MINNESOTA OFFICE OF HIGHER EDUCATION

(A Component Unit of the State of Minnesota)
Saint Paul, Minnesota

FINANCIAL STATEMENTS

Including Independent Auditors' Report

Year Ended June 30, 2011

MINNESOTA OFFICE OF HIGHER EDUCATION

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June 30, 2011

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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, each major fund, and the aggregate remaining fund information of the Minnesota Office of Higher Education, a component unit of the State of Minnesota, as of and for the year ended June 30, 2011, which collectively comprise the Minnesota Office of Higher Education's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Minnesota Office of Higher Education's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Minnesota Office of Higher Education as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we will issue a report on our consideration of the Minnesota Office of Higher Education's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Minnesota Office of Higher Education's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
September 29, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

UNAUDITED

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, 2011.

Introduction

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

THE MINNESOTA OFFICE OF HIGHER EDUCATION works to:

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

The Agency employs 65 FTE of which 25 are state funded.

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 Postsecondary 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 administrators, enrollment data which can be customized by the user, information concerning private postsecondary institutions licensed or registered by the Agency, online tuition reciprocity applications, and a financial aid estimator.

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 postsecondary institutions meet state standards in order to operate legally in Minnesota.

Financial Highlights

- The Agency's net assets increased $14.6 million or 3.8% from fiscal year 2010 to 2011, mainly as a result of student loan financing activities.

- The Agency received $152 million for fiscal year 2011 state appropriations in addition to the $8.4 million carry forward from the previous fiscal year. An additional $35 million was initially appropriated for fiscal year 2011 but the funds were needed in fiscal year 2010 to fund state grants. Remaining unexpended funds will be returned to the state's General Fund. The Agency received $224 million for fiscal year 2010 appropriations ($35 million was initially appropriated to fiscal year 2011) in addition to a $0.2 million carry forward from the previous year.

- The Loan Capital Fund issued 16,323 and 22,681 new loans in fiscal years 2011 and 2010, respectively, with the average student loan amount of $5,219 and $5,217, respectively.

- Loan Receivables in the Loan Capital Fund shrunk by $16.0 million or 2.2% during fiscal year 2011 and grew by $21.6 million or 3.0% during fiscal year 2010.

- 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, 2011 the Agency has not entered into any interest rate exchange or swap agreements or other comparable interest rate protection agreements.

- The Agency issued $53.4 million in fixed rate revenue bonds during fiscal year 2011. Over the course of the fiscal year $18.1 million of Auction Rate Securities bonds were repurchased from investors and subsequently cancelled.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

In the Statements of Net 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, 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.

Fund Financial Statements

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

- ***Governmental Funds*** — Governmental funds are used for primarily the same functions reported as governmental activities. The governmental fund financial statements are used to analyze resources available in the near-term to manage the Agency's near-term financial obligations. These funds are reported using the modified accrual basis of accounting. Governmental fund information assists the reader in determining whether there are enough financial resources to finance the Agency's programs in the near-term. The differences are illustrated between governmental activities and governmental funds in a statement following each governmental fund financial statement.

- ***Proprietary Funds*** — When the Agency charges customers for the services it provides — whether to outside customers or to other units of the Agency — these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the government-wide financial statements. In fact, the Agency's 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.

Notes to the Basic Financial Statements

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

Required Supplemental Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information concerning the Agency's budget and actual results of its major governmental fund. This information can be found beginning on page 31 of this report.

Additional Supplemental Information

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

The Agency as a Whole

The Agency's combined net assets increased by $14.6 million or 3.8%. 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

	2011			2010		
	Governmental Activities	Business-Type Activities	Totals	Governmental Activities	Business-Type Activities	Totals
Assets						
Current and other assets	$ 5,213,662	$ 1,024,517,852	$ 1,029,731,514	$ 12,441,552	$ 968,730,784	$ 981,172,336
Capital assets—net	8,848	5,899	14,747	13,224	8,816	22,040
Deferred charges	-	-	-	-	3,665,008	3,665,008
Total assets	5,222,510	1,024,523,751	1,029,746,261	12,454,776	972,404,608	984,859,384
Liabilities						
Current liabilities	4,207,536	912,549	5,120,085	11,679,811	1,007,753	12,687,564
Non-current liabilities	417,752	631,450,879	631,868,631	427,637	593,586,644	594,014,281
Total liabilities	4,625,288	632,363,428	636,988,716	12,107,448	594,594,397	606,701,845
Net assets						
Invested in capital assets	8,848	5,899	14,747	13,224	8,816	22,040
Restricted for future federal program expenditures	-	-	-	4,907	-	4,907
Restricted for grants and licensing	325,720	-	325,720	163,566	-	163,566
Restricted for debt service	-	392,154,424	392,154,424	-	377,801,395	377,801,395
Unrestricted	262,654	-	262,654	165,631	-	165,631
Total net assets	$ 597,222	$ 392,160,323	$ 392,757,545	$ 347,328	$ 377,810,211	$ 378,157,539

Net assets of the Agency's governmental activities increased by $249,894 during the current fiscal year. State appropriations are retained for the portion of severance liability and retired employees' insurance benefits liability that the Agency has at fiscal year-end. Unrestricted net 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 $165,631 at June 30, 2010 to $262,654 at the end of this year.

Net loans receivable have decreased by approximately $16.0 million, or 2.2%, to $718 million. This decrease is largely due to changes in federal legislation regarding preferred lender requirements for nonfederal student loans.

U.S. Treasury regulations limit the student loan revenue yield over bond expenses to 2% on tax exempt student loan bond issues (bond expenses are limited to the bond interest paid to bondholders, cost of defaulted loans, and credit liquidity). Excess revenue generated from the student loans must either be paid back to the IRS every ten years or lowered through a decrease in the student loan interest rate charged, loan forgiveness programs, and/or borrower benefits. As of June 30, 2011, the Agency has accrued $4,404,649 in excess revenue on the 2004B, 2005B, and 2006 tax exempt bond issues based on internal estimated calculations.

Table 2
Changes in Net Assets

	2011			2010		
	Governmental Activities	Business-Type Activities	Totals	Governmental Activities	Business-Type Activities	Totals
REVENUES						
Program revenues						
Charges for services	$ 795,964	$ 31,435,520	$ 32,231,484	$ 636,039	$ 35,357,613	$ 35,993,652
State appropriations	157,524,487	-	157,524,487	215,532,003	-	215,532,003
Federal appropriations	5,294,121	-	5,294,121	5,889,977	-	5,889,977
Total revenues	163,614,572	31,435,520	195,050,092	222,058,019	35,357,613	257,415,632
EXPENSES						
Program expenses						
General government	577,864	17,085,408	17,663,272	1,064,263	17,471,123	18,535,386
State appropriations	157,492,664	-	157,492,664	215,541,979	-	215,541,979
Federal grants	5,294,150	-	5,294,150	5,851,544	-	5,851,544
Total expenses	163,364,678	17,085,408	180,450,086	222,457,786	17,471,123	239,928,909
CHANGE IN NET ASSETS	$ 249,894	$ 14,350,112	$ 14,600,006	$ (399,767)	$ 17,886,490	$ 17,486,723

Governmental Activities

Revenues for the Agency's governmental activities (see Table 2) decreased by $58.4 million (or 26.3%) to $163.6 million, while total expenses decreased by $59.1 million (or 26.6%). The governmental activities revenue decrease was due to lower state appropriations for student grants. The expenditures decrease was due to lower state appropriations for individual student state grants.

- State appropriation expenditures decreased by $58.0 million to $157.5 million. $168.9 million was appropriated by the legislature for the state grant program. If the appropriation for either year of the biennium is insufficient for the state grant program, the appropriation for the other year is available for it. $35.0 million appropriated for fiscal year 2011 was transferred to fiscal year 2010 during fiscal year 2010.

The Agency currently receives 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

The excess of revenues over expenses of the Agency's business-type activities was $14.4 million in fiscal year 2011, which was 83.9% of expenses.

Financial Analysis of the Agency's Major Funds

Governmental Funds

The General Fund is the chief governmental fund of the Agency, approximately 96% of the Agency's governmental spending. At the end of fiscal year 2011, the fund balance was $0. Since the state operates on a biennial budget, every other year all appropriation resources not expended are returned to the state's General Fund.

For the General Fund, student grant payments were $148 million, a significant decrease from $205 million in fiscal year 2010. Grant aid to postsecondary institutions and organizations increased $0.2 million to $1.8 million. Employee salaries remained essentially the same as in fiscal year 2010.

Proprietary Fund

The Agency's proprietary fund statement provides the same type of information found in the government-wide financial statements, but in greater detail. Revenues of the Agency's proprietary fund (see Table 2) decreased by 11.1% and expenses decreased by 2.2%. In fiscal year 2011, there was a lower return for interest and investment interest income. The current interest rate charged to SELF II, SELF III, SELF IV and SELF V program variable student loans is set a rate of 2.25%, 3.80%, 3.80% and 3.80%, respectively. The SELF V program gives borrowers the option of a 7.25% fixed rate student loan. Rates for the SELF II program have increased 0.25% over the past fiscal year, and rates for the SELF III and SELF IV programs have varied 0.10% over the past fiscal year. Under the SELF IV and SELF V programs, loans have an optional extended repayment period depending upon the aggregate SELF student loan balance. The SELF IV and SELF V programs calculate the interest rate charged to borrowers with the same method as the SELF III program.

General Fund Budgetary Highlights

Over the course of the fiscal year, changes were made to the Agency's budget. Funds appropriated to the Achieve Scholarship program were needed to fund the State Grant program. $35.0 million of the fiscal year 2011 appropriation was used in fiscal year 2010 due to insufficient state grant funds. Actual expenditures were $1,203,795 below the total budgeted expenditures.

Cash Management

Unexpended general appropriated funds are invested pursuant to Minnesota Statutes 11A under the State Board of Investments. Monies in the Loan Capital Fund are managed by the Agency and invested in instruments allowed by state statute, such as U.S. Treasury bills and notes, general obligation municipals, collateralized certificates of deposit, repurchase agreements, federal agency notes, bankers' acceptances, and commercial paper. The Agency's investment policy prohibits the Agency from investing in instruments with maturities in excess of three years. The total investment income, including change in the fair value of investments, was down from 2010 by $0.7 million. As of June 30, 2011, the fair value of the Agency's investments was greater than cost by $28,485. 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.

DEBT ADMINISTRATION

At year-end, the Agency had $626,800,000 in bonds outstanding — as shown in Table 3

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

	2011			2010		
	Governmental Activities	Business-Type Activities	Totals	Governmental Activities	Business-Type Activities	Totals
Revenue bonds	$ -	$ 626.8	$ 626.8	$ -	$ 590	$ 590

Since 1984, the Agency's revenue bond rating had been AAA, the highest rating possible, in 2008 the 1999, 2002, 2003, 2004, 2005, and 2006 supplemental revenue bonds rating were downgraded to A2 as a result of Municipal Bond Insurance Association, Inc.'s (MBIA) downgrade to A2 in the same year.

The 2008 supplemental revenue bonds have a rating of Aa1 by Moody's rating agency and AA- by Fitch rating agency.

The 2010 supplemental revenue bonds have a rating of AA by S&P rating agency and AA- by Fitch rating agency.

Other obligations of the Agency include accrued vacation pay and sick leave and the arbitrage liability. More detailed information about the Agency's long-term liabilities is presented in Note III.E. 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 2011 budget, rates, and fees that will be charged for the business-type activities. Student loan debt has increased substantially the last decade. This increase has required the Agency to seek additional funding through the issuance of taxable and tax-exempt (AMT) bonds. However, due to federal legislative changes in 2010, school officials are more restricted in directing students to specific student loan programs. This has resulted in a decrease in the issuance of SELF student loans.

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 which bases the interest rate charged to borrowers on the average of the three-month LIBOR during the calendar quarter immediately preceding the interest rate adjustment date plus a margin. The SELF IV program began in July 2006 with minor changes. The SELF V program began in October 2010 with a fixed and variable interest rate option. The current SELF III, SELF IV and SELF V margin is 3.5%. 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 V loan program variable rate 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 and SELF IV margin.

In 2010 the state legislature approved an increase in the annual loan limit to $10,000 for students enrolled in a bachelor's degree program, postbaccalaureate, or graduate program. Effective October 25, 2010, the undergraduate student annual loan limits for non-four year degree programs in grade levels 1, 2, and 3 have a limit of $7,500. The undergraduate student annual loan limits for four year degree programs in grade levels 1, 2, 3, 4 and 5 have a limit of $10,000. Due largely to unstable financial market conditions, in July 2008 the federal loan limit was increased $2,000 for undergraduate loans. This has resulted in a lower volume of student loans to low cost schools, such as public community and technical colleges.

The increases in college tuitions experienced over the past few years have increased the average amount of loans outstanding for each student. If the national economic volatility continues to negatively impact employment, the Agency could be required to increase its allowance for loan losses.

Careful consideration was given to legislative goals and the Agency's mission when adopting the General Fund budget for fiscal year 2012. For the current biennium, the private tuition maximums used in the state grant formula are a maximum of $10,488 for students enrolled in four-year programs and $5,808 for students enrolled in two-year programs. The living and miscellaneous expense allowance is set at $7,000 for fiscal year 2012. 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. If the appropriation for either year of the biennium is insufficient, the appropriation for the other year is available for it. $35 million of the state grant fiscal year 2011 appropriation was transferred to fiscal year 2010. $0.4 million of unused state grant funds at the end of fiscal year 2011 will be transferred back to the state's General Fund. Due to a shortfall in state revenue for fiscal year 2011, Agency appropriations were reduced by $1.8 million.

The maximum annual award for Postsecondary Child Care Grants is set at $2,600 for the current biennium.

The Agency intends to issue bonds in fiscal year 2012. Current outstanding bonds rely on the Loan Capital Fund for the payment of various bond fees, student loan servicing costs, and administrative expenses.

In 2011 the state legislature no longer funded some of the Agency's small scholarship and grant programs. The Technical and Community College Emergency Grants and the Achieve Scholarship program will no longer be funded.

The Minnesota GI Bill Program provides up to $1,000 per academic term to veterans, and the dependents of deceased and disabled veterans, who served in active duty after September 11, 2001.

The Agency also administers 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's cash and investment balance decreased $88.4 million, and the loans receivable – net balance decreased $16.0 million. Over the course of the fiscal year the Agency repurchased and subsequently cancelled $18.1 million of Auction Rate Securities (ARS) bonds. In the upcoming fiscal year, the Agency intends to issue new bonds and refinance a portion or all of the remaining outstanding ARS bonds.

In February 2008 the Agency's ARS bonds at auctions began to fail, and continue to fail, as the nation's auction process collapsed. For the outstanding taxable ARS bonds, bond documents limit the interest rate to the lesser of one-month LIBOR plus 1%, 17%, or the 91 day average of the three-month T-Bill plus an applicable spread of 1.25%. For the outstanding tax-exempt ARS bonds, bond documents limit the interest rate to the lesser of the Applicable Percentage of the Kenny index or the After-Tax Equivalent Rate (the current applicable percentage is 175%), 14%, or the three month average of the three-month T-Bill plus an Applicable Spread of 1.25%. MBIA is the insurance provider. When MBIA's rating fell below the Moody's Investors Service rating of A2 in November 2008, Moody's subsequently maintained the A2 rating on the bonds due to the underlying collateral of the SELF loans. On June 30, 2011 the average taxable bond interest rate of the ARS bonds was 1.19% and the average tax-exempt bond interest rate was 0.23%.

Contacting the Agency's Financial Management

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

MINNESOTA OFFICE OF HIGHER EDUCATION

STATEMENT OF NET ASSETS
June 30, 2011

ASSETS	Governmental Activities	Business-type Activities	Totals
CURRENT ASSETS			
Cash and investments	$ 3,896,021	$ 101,108,578	$ 105,004,599
Receivables			
Accounts	519,625	811,052	1,330,677
Interest	-	2,436,376	2,436,376
Loans receivable - net	-	88,837,769	88,837,769
Due from other governments	798,016	-	798,016
Prepaid expenses	-	203,910	203,910
Total Current Assets	5,213,662	193,397,685	198,611,347
NON-CURRENT ASSETS			
Restricted cash and investments	-	197,720,719	197,720,719
Loans receivable - net	-	629,252,099	629,252,099
Debt issuance costs, at cost less accumulated amortization of $1,133,177	-	4,147,349	4,147,349
Capital assets, net of depreciation	8,848	5,899	14,747
Total Non-Current Assets	8,848	831,126,066	831,134,914
Total Assets	5,222,510	1,024,523,751	1,029,746,261
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	2,176,297	177,805	2,354,102
Accrued liabilities	257,129	81,514	338,643
Accrued interest	-	630,850	630,850
Due to other governments	108,881	-	108,881
Due to primary government - unspent appropriations	1,665,229	-	1,665,229
Compensated absences payable	38,613	22,380	60,993
Total Current Liabilities	4,246,149	912,549	5,158,698
NON-CURRENT LIABILITIES			
Compensated absences payable	379,139	193,181	572,320
Arbitrage liability	-	4,404,649	4,404,649
Revenue bonds payable	-	626,853,049	626,853,049
Total Non-Current Liabilities	379,139	631,450,879	631,830,018
Total Liabilities	4,625,288	632,363,428	636,988,716
NET ASSETS			
Invested in capital assets	8,848	5,899	14,747
Restricted for licensing and grant administration	325,720	-	325,720
Restricted for debt service	-	392,154,424	392,154,424
Unrestricted	262,654	-	262,654
TOTAL NET ASSETS	$ 597,222	$ 392,160,323	$ 392,757,545

See accompanying notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

		Program Revenues		Net (Expenses) Revenues and Changes in Net Assets		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Governmental Activities						
State appropriations	$ 157,492,664	$ -	$ 157,524,487	$ 31,823	$ -	$ 31,823
Federal grants	5,294,150	-	5,294,121	(29)	-	(29)
Registration and licensing fees and other	577,864	795,964	-	218,100	-	218,100
Total Governmental Activities	163,364,678	795,964	162,818,608	249,894	-	249,894
Business-type Activities						
Loan capital fund	17,085,408	31,435,520	-	-	14,350,112	14,350,112
Totals	$ 180,450,086	$ 32,231,484	$ 162,818,608			
Change in Net Assets				249,894	14,350,112	14,600,006
NET ASSETS - Beginning of Year				347,328	377,810,211	378,157,539
NET ASSETS - END OF YEAR				$ 597,222	$ 392,160,323	$ 392,757,545

See accompanying notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

	General	Other Governmental Funds	Totals
ASSETS			
Cash and investments	$ 2,842,247	$ 1,053,774	$ 3,896,021
Accounts receivable	241,043	278,582	519,625
Due from other governments	116,823	681,193	798,016
TOTAL ASSETS	$ 3,200,113	$ 2,013,549	$ 5,213,662
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	$ 1,403,040	$ 773,257	$ 2,176,297
Accrued liabilities	131,844	125,285	257,129
Due to other governments	-	108,881	108,881
Due to primary government - unspent appropriations	1,665,229	-	1,665,229
Total Liabilities	3,200,113	1,007,423	4,207,536
Fund Balances			
Restricted for licensing and grant administration		325,720	325,720
Assigned	-	680,406	680,406
Total Fund Balances	-	1,006,126	1,006,126
TOTAL LIABILITIES AND FUND BALANCES	$ 3,200,113	$ 2,013,549	$ 5,213,662

See accompanying notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2011

Total fund balance - governmental funds		$ 1,006,126
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in government activities are not financial resources and therefore are not reported in the fund statements. Capital assets at year end consist of:		
Capital assets	$ 60,847	
Accumulated depreciation	(51,999)	8,848
Certain liabilities are not due in the current period and therefore are not reported in the fund statements. These liabilities at year end consist of compensated absences payable.		(417,752)
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES		$ 597,222

See accompanying notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	General	Other Governmental Funds	Totals
REVENUES			
State appropriations	$ 157,524,487	$ -	$ 157,524,487
Federal grants	-	5,294,121	5,294,121
Registration and licensing fees	-	438,068	438,068
Other revenue	-	357,896	357,896
Total Revenues	157,524,487	6,090,085	163,614,572
EXPENDITURES			
General government	2,651,118	583,972	3,235,090
State and other grants	154,873,369	-	154,873,369
Federal grants	-	5,299,028	5,299,028
Total Expenditures	157,524,487	5,883,000	163,407,487
Excess of revenues over expenditures	-	207,085	207,085
FUND BALANCE - Beginning of Year	-	799,041	799,041
FUND BALANCE - END OF YEAR	$ -	$ 1,006,126	$ 1,006,126

See accompanying notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

Net change in fund balances - total governmental funds	$ 207,085
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. The following differ in their presentation in the two statements:	
Depreciation is reported in the government-wide statements	(4,376)
Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. The following did not require the use of current financial resources:	
Compensated absences payable	47,185
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 249,894

See accompanying notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY (ENTERPRISE) FUND - LOAN CAPITAL FUND
For the Year Ended June 30, 2011

OPERATING REVENUES	
Interest on student loans	$ 27,797,450
OPERATING EXPENSES	
General and administrative	8,087,023
Provision for loans losses - net	2,076,057
Total Operating Expenses	10,163,080
Operating Income	17,634,370
NON-OPERATING REVENUES (EXPENSES)	
Gain on repurchased bonds	3,084,000
Investment income	554,070
Interest expense	(6,804,600)
Amortization expense	(117,728)
Total Non-operating Revenues (Expenses)	(3,284,258)
CHANGE IN NET ASSETS	14,350,112
NET ASSETS - Beginning of Year	377,810,211
NET ASSETS - END OF YEAR	$ 392,160,323

See accompanying notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

STATEMENT OF CASH FLOWS
PROPRIETARY (ENTERPRISE) FUND - LOAN CAPITAL FUND
For the Year Ended June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from loan holders	$ 126,995,311
Cash paid for loan origination	(84,954,206)
Cash paid to employees and suppliers	(9,109,778)
Net Cash Flows From Operating Activities	32,931,327
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(182,428,290)
Proceeds from maturity of investments	180,372,868
Interest received from investments	581,426
Net Cash Flows From Investing Activities	(1,473,996)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from bonds	58,079,051
Bonds purchased and cancelled	(18,100,000)
Capitalized bond issuance costs	(742,072)
Interest paid on bonds	(5,419,141)
Net Cash Flows From Noncapital Financing Activities	33,817,838
Net Increase in Cash and Cash Equivalents	65,275,169
CASH AND CASH EQUIVALENTS - Beginning of Year	205,668,588
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 270,943,757
RECONCILIATION OF CASH AND CASH EQUIVALENTS	
Cash and investments per Statement of Net Assets	$ 101,108,578
Restricted cash and investments per Statement of Net Assets	197,720,719
Less: Non-cash equivalents	(27,885,540)
CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS	$ 270,943,757
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income	$ 17,634,370
Adjustments to Reconcile Operating Income to Net Cash Flows From Operating Activities	
Noncash items included in income	
Depreciation	2,917
Provision for loan loss	8,505,734
Write-off of loans	(8,770,878)
Decrease in fair value of investments	(21,761)
Origination of student loans	(84,954,206)
Principal payments on student loans	101,039,723
Changes in assets and liabilities	
Interest receivable	117,451
Other receivable and prepaid expenses	(252,545)
Accounts payable and accruals	(369,478)
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 32,931,327

NONCASH CAPITAL, INVESTING AND FINANCING ACTIVITIES
The agency had a $3,084,000 gain on bonds purchased and cancelled.

See accompanying notes to financial statements.

MINNESOTA OFFICE OF HIGHER EDUCATION

INDEX TO NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

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

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

Fund Financial Statements (cont.)

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

a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type, and

b. The same element of the individual governmental fund or enterprise fund that met the 10% test is at least 5% of the corresponding total for all governmental and enterprise funds combined.

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

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

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

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

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

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

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

Miscellaneous Grant Fund (non-Federal Grants and licensing)
Federal Grant Fund (Federal Grants)

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

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

Government-Wide Financial Statements

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

The business-type activities follow all pronouncements of the Governmental Accounting Standards Board, and have elected not to follow Financial Accounting Standards Board guidance issued after November 30, 1989.

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

Fund Financial Statements

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

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

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

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

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

Fund Financial Statements (cont.)

The Agency may report deferred revenues on its governmental funds balance sheet. For governmental fund financial statements, 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 before the Agency has a legal claim to them, as when grant monies are received prior to the incurrence of 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 from the balance sheet and revenue is recognized.

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

All Financial Statements

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

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

1. Deposits and Investments

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

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

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

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

See Note III.A. for further information.

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

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)

2. Receivables

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

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

3. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted Assets

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

5. Capital Assets

Government-Wide Statements

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

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The Agency's only category of capital asset is equipment. The estimated useful life of the equipment is 5 years.

Fund Financial Statements

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

6. Other Assets – Debt Issuance Costs

For the government-wide and the proprietary fund type financial statements, debt issuance costs are deferred and amortized over the term of the debt issue using a method that produces substantially the same results as the effective interest method.

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

D. *ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY* (cont.)

7. Compensated Absences

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

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

Employees are not compensated for unused sick leave upon termination; however, unused sick leave enters into the computation of severance pay. All employees who have provided 5 to 20 years or more, 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.

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.

Accumulated sick leave and vacation time liabilities at June 30, 2011 are determined on the basis of current salary rates.

8. Long-Term Obligations

All long-term obligations to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term obligations consist of bonds payable and accrued compensated absences.

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

For the government-wide statements and proprietary fund statements, bond premiums and discounts are deferred and amortized over the life of the issue using the straight-line method. Gains or losses on prior refundings are amortized over the remaining life of the old debt, or the life of the new debt, whichever is shorter.

The Agency is restricted on the amount of interest that can be earned on nontaxable loans compared to interest expense. This limit is 2% and in the current year, the yield exceeded this limit and an arbitrage liability was recorded.

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

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)

9. Claims and Judgments

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

10. Equity Classifications

Government-Wide Statements

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

a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets less any unspent debt proceeds.

b. Restricted net assets – Consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.

c. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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

Fund Statements

Governmental fund equity is classified as fund balance. In accordance with Governmental Accounting Standards Board Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*, the Agency classifies governmental fund balance as follows:

a. Nonspendable – includes fund balance amounts that cannot be spent either because they are not in spendable form or because legal or contractual requirements require them to be maintained intact.

b. Restricted – Consists of fund balances with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.

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

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)

10. Equity Classifications (cont.)

Fund Statements (cont.)

c. Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority. Fund balance amounts are committed through a formal action of the Director. This formal action must occur prior to the end of the reporting period, but the amount of the commitment, which will be subject to the constraints, may be determined in the subsequent period. Any changes to the constraints imposed require the same formal action of the Director that originally created the commitment.

d. Assigned – includes spendable fund balance amounts that are intended to be used for specific purposes that are not considered restricted or committed. Fund balance may be assigned through the following; 1) The Director may take official action to assign amounts. (2) All remaining positive spendable amounts in governmental funds, other than the general fund, are neither restricted nor committed. Assignments may take place after the end of the reporting period.

e. Unassigned – includes residual positive fund balance within the general fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed or assigned for those specific purposes.

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

NOTE II – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

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

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

The budget is prepared in accordance with generally accepted accounting principles. Budgetary control is at the appropriation level. Unexpended appropriations from the first year (year ended June 30, 2010) of the biennium are carried over and are available for operations in the second year (year ended June 30, 2011) of the biennium.

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

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

NOTE III – DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

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

	Carrying Value	Bank Balance	Associated Risks
Money market mutual fund investments	$ 234,231,042	$ 234,003,028	None
Commercial paper	27,885,539	27,885,539	Credit, custodial credit, concentration of credit, and interest rate risks
Pooled Cash held by State Treasury	40,608,737	40,608,737	N/A
Total Cash and Investments	$ 302,725,318	$ 302,497,304	

Reconciliation to financial statements	
Per statement of net assets	
Cash and investments	$ 105,004,599
Restricted cash and investments	197,720,719
Total Cash and Investments	$ 302,725,318

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

A. DEPOSITS AND INVESTMENTS (cont.)

Deposits in each local and area bank are insured by the FDIC in the amount of $250,000 for interest bearing accounts and an unlimited amount for noninterest bearing accounts.

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

Custodial Credit Risk

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

As of June 30, 2011, the Agency did not have any deposits exposed to custodial credit risk.

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

As of June 30, 2011, the Agency had $15,035,289 of investments exposed to custodial credit risk.

Credit Risk

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

As of June 30, 2011, the Agency's investments in commercial paper for US Bank Open IB Monthly and FCAR Owner Trust I were rated A-1+ and P-1 by Standard & Poor's and Moody's, respectively.

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

A. DEPOSITS AND INVESTMENTS (cont.)

Concentration of Credit Risk

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

As of June 30, 2011, the Agency's investments in commercial paper were concentrated as follows:

	Percentage of Portfolio
US Bank	53.92%
FCAR Owner Trust	46.08%

Interest Rate Risk

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

As of June 30, 2011, the Agency's investment of commercial paper had a fair value of $27,885,539 and a weighted average maturity of .55 years.

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

B. RECEIVABLES

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

Fund	Gross Receivables	Allowance For Uncollectibles	Net Receivables	Amounts Not Expected to Be Collected Within One Year
General	$ 357,866	$ -	$ 357,866	$ -
Loan Capital	731,548,468	10,211,172	721,337,296	629,252,099
Nonmajor Funds	959,775	-	959,775	-

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 2012.

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

B. RECEIVABLES (cont.)

SELF II loans are no longer being issued by the Agency. The interest rate on the loans is equal to the average of the weekly auction average (investment) interest rate on three-month U.S. Treasury bills, plus a current margin of 2.0%. The interest rate cannot change more than two percentage points in any four consecutive calendar quarters. The rate was 2% as of June 30, 2011.

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 3.5%. The interest rate cannot change more than three percentage points in any four consecutive calendar quarters. The rate was 3.8% as of June 30, 2011.

SELF IV loans, offered for the first time in July 2006, are made to students who meet the eligibility requirements set forth by the Agency. The interest rate on the loans is equal to the LIBOR, plus a current margin of 3.5%. The interest rate cannot change more than three percentage points in any four consecutive calendar quarters. The rate was 3.8% as of June 30, 2011.

SELF V loans, offered for the first time in October 2010, 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 3.5%. The interest rate cannot change more than three percentage points in any four consecutive calendar quarters. The rate was 3.8% as of June 30, 2011.

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, SELF IV, and SELF V loans at June 30, 2011 was $728,145,307.

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, 2011 was $155,373.

SELF and GRIP loans are unsecured. However, the Agency does require a credit worthy cosigner on each loan, and it is able to intercept state tax refunds for both borrower and cosigner in the event of default in addition to other collection methods.

An allowance for uncollectible SELF II, SELF III, SELF IV, and SELF V loans is provided for in the financial statements, and an equal amount of the allowance is maintained as restricted cash in the loan capital fund. 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 loan capital fund provides for loan losses sufficient to maintain the total balance in the allowance at a level equal to 1.4% of the total outstanding loan balance and also designates restricted cash 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 restricted cash in the loan capital fund. The restricted cash has been deposited with the Minnesota Management and Budget Agency. Recoveries on defaulted SELF loans are credited to the loan capital as revenue in the year received.

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

B. RECEIVABLES (cont.)

The activity for the allowance for losses on all loan types for the year ended June 30, 2011 is as follows:

Beginning balance	$ 10,476,316
Provision for loan losses	8,505,734
Write-off of loans	(8,770,878)
Ending Balance	$ 10,211,172

Recovery on defaulted loans of $6,429,677 for the year ended June 30, 2011 is recognized as a reduction in the provision for loan losses.

Debt Issuance Costs

SELF II, SELF III, SELF IV, and SELF V 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. 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 year ended June 30, 2011 was $471,276.

C. RESTRICTED ASSETS

The following represent the balances of the restricted assets:

Long Term Debt Accounts

Acquisition	–	Funds are originally deposited into this fund at the issuance of the bond and used to finance student loans.
Revenue	–	Used to deposit student loan payments of principal and interest. Payments from this account are made to investors for bond interest and to finance additional student loans.
Surplus	–	Used to deposit excess funds from the revenue account and to finance additional student loans.
Debt Service Reserve	–	Used to reserve funds based on bond indenture requirements for potential deficiencies in the revenue account or the surplus account.
Redemption	–	Used to segregate resources accumulated for payment to investors for the redemption of bond securities.
Student Loan	–	Used to hold only student loans transferred to the trustee from the issuer and all student loans made by the issuer with amounts provided under the indenture.

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

C. *RESTRICTED ASSETS* (cont.)

Bad Debt Reserve Account

The loan capital fund established a bad debt reserve account to purchase uncollectible student loans. This account equals the allowance for uncollectible SELF and GRIP loans. This fund is replenished quarterly.

Following is a list of restricted assets at June 30, 2011:

	Restricted Assets
Acquisition account	$ 48,262,263
Revenue account	108,312,253
Surplus account	7,708,551
Debt service reserve account	19,511,520
Student loan account	3,714,960
Bad debt reserve account	10,211,172
Total Restricted Assets	$ 197,720,719

D. *CAPITAL ASSETS*

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
Capital assets being depreciated				
Equipment	$ 60,847	$ -	$ -	$ 60,847
Less: Accumulated depreciation for				
Equipment	(47,623)	(4,376)	-	(51,999)
Capital Assets, Net of Depreciation	$ 13,224	$ (4,376)	$ -	$ 8,848

$4,376 of depreciation expense was charged to the governmental activities function of state appropriations.

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

D. CAPITAL ASSETS (cont.)

	Beginning Balance	Additions	Deletions	Ending Balance
Business-type Activities				
Loan Capital Fund				
Capital assets being depreciated				
Equipment	$ 14,586	$ -	$ -	$ 14,586
Less: Accumulated depreciation for				
Equipment	(5,770)	(2,917)	-	(8,687)
Net Loan Capital Fund	$ 8,816	$ (2,917)	$	$ 5,899

$2,917 of depreciation expense was charged to the loan capital fund.

E. LONG-TERM OBLIGATIONS

Long-term obligations activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Other Liabilities					
Vested compensated absences	$ 464,937	$ 189,503	$ 236,688	$ 417,752	$ 38,613
BUSINESS-TYPE ACTIVITIES					
Bonds Payable					
Revenue bonds	$ 590,100,000	$ 53,400,000	$ 18,100,000	$ 625,400,000	$ -
Add/(Subtract) Deferred Amounts For:					
(Discounts)/Premiums	-	1,595,051	142,002	1,453,049	-
Subtotal	590,100,000	54,995,051	18,242,002	626,853,049	-
Other Liabilities					
Vested compensated absences	240,663	52,929	78,031	215,561	22,380
Arbitrage liability	3,267,588	1,137,061	-	4,404,649	-
Total other liabilities	3,508,251	1,189,990	78,031	4,620,210	22,380
Total Business-type Activities Long-Term Liabilities	$ 593,608,251	$ 56,185,041	$ 18,320,033	$ 631,473,259	$ 22,380

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

In accordance with Minnesota Statutes, the aggregate amount of revenue bonds, issued directly by the Agency, outstanding at any one time, not including refunded bonds or otherwise defeased or discharged bonds, shall not exceed $850,000,000. Revenue bonds outstanding at year end were $625,400,000.

All Supplemental Student Loan Program Variable Rate Revenue Bonds were issued to provide SELF II, III, and IV student loans to borrowers. All Supplemental Student Loan Program Fixed Rate Revenue Bonds were issued to provide SELF V student loans to borrowers.

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

E. LONG-TERM OBLIGATIONS (cont.)

	Date of Issue	Final Maturity	6-30-11 Interest Rates	Interest Rates Reset (days)	Original Indebted-ness	Balance 6-30-11
Supplemental Student Loan Program Variable Rate Revenue Bonds						
Series 1999A taxable revenue bonds	Nov 99	Nov 34	1.186%	7	$ 61,200,000	$ 42,800,000
Series 2002A taxable revenue bonds	Jan 02	Jan 37	1.186%	7	68,200,000	66,000,000
Series 2002B revenue bonds	Jan 02	Jan 37	.175%	35	27,100,000	27,100,000
Series 2003A taxable revenue bonds	Mar 03	May 38	1.190%	28	64,700,000	51,800,000
Series 2003B revenue bonds	Mar 03	May 38	.175%	35	10,300,000	10,300,000
Series 2004A taxable revenue bonds	July 04	May 39	1.190%	28	67,000,000	45,500,000
Series 2004B revenue bonds	July 04	May 39	.210%	35	88,500,000	88,500,000
Series 2005B revenue bonds	July 05	May 40	.280%	35	70,000,000	70,000,000
Series 2006 revenue bonds	Nov 06	May 41	.228%	35	70,000,000	70,000,000
Series 2008A taxable revenue bonds	Dec 08	Dec 43	.160%	7	66,700,000	66,700,000
Series 2008B revenue bonds	Dec 08	Dec 43	.080%	7	33,300,000	33,300,000
Supplemental Student Loan Program Fixed Rate Revenue Bonds						
Series 2010 revenue bonds	Dec 10	Nov 29	2 – 5%	n/a	53,400,000	53,400,000
Total Business-type Activities Revenue Bonds						$ 625,400,000

Annual debt service requirements to maturity for revenue bonds, including interest at June 30, 2011 rates for variable rate bonds, are as follows:

	Business-type Activities		
Years Ending June 30	Principal	Interest	Total
2012	$ -	$ 5,653,778	$ 5,653,778
2013	360,000	5,653,778	6,013,778
2014	1,135,000	5,646,575	6,781,575
2015	1,090,000	5,612,528	6,702,528
2016	3,045,000	5,579,828	8,624,828
2017 - 2021	21,570,000	25,269,883	46,839,883
2022 - 2026	18,150,000	20,079,130	38,229,130
2027 - 2031	8,050,000	17,100,130	25,150,130
2032 - 2036	42,800,000	15,424,522	58,224,522
2037 - 2041	429,200,000	6,525,631	435,725,631
2042 - 2044	100,000,000	400,080	100,400,080
Totals	$ 625,400,000	$ 112,945,863	$ 738,345,863

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

E. LONG-TERM OBLIGATIONS (cont.)

The interest rates on all of the Series 1999A, 2002A, 2002B, 2003A, 2003B, 2004A, 2004B, 2005B, and 2006 variable rate bonds are reset periodically as shown in the detailed revenue debt schedule above. The rates on all of these bonds are based on a determination by the auction agent through auction proceedings. The rates on the taxable bonds cannot exceed the lesser of one-month LIBOR plus 1%; 17%; or the 91 day average of the three-month T-Bill plus an applicable spread of 1.25%. The rates on the tax-exempt bonds cannot exceed the lesser of the applicable percentage of the Kenny index or the after-tax equivalent rate; 14%; or the three month average of the three-month T-Bill plus an applicable spread of 1.25%. The interest on the auction rate bonds is payable each time the rates are reset and no principal payments are required until final maturity.

The rates on the taxable Series 2008A bonds and tax-exempt Series 2008B bonds are determined by a remarketing agent. The rates on Series 2008A bonds and Series 2008B bonds cannot exceed 15% and 12%, respectively. The interest on the Series 2008A and Series 2008B bonds is payable monthly and semi-annually, respectively. No principal payments are required until final maturity on the Series 2008A and Series 2008B bonds.

The rates on the tax-exempt Series 2010 bonds are fixed and range from 2% to 5%. The interest on the 2010 bonds is paid semi-annually. The annual effective interest rate was 4.62% for the year ended June 30, 2011.

All the bond series are secured by the revenues derived by the Agency from student loans financed by the proceeds of the bonds.

The Agency maintains insurance coverage as additional collateral for the auction rate bonds. The fees to maintain this coverage are calculated as 0.12% for Series 1999A, 2002A, 2002B and 2006; 0.14% for Series 2003A and 2003B; and 0.125% for Series 2004A, 2004B, and 2005B of the outstanding principal amount per year. General and administrative expenses include insurance fees of $622,465 for the year ended June 30, 2011.

The Agency maintains an unsecured irrevocable direct-pay letter of credit as additional collateral for the Series 2008A and Series 2008B bonds. The fee to maintain this letter of credit is 0.7% of the outstanding principal amount per year. In addition there is a remarketing fee of 0.1% of the outstanding principal amount per year. General and administrative expenses include letter of credit and remarketing fees of $834,257 for the year ended June 30, 2011. The letter of credit expires December 16, 2011 and has a provision to extend automatically for one year. After this the Agency must request an extension 240 days prior to the expiration date.

There is no additional collateral maintained for the Series 2010 bonds.

Except for the Series 2010 bond issue, for all bonds the Agency is required to maintain a debt service account equal to 2% of the outstanding revenue bond balance. The amount required to be on deposit at year end is $11,440,000 and the Agency met this requirement. For the Series 2010 bonds the Agency is required to maintain a debt service account equal to the maximum amount scheduled to be due during the current or any future fiscal year. The amount required to be on deposit at year end is $7,708,000 and the Agency met this requirement. There are a number of other limitations and restrictions contained in the various bond indentures. The Agency believes it is in compliance with all significant limitations and restrictions.

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

E. LONG-TERM OBLIGATIONS (cont.)

All bond series are to be repaid solely from the money and investments held by the trustees. For all bonds, an early repayment provision exists. For the Series 2002B, 2003B, 2004B, 2005B, and 2006 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 Series 1999A, 2002A, 2003A, and 2004A taxable bond issues, 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. For the Series 2008A and 2008B bonds, the Agency must give written notice to exercise its option to redeem bonds not less than 15 days but no greater than 60 days prior to the redemption date. For the Series 2010 tax-exempt bonds, bonds maturing on or after November 1, 2021 are subject to optional redemption on any date after November 1, 2020. The agency must give written notice to exercise its option to redeem bonds not less than 35 days prior to the redemption.

During 2010 the Agency used $15,016,000 of available cash to purchase $18,100,000 of outstanding bonds on the secondary market. These bonds were subsequently cancelled by the Agency. Details of these transactions are as follows:

Date Purchased and Cancelled	Bond Issue Series	Amount Purchased and Cancelled
February 2011	1999A	$ 10,700,000
February 2011	2003A	1,600,000
March 2011	2002A	2,000,000
March 2011	2003A	3,200,000
March 2011	2004A	600,000
Total Purchased and Cancelled		$ 18,100,000

Arbitrage Regulations

The $352,600,000 of tax-exempt bonds issued by the Agency are subject to the 1986 Tax Reform Act regulations relating to arbitrage reporting and rebate. Any earnings in excess of the bond yield must be remitted to the U.S. government not more than five years following the issue date of the bonds. As of June 30, 2011, the Agency accrued a liability of $4,404,649 resulting from the excess yield on interest rates.

Other Debt Information

Estimated payments of compensated absences are not included in the debt service requirement schedules. The compensated absences liability attributable to governmental activities will be liquidated by the general, miscellaneous grant, and federal grant funds.

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

F. NET ASSETS

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, 2011, 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:

Years Ending June 30,	
2011	$ 425,000,000
2012	450,000,000
2013	475,000,000
2014	500,000,000
2015	525,000,000
2016	550,000,000
2017	575,000,000
2018	590,000,000
2019	605,000,000
2020	620,000,000
2021 and thereafter	635,000,000

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

NOTE IV – OTHER INFORMATION

A. EMPLOYEES' RETIREMENT SYSTEM

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, 2011 and 2010 was $186,936 and $183,448, respectively. The total covered payroll of the Agency for the years ended June 30, 2011 and 2010 was $3,705,104 and $3,675,694, 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 5% of their total compensation with a matching the Agency contribution of 5%. The contribution rates for the SERF are not actuarially determined, but rather are determined by the state statute.

NOTE IV – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

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, 2010 (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, 2010, the SERF had a projected benefit obligation of $8,960,391,000, unfunded liabilities of $1,303,680,000, and net assets available for benefits, at fair value, of $10,264,071,000. As of June 30, 2009, the SERF had a projected benefit obligation of $9,030,401,000, unfunded liabilities of $1,482,359,000, and net assets available for benefits, at fair value, of $10,512,760,000. 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, 2010, Comprehensive Annual Financial Report.

B. RISK MANAGEMENT

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

C. COMMITMENTS AND CONTINGENCIES

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

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

NOTE IV – OTHER INFORMATION (cont.)

C. COMMITMENTS AND CONTINGENCIES (cont.)

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

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

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 61, *The Financial Reporting Entity: Omnibus,* and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The Agency has not yet determined the impact of these new GASB statements.

E. SUBSEQUENT EVENT

The agency will be issuing $85 million of revenue bonds in October, 2011 to refinance certain existing debt and provide additional new funding.

REQUIRED SUPPLEMENTARY INFORMATION

MINNESOTA OFFICE OF HIGHER EDUCATION

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2011

	Budgeted Amounts			Variance
	Original	Final	Actual	With Final Budget
REVENUES				
General Administration	$ 2,785,000	$ 2,164,760	$ 2,165,551	$ 792
Safety Office Survivors	100,000	73,806	73,806	-
MN College Savings Program	700,000	323,146	323,146	-
Child Care Grant Program	6,684,000	6,840,729	6,840,729	-
MN Link Gateway and Minitex Library	6,031,000	5,827,102	5,827,102	-
State Grant Program	109,138,000	119,002,118	119,002,118	-
State Work Study	14,944,000	13,572,801	13,572,801	-
Interstate Reciprocity	2,750,000	4,016,443	4,016,443	-
Achieve Scholarship Program	4,350,000	764,421	764,421	-
Midwest Compact	95,000	95,000	95,000	-
Other Small Programs	357,000	381,400	381,400	-
United Family Practice	467,000	467,000	467,000	-
Tech/CC - Emergency Grants	150,000	-	-	-
MN GI Bill Program	-	1,092,280	1,092,280	-
Intervention College Attendance	746,000	886,736	886,736	-
American Indian Scholarship	2,000,000	2,015,952	2,015,952	-
Total Revenues	151,297,000	157,523,695	157,524,487	792
EXPENDITURES				
General Administration	2,615,000	2,786,255	2,165,551	620,703
Safety Office Survivors	100,000	121,672	73,806	47,866
MN College Savings Program	700,000	328,284	323,146	5,138
Child Care Grant Program	6,684,000	6,882,830	6,840,729	42,101
MN Link Gateway and Minitex Library	5,826,000	5,827,102	5,827,102	-
State Grant Program	113,488,000	119,370,214	119,002,118	368,096
State Work Study	13,176,000	13,608,351	13,572,801	35,550
Interstate Reciprocity	3,014,000	4,016,443	4,016,443	-
Achieve Scholarship Program	-	764,421	764,421	-
Midwest Compact	95,000	95,000	95,000	-
Other Small Programs	357,000	422,621	381,400	41,221
United Family Practice	467,000	467,000	467,000	-
Tech/CC - Emergency Grants	100,000	-	-	-
MN GI Bill Program	1,394,000	1,092,280	1,092,280	-
Intervention College Attendance	746,000	902,734	886,736	15,998
American Indian Scholarship	2,000,000	2,043,074	2,015,952	27,122
Total Expenditures	150,762,000	158,728,282	157,524,487	1,203,795
NET CHANGE IN FUND BALANCE	$ 535,000	$ (1,204,587)	$ -	$ 1,204,587

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

Budgetary Information

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

See auditors' report.

SUPPLEMENTARY INFORMATION

MINNESOTA OFFICE OF HIGHER EDUCATION

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2011

	Miscellaneous Grant Fund	Federal Grant Fund	Totals
ASSETS			
Cash and investments	$ 1,024,439	$ 29,335	$ 1,053,774
Accounts receivable	33,006	245,576	278,582
Due from other governments	-	681,193	681,193
TOTAL ASSETS	$ 1,057,445	$ 956,104	$ 2,013,549
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	$ 22,928	$ 750,329	$ 773,257
Accrued liabilities	28,391	96,894	125,285
Due to other governments	-	108,881	108,881
Total Liabilities	51,319	956,104	1,007,423
Fund Balances			
Restricted for licensing and grant administration	325,720	-	325,720
Assigned	680,406	-	680,406
Total Fund Balances	1,006,126	-	1,006,126
TOTAL LIABILITIES AND FUND BALANCES	$ 1,057,445	$ 956,104	$ 2,013,549

MINNESOTA OFFICE OF HIGHER EDUCATION

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	Miscellaneous Grant Fund	Federal Grant Fund	Totals
REVENUES			
Federal grants	$ -	$ 5,294,121	$ 5,294,121
Registration and licensing fees	438,068	-	438,068
Other revenue	357,896	-	357,896
Total Revenues	795,964	5,294,121	6,090,085
EXPENDITURES			
General government	583,972	-	583,972
Federal grants	-	5,299,028	5,299,028
Total Expenditures	583,972	5,299,028	5,883,000
Excess (deficiency) of revenues over expenditures	211,992	(4,907)	207,085
FUND BALANCE - Beginning of Year	794,134	4,907	799,041
FUND BALANCE - END OF YEAR	$ 1,006,126	$ -	$ 1,006,126