Minnesota Office of Higher Education

Financial Statements and Supplemental Schedules as of and for the Years Ended June 30, 2007 and 2006, 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, 2007 and 2006, 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, 2007 and 2006, 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 12 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 24, 2007, 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 24, 2007

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 years ended June 30, 2007 and 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 $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, 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.

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 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 position increased $20.9 million or 6.9% from fiscal year 2006 to 2007, and increased $19.2 million or 6.7% from fiscal year 2005 to 2006. The increase during both years is mainly a result of student loan financing activities.

- Loan receivables in the Loan Capital Fund grew by $40.4 million or 6.7% during fiscal year 2007 and grew by $42.8 million or 7.6% during fiscal year 2006.

- The Loan Capital Fund issued 30,577 and 33,051 of new loans is fiscal years 2007 and 2006, respectively, with an average loan amount of $4,425 and $3,848, respectively.

- The Agency received $177.2 million for fiscal year 2007 appropriations in addition to the $15.0 million carryforward from previous fiscal year. Approximately $0.5 million will be carried forward to fiscal year 2008. The Agency received $172 million for fiscal year 2006 appropriations in addition to a $0.5 million carryforward from the previous year. Approximately $15.0 million was carried forward to fiscal year 2007.

- 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, 2007 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 2007 and 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 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 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 $20.9 million or 6.9%. The analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Agency's governmental and business-type activities.

Table 1
Net Position

	2007			2006		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Assets:						
Current and other assets	$ 7,358,605	$ 880,155,681	$ 887,514,286	$21,810,315	$ 787,488,790	$ 809,299,105
Capital assets—net				6,011		6,011
Deferred charges		3,378,110	3,378,110		2,946,823	2,946,823
Total assets	7,358,605	883,533,791	890,892,396	21,816,326	790,435,613	812,251,939
Liabilities:						
Other liabilities	5,097,383	3,101,318	8,198,701	17,944,244	2,542,203	20,486,447
Revenue bonds		557,000,000	557,000,000		487,000,000	487,000,000
Total liabilities	5,097,383	560,101,318	565,198,701	17,944,244	489,542,203	507,486,447
Net position:						
Invested in capital assets				6,011		6,011
Restricted for debt service		323,432,473	323,432,473		300,893,410	300,893,410
Unrestricted	2,261,222		2,261,222	3,866,071		3,866,071
Total net position	$ 2,261,222	$ 323,432,473	$ 325,693,695	$ 3,872,082	$ 300,893,410	$ 304,765,492

Net position of the Agency's governmental activities decreased by $1,610,860 during the current fiscal year versus a $2,941,052 increase 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 is designated for expenditures 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 $3,866,071 at June 30, 2006 to $2,261,222 at the end of this year.

Net receivables have increased by approximately $40.3 million to $651.5 million or 6.6%. This increase reflects the impact of tuition increases in higher education and an increase in loan limits. This increase is partially offset by a 7.5% decrease in loan volume.

The excess of revenues over expenses of the Agency's business-type activities was $22.5 million in fiscal year 2007, which was 62.7% of expenses. In the previous year the excess of revenues over expenses was 52.7% of expenses.

Table 2
Changes in Net Position

	2007			2006		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
REVENUES—						
Program revenues:						
Charges for services	$ 796,494	$58,458,173	$ 59,254,667	$ 553,319	$47,184,752	$ 47,738,071
State appropriations	191,749,305		191,749,305	157,754,773		157,754,773
Federal appropriations	4,847,315		4,847,315	3,961,695		3,961,695
Total revenues	197,393,114	58,458,173	255,851,287	162,269,787	47,184,752	209,454,539
PROGRAM EXPENSES:						
General government	9,453,333	9,202,563	18,655,896	5,327,038	9,456,494	14,783,532
State and other grants	187,121,609		187,121,609	152,071,883		152,071,883
Federal grants	2,429,032		2,429,032	1,929,814		1,929,814
Provision for loan losses—net		2,223,197	2,223,197		3,039,544	3,039,544
Amortization		103,307	103,307		93,125	93,125
Interest expense		24,390,043	24,390,043		18,305,683	18,305,683
Total expenses	199,003,974	35,919,110	234,923,084	159,328,735	30,894,846	190,223,581
(DECREASE) INCREASE IN NET POSITION	$ (1,610,860)	$22,539,063	$ 20,928,203	$ 2,941,052	$16,289,906	$ 19,230,958

The Agency's total revenues increased $46.4 million (or 22.2%) (see discussion within governmental activities below). Net business program revenue was consistent with the historical trend.

Governmental Activities

Revenues for the Agency's governmental activities (see Table 2) increased by $35.1 million (or 21.6%), while total expenses increased by $39.7 million (or 24.9%). The majority of the governmental activities revenue increase was due to state appropriations for student grants. The expenditures increase was due to the additional state appropriations for individual student state grants. Overall, this increased expenditures and decreased deferred revenue for fiscal year 2007.

- State grant expenditures increased by $34.3 million to $186.4 million. $144.8 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.

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) increased by 23.9% ($58,548,173 in 2007 compared to $47,184,752 in 2006) and expenses increased by 16.3%. In fiscal year 2007, there was a higher return for student loan interest and investment interest. The current interest rate charged to SELF II, SELF III and SELF IV program student loans is set a rate of 7.00%, 7.40% and 7.40%, respectively. Rates for the SELF II program have increased 0.50% over the past fiscal year, and rates for the SELF III and SELF IV programs have decreased 0.50% 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 offset with cash provided by noncapital financing activities. Bond issuance activity provided additional cash by issuing additional debt. In addition, the Agency's general and administrative expenses and provision for loan loss decreased in the current year. The general and administrative expenses decreased as the Agency only issued one bond this year resulting in lower bond administrative expense. The provision for loan loss decreased due to an increase in recoveries 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 2007 and 2006, changes were made to the Office of Higher Education budget. During 2007, other payments to individuals increased by $13.1 million, aid to non-governmental organizations increased by $0.8 million and aid to higher education decreased by $0.6 million. During 2006, aid to higher educational institutions decreased by $3.3 million and aid to nongovernmental organizations increased by $0.5 million.

Even with these adjustments, the actual charges to appropriations (expenditures) were $5.7 million and $15.0 million during fiscal years 2007 and 2006, respectively, below the total available for appropriation. 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 up from 2006 by $3.3 million. As of June 30, 2007, the fair value of the Agency's investments was greater than cost by $126,130. 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 2007, the Agency had $0 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)

	2007			2006		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Equipment	$ -	$ -	$ -	$ 6,011	$ -	$ 6,011

Debt

At year-end, the Agency had $557 million in bonds and notes outstanding — as shown in Table 4.

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

	2007			2006		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenue bonds	$ -	$ 557	$ 557	$ -	$ 487	$ 487

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 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 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 2.0%. 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, 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 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. 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 2008. 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.

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 $2,600 for the current biennium. This grant program will receive an additional $1.25 million per fiscal year.

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 will also begin 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 plans to implement an electronic signature process for the SELF student loans. This process will allow students and cosigners to sign their promissory note online, expediting the processing of the student loan.

New borrower benefits are being considered for the upcoming fiscal year for borrowers who sign up for the automatic ACH payment and borrowers who have 24 consecutive on-time payments while in repayment status.

The Agency does not intend to issue bonds in fiscal year 2008. 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) 259-3951.

MINNESOTA OFFICE OF HIGHER EDUCATION

COMBINED STATEMENTS OF NET POSITION
AS OF JUNE 30, 2007 AND 2006

	2007			2006		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
CURRENT ASSETS:						
Cash and cash equivalents (Note 4)	$ 5,981,190	$205,591,245	$211,572,435	$19,681,143	$166,474,782	$186,155,925
Investments (Note 4)		17,694,969	17,694,969		5,676,495	5,676,495
Prepaid expenses		232,058	232,058		204,058	204,058
Receivables — net	1,377,415	6,267,869	7,645,284	2,129,172	5,539,952	7,669,124
Total current assets	7,358,605	229,786,141	237,144,746	21,810,315	177,895,287	199,705,602
NONCURRENT ASSETS:						
Designated cash equivalents (Note 4)		6,519,172	6,519,172		6,113,534	6,113,534
Loans receivable — net (Note 3)		643,850,368	643,850,368		603,479,969	603,479,969
Capital assets — net (Note 5)				6,011		6,011
Deferred charges, at cost less accumulated amortization of $421,092 in 2007 and $317,785 in 2006		3,378,110	3,378,110		2,946,823	2,946,823
Total assets	7,358,605	883,533,791	890,892,396	21,816,326	790,435,613	812,251,939
CURRENT LIABILITIES:						
Accounts payable and accrued liabilities	4,287,758	2,922,198	7,209,956	2,942,777	2,369,904	5,312,681
Deferred revenue	453,354		453,354	14,672,677		14,672,677
Total current liabilities	4,741,112	2,922,198	7,663,310	17,615,454	2,369,904	19,985,358
COMPENSATED ABSENCES PAYABLE — Due beyond one year	356,271	179,120	535,391	328,790	172,299	501,089
REVENUE BONDS (Note 6)		557,000,000	557,000,000		487,000,000	487,000,000
Total liabilities	5,097,383	560,101,318	565,198,701	17,944,244	489,542,203	507,486,447
NET POSITION:						
Invested in capital assets				6,011		6,011
Restricted for debt service		323,432,473	323,432,473		300,893,410	300,893,410
Unrestricted	2,261,222		2,261,222	3,866,071		3,866,071
TOTAL NET POSITION	$ 2,261,222	$323,432,473	$325,693,695	$ 3,872,082	$300,893,410	$304,765,492

See notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

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

		Program Revenues		Net Revenue (Expense) and Changes in Net Position — Primary Government		
	Expenses	**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	2,405,430	796,494		(1,608,936)		(1,608,936)
Total governmental activities	199,003,974	796,494	196,596,620	(1,610,860)	-	(1,610,860)
Business-type activities — loan fund	35,919,110	58,458,173			22,539,063	22,539,063
TOTAL PRIMARY GOVERNMENT	$234,923,084	$59,254,667	$196,596,620			
CHANGE IN NET POSITION				(1,610,860)	22,539,063	20,928,203
NET POSITION — Beginning of year				3,872,082	300,893,410	304,765,492
NET POSITION — End of year				$ 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, 2006

		Program Revenues		Net Revenue (Expense) and Changes in Net Position — 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 POSITION				2,941,052	16,289,906	19,230,958
NET POSITION — Beginning of year				931,030	284,603,504	285,534,534
NET POSITION — End of year				$3,872,082	$300,893,410	$304,765,492

See notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

BALANCE SHEETS
GOVERNMENTAL FUND TYPES
AS OF JUNE 30, 2007 AND 2006

	2007			2006		
	General	Special Revenue	Total	General	Special Revenue	Total
ASSETS						
CASH AND CASH EQUIVALENTS	$3,635,518	$2,345,672	$5,981,190	$15,770,122	$3,911,021	$19,681,143
RECEIVABLES — Net	709,404	668,011	1,377,415	933,660	1,195,512	2,129,172
CAPITAL ASSETS — Net				6,011		6,011
TOTAL	$4,344,922	$3,013,683	$7,358,605	$16,709,793	$5,106,533	$21,816,326
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Accounts payable and accrued liabilities	$3,891,568	$ 752,461	$4,644,029	$ 2,031,105	$1,240,462	$ 3,271,567
Deferred revenue	453,354		453,354	14,672,677		14,672,677
Total liabilities	4,344,922	752,461	5,097,383	16,703,782	1,240,462	17,944,244
FUND BALANCES:						
Invested in capital assets				6,011		6,011
Unreserved		2,261,222	2,261,222		3,866,071	3,866,071
Total fund balances	-	2,261,222	2,261,222	6,011	3,866,071	3,872,082
TOTAL	$4,344,922	$3,013,683	$7,358,605	$16,709,793	$5,106,533	$21,816,326

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, 2007 AND 2006

	2007			2006		
	General	Special Revenue	Total	General	Special Revenue	Total
REVENUES:						
State appropriations	$ 191,749,305	$ -	$ 191,749,305	$ 154,754,773	$3,000,000	$ 157,754,773
Federal appropriations		4,847,315	4,847,315		3,961,695	3,961,695
Registration and licensing fees		233,737	233,737		216,335	216,335
Other revenue		562,757	562,757		336,984	336,984
Total revenues	191,749,305	5,643,809	197,393,114	154,754,773	7,515,014	162,269,787
EXPENDITURES:						
General government	4,633,707	4,819,626	9,453,333	2,696,959	2,630,079	5,327,038
State and other grants	187,121,609		187,121,609	152,071,883		152,071,883
Federal grants		2,429,032	2,429,032		1,929,814	1,929,814
Total expenditures	191,755,316	7,248,658	199,003,974	154,768,842	4,559,893	159,328,735
(DEFICIT) EXCESS OF REVENUES OVER EXPENDITURES	(6,011)	(1,604,849)	(1,610,860)	(14,069)	2,955,121	2,941,052
FUND BALANCE — Beginning of year	6,011	3,866,071	3,872,082	20,080	910,950	931,030
FUND BALANCE — End of year	$ -	$ 2,261,222	$ 2,261,222	$ 6,011	$3,866,071	$ 3,872,082

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, 2007 AND 2006

	2007	2006
OPERATING REVENUES:		
Interest on student loans	$ 48,056,174	$ 40,120,308
United States government interest allowance (Note 3)	1,904	3,039
Total operating revenues	48,058,078	40,123,347
OPERATING EXPENSES:		
General and administrative expenses	9,202,563	9,456,494
Provision for loan losses — net (Note 3)	2,223,197	3,039,544
Amortization	103,307	93,125
Total operating expenses	11,529,067	12,589,163
OPERATING INCOME	36,529,011	27,534,184
NONOPERATING REVENUES (EXPENSES):		
Investment income	10,400,095	7,061,405
Interest expense	(24,390,043)	(18,305,683)
Total nonoperating expenses — net	(13,989,948)	(11,244,278)
INCREASE IN NET POSITION	22,539,063	16,289,906
NET POSITION — Beginning of year	300,893,410	284,603,504
NET POSITION — End of year	$ 323,432,473	$ 300,893,410

See notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

STATEMENTS OF CASH FLOWS
PROPRIETARY FUND TYPES
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from loan holders	$ 140,748,600	$ 120,579,583
Cash paid for loan origination	(135,440,463)	(127,211,960)
Cash paid to employees and suppliers	(9,755,689)	(9,952,687)
Net cash used in operating activities	(4,447,552)	(16,585,064)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(709,533,376)	(682,449,500)
Proceeds from maturity of investments	697,537,575	696,723,310
Interest received from investments	10,319,475	6,888,539
Net cash (used in) provided by investing activities	(1,676,326)	21,162,349
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from bonds	70,000,000	100,000,000
Bond issuance costs	(534,594)	(591,289)
Interest paid on bonds	(23,819,427)	(17,732,337)
Net cash provided by noncapital financing activities	45,645,979	81,676,374
NET INCREASE IN CASH AND CASH EQUIVALENTS	39,522,101	86,253,659
CASH AND CASH EQUIVALENTS — Beginning of year	172,588,316	86,334,657
CASH AND CASH EQUIVALENTS — End of year	$ 212,110,417	$ 172,588,316
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating income	$ 36,529,011	$ 27,534,184
Adjustments to reconcile operating income to net cash used in operating activities:		
Amortization	103,307	93,125
(Decrease)/Increase in fair value of investments	(49,130)	61,463
Provision for loan loss	8,000,038	7,722,428
Write-off of loans	(7,594,400)	(7,301,755)
Origination of student loans	(135,440,463)	(127,211,960)
Principal payments on student loans	94,664,426	83,990,579
Changes in assets and liabilities:		
Increase in interest receivable	(131,132)	(1,368,342)
Increase in other receivable and prepaid expenses	(517,708)	(134,453)
(Decrease)/Increase in accounts payable and accruals	(11,501)	29,667
NET CASH USED IN OPERATING ACTIVITIES	$ (4,447,552)	$ (16,585,064)

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 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, 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 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 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 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 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 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 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, 2007 and 2006. 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, 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, 2007 and 2006, was $514,551 and $512,094, 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, 2007 and 2006, are as follows:

	2007	2006
Interest	$ 5,008,405	$ 4,770,197
Other	1,259,464	769,755
Current receivables	6,267,869	5,539,952
Loans	650,369,540	609,593,503
Less allowance for uncollectibles	6,519,172	6,113,534
Loans receivables — net	643,850,368	603,479,969
Total receivables — net	$ 650,118,237	$ 609,019,921

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 2008.

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, 2007 and 2006, was $61,701 and $152,926, respectively.

SELF I loans are no longer being issued by the Agency. All loans have been repaid in full.

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 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 7.0% and 6.5% as of June 30, 2007 and 2006, 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 2.0%. The interest rate cannot change more than three percentage points in any four consecutive calendar quarters. The rate was 7.4% and 7.9% as of June 30, 2007 and 2006, respectively.

SELF IV loans, offered for the first time in July of 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 2.0%. The interest rate cannot change more than three percentage points in any four consecutive calendar quarters. The rate was 7.4% as of June 30, 2007.

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, 2007 and 2006, was $649,419,313 and $608,248,837, 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, 2007 and 2006, was $888,526 and $1,191,741, respectively.

Included in general and administrative expenses are fees paid to a third-party service corporation to administer and service the student loans of $6,119,883 and $6,026,203 for the years ended June 30, 2007 and 2006, 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, 2007 and 2006, is as follows:

	2007	2006
Beginning balance	$ 6,113,534	$ 5,692,861
Provision for loan losses	8,000,038	7,722,428
Write-off of loans	(7,594,400)	(7,301,755)
Ending balance	$ 6,519,172	$ 6,113,534

Recovery on defaulted loans of $5,776,841 and $4,682,884 for the years ended June 30, 2007 and 2006, 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, 2007 and 2006, the carrying amounts of LCF's deposits were $42,944 and $162,799, respectively, and the bank balances were $42,944 and $162,799, 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, 2007 and 2006, consist of the following:

Investment Type	Weighted-Average Maturity (Years)	2007 Fair Value	2006 Fair Value
Noninterest-bearing cash		$ 5,981,191	$ 19,681,143
Interest-bearing cash	0.11	95,611,091	88,466,228
Commercial paper	0.20	105,838,351	61,355,754
Municipal funds	0.05	21,836,771	22,329,295
State treasurer's investment pool	0.22	6,519,172	6,113,534
		$ 235,786,576	$ 197,945,954
Portfolio weighted average	0.14		
Cash and cash equivalents		$ 211,572,435	$ 186,155,925
Investments		17,694,969	5,676,495
Designated cash equivalents		6,519,172	6,113,534
Total		$ 235,786,576	$ 197,945,954

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 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, 2007, one single issuer, 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. ("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, 2007, was as follows:

	Primary Government			
	Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities:				
Equipment	$ 133,110	$ -	$ (94,143)	$ 38,967
Less accumulated depreciation for equipment	(127,099)	(6,011)	94,143	(38,967)
Government activities capital assets — net	6,011	(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	$ 6,011	$ (6,011)	$ -	$ -

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

6. SUPPLEMENTAL STUDENT LOAN PROGRAM REVENUE BONDS

The revenue bonds payable activity within the LCF for the year ended June 30, 2007, 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
Supplemental Student Loan Program Variable Rate Revenue Bonds, Series 2006, due May 2041		70,000,000		70,000,000
	$ 487,000,000	$ 70,000,000	$ -	$ 557,000,000

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, 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.

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

Years Ending June 30	Business-Type Activities Principal	Interest	Total
2008	$ -	$ 25,449,620	$ 25,449,620
2009		25,449,620	25,449,620
2010		25,449,620	25,449,620
2011		25,449,620	25,449,620
2012		25,449,620	25,449,620
2013–2017		127,248,100	127,248,100
2018–2022	62,240,000	125,832,932	188,072,932
2023–2027	126,066,669	105,196,821	231,263,490
2028–2032	162,833,332	69,644,006	232,477,338
2033–2037	150,593,333	32,240,308	182,833,641
2038–2041	55,266,666	4,622,152	59,888,818
	$ 557,000,000	$ 592,032,419	$ 1,149,032,419

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, 2007 and 2006, for the Series 1999A bonds was 5.22% and 5.19%, respectively. The interest rate as of June 30, 2007 and 2006, for the Series 2002A and 2002B bonds was 5.05% and 5.15% and 3.90% and 3.62% respectively. The interest rate as of June 30, 2007 and 2006, for the Series 2003A and 2003B bonds was 5.24% and 5.00% and 3.90% and 3.62%, respectively. The interest rate as of June 30, 2007 and 2006, for the Series 2004A and 2004B bonds was 5.23% and 5.00% and 3.82% and 3.97%, respectively. The interest rate as of June 30, 2007 and 2006, for the Series 2005A and 2005B bonds was 5.28% and 5.35% and 3.96% and 3.58%, respectively. The interest rate as of June 30, 2007, for the Series 2006 bonds was 3.80%.

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 $664,493 and $605,440 for the years ended June 30, 2007 and 2006, respectively.

In fiscal year 2007, the Agency issued variable rate tax-exempt 2006 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 $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, 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 position are classified in the statement of net position as restricted because their use is limited. The business-type activities report restricted net position for amounts that are not available for operations or are legally restricted by outside parties for use for a specific purpose. As of June 30, 2007, 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, 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	525,000,000
June 30, 2016	550,000,000
June 30, 2017 and thereafter	575,000,000

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, 2007 and 2006, was $147,817 and $140,684, respectively. The total covered payroll of the Agency for the years ended June 30, 2007 and 2006, was $3,219,977 and $3,029,223, 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 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, 2006 (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, 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. 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 position available for benefits, at fair value, of $8,081,736,000. 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, 2006, 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, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
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	248,225	536,141	547,629	11,488
Total governmental resources	182,702,349	199,189,925	196,109,534	(3,080,391)
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	143,372,000	143,372,000	143,570,140	198,140
Total business-type activities resources	158,028,000	167,028,000	160,054,822	(6,973,178)
Total resources	$ 340,730,349	$ 366,217,925	$ 356,164,356	$ (10,053,569)
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
State agency reimbursement				
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	25,000	25,000	20,294	4,706
Total governmental expenditures	186,134,350	200,339,946	197,882,228	2,457,718

(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	150,388,000	157,188,000	151,466,078	5,721,922
Total expenditures	$ 336,522,350	$ 357,527,946	$ 349,348,306	$ 8,179,640

(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 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 $21.0 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.

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 activites 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 Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
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 activities 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 chief financial officer. 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.