expenses was 37.6% of expenses.

Table 2
Changes in Net Assets

	2006			2005		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
REVENUES—						
Program revenues:						
Charges for services	$ 553,319	$47,184,752	$ 47,738,071	$ 569,395	$27,218,085	$ 27,787,480
State appropriations	157,754,773		157,754,773	155,869,859		155,869,859
Federal appropriations	3,961,695		3,961,695	4,238,921		4,238,921
Total revenues	162,269,787	47,184,752	209,454,539	160,678,175	27,218,085	187,896,260
PROGRAM EXPENSES:						
General government	5,327,038	9,456,494	14,783,532	5,884,829	8,916,519	14,801,348
State and other grants	152,071,883		152,071,883	152,473,226		152,473,226
Federal grants	1,929,814		1,929,814	1,894,844		1,894,844
Provision for loan losses—net		3,039,544	3,039,544		1,723,787	1,723,787
Amortization		93,125	93,125		344,615	344,615
Interest expense		18,305,683	18,305,683		8,795,868	8,795,868
Total expenses	159,328,735	30,894,846	190,223,581	160,252,899	19,780,789	180,033,688
INCREASE IN UNRESTRICTED NET ASSETS	$ 2,941,052	$16,289,906	$ 19,230,958	$ 425,276	$ 7,437,296	$ 7,862,572

The Agency's total revenues increased $21.6 million (or 11.5%). Net business program revenue was consistent with the historical trend.

Governmental Activities

Revenues for the Agency's governmental activities (see Table 2) increased by $1.6 million (or 1.0%), while total expenses decreased by $0.9 million (or 0.6%). The majority of the governmental activities revenue increase was due to state appropriations for student grants. The expenditures decrease was due to the MNLink implementation completed in fiscal year 2005 (therefore, lower computer system costs) and lower grant expenditures to higher education institutions, although this was partially offset by greater expenditures for individual student state grants. Overall, this lowered expenditures and increased deferred revenue for fiscal year 2006.

- State grant expenditures increased by $0.3 million to $124.3 million. $136.4 million was appropriated by legislature. Beginning in fiscal year 2004, if there was an insufficient appropriation, the awards were to be reduced by adding a surcharge to the family responsibility and a percentage to the student's responsibility. This was offset by a decrease in other grants awarded to the Agency.

Business-Type Activities

Revenues of the Agency's business-type activities (see Table 2) increased by 73.4% ($47,184,752 in 2006 compared to $27,218,085 in 2005) and expenses increased by 56.2%. In fiscal year 2006, there was a higher return for student loan interest and investment interest. The current interest rate charged to SELF II and SELF III program student loans is set a rate of 6.50% and 7.90%, respectively. Until June 30, 2006, all new loans were disbursed under the SELF III program. The SELF III program bases the interest rate charged to borrowers on the average of the three-month London Interbank Offered Rates (“LIBOR”) during the calendar quarter immediately proceeding the interest rate adjustment date. Rates for both the SELF II and SELF III programs have increased for eight consecutive quarters. Beginning July 1, 2006 new loans will be disbursed under the SELF IV program. The SELF IV program has an optional extended repayment period depending upon the aggregate SELF student loan balance. The SELF IV program will calculate 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 partially offset with cash provided by noncapital financing activities. Bond issuance activity provided additional cash by issuing additional debt. Cash from investing activities increased this year as investments matured within three months and were reinvested into cash and cash equivalents versus short term investments.

Governmental Funds Budgetary Highlights

Over the course of the year, changes were made to the Office of Higher Education budget. Aid to higher education institutions decreased by $3.3 million. Aid to nongovernmental organizations budget increased by $0.5 million.

Even with these adjustments, the actual charges to appropriations (expenditures) were $15.0 million below the total available for appropriation. The most significant positive variance occurred in other payments to individuals 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 up from 2005 by $4.6 million. As of June 30, 2006, the fair value of the Agency’s investments was greater than cost by $77,000. 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 2006, the Agency had $6,011 invested in equipment (shown net of depreciation in Table 3 below). 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.

Table 3
Capital Assets at Year-End
(Net of Depreciation)

	2006			2005		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Equipment	$ 6,011	$ -	$ 6,011	$ 20,080	$ -	$ 20,080

Debt

At year-end, the Agency had $487 million in bonds and notes outstanding—as shown in Table 4.

Table 4
Outstanding Debt at Year-End
(in millions)

	2006			2005		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenue bonds	$ -	$ 487	$ 487	$ -	$ 387	$ 387

Since 1984, the Agency's revenue bond rating has been AAA, the highest rating possible.

Other obligations of the Agency include accrued vacation pay and sick leave, which are included in accounts payable and accrued liabilities on the balance sheet. 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 2007 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 3.1%. 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. It is anticipated that the SELF IV margin will be set at the same percentage as the SELF III margin.

Effective July 1, 2006 through June 30, 2007, the undergraduate student annual loan limits for grade levels 1 and 2 have increased $1,500 to a limit of $6,000, and the undergraduate student annual loan limits for grade levels 3, 4, and 5 have increased $1,500 to a limit of $7,500.

The Agency believes its current allowance for losses on all loan types are 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. 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 2007. For the current biennium, the private tuition maximums used in the state grant formula is a maximum of $9,208 for the first year and $9,438 for the second for students enrolled in four-year programs and $6,567 the first year and $6,436 the second year for students enrolled in two-year programs. The living and miscellaneous expense allowance is set at $5,350 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. The deadline for students applying for state grants was extended from 14 days to 30 days after the start of each term. Students who must leave college because they are called up for active military service will be granted an additional semester of financial aid eligibility and are given refunds for courses they could not complete as a result of their deployment. Students who withdraw from college due to a military service-related medical condition now have the option to receive a refund or complete their coursework at a later date.

The Legislature granted the Agency permission to reinvest projected surplus dollars back into the State Grant program in the second year of the biennium. If a surplus is projected, the agency will incrementally increase the Living and Miscellaneous Expense figure used in the calculation of state grants, thus increasing state grant awards for all eligible students.

The maximum annual award for Post-secondary Child Care Grants is set at $2,300 for the current biennium.

The Agency intends to issue a new bond in November 2006. Current outstanding bonds rely on the Loan Capital Fund for the payment of various bond fees, student loan servicing costs, and administrative expenses.

Contacting the Agency's Financial Management

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Agency's finances and to show the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Agency at (651) 642-0519.

MINNESOTA OFFICE OF HIGHER EDUCATION

COMBINED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2006 AND 2005

	2006			2005		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
CURRENT ASSETS:						
Cash and cash equivalents (Note 4)	$19,681,143	$166,474,782	$186,155,925	$54,484,051	$ 80,641,796	$135,125,847
Investments (Note 4)		5,676,495	5,676,495		20,011,768	20,011,768
Prepaid expenses		204,058	204,058		201,806	201,806
Receivables—net	2,129,172	5,539,952	7,669,124	1,249,205	3,866,543	5,115,748
Total current assets	21,810,315	177,895,287	199,705,602	55,733,256	104,721,913	160,455,169
NONCURRENT ASSETS:						
Designated cash equivalents (Note 4		6,113,534	6,113,534		5,692,861	5,692,861
Loans receivable (Note 3)		603,479,969	603,479,969		560,679,261	560,679,261
Capital assets—net (Note 5)	6,011		6,011	20,080		20,080
Deferred charges, at cost less accumulated amortization of $317,785 in 2006 and $224,660 in 2005		2,946,823	2,946,823		2,448,659	2,448,659
Total assets	21,816,326	790,435,613	812,251,939	55,753,336	673,542,694	729,296,030
CURRENT LIABILITIES:						
Accounts payable and accrued liabilities	2,942,777	2,369,904	5,312,681	54,554,540	1,816,587	56,371,127
Deferred revenue	14,672,677		14,672,677	58,332		58,332
Total current liabilities	17,615,454	2,369,904	19,985,358	54,612,872	1,816,587	56,429,459
Compensated absences payable—due beyond one year	328,790	172,299	501,089	209,434	122,603	332,037
Revenue bonds (Note 6)		487,000,000	487,000,000		387,000,000	387,000,000
Total liabilities	17,944,244	489,542,203	507,486,447	54,822,306	388,939,190	443,761,496
NET ASSETS:						
Invested in capital assets	6,011		6,011	20,080		20,080
Restricted for debt service		300,893,410	300,893,410		284,603,504	284,603,504
Unrestricted	3,866,071		3,866,071	910,950		910,950
TOTAL NET ASSETS	$ 3,872,082	$300,893,410	$304,765,492	$ 931,030	$284,603,504	$285,534,534

See notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

COMBINED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

		Program Revenues		Net Revenue (Expense) and Changes in Net Assets — Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT:						
Governmental activities:						
State appropriations	$154,768,842	$ -	$157,754,773	$ 2,985,931	$ -	$ 2,985,931
Federal appropriations	3,962,778		3,961,695	(1,083)		(1,083)
Registration and licensing fees and other	597,115	553,319		(43,796)		(43,796)
Total governmental activities	159,328,735	553,319	161,716,468	2,941,052		2,941,052
Business-type activities—loan fund	30,894,846	47,184,752			16,289,906	16,289,906
TOTAL PRIMARY GOVERNMENT	$190,223,581	$47,738,071	$161,716,468			
CHANGE IN NET ASSETS				2,941,052	16,289,906	19,230,958
NET ASSETS—Beginning of year				931,030	284,603,504	285,534,534
NET ASSETS—End of year				$ 3,872,082	$300,893,410	$304,765,492

COMBINED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

		Program Revenues		Net Revenue (Expense) and Changes in Net Assets — Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT:						
Governmental activities:						
State appropriations	$155,883,929	$ -	$155,869,859	$ (14,070)	$ -	$ (14,070)
Federal appropriations	4,144,244		4,238,921	94,677		94,677
Registration and licensing fees and other	224,726	569,395		344,669		344,669
Total governmental activities	160,252,899	569,395	160,108,780	425,276		425,276
Business-type activities—loan fund	19,780,789	27,218,085			7,437,296	7,437,296
TOTAL PRIMARY GOVERNMENT	$180,033,688	$27,787,480	$160,108,780			
CHANGE IN NET ASSETS				425,276	7,437,296	7,862,572
NET ASSETS—Beginning of year				505,754	277,166,208	277,671,962
NET ASSETS—End of year				$ 931,030	$284,603,504	$285,534,534

See notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

BALANCE SHEETS
GOVERNMENTAL FUND TYPES
AS OF JUNE 30, 2006 AND 2005

	2006			2005		
	General	Special Revenue	Total	General	Special Revenue	Total
ASSETS						
Cash and cash equivalents	$15,770,122	$3,911,021	$19,681,143	$53,533,007	$ 951,044	$54,484,051
Receivables—net	933,660	1,195,512	2,129,172	546,962	702,243	1,249,205
Capital assets—net	6,011		6,011	20,080		20,080
TOTAL	$16,709,793	$5,106,533	$21,816,326	$54,100,049	$1,653,287	$55,753,336
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Accounts payable and accrued liabilities	$ 2,031,105	$1,240,462	$ 3,271,567	$54,021,637	$ 742,337	$54,763,974
Deferred revenue	14,672,677		14,672,677	58,332		58,332
Total liabilities	16,703,782	1,240,462	17,944,244	54,079,969	742,337	54,822,306
FUND BALANCES:						
Invested in capital assets	6,011		6,011	20,080		20,080
Unreserved		3,866,071	3,866,071		910,950	910,950
Total fund balances	6,011	3,866,071	3,872,082	20,080	910,950	931,030
TOTAL	$16,709,793	$5,106,533	$21,816,326	$54,100,049	$1,653,287	$55,753,336

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, 2006 AND 2005

	2006			2005		
	General	Special Revenue	Total	General	Special Revenue	Total
REVENUES:						
State appropriations	$154,754,773	$3,000,000	$157,754,773	$155,869,859	$ -	$155,869,859
Federal appropriations		3,961,695	3,961,695		4,238,921	4,238,921
Registration and licensing fees		216,335	216,335		185,683	185,683
Other revenue		336,984	336,984		383,712	383,712
Total revenues	154,754,773	7,515,014	162,269,787	155,869,859	4,808,316	160,678,175
EXPENDITURES:						
General government	2,696,959	2,630,079	5,327,038	3,410,703	2,474,126	5,884,829
State and other grants	152,071,883		152,071,883	152,473,226		152,473,226
Federal grants		1,929,814	1,929,814		1,894,844	1,894,844
Total expenditures	154,768,842	4,559,893	159,328,735	155,883,929	4,368,970	160,252,899
(DEFICIT) EXCESS OF REVENUES OVER EXPENDITURES	(14,069)	2,955,121	2,941,052	(14,070)	439,346	425,276
FUND BALANCE— Beginning of year	20,080	910,950	931,030	34,150	471,604	505,754
FUND BALANCE— End of year	$ 6,011	$3,866,071	$ 3,872,082	$ 20,080	$ 910,950	$ 931,030

See notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUND TYPES
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
OPERATING REVENUES:		
Interest on student loans	$ 40,120,308	$ 24,756,259
United States government interest allowance (Note 3)	3,039	4,072
Total operating revenues	40,123,347	24,760,331
OPERATING EXPENSES:		
General and administrative expenses	9,456,494	8,916,519
Provision for loan losses—net (Note 3)	3,039,544	1,723,787
Amortization	93,125	344,615
Total operating expenses	12,589,163	10,984,921
OPERATING INCOME	27,534,184	13,775,410
NONOPERATING REVENUES (EXPENSES):		
Investment income	7,061,405	2,457,754
Interest expense	(18,305,683)	(8,795,868)
Total nonoperating expenses—net	(11,244,278)	(6,338,114)
INCREASE IN NET ASSETS	16,289,906	7,437,296
NET ASSETS—Beginning of year	284,603,504	277,166,208
NET ASSETS—End of year	$ 300,893,410	$ 284,603,504

See notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

STATEMENTS OF CASH FLOWS
PROPRIETARY FUND TYPES
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from loan holders	$ 120,579,583	$ 91,608,761
Cash paid for loan origination	(127,211,960)	(140,866,935)
Cash paid to employees and suppliers	(9,952,687)	(8,916,521)
Net cash used in operating activities	(16,585,064)	(58,174,695)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(682,449,500)	(355,715,470)
Proceeds from maturity of investments	696,723,310	345,324,390
Interest received from investments	6,888,539	2,457,754
Net cash provided by (used in) investing activities	21,162,349	(7,933,326)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from bonds	100,000,000	155,500,000
Payments on bonds		(68,500,000)
Bond issuance costs	(591,289)	(775,568)
Interest paid on bonds	(17,732,337)	(8,026,569)
Net cash provided by noncapital financing activities	81,676,374	78,197,863
NET INCREASE IN CASH AND CASH EQUIVALENTS	86,253,659	12,089,842
CASH AND CASH EQUIVALENTS—Beginning of year	86,334,657	74,244,815
CASH AND CASH EQUIVALENTS—End of year	$ 172,588,316	$ 86,334,657
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:		
Increase in operating income	$ 27,534,184	$ 13,775,410
Adjustments to reconcile operating income to net cash used in operating activities:		
Amortization	93,125	344,615
Increase in fair value of investments	61,463	(118,347)
Provision for loan loss	7,722,428	6,199,294
Write-off of loans	(7,301,755)	(5,499,400)
Origination of student loans	(127,211,960)	(140,866,935)
Principal payments on student loans	83,990,579	69,663,172
Changes in assets and liabilities:		
Increase in interest receivable	(1,368,342)	(1,360,641)
Increase in other receivable and prepaid expenses	(134,453)	(403,786)
Increase in accounts payable and accruals	29,667	91,923
NET CASH USED IN OPERATING ACTIVITIES	$ (16,585,064)	$ (58,174,695)

See notes to financial statements.

1. BASIS OF PRESENTATION

Nature of Organization—Effective July 1, 1995, the Minnesota Office of Higher Education (formerly known as Minnesota Higher Education Services Office) (the "Agency") was created in accordance with laws of Minnesota for 1995 as a component unit of the state of Minnesota. The Agency is responsible for the administration of state of Minnesota financial aid programs to students enrolled in eligible postsecondary institutions. In addition, the Agency is also responsible for administrating federal financial aid programs that affect eligible students and institutions on a statewide basis. The 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 statements of net assets and the statements of changes in net assets) 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, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary 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*, 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 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 assets, 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).

Agency Funds—Agency Funds are used to account for funds that are held in a custodial capacity. A contract has been established with the Online Computer Library Center ("OCLC") to provide a system for computer-shared cataloging and/or other library services to MINITEX library participants. The MINITEX Library Program is designed to facilitate improved coordination and sharing of library resources. The Agency receives funds from the University of Minnesota, the state of North Dakota, and the state of South Dakota for the payment of OCLC charges. The MINITEX Library Program ended during fiscal year 2005.

Information relating to this agency fund is presented in the required supplementary information on pages 32 and 33, and is not presented in the financial statements.

Reclassifications—Certain reclassifications to record the compensated absences payable-due beyond one year in the combined statements of net assets and the registration and licensing fees and other expenses in the combined statements of activities have been made to the 2005 financial statements to conform to the classifications used in 2006. The reclassifications had no net effect on the net assets or statements of activities as previously reported.

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 with the Minnesota Department of Finance and are designated by the Agency to cover loan losses of the LCF.

Investments—In accordance with GASB 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 assets. 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 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.

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 assets. 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 that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and 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 assets.

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 I, SELF II, and SELF III"), 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, 2006 and 2005. Bonds issued do not constitute debt of the state of Minnesota.

Deferred Loan Costs—In accordance with Statement of Financial Accounting Standards 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, 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, 2006 and 2005, was $512,094 and $490,609, respectively.

Receivables—Receivables for the Agency's LCF, including the applicable allowances for uncollectible accounts for the years ended June 30, 2006 and 2005, are as follows:

	2006	2005
Interest	$ 4,770,197	$ 3,228,989
Other	769,755	637,554
Current receivables	5,539,952	3,866,543
Loans	609,593,503	566,372,122
Less allowance for uncollectibles	6,113,534	5,692,861
Loans receivables—net	603,479,969	560,679,261
Total receivables—net	$ 609,019,921	$ 564,545,804

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 14% of the balance is expected to be collected during fiscal year 2007.

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. Interest on student loans is paid quarterly by the U.S. government prior to the commencement of repayment by the student or during a repayment deferral period. Repayment of principal and interest by students commences within six months to one year following termination of at least a half-time academic workload. The balance at June 30, 2006 and 2005, was $152,926 and $318,067, respectively.

SELF I loans are no longer being issued by the Agency. The only activity is loan repayments which were repaid in full in the current year. The rate was 4.25% as of June 30, 2006 and 2005.

SELF II loans are made to students who meet the eligibility requirements set forth 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 Treasury bills plus a current margin of 2.0%. The interest rate cannot change more than two percentage points in any four consecutive calendar quarters. The rate was 6.5% and 4.5% as of June 30, 2006 and 2005, respectively.

SELF III loans, offered for the first time in May of 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 3.1%. The interest rate cannot change more than three percentage points in any four consecutive calendar quarters. The rate was 7.9% and 6.1% as of June 30, 2006 and 2005, 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 I, SELF II, and SELF III loans at June 30, 2006 and 2005, was $608,248,837 and $564,493,937, 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, 2006 and 2005, was $1,191,741 and $1,560,118, respectively.

Included in general and administrative expenses are fees paid to a third-party service corporation to administer and service the student loans of $6,026,203 and $5,595,069 for the years ended June 30, 2006 and 2005, 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 I, SELF II, and SELF III 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, 2006 and 2005, is as follows:

	2006	2005
Beginning balance	$ 5,692,861	$ 4,992,967
Provision for loan losses	7,722,428	6,199,294
Write-off of loans	(7,301,755)	(5,499,400)
Ending balance	$ 6,113,534	$ 5,692,861

Recovery on defaulted loans of $4,682,884 and $4,475,507 for the years ended June 30, 2006 and 2005, respectively, are recognized as a reduction in the provision for loan losses and are not reflected in the above table.

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, 2006 and 2005, the carrying amounts of LCF's deposits were $162,799 and $676,023, respectively, and the bank balances were $162,799 and $676,023, respectively. 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, 2006 and 2005, consist of the following:

Investment Type	Weighted-Average Maturity (Years)	2006 Fair Value	2005 Fair Value
Noninterest-bearing cash		$ 19,681,143	$ 54,484,051
Interest-bearing cash		88,466,228	51,480,405
Commercial paper	0.06	61,355,754	23,601,897
Municipal funds	0.07	22,329,295	25,571,262
State treasurer's investment pool	0.24	6,113,534	5,692,861
		$197,945,954	$160,830,476
Portfolio weighted average	0.14		
Cash and cash equivalents		$186,155,925	$135,125,847
Investments		5,676,495	20,011,768
Designated cash equivalents		6,113,534	5,692,861
Total		$197,945,954	$160,830,476

Interest Rate Risk—The Agency does not have a formal investment policy that limits 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 bankers 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, 2006, one single issuer, Rhineland Funding Commercial Paper, accounted for 5.6% 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. ("NASD") and covered by Securities Investor Protection Corporation ("SIPC") insurance. Any deposits made by the Agency at a bank or brokerage firm over the $100,000 Federal Deposit Insurance Corporation ("FDIC") insurance limit have pledged collateral to cover the excess.

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, was as follows:

	Primary Government			
	Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities:				
Equipment	$ 133,110	$ -	$ -	$ 133,110
Less accumulated depreciation for equipment	(113,030)	(14,069)		(127,099)
Government activities capital assets—net	20,080	(14,069)	-	6,011
Business-type activities:				
Equipment	46,769			46,769
Less accumulated depreciation for equipment	(46,769)			(46,769)
Business-type activities capital assets—net	-	-	-	-
Total capital assets—net	$ 20,080	$ (14,069)	$ -	$ 6,011

Capital asset activity for the year ended June 30, 2005, was as follows:

	Primary Government			
	Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities:				
Equipment	$ 190,110	$ -	$ (57,000)	$ 133,110
Less accumulated depreciation for equipment	(155,960)	(14,070)	57,000	(113,030)
Government activities capital assets—net	34,150	(14,070)	-	20,080
Business-type activities:				
Equipment	59,406		(12,637)	46,769
Less accumulated depreciation for equipment	(59,406)		12,637	(46,769)
Business-type activities capital assets—net	-	-	-	-
Total capital assets—net	$ 34,150	$ (14,070)	$ -	$ 20,080

6. SUPPLEMENTAL STUDENT LOAN PROGRAM REVENUE BONDS

The revenue bonds payable activity within the LCF for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
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
	$ 387,000,000	$ 100,000,000	$ -	$ 487,000,000

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, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Supplemental Student Loan Program Variable Rate Revenue Bonds, Series 1992A, 1992B, and 1992C, due July 2022	$ 30,000,000	$ -	$ 30,000,000	$ -
Supplemental Student Loan Program Variable Rate Revenue Bonds, Series 1993, due December 2020	20,000,000		20,000,000	-
Supplemental Student Loan Program Variable Rate Revenue Bonds, Series 1994B, due November 2024	18,500,000		18,500,000	-
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
	$ 300,000,000	$ 155,500,000	$ 68,500,000	$ 387,000,000

The Series 1992A, 1992B, 1992C, and 1993 bonds are special, limited obligations of the Agency. The issued bonds of the LCF do not constitute debt of the state of Minnesota.

Annual debt service requirements to maturity for revenue bonds are as follows:

Years Ending June 30	Business-Type Activities Principal	Interest	Total
2007	$ -	$ 22,247,798	$ 22,247,798
2008		22,247,798	22,247,798
2009		22,247,798	22,247,798
2010		22,247,798	22,247,798
2011		22,247,798	22,247,798
2012–2016		111,238,990	111,238,990
2017–2021	28,160,000	111,027,279	139,187,279
2022–2026	127,580,001	94,741,149	222,321,150
2027–2031	139,499,999	65,984,662	205,484,661
2032-2036	131,340,002	37,819,960	169,159,962
2037–2041	60,419,998	8,156,460	68,576,458
	$487,000,000	$540,207,490	$ 1,027,207,490

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, and tax-exempt Series 2005B reset every 7, 7, 7, 28, 35, 28, 35, 28, 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, 2006 and 2005, for the Series 1999A bonds was 5.19% and 3.30%, respectively. The interest rate as of June 30, 2006 and 2005, for the Series 2002A and 2002B bonds was 5.15% and 3.17% and 3.62% and 2.75%, respectively. The interest rate as of June 30, 2006 and 2005, for the Series 2003A and 2003B bonds was 5.00% and 3.20% and 3.62% and 2.75%, respectively. The interest rate as of June 30, 2006 and 2005, for the Series 2004A and 2004B bonds was 5.00% and 3.19% and 3.97% and 2.85%, respectively. The interest rate as of June 30, 2006, for the Series 2005A and 2005B bonds was 5.35% and 3.58%, 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, and 2005B tax-exempt bonds, the Agency maintains liquidity insurance coverage in the amount of $9,740,000. The fees to maintain this coverage are calculated as 0.12% for Series 1999A, 2002A, and 2002B 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 $605,440 and $487,175 for the years ended June 30, 2006 and 2005, respectively.

In fiscal year 2006, the Agency issued variable rate taxable 2005A bonds for $30,000,000 and tax-exempt 2005B bonds for $70,000,000.

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 $195.9 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, 2006, amounts rebatable relating to such excess earnings were not significant as determined by Public Financial Management, the Agency's bond advisors.

7. RESTRICTED NET ASSETS—BUSINESS-TYPE ACTIVITIES

Certain net assets are classified in the statement of net assets as restricted because their use is limited. The business-type activities report restricted net assets 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, 2006, the business-type activities restricted net assets are restricted for debt service.

The Agency's business-type activities net assets (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, 2006	$ 325,000,000
June 30, 2007	340,000,000
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 and thereafter	525,000,000

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, 2006 and 2005, was $140,684 and $141,804, respectively. The total covered payroll of the Agency for the years ended June 30, 2006 and 2005, was $3,029,223 and $3,285,597, 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 4.0% of their total compensation with a matching the Agency contribution of 4.0%. 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, 2005 (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, Minnesota 55107-1425
(651) 296-2761

As of June 30, 2005, the SERF had a projected benefit obligation of $8,455,336,000, unfunded liabilities of $373,600,000, and net assets available for benefits, at fair value, of $8,081,736,000. As of June 30, 2004, the SERF had a projected benefit obligation of $7,878,363,000, assets in excess of pension benefit obligation of $6,621,000, and net assets available for benefits, at fair value, of $7,884,984,000. 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, 2005, 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.

10. SUBSEQUENT EVENT

Beginning July 1, 2006, the Agency will no longer be issuing new SELF III loans. All new loans will be disbursed under the new SELF IV program. The SELF IV program has an optional extended repayment period depending upon the aggregate SELF student loan balance. The SELF IV program will calculate the interest rate charged to borrowers with the same method as the SELF III program.

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SUPPLEMENTAL SCHEDULES AS OF AND FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

MINNESOTA OFFICE OF HIGHER EDUCATION

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES—MINITEX AGENCY FUND AS OF JUNE 30, 2006

ASSETS—Receivables—total assets	$ -
LIABILITIES—Accounts payable—total liabilities	$ -

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES—MINITEX AGENCY FUND AS OF JUNE 30, 2006

	Beginning Balance	Increase	Decrease	Ending Balance
ASSETS—Accounts receivable	$ 573,192	$ -	$ 573,192	$ -
LIABILITIES—Accounts payable and accrued liabilities	$ 573,192	$ -	$ 573,192	$ -

MINNESOTA OFFICE OF HIGHER EDUCATION

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES—MINITEX AGENCY FUND AS OF JUNE 30, 2005

ASSETS—Receivables—total assets	$ 573,192
LIABILITIES—Accounts payable—total liabilities	$ 573,192

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES—MINITEX AGENCY FUND AS OF JUNE 30, 2005

	Beginning Balance	Increase	Decrease	Ending Balance
ASSETS—Accounts receivable	$ 413,677	$ 4,279,454	$ 4,119,939	$ 573,192
LIABILITIES—Accounts payable and accrued liabilities	$ 413,677	$ 4,279,454	$ 4,119,939	$ 573,192

MINNESOTA OFFICE OF HIGHER EDUCATION

BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Resources (inflows):				
Governmental:				
State appropriations	$ 172,129,000	$ 171,625,904	$ 155,053,294	$ (16,572,610)
Federal grants	2,934,160	5,951,491	3,962,885	(1,988,606)
Student loan repayments		35,000	12,242	(22,758)
Interest on student loans	50,000	65,000	10,201	(54,799)
Private postsecondary registration	89,000	89,000	80,550	(8,450)
Professional career schools registration	133,000	133,000	135,785	2,785
All other reimbursements	336,907	383,800	336,984	(46,816)
Total governmental resources	175,672,067	178,283,195	159,591,941	(18,691,254)
Business-type activities:				
Student loan repayments	9,900,000	11,906,000	12,021,340	115,340
Interest on short-term investments	1,275,000	1,270,000	2,103,378	833,378
All other reimbursements	153,450,000	153,458,000	166,783,286	13,325,286
Total business-type resources	164,625,000	166,634,000	180,908,004	14,274,004
Total resources	$ 340,297,067	$ 344,917,195	$ 340,499,945	$ (4,417,250)
Expenditures (outflows):				
Governmental:				
Salaries and benefits	$ 2,210,562	$ 2,937,616	$ 2,910,830	$ 26,786
Space rental, maintenance, and utility	293,000	272,446	267,690	4,756
Repairs, alterations, and maintenance	20,000	15,761	14,999	762
Printing and advertising	178,000	312,671	201,616	111,055
Professional and technical outside vendors	334,000	754,465	710,004	44,461
Computer and systems services	128,000	192,296	185,878	6,418
Communications	114,000	79,081	52,468	26,613
Travel and subsistence—in state	38,000	71,514	49,405	22,109
Travel and subsistence—out state	110,000	62,167	58,285	3,882
Supplies	83,000	118,047	100,930	17,117
Equipment	77,000	49,230	49,299	(69)
Employee development	42,000	32,983	51,720	(18,737)
Other operating costs	678,000	386,802	337,984	48,818
Agency indirect costs	87,907	165,949	116,530	49,419
Statewide indirect costs	79,000	29,194	26,534	2,660
Attorney general costs	15,000	4,000	3,777	223
State agency reimbursement			(524)	524
Professional and technical agency provided		57,762	37,858	19,904
Other payments to individuals	157,758,461	156,987,944	143,021,958	13,965,986
Aid to higher education institutions	12,982,000	9,730,826	9,522,149	208,677
Aid to nongovernmental organizations	1,294,921	1,836,764	1,432,102	404,662
Loans and advances	50,000	50,000	22,443	27,557
Total governmental expenditures	176,572,851	174,147,518	159,173,935	14,973,583

(Continued)

MINNESOTA OFFICE OF HIGHER EDUCATION

BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures (outflows) (continued):				
Business-type activities:				
Salaries and benefits	$ 1,398,000	$ 1,268,649	$ 1,180,692	$ 87,957
Space rental, maintenance, and utility	185,000	151,647	140,653	10,994
Repairs, alterations, and maintenance	11,000	34,000	19,853	14,147
Printing and advertising	47,000	112,000	84,473	27,527
Professional and technical outside vendors	120,000	450,000	266,188	183,812
Computer and systems services	26,000	26,000	12,711	13,289
Communications	66,000	65,484	56,660	8,824
Travel and subsistence—in state	16,000	16,000	6,375	9,625
Travel and subsistence—out state	14,000	14,000	5,108	8,892
Supplies	42,000	40,004	19,718	20,286
Equipment	40,000	40,000	18,571	21,429
Employee development	18,000	18,000	3,161	14,839
Other operating costs	12,022,000	14,605,215	13,925,026	680,189
Statewide indirect costs	50,000	50,000	30,456	19,544
Attorney general costs		4,000	4,369	(369)
State agency reimbursement			(105)	105
Professional and technical agency provided		4,000	4,000	-
Loans and advances	150,035,000	150,035,000	127,193,169	22,841,831
Total business-type expenditures	164,090,000	166,933,999	142,971,078	23,962,921
Total expenditures	$ 340,662,851	$ 341,081,517	$ 302,145,013	$ 38,936,504

(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 financial services director. The fiscal 2006 revenue budget was amended during the year to increase budgeted revenues by $4.6 million to reflect additional known revenues. The expenditure budget was amended to decrease budgeted expenditures by $0.4 million for student loan originations and student loan servicing costs.

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, 2005

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (inflows):				
Governmental:				
State appropriations	$ 175,002,000	$ 207,089,046	$ 155,366,943	$ (51,722,103)
Federal grants	4,657,867	5,119,817	3,667,326	(1,452,491)
Student loan repayments	40,000	40,000	27,549	(12,451)
Interest on student loans	30,000	30,000	14,672	(15,328)
Private postsecondary registration	72,500	72,500	73,788	1,288
Professional career schools registration	133,000	133,000	111,895	(21,105)
All other reimbursements	87,500	347,900	353,258	5,358
Total governmental resources	180,022,867	212,832,263	159,615,431	(53,216,832)
Business-type activities:				
Student loan repayments	10,563,000	10,563,000	9,990,873	(572,127)
Interest on short-term investments	577,000	578,000	646,491	68,491
All other reimbursements	128,500,000	128,500,000	156,776,930	28,276,930
Total business-type resources	139,640,000	139,641,000	167,414,294	27,773,294
Total resources	$ 319,662,867	$ 352,473,263	$ 327,029,725	$ (25,443,538)
Expenditures (outflows):				
Governmental:				
Salaries and benefits	$ 3,029,008	$ 3,129,734	$ 3,029,626	$ 100,108
Space rental, maintenance, and utility	328,000	344,538	278,459	66,079
Repairs, alterations, and maintenance	25,000	98,913	40,644	58,269
Printing and advertising	177,000	272,714	47,459	225,255
Professional and technical outside vendors	410,000	487,000	415,966	71,034
Computer and systems services	73,000	896,428	761,337	135,091
Communications	120,000	116,860	73,094	43,766
Travel and subsistence—in state	98,000	90,100	77,782	12,318
Travel and subsistence—out state	6,000	20,500	14,297	6,203
Supplies	104,000	228,708	183,735	44,973
Equipment	108,000	102,272	58,898	43,374
Employee development	65,000	57,400	41,119	16,281
Other operating costs	178,000	262,573	(76,234)	338,807
Agency indirect costs	85,000	135,945	112,652	23,293
Statewide indirect costs	70,000	69,489	39,655	29,834
Attorney general costs	15,000	11,000	8,820	2,180
Professional and technical agency provided	300,000	366,589	191,525	175,064
Other payments to individuals	163,921,871	158,900,933	142,520,318	16,380,615
Aid to higher education institutions	5,810,653	6,700,435	10,948,143	(4,247,708)
Aid to nongovernmental organizations	5,029,335	5,935,560	800,506	5,135,054
Loans and advances	70,000	70,000	42,221	27,779
Total governmental expenditures	180,022,867	178,297,691	159,610,022	18,687,669

(Continued)

MINNESOTA OFFICE OF HIGHER EDUCATION

BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures (outflows) (continued):				
Business-type activities:				
Salaries and benefits	$ 1,366,000	$ 1,371,700	$ 1,231,462	$ 140,238
Space rental, maintenance, and utility	191,000	199,300	183,998	15,302
Repairs, alterations, and maintenance	11,000	39,300	9,507	29,793
Printing and advertising	47,000	41,200	33,933	7,267
Professional and technical outside vendors	119,000	385,300	294,691	90,609
Computer and systems services	26,000	30,000	11,760	18,240
Communications	66,000	65,000	46,782	18,218
Travel and subsistence—in state	16,000	16,000	7,691	8,309
Travel and subsistence—out state	3,000	8,200	3,137	5,063
Supplies	42,000	48,800	33,954	14,846
Equipment	40,000	40,000	30,084	9,916
Employee development	18,000	15,400	5,936	9,464
Other operating costs	12,827,000	12,970,100	11,743,909	1,226,191
Statewide indirect costs	50,000	50,000	43,571	6,429
Attorney general costs		10,000	13,332	(3,332)
State agency reimbursement			(459)	459
Professional and technical agency provided		15,700	16,971	(1,271)
Loans and advances	124,040,000	138,040,000	135,583,247	2,456,753
Total business-type expenditures	138,862,000	153,346,000	149,293,506	4,052,494
Total expenditures	$ 318,884,867	$ 331,643,691	$ 308,903,528	$ 22,740,163

(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 financial services director. The fiscal 2005 revenue budget was amended during the year to increase budgeted revenues by $32.9 million to reflect additional known revenues. The expenditure budget was amended to increase budgeted expenditures by $0.3 million for student loan originations and student loan servicing costs.

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.